

=====

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

Commission File No. 000-24657

MANNATECH, INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Texas
(State or other Jurisdiction of
Incorporation or Organization)

75-2508900
(I.R.S. Employer
Identification No.)

600 S. Royal Lane, Suite 200
Coppell, Texas
75019

(Address of Principal Executive Offices, including Zip Code)
Registrant's Telephone Number, including Area Code: (972) 471-7400

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

As of August 4, 2001, the number of shares outstanding of the registrant's
sole class of common stock, par value \$0.0001 per share was 24,333,758.

TABLE OF CONTENTS

| | Page |
|---|------|
| | ---- |
| Part I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements..... | 1 |
| Consolidated Balance Sheets..... | 1 |
| Consolidated Statements of Operations..... | 2 |
| Consolidated Statements of Cash Flows..... | 3 |
| Notes to Consolidated Financial Statements..... | 4 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 7 |
| Overview..... | 7 |
| Results of Operations..... | 9 |
| Three months ended June 30, 2001 compared with the three months ended June 30, 2000..... | 9 |
| Six months ended June 30, 2001 compared with the six months ended June 30, 2000..... | 11 |
| Liquidity and Capital Resources..... | 14 |
| Recent Financial Accounting Standards Board Statements..... | 15 |
| Outlook..... | 16 |
| Forward-looking Statements..... | 16 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk..... | 17 |
| Part II - OTHER INFORMATION | |
| Item 1. Legal Proceedings..... | 18 |
| Item 2. Changes in Securities and Use of Proceeds..... | 18 |
| Item 3. Defaults Upon Senior Securities..... | 18 |
| Item 4. Submission of Matters to a Vote of Security Holders..... | 18 |
| Item 5. Other Information..... | 18 |
| Item 6. Exhibits and Reports on Form 8-K..... | 19 |
| Signatures..... | 21 |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | December 31, 2000 ----- | June 30, 2001 ----- (Unaudited) |
|---|-------------------------------|--|
| ASSETS | | |
| Cash and cash equivalents..... | \$ 5,736 | \$ 3,740 |
| Accounts receivable, less allowance for doubtful accounts of \$58 in 2000 and 2001..... | 692 | 384 |
| Income tax receivable | 2,300 | 2,300 |
| Current portion of notes receivable-shareholders | 187 | 119 |
| Inventories | 13,326 | 12,446 |
| Prepaid expenses and other current assets..... | 745 | 861 |
| Deferred tax assets..... | 1,201 | 1,595 |
| | ----- | ----- |
| Total current assets | 24,187 | 21,445 |
| Property and equipment, net | 13,324 | 11,874 |
| Notes receivable-shareholders, excluding current portion | 390 | 321 |
| Other assets | 1,000 | 851 |
| Long-term investments | 1 | -- |
| | ----- | ----- |
| Total assets | \$38,902 | \$34,491 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current portion of capital leases and notes payable | \$ 301 | \$ 210 |
| Accounts payable | 4,309 | 1,593 |
| Accrued expenses | 11,768 | 11,363 |
| Accrued compensation to related parties (Note 4) | 520 | 1,760 |
| | ----- | ----- |
| Total current liabilities | 16,898 | 14,926 |
| Capital leases and notes payable, excluding current portion | 27 | 9 |
| Accrued compensation to related parties (Note 4) | 500 | 1,100 |
| Deferred tax liabilities | 1,752 | 1,750 |
| | ----- | ----- |
| Total liabilities | 19,177 | 17,785 |
| | ----- | ----- |
| Commitments and contingencies (Note 4) | -- | -- |
| Commitment to repurchase common stock | 1,000 | 667 |
| 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, 25,051,301 shares issued and 24,929,173 outstanding in 2000, 25,051,301 issued and 24,506,866 outstanding in..... 2001..... | 3 | 3 |
| Additional paid-in capital | 17,949 | 17,949 |
| Note receivable due from a shareholder | (167) | -- |
| Retained earnings | 2,798 | 414 |
| Accumulated other comprehensive loss--foreign currency translation adjustment | (321) | (551) |
| | ----- | ----- |
| Total shareholders' equity | 20,262 | 17,815 |
| Less treasury stock, at cost, 122,128 shares in 2000 and 544,435 shares in 2001 and a commitment to repurchase common stock of \$1,000 in 2000 and \$667 in 2001 | (1,537) | (1,776) |
| | ----- | ----- |
| Total shareholders' equity | 18,725 | 16,039 |
| | ----- | ----- |
| Total liabilities, commitment to repurchase common stock and shareholders' equity | \$38,902 | \$34,491 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED JUNE 30, 2000 AND 2001
AND THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001
(in thousands, except per share information)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|------------|-----------------------------|------------|
| | 2000 | 2001 | 2000 | 2001 |
| Net Sales..... | \$39,037 | \$ 32,515 | \$78,731 | \$66,710 |
| Cost of Sales..... | 6,773 | 5,814 | 13,693 | 11,541 |
| Commissions..... | 15,553 | 12,488 | 32,051 | 26,293 |
| | 22,326 | 18,302 | 45,744 | 37,834 |
| Gross profit..... | 16,711 | 14,213 | 32,987 | 28,876 |
| Operating Expenses: | | | | |
| Selling and administrative expenses..... | 8,987 | 7,571 | 18,934 | 16,604 |
| Other operating costs..... | 7,939 | 5,526 | 15,373 | 11,650 |
| Severance expenses related to former executives..... | - | 3,420 | - | 3,420 |
| Write-off of fixed asset..... | 870 | - | 870 | - |
| Total operating expenses..... | 17,796 | 16,517 | 35,177 | 31,674 |
| Loss from operations..... | (1,085) | (2,304) | (2,190) | (2,798) |
| Interest income..... | 179 | 59 | 422 | 156 |
| Interest expense..... | (20) | (7) | (43) | (16) |
| Other income (expense), net..... | (22) | 12 | (134) | (102) |
| Loss before income taxes and cumulative effect of accounting change..... | (948) | (2,240) | (1,945) | (2,760) |
| Income tax benefit..... | 271 | 165 | 627 | 376 |
| Loss before cumulative effect of accounting change..... | (677) | (2,075) | (1,318) | (2,384) |
| Cumulative effect of accounting change, net of tax of \$126..... | - | - | (210) | - |
| Net loss..... | \$ (677) | \$ (2,075) | \$ (1,528) | \$ (2,384) |
| Earnings (loss) per common share - Basic: | | | | |
| Before cumulative effect of accounting change..... | \$ (0.03) | \$ (0.08) | \$ (0.05) | \$ (0.10) |
| Cumulative effect of accounting change..... | - | - | (0.01) | - |
| Net..... | \$ (0.03) | \$ (0.08) | \$ (0.06) | \$ (0.10) |
| Earnings (loss) per common share - Diluted: | | | | |
| Before cumulative effect of accounting change..... | \$ (0.03) | \$ (0.08) | \$ (0.05) | \$ (0.10) |
| Cumulative effect of accounting change..... | - | - | (0.01) | - |
| Net..... | \$ (0.03) | \$ (0.08) | \$ (0.06) | \$ (0.10) |
| Weighted-average common shares outstanding | | | | |
| Basic..... | 24,979 | 24,619 | 24,926 | 24,740 |
| Diluted..... | 24,979 | 24,619 | 24,926 | 24,740 |

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 2001
(in thousands)

| | 2000 | 2001 |
|---|-------------------|-------------------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss..... | \$(1,528) | \$(2,384) |
| Adjustments to reconcile the net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,754 | 1,935 |
| Write-off of fixed asset | 870 | -- |
| Loss on disposal of assets | -- | 4 |
| Tax benefit from exercise of stock options | 226 | -- |
| Cumulative effect of accounting change, net of tax | 210 | -- |
| Deferred income tax expense (benefit) | 26 | (396) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 51 | 271 |
| Income tax receivable | (141) | -- |
| Inventories | (1,525) | 762 |
| Prepaid expenses and other current assets | (372) | 55 |
| Other assets | 109 | 141 |
| Accounts payable | 1,488 | (1,720) |
| Accrued expenses and accrued compensation to related parties | (496) | 1,460 |
| Net cash provided by operating activities | ----- 672 | ----- 128 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (3,358) | (493) |
| Cash proceeds from sale of property and equipment | -- | 2 |
| Repayments by shareholders/related parties | 141 | 137 |
| Maturities of investments | 1,392 | 1 |
| Net cash used in investing activities | ----- (1,825) | ----- (353) |
| Cash flows from financing activities: | | |
| Payments of cash overdrafts | -- | (961) |
| Proceeds from stock options exercised | 294 | -- |
| Payment of capital lease obligations | (266) | (229) |
| Purchase of common stock from shareholder | -- | (406) |
| Payment of notes payable | (93) | (66) |
| Net cash used in financing activities | ----- (65) | ----- (1,662) |
| Effect of exchange rate changes on cash and cash equivalents | -- | (109) |
| Net decrease in cash and cash equivalents | (1,218) | (1,996) |
| Cash and cash equivalents: | | |
| Beginning of the period | 11,576 | 5,736 |
| End of the period | \$10,358 ===== | \$ 3,740 ===== |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 43 ===== | \$ 16 ===== |
| Summary of non-cash investing and financing activities follows: | | |
| Assets acquired through a note payable..... | \$ -- ===== | \$ 187 ===== |
| Treasury shares received for the payment of a note receivable due from a shareholder..... | \$ -- ===== | \$ 167 ===== |

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (the "Company") was incorporated in the State of Texas on November 4, 1993, as Emprise International, Inc. Effective October 25, 1995, the Company changed its name to Mannatech, Incorporated. The Company, located in Coppell, Texas, develops and sells 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 and Japan. Independent associates ("Associates") purchase products at wholesale, for the primary purpose of selling to retail consumers or for personal consumption. Associates earn commissions on their downline growth and sales volume. In June 2001, the Company introduced its member program specifically designed for consumers to purchase the Company's high-quality products for personal consumption and not participate in its various incentive programs.

The Company's nine wholly-owned subsidiaries are as follows:

| Wholly-owned subsidiary name | Date incorporated | Location of subsidiary | Date operations began |
|---|-------------------|-----------------------------|-----------------------|
| Mannatech Australia Pty Limited | April 22, 1998 | St. Leonards, Australia | October 1, 1998 |
| Mannatech Limited | December 1, 1998 | Republic of Ireland | No operations |
| Mannatech Ltd. | November 18, 1998 | Aldermaston, Berkshire U.K. | November 15, 1999 |
| Mannatech Payment Services Incorporated | April 11, 2000 | Coppell, Texas | June 26, 2000 |
| Mannatech Foreign Sales Corporation | May 1, 1999 | Barbados | May 1, 1999 |
| Internet Health Group, Inc. (ceased operations as of December 29, 2000) | May 7, 1999 | Coppell, Texas | December 20, 1999 |
| Mannatech Japan, Inc. | January 21, 2000 | Tokyo, Japan | June 26, 2000 |
| Mannatech Limited | February 14, 2000 | New Zealand | No operations |
| Mannatech Products Company, Inc. | April 14, 2001 | Coppell, Texas | No operations |

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Company's management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial information as of and for the periods presented. The consolidated results of operations of any interim period are not necessarily indicative of the consolidated results of operations to be expected for the fiscal year. For further information, refer to the Company's consolidated financial statements and accompanying footnotes included in their annual report on Form 10-K for the year ended December 31, 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.

Revenue Recognition

The Company's revenues consist of sales from products, sales from starter and renewal packs and shipping fees. Substantially all product sales are made to Associates at published wholesale prices. Product sales are also made to members at published discounted retail prices. Net sales include a reserve for estimated product returns and any related refunds. The Company records a reserve for product returns based on its historical experience. The Company adopted Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101") in the fourth quarter

of 2000. As a result of adopting SAB 101, the Company has restated its 2000 quarterly financial information and recorded a one-time charge of \$210,000, net of tax of \$126,000 for the cumulative effect of this accounting change at January 1, 2000. Beginning in 2000, the Company defers all of its revenues until the consumer receives the products shipped.

The Company also defers a portion of its revenue received from sales of starter and renewal packs, which are in excess of the average wholesale value of the individual items included in such packs and amortizes such deferrals over a twelve-month period. Total deferred revenue was \$691,000 and \$628,000 at December 31, 2000 and June 30, 2001, respectively.

Shipping and Handling Cost

In accordance with the Emerging Issue Task Force No. 00-10 "Accounting for Shipping and Handling Fees and Costs," the Company records freight and shipping revenues collected from consumers, as revenue. The Company records in-bound freight and shipping costs as a part of cost of sales and records shipping and handling costs associated with shipping products to its consumers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses was approximately \$1.5 million and \$2.4 million for the three months ended June 30, 2001 and 2000, respectively and \$3.1 million and \$4.5 million for the six months ended June 30, 2001 and 2000, respectively.

Earnings Per Share

The Company calculates earnings (loss) per share pursuant to Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FAS 128"). FAS 128 requires dual presentation of basic and diluted earnings (loss) per share ("EPS") on the face of the consolidated statement of operations for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS calculations are based on the weighted-average number of 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. At June 30, 2000, all of the 2,028,300 common stock options were excluded from the diluted EPS calculation and at June 30, 2001, all of the 2,781,259 common stock options and 213,333 warrants were excluded from the diluted EPS calculation, as their effect was antidilutive.

The following data shows the amounts used in computing earnings (loss) per share and their effect on the weighted-average number of shares of dilutive common share equivalents for the three months ended June 30, 2000 and 2001. The amounts are rounded to the nearest thousand except for per share amounts.

| | 2000 | | | 2001 | | |
|--|-------------------------|-------------------------|---------------------|-------------------------|-------------------------|---------------------|
| | Net loss (Numerator) | Shares (Denominator) | Per share amount | Net loss (Numerator) | Shares (Denominator) | Per share amount |
| Basic EPS: | | | | | | |
| Net loss available to to common shareholders | \$(677) | 24,979 | \$(0.03) | \$ (2,075) | 24,619 | (\$0.08) |
| Effect of dilutive securities: | | | | | | |
| Stock options | -- | -- | | -- | -- | |
| Diluted EPS: | | | | | | |
| Net loss available to common shareholders plus assumed conversions | \$(677) | 24,979 | \$(0.03) | \$ (2,075) | 24,619 | (\$0.08) |
| | ===== | ===== | ===== | ===== | ===== | ===== |

The following data shows the amounts used in computing earnings (loss) per share and their effect on the weighted-average number of shares of dilutive common share equivalents for the six months ended June 30, 2000 and 2001. The amounts are rounded to the nearest thousand except for per share amounts.

| | 2000 | | | 2001 | | |
|--|-------------------------|-------------------------|---------------------|-------------------------|-------------------------|---------------------|
| | Net loss (Numerator) | Shares (Denominator) | Per share amount | Net loss (Numerator) | Shares (Denominator) | Per share amount |
| Basic EPS: | | | | | | |
| Net loss available to to common shareholders | \$(1,528) | 24,926 | \$(0.06) | \$(2,384) | 24,740 | (\$0.10) |
| Effect of dilutive securities: | | | | | | |
| Stock options | -- | -- | | -- | -- | |
| Diluted EPS: | | | | | | |
| Net loss available to common shareholders plus assumed conversions | \$(1,528) | 24,926 | \$(0.06) | \$(2,384) | 24,740 | (\$0.10) |

NOTE 2 INVENTORIES

At December 31, 2000 and June 30, 2001 inventory, rounded to the nearest thousands, consists of the following:

| | 2000 | 2001 |
|---------------------|-----------------|-----------------|
| Raw materials..... | \$ 6,587 | \$ 6,395 |
| Finished goods..... | 6,739 | 6,051 |
| | <u>\$13,326</u> | <u>\$12,446</u> |

NOTE 3 COMPREHENSIVE LOSS

Comprehensive loss for the three months and the six months ended June 30, 2000 and 2001 is as follows (in thousands):

| | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|------------------|--------------------------|------------------|
| | 2000 | 2001 | 2000 | 2001 |
| Net loss..... | (\$677) | (\$2,075) | (\$1,528) | (\$2,384) |
| Foreign currency translation adjustment..... | - | 4 | - | (230) |
| Comprehensive loss..... | <u>(\$677)</u> | <u>(\$2,071)</u> | <u>(\$1,528)</u> | <u>(\$2,614)</u> |

NOTE 4 COMMITMENTS AND CONTINGENCIES

In the fourth quarter of 2000, Mr. Anthony Canale resigned and in the second quarter of 2001, Ms. Deanne Varner, Mr. Charles Fioretti and Mr. Patrick Cobb resigned as executive officers of the Company. As a result, the Company entered into a separation agreement with each of them. Under the terms of their agreements, the executives are bound by certain non-compete and confidentiality clauses and the Company agreed to pay them an aggregate amount of \$1.9 million in 2001, \$1.6 million in 2002, \$850,000 in 2003 and \$150,000 in 2004. The payments consist of various charges including compensation related to their cancellation of their employment agreements, accrued vacation, health insurance and automobile expenses. The Company also agreed to grant Mr. Canale 213,333 warrants, 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. The warrants and stock options vest on the date they were granted and are exercisable for ten years. The Company recorded a charge for all of these separation agreements of which \$2.9 million and \$950,000 remained unpaid as of June 30, 2001 and December 31, 2000, respectively.

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 ("SFAS 141") "Business Combinations" and No. 142 ("SFAS 142") "Goodwill and Other Intangibles Assets."

SFAS 141 supercedes Accounting Principles Board Opinion No. 16 "Business Combinations." The most significant changes made by SFAS 141 are that it requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001, establishes specific criteria for recognition of certain intangibles assets separately from goodwill and requires the immediate write-off of unallocated negative goodwill.

SFAS 142 supercedes Accounting Principles Board Opinion No. 17 "Intangible Assets." SFAS 142 is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits goodwill and indefinite lived intangible assets from being amortized and requires them to be annually tested for impairment at each reporting unit level. In addition, SFAS 142 removes the limitation of forty years for the useful lives of finite intangible assets.

The Company believes SFAS 141 and SFAS 142 will have no effect on its consolidated financial positions, results of operations and cash flows.

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

The following discussion is intended to assist in the understanding of Mannatech's financial position and its results of operations for the three and six months ended June 30, 2001 compared to the same periods in 2000. The Consolidated Financial Statements and related Notes should be referred to in conjunction with this discussion. 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.

Overview

Mannatech develops and sells high-quality, proprietary nutritional supplements, topical products and weight-management products primarily through a worldwide network marketing system operating in the United States, Canada, Australia, the United Kingdom and Japan. Currently Mannatech has approximately 217,000 active associates as of June 30, 2001 compared to approximately 267,000 active associates as of June 30, 2000. Mannatech defines an active associate as having purchased products in the last twelve months. In June 2001, Mannatech introduced its new member program specifically designed for consumers to purchase its high-quality proprietary products for personal consumption and not participate in its various incentive programs.

Mannatech's earnings (loss) per share was (\$0.10) for the six months ended June 30, 2001 compared to (\$0.06) per share in 2000. The net loss for 2001 totaling (\$2.4 million) primarily related to recording a one-time charge of \$3.4 million for the various severance expenses primarily related to the resignation of three of its former executives who held employment agreements coupled with the decrease in net sales directly attributed to the 19% decrease in its active associate base. For the six months ended June 30, 2001, Mannatech would have reported Income before taxes, exclusive of the one-time severance charge of \$3.4 million of \$660,000. The net loss for 2000 totaling (\$1.5 million) primarily related to the decrease in net sales, incurring \$2.0 million in expenses related to international expansion into the United Kingdom and Japan and funding operations for the Internet subsidiary - Internet Health Group, Inc, which discontinued operations on December 29, 2000.

Beginning in February 2001, Mannatech increased its shipping fees charged to its consumers and in March increased the sale prices of some of its finished goods. This price increase was Mannatech's first since its inception. In order to help stabilize operations and return to a growth position, Mannatech introduced its member program and announced the hiring of new general managers for both its Australia and Japan operations. Mannatech also implemented some new incentive programs specifically designed to reward its entry-level associates faster, increase its active associate base and boost net sales. Net sales by country, as a percentage of consolidated net sales, including the Japan operations, which began operations on June 26, 2000, are as follows:

| Six months ended June 30, | U.S. | Canada | Australia | U.K. | Japan | Total |
|---------------------------|-------|--------|-----------|------|-------|--------|
| 2001..... | 77.6% | 14.2% | 3.3% | 1.0% | 3.9% | 100.0% |
| 2000..... | 78.3% | 13.2% | 6.5% | 1.4% | 0.6% | 100.0% |

Mannatech intends to continue to provide the highest quality of products to its consumers that will help them to achieve optimal health and wellness. In March 2001, Mannatech introduced a new chewable multi-vitamin for children called Glyco-Bears(TM). Mannatech believes the chewable vitamin will help supplement children's diets and help them optimize their health and wellness. Mannatech also intends to introduce other new products during 2001, which will further complement its current list of high-quality, proprietary products, help increase net sales and aid in achieving optimal health and wellness.

Mannatech primarily derives its revenues from sales of its products and starter and renewal packs. Starter and renewal packs include some combination of Mannatech's proprietary products and promotional materials. An associate who purchases a starter or renewal pack may purchase Mannatech's high-quality proprietary products at wholesale prices and earn various incentives. In June 2001, Mannatech introduced its member program, which allows a member to purchase its high-quality proprietary products at 95% of the suggested retail price or 86% of the suggested retail price for an automatic order. Mannatech offers comparable starter packs in each country in which it does business; however, due to different regulatory guidelines in each country not all of Mannatech's packs are offered in all countries.

Mannatech adopted Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101") in the fourth quarter of 2000. Under SAB 101, Mannatech is required to defer the recognition of revenues until the consumer receives the products shipped. The adoption of SAB 101 resulted in a one-time cumulative effect of accounting change of approximately \$210,000, net of tax of \$126,000.

On average, the wholesale value of the nutritional and topical products contained in each of Mannatech's starter and renewal packs are between 60% and 100% of the total wholesale value of the packs and the remainder of the total wholesale value, if any, consists of various promotional materials. Mannatech defers revenue received from the sale of its associate packs to the extent that the sales price is greater than the wholesale value of the individual items included in such packs. Deferred revenue is then amortized over a twelve-month period. Total deferred revenue was approximately \$691,000 at December 31, 2000 and \$628,000 at June 30, 2001.

Mannatech compensates its associates by paying them commissions and incentives, which are its most significant expense. The commission structure, excluding some of the incentive bonus programs, is designed not to materially exceed 42% of commissionable net sales. In March 2001, Mannatech announced two new incentive bonus programs for its associates. The Power Plan incentive bonus pays associates for enrolling six All-Star associates and the Team incentive bonus pays associates for meeting and maintaining certain purchasing levels in their organizations. Mannatech believes these incentive programs will ultimately pay more commissions to the entry-level associate faster. Mannatech also plans to announce other changes to its worldwide compensation plan for the 2002 fiscal year; however, changes to its compensation plan are not expected to significantly change the total commission paid as a percentage of commissionable net sales. Commissions and incentives paid to associates are based on the following:

- . associates' placement and position within the compensation plan;
- . volume of their direct commissionable net sales;
- . number of new enrolled associates; and
- . achievement of certain levels to qualify for various incentive programs.

In 2001, Mannatech believes its United States federal statutory tax rate will remain at 34%. Mannatech also pays taxes in various state jurisdictions at an approximate average effective tax rate of 3%. Mannatech expects to pay taxes in Australia, the United Kingdom and Japan at statutory tax rates ranging from 31% to 42%. The payment of such foreign taxes could result in foreign tax credits that would reduce the amount of United States taxes owed; however,

Mannatech may not be able to fully-utilize all of such foreign tax credits in the United States. Mannatech has also incurred net operating losses from its Japan subsidiary that may not be fully realizable in the future.

Results of Operations

The following table summarizes Mannatech's operating results as a percentage of net sales for each of the periods indicated.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|-------------------------------|--------|-----------------------------|--------|
| | 2000 | 2001 | 2000 | 2001 |
| Net sales..... | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales..... | 17.4 | 17.9 | 17.4 | 17.3 |
| Commissions..... | 39.8 | 38.4 | 40.7 | 39.4 |
| Gross profit..... | 42.8 | 43.7 | 41.9 | 43.3 |
| Operating expenses: | | | | |
| Selling and administrative expenses..... | 23.0 | 23.3 | 24.1 | 24.9 |
| Other operating costs..... | 20.4 | 17.0 | 19.5 | 17.5 |
| Severance expenses related to former executives... | 0.0 | 10.5 | 0.0 | 5.1 |
| Write-off of fixed asset..... | 2.2 | 0.0 | 1.1 | 0.0 |
| Loss from operations..... | (2.8) | (7.1) | (2.8) | (4.2) |
| Interest income..... | 0.5 | 0.2 | 0.5 | 0.2 |
| Interest expense..... | 0.0 | 0.0 | 0.0 | 0.0 |
| Other income (expense), net..... | (0.1) | 0.0 | (0.2) | (0.1) |
| Loss before income taxes and cumulative effect of accounting change..... | (2.4) | (6.9) | (2.5) | (4.1) |
| Income tax benefit..... | 0.7 | 0.5 | 0.8 | 0.6 |
| Loss before cumulative effect of accounting change... | (1.7) | (6.4) | (1.7) | (3.5) |
| Cumulative effect of accounting change, net of tax..... | 0.0 | 0.0 | (0.2) | 0.0 |
| Net loss..... | (1.7)% | (6.4)% | (1.9)% | (3.5)% |
| Number of starter packs sold..... | 31,136 | 16,599 | 63,674 | 33,179 |
| Number of renewal packs sold..... | 14,227 | 9,424 | 32,464 | 24,312 |
| Total number of packs sold..... | 45,363 | 26,023 | 96,138 | 57,491 |
| Total associates canceling associate status..... | 1,225 | 1,149 | 3,721 | 2,366 |

Three months ended June 30, 2001 compared with the three months ended June 30, 2000

Net sales. Net sales decreased (16.7%) to \$32.5 million for the three months ended June 30, 2001 from \$39.0 million for the comparable period in 2000. This decrease was primarily composed of the following:

- . A decrease of 19% in the active associate base. An active associate is defined as having purchased packs or products in the last twelve months.
- . The decrease was partially offset by a 7% increase in the sales prices of finished goods implemented in March 2001, a \$2.3 million increase from opening its Japan operations on June 26, 2000 and the sale of several new products including ImmunoStart(TM), Optimal Health Pack(TM) and GlycoBears(TM).

Cost of sales. Cost of sales decreased (14.7%) to \$5.8 million for the three months ended June 30, 2001 from \$6.8 million for the comparable period in 2000. As a percentage of net sales, cost of sales increased to 17.9% for the three months ended June 30, 2001 from 17.4% for the comparable period in 2000. The increase in cost of sales as a percentage of net sales was primarily due to a write-off of some outdated promotional materials totaling \$381,000 and a change in the product mix of finished goods sold partially offset by the 7% price increase for some of its finished goods, implemented in March 2001. The dollar decrease was primarily due to a decrease in the volume of finished goods sold partially offset by the write-off of certain outdated promotional materials totaling \$381,000.

Commissions. Commissions consist of payments to associates for their sales activity and downline growth. Commissions decreased (19.9%) to \$12.5 million for the three months ended June 30, 2001 from \$15.6 million for the comparable period in 2000. As a percentage of net sales, commissions decreased to 38.4% for the three months ended June 30, 2001 from 39.8% for the comparable period in 2000. The dollar decrease was the direct result of a decrease in commissionable net sales resulting from a 19% decrease of active associates partially offset by the payment of commissions for two new incentive programs called the Power Plan incentive bonus and Team incentive bonus.

Gross profit. Gross profit decreased (15.0%) to \$14.2 million for the three months ended June 30, 2001 from \$16.7 million for the comparable period in 2000. As a percentage of net sales, gross profit increased to 43.7% for the three months ended June 30, 2001 from 42.8% for the comparable period in 2000. These changes were primarily attributable to the factors described above.

Selling and administrative expenses. Selling and administrative expenses are a mixture of both fixed and variable expenses and include compensation, shipping and freight and marketing expenses. Selling and administrative expenses decreased (15.6%) to \$7.6 million for the three months ended June 30, 2001 from \$9.0 million for the comparable period in 2000. As a percentage of net sales, selling and administrative expenses increased slightly to 23.3% for the three months ended June 30, 2001 from 23.0% for the comparable period in 2000, which was the result of the inability to reduce some of its fixed and semi-variable expenses. The dollar decrease was primarily due to the following:

- . a decrease of (\$531,000) in compensation and benefits due to the reduction in the current head count including the resignation of four executives;
- . a decrease of (\$651,000) in freight cost resulting from a decrease in net sales; and
- . a decrease of (\$231,000) in marketing expense, which was the result of hosting various preopening events for its new Japan operations in June 2000.

Other operating costs. Other operating costs include utilities, depreciation, travel, office expenses and printing expenses. Other operating costs decreased (30.4%) to \$5.5 million for the three months ended June 30, 2001 from \$7.9 million for the comparable period in 2000. As a percentage of net sales, other operating costs decreased to 17.0% for the three months ended June 30, 2001 from 20.4% for the comparable period in 2000. The decrease was primarily due to the following:

- . a decrease of (\$381,000) related to variable expenses associated with the decline in net sales and the curtailment of certain operating expenses;
- . a decrease of (\$1.2 million) relating to the reduction in long-distance telephone expenses, postage, consulting and international travel related to the international expansion which was substantially completed in 2000;
- . a decrease of (\$505,000) related to the Gryphon lawsuit settlement recorded in the prior year and the completion of several projects by outside consultants;
- . a decrease of (\$107,000) related to receiving a property tax abatement for our corporate offices; and

. a decrease of (\$200,000) from the prior year related to the buyout of Ray Robbins last remaining incentive agreement in 2000, which was initially canceled in July 1999.

Severance expenses related to former executives. In the second quarter of 2001, management entered into three separation agreements with former executives who had employment agreements for a one-time charge of \$3.4 million. The \$3.4 million consisted of compensation related to the cancellation of their employment agreements, accrued vacation, health insurance and automobile expenses that will be paid to the former employees at various times through 2004.

Write-off of fixed asset. In the second quarter of 2000, management determined its Internet subsidiary Internet Health Group, Inc's fixed asset having a book value of \$870,000 was impaired and should be written off. The write-off was a result of the continuation of the poor performance of the subsidiary, which discontinued operations as of December 29, 2000.

Interest income. Interest income decreased (67.0%) to \$59,000 for the three months ended June 30, 2001 from \$179,000 for the comparable period in 2000. As a percentage of net sales, interest income decreased to 0.2% for the three months ended June 30, 2001 from 0.5% for the comparable period in 2000. The dollar decrease was primarily due to using investments to fund current year operations.

Interest expense. Interest expense decreased (65.0%) to \$7,000 for the three months ended June 30, 2001 from \$20,000 for the comparable period in 2000. As a percentage of net sales, interest expense remained the same at 0.0% for both the three months ended June 30, 2001 and the comparable period in 2000. The dollar decrease was primarily due to the pay off of an existing note and a capital lease.

Other income (expense), net. Other income (expense), net consists of foreign currency translation adjustments relating to its United Kingdom and Australia operations and miscellaneous non-operating items. Other income (expense), net increased to \$12,000 for the three months ended June 30, 2001 from (\$22,000) for the comparable period in 2000. As a percentage of net sales, other income (expense), net increased to 0.0% for the three months ended June 30, 2001 from (0.1%) for the comparable period in 2000. For the three months ended June 30, 2001 and 2000, other income (expense), net consisted primarily of currency translation adjustments.

Income tax benefit. Income tax benefit was \$165,000 for the three months ended June 30, 2001 and \$271,000 for the comparable period in 2000. Mannatech's effective tax rate decreased to 7.4% for the three months ended June 30, 2001 from 28.6% for the comparable period in 2000. Mannatech's effective tax rate decreased primarily as a result of the establishment of a valuation allowance for the net operating losses from its Japan subsidiary.

Cumulative effect of accounting change, net of tax. In the fourth quarter of 2000, Mannatech adopted Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"), which resulted in a one-time charge of \$210,000, net of tax of \$126,000 for the cumulative effect of the accounting change. SAB 101 required Mannatech to defer the recognition of revenues until the consumers receive the products shipped.

Net loss. Net loss increased 206.5% to (\$2.1) million for the three months ended June 30, 2001 from (\$677,000) for the comparable period in 2000. As a percentage of net sales, the net loss increased to (6.4%) for the three months ended June 30, 2001 from (1.7%) for the comparable period in 2000. The dollar increase was due to recording a one-time charge of \$3.4 million related to the resignation of three executives, a decrease in net sales of (16.7%) due to the 19% decrease in the active associate base, partially offset by the curtailment of various operating expenses and no longer incurring expenses related to its Internet subsidiary and international expansion. For the three months ended June 30, 2001, Mannatech would have reported Income before income taxes of \$1.2 million exclusive of the one-time charge of \$3.4 million.

Six months ended June 30, 2001 compared with the six months ended June 30, 2000

Net sales. Net sales decreased (15.2%) to \$66.7 million for the six months ended June 30, 2001 from \$78.7 million for the comparable period in 2000. This decrease was primarily composed of the following:

- . A decrease of 19% in the active associate base. An active associate is defined as having purchased packs or products in the last twelve months.
- . This decrease was partially offset by a 7% sales price increase in some of its finished goods implemented in March 2001, a \$3.7 million increase from opening Japan on June 26, 2000 and the sale of several new products including ImmunoStart(TM), Optimal Health Pack(TM) and GlycoBears(TM).

Cost of sales. Cost of sales decreased (16.1%) to \$11.5 million for the six months ended June 30, 2001 from \$13.7 million for the comparable period in 2000. As a percentage of net sales, cost of sales decreased to 17.3% for the six months ended June 30, 2001 from 17.4% for the comparable period in 2000. The slight decrease in cost of sales as a percentage of net sales was primarily due to a change in the product mix of finished goods sold and the 7% price increase for some of its finished goods, implemented in March 2001. The dollar amount decrease was primarily due to a decrease in the volume of finished goods sold.

Commissions. Commissions consist of payments to associates for sales activity and downline growth. Commissions decreased (18.1%) to \$26.3 million for the six months ended June 30, 2001 from \$32.1 million for the comparable period in 2000. As a percentage of net sales, commissions decreased to 39.4% for the six months ended June 30, 2001 from 40.7% for the comparable period in 2000. The dollar decrease was the direct result of a decrease in commissionable net sales and a 19% decrease in active associates partially offset by the payment of two new incentive programs called the Power Plan incentive bonus and Team incentive bonus.

Gross profit. Gross profit decreased (12.4%) to \$28.9 million for the six months ended June 30, 2001 from \$33.0 million for the comparable period in 2000. As a percentage of net sales, gross profit increased to 43.3% for the six months ended June 30, 2001 from 41.9% for the comparable period in 2000. These changes were primarily attributable to the factors described above.

Selling and administrative expenses. Selling and administrative expenses are a mixture of both fixed and variable expenses and include compensation, shipping and freight and marketing expenses. Selling and administrative expenses decreased (12.2%) to \$16.6 million for the six months ended June 30, 2001 from \$18.9 million for the comparable period in 2000. As a percentage of net sales, selling and administrative expenses increased to 24.9% for the six months ended June 30, 2001 from 24.1% for the comparable period in 2000, which was the result of the inability to reduce some of the fixed and semi-variable expenses. The dollar decrease was primarily due to the following:

- . a decrease of (\$584,000) in compensation and benefits related to a reduction in the current head count including the resignation of various executives;
- . a decrease of (\$828,000) in freight cost resulting from a decrease in net sales;
- . a decrease of (\$676,000) in marketing expense, which was the result of hosting various preopening events for its Japan operations in June 2000; and
- . a decrease of (\$252,000) in advertising due to the discontinuance of certain advertising and no longer incurring advertising expense related to the Internet subsidiary - Internet Health Group, Inc, which discontinued operations on December 29, 2000.

Other operating costs. Other operating costs include utilities, depreciation, travel, office expenses and printing expenses. Other operating costs decreased (24.0%) to \$11.7 million for the six months ended June 30, 2001 from \$15.4 million for the comparable period in 2000. As a percentage of net sales, other operating costs decreased to 17.5% for the six months ended June 30, 2001 from 19.5% for the comparable period in 2000. The percentage decrease was the result of management making a concerted effort to curtail expenses. The dollar decrease was primarily due to the following:

- . a decrease of (\$1.6 million) related to variable expenses associated with a decrease in net sales and the curtailment of certain operating expenses;

- . a decrease of (\$2.0 million) in expenses related to travel, consulting, postage and telephone expenses incurred in the prior year related to the expansion into the United Kingdom and Japan;
- . a decrease of (\$200,000) from the prior year related to the buyout of Ray Robbins last remaining incentive agreement in 2000, which was initially canceled in July 1999;
- . a decrease of (\$105,000) related to license fees paid to a third party for the Internet subsidiary, which discontinued operations on December 29, 2000;
- . partially offset by an increase of \$317,000 in depreciation and professional fees related to our recent expansion into Japan.

Severance expenses related to former executives. In the second quarter of 2001, management entered into three separation agreements with the former executives for a one-time charge of \$3.4 million. The \$3.4 million consisted of compensation related to the cancellation of their employment agreements, accrued vacation, health insurance and automobile expenses that will be paid to the former employees at various times through 2004.

Write-off of fixed asset. In the second quarter of 2000, management determined the Internet subsidiary, Internet Health Group, Inc.'s, fixed asset with a book value of \$870,000 was impaired and should be written off. The write-off was a result of the continuation of the poor performance of the subsidiary, which discontinued operations as of December 29, 2000.

Interest income. Interest income decreased (63.0%) to \$156,000 for the six months ended June 30, 2001 from \$422,000 for the comparable period in 2000. As a percentage of net sales, interest income decreased to 0.2% for the six months ended June 30, 2001 from 0.5% for the comparable period in 2000. The dollar decrease was primarily due to using investments to fund current year operations.

Interest expense. Interest expense decreased (62.8%) to \$16,000 for the six months ended June 30, 2001 from \$43,000 for the comparable period in 2000. As a percentage of net sales, interest expense remained the same at 0.0% for both the six months ended June 30, 2001 and the comparable period in 2000. The dollar decrease was primarily due to the pay off and repayment of an existing note and various capital leases.

Other income (expense), net. Other income (expense), net consists of foreign currency translation adjustments related to the United Kingdom and Australia operations and miscellaneous non-operating items. Other income (expense), net decreased (23.9%) to (\$102,000) for the six months ended June 30, 2001 from (\$134,000) for the comparable period in 2000. As a percentage of net sales, other income (expense), net decreased to 0.1% for the six months ended June 30, 2001 from 0.2% for the comparable period in 2000. For the six months ended June 30, 2001, other income (expense), net consisted primarily of currency exchange losses due to currency translation fluctuations. For the six months ended June 30, 2000, other income (expense), net consisted of approximately \$36,000 in certain tax penalties and the remainder related to the currency exchange losses due to currency translation fluctuations.

Income tax benefit. Income tax benefit was \$376,000 for the six months ended June 30, 2001 and \$627,000 for the comparable period in 2000. Mannatech's effective tax rate decreased to 13.6% for the six months ended June 30, 2001 from 32.2% for the comparable period in 2000. Mannatech's effective tax rate decreased primarily as a result of the establishment of a valuation allowance for the net operating losses from its Japan subsidiary.

Cumulative effect of accounting change, net of tax. In the fourth quarter of 2000, Mannatech adopted Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"), which resulted in a one-time charge of \$210,000, net of tax of \$126,000 for the cumulative effect of the accounting change. SAB 101 required Mannatech to defer the recognition of revenues until the consumers receive the products shipped.

Net loss. Net loss increased 60.0% to (\$2.4 million) for the six months ended June 30, 2001 from (\$1.5 million) for the comparable period in 2000. As a percentage of net sales, net loss increased to (3.5%) for the six months ended June 30, 2001 from (1.9%) for the comparable period in 2000. The dollar increase was due to recording a one-time charge of \$3.4 million related to the resignation of various executives who held employment agreements, a

decrease in net sales of (15.2%), which was a direct result of a 19% decrease in the active associates, partially offset by the curtailment of various operating expenses and no longer incurring expenses related to its Internet subsidiary and international expansion. For the six months ended June 30, 2001, Mannatech would have reported Income before income taxes of \$660,000, exclusive of the one-time charge of \$3.4 million.

Liquidity and Capital Resources

Historically, Mannatech has funded its business objectives, working capital and operations through its cash flows from operations. Mannatech's working capital decreased to \$6.5 million as of June 30, 2001 from \$7.3 million at December 31, 2000. In 2000, Mannatech funded approximately \$4.4 million for expansion into Japan and \$4.1 million for operations for its Internet subsidiary-Internet Health Group, Inc. In 2001, Mannatech funded \$1.9 million in payments for the resignation of various executives holding employment agreements, which totaled \$3.4 million and reported a decrease of 15.2% in net sales. Mannatech plans to continue to fund its business objectives, working capital and operations through its current cash flows from operations.

| Provided by (used in) | June 30, 2001 | June 30, 2000 |
|-----------------------|-----------------|-----------------|
| ----- | ----- | ----- |
| Operating activities | \$ 128,000 | \$ 672,000 |
| Investing activities | (\$353,000) | (\$1.8 million) |
| Financing activities | (\$1.7 million) | (\$65,000) |

Operating activities. For the six months ended June 30, 2000, operating activities primarily related to international expansion into the United Kingdom and Japan, which resulted in a net loss of (\$1.5 million) combined with an increase in inventory of (\$1.5 million), prepaids of (\$372,000) partially offset by an increase in payables of \$1 million. For the six months ended June 30, 2001, operating activities primarily related to a one-time charge of \$3.4 million related to the resignation of three executives, which resulted in a net loss of (\$2.4 million) combined with a decrease in payables and accrued expenses of (\$300,000), partially offset by a decrease in inventories of \$762,000 due to the closing of the Internet subsidiary and completion of its planned international expansion.

Investing activities. For the six months ended June 30, 2000, investing activities consisted of purchases of computer hardware and software and the build out of the Japan facility totaling \$3.4 million, partially offset by the maturing of investments of \$1.4 million. The investments were primarily used to fund the expansion into Japan. For the six months ended June 30, 2001, investing activities consisted of purchases of property and equipment totaling \$493,000 for the data warehouse software project, partially offset by the repayment of notes receivable due from shareholders of \$137,000.

Financing activities. For the six months ended June 30, 2000, financing activities consisted of the payoff and repayment of various capital leases and notes payable totaling \$359,000, partially offset by the receipt of \$294,000 related to the exercise of 210,700 stock options at prices per share ranging from \$1.35 to \$2.00. For the six months ended June 30, 2001, financing activities consisted of the payment of cash overdrafts of \$1.0 million and repurchasing 369,397 shares of common stock from Mr. Charles Fioretti totaling \$406,000 pursuant to the lock-up and repurchase agreement with him. Under the terms of his agreement, Mannatech is required through February 3, 2002, to purchase \$83,333.33 worth of Mr. Charles Fioretti's common stock each month valued at 90% of the current fair market price. In exchange for the repurchase of his stock, Mr. Charles Fioretti is prohibited from trading his shares of Mannatech common stock through March 2, 2002, unless prior approval is obtained from the Board of Directors.

Mannatech believes its existing liquidity, capital resources and bank borrowings, coupled with the continuation of the suspension of dividend payments to shareholders should be adequate to fund its business operations and commitments for at least the next twelve months including the following:

- In March 2001, Mannatech committed to fund up to \$1 million to redevelop its core software database application onto a more easily maintainable architecture, which will also expand the information available to its associates using its corporate website. This project, known as the data warehouse project, is scheduled to be substantially complete by the winter of 2001.

- . Funding the payments related to the recent resignations of Mr. Anthony Canale, Ms. Deanne Varner, Mr. Charles Fioretti and Mr. Patrick Cobb. Under the terms of the various separation agreements, Mannatech is required to pay, in the future, an aggregate amount of \$2.9 million, of which \$1.8 million will be paid over the next twelve-months.
- . Funding the payments of its annual insurance premiums, totaling \$900,000, which Mannatech has historically funded over ten monthly installments payable to various finance companies.

Mannatech has no other present commitments or agreements with respect to any acquisitions or purchases of manufacturing facilities. Mannatech believes any future changes in its operations may consume available capital resources faster than anticipated and its existing capital requirements depends on numerous factors, including:

- . the introduction of new high-quality proprietary products;
- . a change in the number of associates and the retention of the current associate base; and
- . research and development efforts.

If existing capital resources and cash flows become insufficient to meet Mannatech's business plans and existing capital requirements, Mannatech would be required to raise additional funds, which it cannot assure will be available on favorable terms, if at all.

Recent Financial Accounting Standards Board Statements

In June 1998, the Financial Accounting Standards Board issued Financial Accounting Standard No. 133 "Accounting for Derivative, Instruments and Hedging Activities" ("FAS 133"). This statement establishes accounting and reporting standards for hedging activities and derivative financial instruments, including certain derivative financial instruments embedded in other contracts. In June 1999, the Financial Accounting Standards Board issued Financial Accounting Standard No. 137, which defers the effective date of FAS 133 to fiscal years beginning after June 15, 2000. In June 2000, the Financial Accounting Standards Board issued Financial Accounting Standard No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which addressed certain issues causing implementation difficulties. The adoption of this statement did not have, nor is it expected to have, any future material impact on Mannatech's consolidated financial position, results of operations or cash flows.

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 ("SFAS 141") "Business Combinations" and No. 142 ("SFAS 142") "Goodwill and Other Intangibles Assets."

SFAS 141 supercedes Accounting Principles Board Opinion No. 16 "Business Combinations." The most significant changes made by SFAS 141 are that it requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001, establishes specific criteria for recognition of certain intangibles assets separately from goodwill and requires the immediate write-off of unallocated negative goodwill.

SFAS 142 supercedes Accounting Principles Board Opinion No. 17 "Intangible Assets." SFAS 142 is effective for fiscal years beginning after December 15, 2001. SFAS 142 prohibits goodwill and indefinite lived intangible assets from being amortized and requires them to be annually tested for impairment at each reporting unit level. In addition, SFAS 142 removes the limitation of forty years for the useful lives of finite intangible assets.

Mannatech believes SFAS 141 and SFAS 142 will have no effect on its consolidated financial positions, results of operations or cash flows.

Outlook

Mannatech believes its outlook for the remainder of 2001 and looking forward into 2002 will be contingent upon the success of retaining its current associate base, its ability to introduce new high-quality, proprietary products, expanding its international sales to support the operations of its international subsidiaries, its ability to minimize any disruption caused by the recent resignation of former executives and effectively communicate the impact of the changes in its compensation plans to its associates.

Mannatech believes it has refocused its associate's attentions from the recent management changes and international expansion back to the core business of selling. Mannatech also believes it has developed a plan to help stabilize its associate base and return to a growth position operating in the nutritional supplements industry, which helps to provide optimal health and wellness.

Forward-Looking Statements

Some of our statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and Notes to Consolidated Financial Statements and elsewhere in this report may constitute "forward-looking statements" within the meaning of the Private Litigation Reform Act of 1995. Opinions, forecasts, projections, guidance or other statements other than statements of historical fact are considered forward-looking statements and reflects Mannatech's current views about future events and financial performance. These forward-looking statements are subject to certain events, risks and uncertainties that may be outside Mannatech's control. Some of these forward-looking statements include statements regarding:

- . existing cash flows being adequate to fund its current business operations;
- . believes that the new incentive plans will pay entry-level associates faster and increase net sales;
- . commissions not exceeding 42% of commissionable sales;
- . the value of the United State dollar not materially effecting its overall financial results;
- . establishment of certain policy, procedures and internal processes to combat any exposure to market risk;
- . actual impact of future market changes due to future exposure to currency rate fluctuations;
- . management's plans, objectives and budgets for its future operations and future economic performance;
- . capital budget and future capital requirements relating to the data warehouse project and payments to executives;
- . maintaining the level of future expenditures;
- . impact of recent accounting pronouncements;
- . the outcome of regulatory and litigation matters; and
- . the assumptions described in this report underlying such forward-looking statements.

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

- . those described in the context of such forward-looking statements;
- . future product development and manufacturing costs;

- . recent and future changes in Mannatech's global incentive plans;
- . retention of its associate base;
- . timely development and acceptance of new products;
- . the markets for Mannatech's domestic and international operations;
- . the impact of competitive products and pricing;
- . the political, social and economic climate in which Mannatech conducts its operations; and
- . the risk factors described in other documents and reports filed with the Securities and Exchange Commission.

In some cases, forward-looking statements are identified by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "approximates," "predicts," "potential," "in the future" or "continue" or the negative of such terms and other comparable terminology. Readers are cautioned when considering these forward-looking statements, to keep in mind these risk and uncertainty factors and or any other cautionary statements in this report as all of the forward-looking statements contained herein speak only as of the date of this report. Mannatech also cautions its readers that it believes it has not obligation to update or revise these forward-looking statements to reflect new events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Mannatech does not engage in trading market risk sensitive instruments and does not purchase investments and hedges 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. Mannatech has investments, but 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 may positively or negatively affect its financial results, as expressed in United States dollars. When the United States dollar increases against currencies in which products are sold or when the exchange rate weakens against currencies in which Mannatech incurs costs, net sales or costs may be adversely affected.

Mannatech has established certain policies, procedures and internal processes, which it believes will help monitor any significant market risks. Currently, Mannatech 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 currency. Based upon its overall currency rate exposure at June 30, 2001, Mannatech believes the actual impact of future market changes could differ materially due to, among other things, factors discussed in this report. Mannatech believes it cannot predict with any certainty its future exposure to such currency exchange rate fluctuations or the impact, if any, it may have on its future business, product pricing, consolidated financial position, results of operations or cash flows; however, Mannatech believes it closely monitors current fluctuations for exposure to such market risk. Currently, the foreign currencies in which Mannatech has exposure to foreign currency exchange rate risk include Australia, the United Kingdom and Japan. The high and low currency exchange rates to the United States dollar, for each of these countries, for the six months ended June 30, 2001 are as follows:

| Country/Currency | High | Low |
|-----------------------------------|-----------|-----------|
| Australia/Dollar..... | \$0.57220 | \$0.47730 |
| United Kingdom/British Pound..... | \$1.51030 | \$1.36770 |
| Japan/Yen..... | \$0.00880 | \$0.00788 |

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes in, or additions to, the legal proceedings previously reported in Mannatech's Annual Report on Form 10-K (File No. 000-24657) for 2000 as filed with the Securities and Exchange Commission on April 2, 2001.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

- a.) Mannatech held its 2001 Annual Shareholders Meeting on June 5, 2001 and the two proposals were described in detail in our Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001, which is attached herein as Exhibit 22.
- b.) Charles Fioretti, Jules Zimmerman and Samuel Caster were elected to continue to serve as Class II directors until the 2004 Annual Shareholders Meeting. Roger Beutner was elected to replace Anthony Canale, who resigned from the Board on June 4, 2001. Mr. Beutner will serve as a Class I director until the 2003 Annual Shareholders Meeting. Mr. Ray Robbins was also elected to serve as a Class I director until the 2003 Annual Shareholders Meeting.
- c.) The voting for the two proposals were as follows:

Each of the five directors were approved according to the following tabulated votes:

| Director ----- | For --- | Against or withheld ----- |
|-------------------|------------|------------------------------|
| Charles Fioretti | 15,837,543 | 6,487,029 |
| Jules Zimmerman | 13,727,319 | 8,597,253 |
| Samuel Caster | 22,231,621 | 92,951 |
| Roger Beutner | 13,615,652 | 8,708,920 |
| Ray Robbins | 20,889,020 | 1,435,552 |

The appointment of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 31, 2001 was ratified according to the following votes:

| For --- | Against or withheld ----- | Abstentions ----- |
|------------|------------------------------|----------------------|
| 20,468,619 | 302,594 | 1,553,359 |

- d.) None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K

- 3.1 Amended and Restated Articles of Incorporation of Mannatech dated May 19, 1998, incorporated herein by reference to Exhibit 3.1 to Mannatech's Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 3.2 Amended and Restated Bylaws of Mannatech dated April 27, 1999, incorporated herein by reference to Exhibit 4.3 to Mannatech's Form S-1 (File No. 333-77227) filed with the Commission on April 28, 1999.
- 3.3 First Amendment to the Bylaws of Mannatech dated October 20, 1999, incorporated herein by reference to Exhibit 3.4 to Mannatech's Form 10-Q (File No. 000-24657) filed with the Commission on August 14, 2000.
- 3.4 Second Amendment to the Bylaws of Mannatech dated February 22, 2000, incorporated herein by reference to Exhibit 10.29 to Mannatech's Form 10-K (File No. 000-24657) filed with the Commission on April 2, 2001.
- 3.5 Third Amendment to the Bylaws of Mannatech dated March 6, 2000, incorporated herein by reference to Exhibit 10.29 to Mannatech's Form 10-K (File No. 000-24657) filed with the Commission on April 2, 2001.
- 3.6 Fourth Amendment to the Bylaws of Mannatech dated November 17, 2000, incorporated herein by reference to Exhibit 10.29 to Mannatech's Form 10-K (File No. 000-24657) filed with the Commission on April 2, 2001.
- 3.7 Third Amended and Restated Bylaws of Mannatech dated April 27, 2001.*
- 4.1 Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share, incorporated herein by reference to Exhibit 4.1 to Mannatech's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 10.1 Separation Agreement dated May 2, 2001 between Mannatech and Ms. Deanne Varner, incorporated herein by reference to Exhibit 10.5 to Mannatech's Form 10-Q (File No. 000-24657) filed with the Commission on May 15, 2001.
- 10.2 Separation Agreement and Full and Final Release dated June 4, 2001 between Mannatech and Mr. Charles E. Fioretti, incorporated herein by reference to Exhibit 99.1 to Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on June 11, 2001.
- 10.3 Separation Agreement and General Release dated June 26, 2001 between Mannatech and Mr. Patrick D. Cobb, incorporated herein by reference to Exhibit 99.1 to Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on June 26, 2001.
- 22 Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 (File No. 000-24657) filed with the Commission on April 27, 2001.

* Filed herewith.

(b) Reports on Form 8-K.

On June 11, 2001, Mannatech filed a Form 8-K (File No. 000-24657) with the Securities and Exchange Commission in connection with the resignation of the Chairman of the Board and employee, Mr. Charles E. Fioretti. Mr. Fioretti continued to serve as a director on the Board of Directors. As a result of the resignation, Mannatech entered into a Separation Agreement and Full and Final Release (the "Separation Agreement") with Mr. Fioretti. Under the terms of the Separation Agreement, Mannatech agreed to pay Mr. Fioretti \$1.2 million and buy an additional 50,000 shares of his common stock at a price of \$1.45 per share, which was the closing price of the stock on June 4, 2001. The previous Lock-Up Agreement dated August 8, 2000 with Mr. Fioretti will continue; however, the due date of the Renewal and Extension Promissory Note with Mr. Fioretti dated February 17, 1999 was modified to continue to accrued interest at 6.0%, with the remaining principal of \$127,121.47 plus accrued interest extended to the earlier of (i) February 17, 2011 or (ii) thirteen days after the date that Mr. Fioretti no longer owns at least 100,000 shares of Mannatech's common stock.

On June 26, 2001, Mannatech also filed a Form 8-K (File No. 000-24657) with the Securities and Exchange Commission in connection with the resignation of the Executive Vice President of International Finance, Mr. Patrick D. Cobb. As a result of the resignation, Mannatech entered into a Separation Agreement and General Release (the "Separation Agreement") with Mr. Cobb. Under the terms of the Separation Agreement, Mannatech agreed to pay Mr. Cobb \$900,000, transfer title of his leased automobile and grant Mr. Cobb a total of 60,000 non-qualified stock options, which are exercisable through June 30, 2011 at prices ranging from \$2.25 per share to \$4.00 per share.

SIGNATURES

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

MANNATECH, INCORPORATED

August 13, 2001

/S/ ROBERT M. HENRY

Robert M. Henry
Chief Executive Officer and Director
(principal executive officer)

August 13, 2001

/S/ STEPHEN D. FENSTERMACHER

Stephen D. Fenstermacher
Senior Vice President and Chief Financial
Officer
(principal financial officer)

INDEX TO EXHIBITS

- 3.1 Amended and Restated Articles of Incorporation of Mannatech dated May 19, 1998, incorporated herein by reference to Exhibit 3.1 to Mannatech's Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 3.2 Amended and Restated Bylaws of Mannatech dated April 27, 1999, incorporated herein by reference to Exhibit 4.3 to Mannatech's Form S-1 (File No. 333-77227) filed with the Commission on April 28, 1999.
- 3.3 First Amendment to the Bylaws of Mannatech dated October 20, 1999, incorporated herein by reference to Exhibit 3.4 to Mannatech's Form 10-Q (File No. 000-24657) filed with the Commission on August 14, 2000.
- 3.4 Second Amendment to the Bylaws of Mannatech dated February 22, 2000, incorporated herein by reference to Exhibit 10.29 to Mannatech's Form 10-K (File No. 000-24657) filed with the Commission on April 2, 2001.
- 3.5 Third Amendment to the Bylaws of Mannatech dated March 6, 2000, incorporated herein by reference to Exhibit 10.29 to Mannatech's Form 10-K (File No. 000-24657) filed with the Commission on April 2, 2001.
- 3.6 Fourth Amendment to the Bylaws of Mannatech dated November 17, 2000, incorporated herein by reference to Exhibit 10.29 to Mannatech's Form 10-K (File No. 000-24657) filed with the Commission on April 2, 2001.
- 3.7 Third Amended and Restated Bylaws of Mannatech dated April 27, 2001.*
- 4.1 Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share, incorporated herein by reference to Exhibit 4.1 to Mannatech's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 10.1 Separation Agreement dated May 2, 2001 between Mannatech and Ms. Deanne Varner, incorporated herein by reference to Exhibit 10.5 to Mannatech's Form 10-Q (File No. 000-24657) filed with the Commission on May 15, 2001.
- 10.2 Separation Agreement and Full and Final Release dated June 4, 2001 between Mannatech and Mr. Charles E. Fioretti, incorporated herein by reference to Exhibit 99.1 to Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on June 11, 2001.
- 10.3 Separation Agreement and General Release dated June 26, 2001 between Mannatech and Mr. Patrick D. Cobb, incorporated herein by reference to Exhibit 99.1 to Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on June 26, 2001.
- 22 Definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 (File No. 000-24657) filed with the Commission on April 27, 2001 .

* Filed herewith.

THIRD AMENDED AND RESTATED BYLAWS

OF

MANNATECH, INCORPORATED

A TEXAS CORPORATION

DATE OF ADOPTION:

April 27, 2001

THIRD AMENDED AND RESTATED BYLAWS

OF

MANNATECH, INCORPORATED

A TEXAS CORPORATION

ARTICLE I

REGISTERED OFFICE

The registered office of the Corporation required by the Texas Business Corporation Act (the "TBCA") to be maintained in the State of Texas shall be the registered office named in the Amended and Restated Articles of Incorporation of the Corporation or such other office (which need not be a place of business of the Corporation) as may be designated from time to time by the Board of Directors in the manner provided by law.

ARTICLE II

SHAREHOLDERS

SECTION 1. PLACE OF MEETINGS. All meetings of the shareholders shall be held at the principal place of business of the Corporation or at such other place within or without the State of Texas as shall be specified or fixed in the notices or waivers of notice thereof; provided that any or all shareholders may participate in any such meeting by means of conference telephone or similar communications equipment pursuant to Article II, Section 12 of these bylaws.

SECTION 2. QUORUM; REQUIRED VOTE FOR SHAREHOLDER ACTION; ADJOURNMENT OF MEETINGS.

(a) Quorum. A quorum shall be present at a meeting of shareholders if the holders of a majority of the shares entitled to vote are represented at the meeting in person or by proxy.

(b) Voting on Matters Other than the Election of Directors. With respect to any matter, other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by the TBCA, the affirmative vote of the holders of a majority of the shares entitled to vote on that matter and represented in person or by proxy at a meeting of shareholders at which a quorum is present shall be the act of the shareholders, unless otherwise provided in the Amended and Restated Articles of Incorporation or these bylaws in accordance with the TBCA.

(c) Voting in the Election of Directors. Subject to any agreements among shareholders now or hereafter existing regarding the election of directors, directors shall be elected only if the director receives the vote of the holders of a majority of the shares entitled to vote in the election of directors.

(d) Adjournment. Notwithstanding the other provisions of the Amended and Restated Articles of Incorporation or these bylaws, the chairman of the meeting or the holders of a majority of the shares entitled to vote that are represented in person or by proxy at any meeting of shareholders, whether or not a quorum is present, shall have the power to adjourn such meeting from time to time, without any notice other than announcement at the meeting of the time and place of the holding of the adjourned meeting. If such meeting is adjourned by the shareholders, such time and place shall be determined by a vote of the holders of a majority of the shares entitled to vote that are represented in person or by proxy in such meeting. Upon the resumption of such adjourned meeting, any business may be transacted that might have been transacted at the meeting as originally called.

SECTION 3. ANNUAL MEETINGS. An annual meeting of the shareholders, for the election of directors to succeed those whose terms expire and for the transaction of other business as may properly come before the meeting, shall be held at such place, within or without the State of Texas, on such date and such time as the Board of Directors shall fix and set forth in the notice of the meeting, which date shall be within 180 days subsequent to the end of the Corporation's most recent fiscal year.

SECTION 4. SPECIAL MEETINGS. Special meetings of the shareholders for any proper purpose or purposes may be called at any time by (a) the Chairman of the Board; (b) the President; or (c) the Secretary, on written request of any two directors, and (d) the holders of at least ten percent of all the shares entitled to vote at the proposed special meeting. The record date for determining shareholders entitled to call a special meeting is the date any shareholder first signs the notice of that meeting. Only business within the purpose or purposes described in the notice (or waiver thereof required by these bylaws) may be conducted at a special meeting of the shareholders.

SECTION 5. CLOSING SHARE TRANSFER RECORDS; RECORD DATE. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive a distribution by the Corporation (other than a distribution involving a purchase or redemption by the Corporation of any of its own shares) or a share dividend, or in order to make a determination of shareholders for any other purpose, the Board of Directors of the Corporation may provide that the share transfer records shall be closed for a stated period but not to exceed, in any case, 60 days. If the share transfer records shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such records shall be closed for at least ten days immediately preceding such meeting.

In lieu of closing the share transfer records, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days and, in the case of a meeting of shareholders, not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to taken.

If the share transfer records are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive a distribution (other than a distribution involving a purchase or

redemption by the Corporation of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders.

When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided herein, such determination shall also apply to any adjournment thereof except where the determination has been made through the closing of share transfer records and the stated period of closing has expired.

SECTION 6. NOTICE OF MEETINGS. Written or printed notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary or the officer or person calling the meeting, to each shareholder entitled to vote at such meeting. If mailed, any such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the share transfer records of the Corporation, with postage thereon prepaid.

SECTION 7. VOTING LIST. The officer or agent having charge of the share transfer records of the Corporation shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office or principal place of business of the Corporation and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share transfer records shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer records or to vote at any meeting of shareholders. Failure to comply with the requirements of this Section shall not affect the validity of any action taken at such meeting.

SECTION 8. PROXIES. A shareholder may vote either in person or by proxy executed in writing by the shareholders. A telegram, telex, cablegram, telecopy or similar transmission by the shareholder, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by the shareholder shall be treated as an execution in writing for purposes of this Section. Proxies for use at any meeting of shareholders or in connection with the taking of any action by written consent shall be filed with the Secretary, or such other officer as the Board of Directors may from time to time determine by resolution, before or at the time of the meeting or execution of the written consent as the case may be. No proxy shall be valid after 11 months from the date of its execution unless otherwise provided in the proxy.

SECTION 9. VOTING; INSPECTORS; ELECTIONS. Unless otherwise required by law or provided in the Amended and Restated Articles of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

At any meeting at which a vote is taken, the chairman of the meeting may appoint one or more inspectors, each of whom shall subscribe an oath or affirmation to execute faithfully the duties of inspector at such meeting with strict impartiality and according to the best of such person's ability. Such inspector shall receive the ballots, count the votes and make and sign a certificate of the result thereof. The chairman of the meeting may appoint any person to serve as inspector, except no candidate for the office of director shall be appointed as an inspector.

SECTION 10. CONDUCT OF MEETINGS. All meetings of the shareholders shall be presided over by the chairman of the meeting, who shall be the Chairman of the Board, or if the Chairman of the Board is not present, the President or if neither the Chairman of the Board nor President is present, a chairman elected at the meeting. The Secretary of the Corporation, if present, shall act as secretary of such meetings, or if the Secretary is not present an Assistant Secretary (if any) shall so act; if neither the Secretary nor an Assistant Secretary (if any) is present then a secretary shall be appointed by the chairman of the meeting. The chairman of any meeting of shareholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to the chairman of the meeting in order.

SECTION 11. TREASURY SHARES. Neither the Corporation nor any other person shall vote, directly or indirectly, at any meeting, Treasury Shares, as defined in the TBCA, shares of the Corporation's own stock owned by another corporation the majority of the voting stock of which is owned or controlled by the Corporation, and shares of the Corporation's own stock held by the Corporation in a fiduciary capacity; and such shares shall not be counted in determining the total number of outstanding shares at any given time.

SECTION 12. ACTION BY WRITTEN CONSENT OR TELEPHONE CONFERENCE. Any action required or permitted to be taken at a meeting of shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof, and the consent shall have the same force and effect as a unanimous vote of the shareholders. Such writing, which may be in counterparts, shall be manually executed if practicable; provided, however, that if circumstances so require, effect shall be given to written consent transmitted by telegraph, telex, teletype or similar means of visual data transmission. Meetings of the shareholders of the Corporation may be conducted by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear and speak to each other.

SECTION 13. FIXING RECORD DATES FOR CONSENTS TO ACTION. Whenever action by shareholders is proposed to be taken by consent in writing without a meeting of shareholders, the Board of Directors may fix a record date for the purpose of determining shareholders entitled to consent to that action, which record date shall not precede, and shall not be more than ten days after, the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors and the prior action of the Board of Directors is not required by law or these bylaws, the record date for determining shareholders entitled to consent to action in writing without a meeting shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office, its principal place of business, or an officer or agent of the Corporation having custody of the books in which proceedings of

meetings of shareholders are recorded. Delivery shall be by hand or by certified or registered mail, return receipt requested. Delivery to the Corporation's principal place of business shall be addressed to the President or the chief executive officer of the Corporation. If no record date shall have been fixed by the Board of Directors and prior action of the Board of Directors is required by the TBCA or these bylaws, the record date for determining shareholders entitled to consent to action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts a resolution taking such prior action.

ARTICLE III

BOARD OF DIRECTORS

SECTION 1. POWER; NUMBER; TERM OF OFFICE; ELECTION. The powers of the Corporation shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed by the Board of Directors except as the Board of Directors shall delegate the power to so manage to the Executive Committee or other committee. Directors need not be residents of the State of Texas or shareholders of the Corporation.

Unless otherwise provided in the Amended and Restated Articles of Incorporation, the number of directors that shall constitute the Board of Directors, which shall not be less than three, shall be determined from time to time either (i) by resolution of the Board of Directors (provided that no decrease in the number of directors that would have the effect of shortening the term of an incumbent director may be made by the Board of Directors) or (ii) by the shareholders at an annual meeting or a special meeting called for that purpose. The current number of directors is hereby set at nine. Each director shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.

The directors shall be divided into three classes as nearly equal in number as possible and one class of directors shall be elected by plurality vote at each annual meeting of shareholders to hold office for a three-year term. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director .

Nominations for candidates for Director shall be made by the Nominating committee of the Board of Directors, or by a shareholder entitled to vote at a meeting of Shareholders who has delivered written notice to the General Counsel of the Company not less than 30, nor more than 60, days before a meeting of shareholders in which the election of directors will be among the matters to be presented for a shareholder's vote.

SECTION 2. ADVISORS TO THE BOARD. The Board of Directors may appoint certain individuals to the position of "Advisory Director." There may be any number of Advisory Directors named or elected by the Board of Directors to advise said Board. Advisory Directors shall not be members of the Board of Directors and shall not be entitled to vote, nor in any way direct or affect the affairs of the Corporation coming before the Board of Directors, except by advice or suasion of the voting Directors. The presence or absence of an Advisory Director shall not affect the constitution of a quorum.

SECTION 3. QUORUM; REQUIRED VOTE FOR DIRECTOR ACTION. Unless otherwise required by law, a majority of the total number of directors fixed by, or in the manner provided in, these bylaws shall constitute a quorum for the transaction of business of the Board of Directors, and the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 4. MEETINGS; ORDER OF BUSINESS; ATTENDANCE OF COUNSEL. Regular or Special Meetings of the Board of Directors may be held within or outside the State of Texas.

Unless authorized by a majority vote of the directors, no director may have private counsel present at any meeting of the Board of Directors. On the request of any director during a regular or special meeting of the board of Directors, those directors participating in the meeting may, by majority vote, authorize such requesting director to have personal counsel attend the meeting. The director so requesting the attendance of counsel may participate in voting to determine whether such attendance of counsel shall be authorized.

Attendance of a director at a meeting of the Board of Directors shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

SECTION 5. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of such regular meetings shall not be required.

SECTION 6. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the President or by any two directors. Notice of such special meeting may be given either (i) by the person or persons who have called the meeting or (ii) by the Secretary upon the request of the person or persons who have called the meeting, in each case on at least 24 hours personal, written, electronic mail, telegraphic, cable, wireless, or facsimile notice to each director. Such notice or any waiver thereof pursuant to Article VIII, Section 3 hereof need not state the purpose or purposes of such meeting.

SECTION 7. VACANCIES; INCREASES IN THE NUMBER OF DIRECTORS. Any vacancy occurring in the Board of Directors other than by reason of an increase in the number of directors may be filled (a) by election at an annual or special meeting of the shareholders called for that purpose or (b) by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy occurring other than by reason of an increase in the number of directors shall be elected for the unexpired term of his predecessor in office. A vacancy shall be deemed to exist by reason of the death or resignation of the person elected, or upon the failure of shareholders to elect directors to fill the unexpired terms of directors removed in accordance with the provisions of Section 7 of this Article III.

Any directorship to be filled by reason of an increase in the number of directors may be filled (a) by the Board of Directors for a term of office continuing only until the next election of one or more directors by the shareholders; PROVIDED, HOWEVER, that during the period between any two successive annual meetings of shareholders, the Board of Directors may not fill more than three such directorships; or (b) by election at an annual or special meeting of shareholders entitled to vote in the election of such directors called for that purpose.

SECTION 8. REMOVAL. At any meeting of shareholders at which a quorum of shareholders is present called expressly for that purpose, or pursuant to a written consent adopted pursuant to Article II, Section 12 hereof, any director may be removed from office but only for cause, by vote of the holders of issued and outstanding shares representing a majority of the votes entitled to be cast for the election of such director.

SECTION 9. COMPENSATION. The Board of Directors shall have the authority to fix the compensation, if any, of directors.

SECTION 10. PRESUMPTION OF ASSENT. A director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 11. ACTION BY WRITTEN CONSENT OR TELEPHONE CONFERENCE. Any action permitted or required by the TBCA, the Amended and Restated Articles of Incorporation or these bylaws to be taken at a meeting of the Board of Directors or any committee designated by the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all the members of the Board of Directors or committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting and may be stated as such in any document or instrument filed with the Secretary of State, and the execution of such consent shall constitute attendance or presence in person at a meeting of the Board of Directors or any such committee, as the case may be. Subject to the requirement of the TBCA or these bylaws for notice of meetings, members of the Board of Directors, or members of any committee designated by the Board of Directors, may participate in and hold a meeting of the Board of Directors or any committee of directors, as the case may be, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such meeting shall constitute attendance and presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE IV

COMMITTEES

SECTION 1. DESIGNATION; POWERS. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members one or more committee, each of which shall be comprised of one or more of its members, and may designate one or more of its members as alternate members of any committee, who may, subject to any limitations imposed by the Board of Directors, replace absent or disqualified members at any meeting of that committee. Committee members may be removed from committees, with or without cause, by the Board of Directors. Any such committee, to the extent provided in such resolution or in the Amended and Restated Articles of Incorporation or bylaws shall have and may exercise all of the authority of the Board of Directors, subject to the limitations set forth in the TBCA or below.

No committee of the Board of Directors shall have the authority of the Board of Directors in reference to:

- (1) amending the Articles of Incorporation, except that a committee may, to the extent provided in the resolution designating that committee or in the Articles of Incorporation or these bylaws, exercise the authority of the Board of Directors vested in it in accordance with Article 2.13 of the TBCA;
- (2) proposing a reduction in the stated capital of the Corporation in the manner permitted by Article 4.12 of the TBCA;
- (3) approving a plan of merger or share exchange of the Corporation;
- (4) recommending to the shareholders the sale, lease or exchange of all or substantially all of the property and assets of the Corporation otherwise than in the usual and regular course of its business;
- (5) recommending to the shareholders the sale, lease or exchange of all or substantially all of the property and assets of the Corporation other than in the usual and regular course of its business;
- (6) amending, altering or repealing the bylaws of the Corporation or adopting new bylaws of the Corporation;
- (7) filling vacancies in the Board of Directors;
- (8) filling vacancies in or designating alternate members of any such committee;
- (9) filling any directorship to be filled by reason of an increase in the number of directors;
- (10) electing or removing officers of the Corporation or members or alternate members of any such committee;

- (11) fixing the compensation of any member, or alternate members of such committee; or
- (12) altering or repealing any resolution of the Board of Directors that by its terms provided that it shall not be so amendable or repealable.

Unless the resolution designating a particular committee, the Amended and Restated Articles of Incorporation or these bylaws expressly so provide, no committee of the Board of Directors shall have the authority to authorize a distribution (as such term is defined in the TBCA) or to authorize the issuance of shares of the Corporation.

SECTION 2. PROCEDURE; MEETINGS; QUORUM. Any committee designated pursuant to Section 1 of this Article shall choose its own chairman and secretary, shall keep regular minutes of its proceedings and report the same to the Board of Directors when requested, shall fix its own rules or procedures, and shall meet at such times and at such place or places as may be provided by such rules, or by resolution of such committee or of the Board of Directors. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members shall be necessary for the adoption by it of any resolution.

SECTION 3. DISSOLUTION. The Board of Directors may dissolve any committee at any time, unless otherwise provided in the Amended and Restated Articles of Incorporation or these bylaws.

ARTICLE V

OFFICERS

SECTION 1. NUMBER, TITLES AND TERMS OF OFFICE. The officers of the Corporation shall be a Chairman of the Board, Chief Executive Officer, a President and a Secretary and such other officers as the Board of Directors may from time to time elect or appoint. Each officer shall hold office until his successor shall be duly elected and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Any number of offices may be held by the same person. Except for the Chairman of the Board, no officer need be a director.

SECTION 2. SALARIES. The salaries or other compensation, if any, of the officers of the Corporation shall be fixed from time to time by the Board of Directors.

SECTION 3. REMOVAL. Any officer or agent may be removed, either with or without cause, by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4. VACANCIES. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors.

SECTION 5. POWERS AND DUTIES OF THE CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the shareholders and shall have such other powers and duties as designated in these bylaws and as from time to time may be assigned to that office by the Board of Directors.

SECTION 6. POWERS AND DUTIES OF THE CHIEF EXECUTIVE OFFICER. The Chairman or other officer shall be the chief executive officer of the Corporation unless the Board of Directors designates the Chairman of the Board or other officer as chief executive officer. Subject to the control of the Board of Directors, the chief executive officer shall have general executive charge, management and control of the properties, business and operations of the Corporation with all such powers as may be reasonably incident to such responsibilities; subject to any limitations placed by the Board of Directors, the chief executive officer may agree upon and execute on behalf of the Corporation leases, contracts, evidences of indebtedness and other obligations in the name of the Corporation and may sign certificates for shares of capital stock of the Corporation. The chief executive officer shall have such other powers and duties as designated in accordance with these bylaws and as from time to time may be assigned by the Board of Directors.

SECTION 7. POWERS AND DUTIES OF THE PRESIDENT. Unless the Board of Directors otherwise determines, the President shall have the authority, subject to any limitations placed by the Board of Directors, to agree upon and execute leases, contracts, evidences of indebtedness and other obligations in the name of the Corporation; and, unless the Board of Directors otherwise determines, the President shall, in the absence of the Chairman of the Board or if there be no Chairman of the Board, preside at all meetings of the shareholders and (should he be a director) of the Board of Directors; and the President shall have such other powers and duties as designated in accordance with these bylaws and as from time to time may be assigned by the Board of Directors.

SECTION 8. VICE PRESIDENTS. The Vice President(s), if any, shall perform such duties and have such powers as the Board of Directors may from time to time prescribe. In addition, in the absence of the Chairman of the Board or President, or in the event of their inability or refusal to act, (a) a Vice President designated by the Board of Directors or (b) in the absence of such designation, the Vice President who is present and who is senior in terms of rank (or in the absence of a senior rank, time) as a Vice President of the Corporation, shall perform the duties of the Chairman of the Board, or the President as the case may be, and when so acting shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board, or the President; provided that such person shall not preside at meetings of the Board of Directors unless such person is a director.

SECTION 9. TREASURER. The Treasurer, if any, shall have responsibility for the custody and control of all the funds and securities of the Corporation, and shall have such other powers and duties as designated in these bylaws and as from time to time may be assigned by the Board of Directors. The Treasurer shall perform all acts incident to the position of Treasurer subject to the control of the chief executive officer and the Board of Directors; and the Treasurer shall, if required by the Board of Directors, give such bond for the faithful discharge of the Treasurer's duties in such form as the Board of Directors may require.

SECTION 10. ASSISTANT TREASURERS. The Assistant Treasurers shall assist the Treasurer and shall exercise the powers of the Treasurer during that officer's absence or inability or refusal to act. Each Assistant Treasurer, if any, shall have such other powers and duties as designated by these bylaws and as from time to time may be assigned by the chief executive officer, the Board of Directors or the Treasurer.

SECTION 11. SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors, and the minutes of all meetings of the shareholders, in books provided for that purpose; shall attend to the giving and serving of all notices; may in the name of the Corporation affix the seal (if any) of the Corporation to all contracts of the Corporation and attest thereto; may sign with the other appointed officers all certificates for shares of capital stock of the Corporation; shall have charge of the certificate books, transfer books and stock ledgers, and such other books and papers as the Board of Directors may direct, all of which shall at all reasonable times be open to inspection of any director upon application at the office of the Corporation during business hours. The Secretary shall have such other powers and duties as designated in these bylaws and as from time to time may be assigned by the chief executive officer or the Board of Directors; and shall in general perform all duties incident to the office of Secretary, subject to the control of the chief executive officer of the Board of Directors.

SECTION 12. ASSISTANT SECRETARIES. The Assistant Secretary shall assist the Secretary and shall exercise the power of the Secretary during that officer's absence or inability or refusal to act. Each Assistant Secretary, if any, shall have such other powers and duties as designated by these bylaws and as from time to time to be assigned by the chief executive officer, the Board of Directors or the Secretary.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

SECTION 1. RIGHT TO INDEMNIFICATION. Subject to the limitations and conditions as provided in this Article VI, and in Section 2.02-1 of the TBCA (relating among other matters to liability for receipt of an improper personal benefit or liability to the Corporation), as from time to time amended, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitral or investigative (hereinafter a "proceeding"), or any appeal in such a proceeding or any inquiry or investigation that could lead to such a proceeding, by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise shall be indemnified by the Corporation to the fullest extent permitted by the TBCA as the same exists or may hereafter be amended against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such person in connection with such proceeding, and indemnification under this Article VI shall

continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. The rights granted pursuant to this Article VI shall be deemed contract rights, and no amendment, modification or repeal of this Article VI shall have the effect of limiting or denying any such rights with respect to actions taken or proceedings arising prior to any such amendment, modification or repeal. It is expressly acknowledged that the indemnification provided in this Article VI could involve indemnification for negligence or under theories of strict liability.

SECTION 2. ADVANCE PAYMENT. The right to indemnification conferred in this Article VI shall include the right to be paid or reimbursed by the Corporation the reasonable expenses incurred by a person of the type entitled to be indemnified under Section 1 who was, is or is threatened to be made a named defendant or respondent in a proceeding in advance of the final disposition of the proceeding and without any determination as to the person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such person in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of a written affirmation by such director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification under this Article VI and a written undertaking, by or on behalf of such person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified person is not entitled to be indemnified under this Article VI or otherwise.

SECTION 3. INDEMNIFICATION OF EMPLOYEES AND AGENTS. The Corporation, by adoption of a resolution of the Board of Directors, may (but shall not be required to) indemnify and advance expenses to an employee or agent of the Corporation to the same extent and subject to the same conditions under which it may indemnify and advance expenses to directors and officers under this Article VI; and, the Corporation may (but shall not be required to) indemnify and advance expenses to persons who are not or were not directors, officers, employees or agents of the Corporation but who are or were serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan and or other enterprise against any liability asserted against that person and incurred by that person in such a capacity or arising out of such individual's status as such a person to the same extent that it may indemnify and advance expenses to directors under this Article VI.

SECTION 4. APPEARANCE AS A WITNESS. Notwithstanding any other provision of this Article VI, the Corporation may pay or reimburse expenses incurred by a director or officer in connection with his or her appearance as a witness or other participation in a proceeding at a time when he or she is not a named defendant or respondent in the proceeding.

SECTION 5. NONEXCLUSIVITY OF RIGHTS. The right to indemnification and the advancement and payment of expenses conferred in this Article VI shall not be exclusive of any other right which a director or officer or other person indemnified pursuant to Section 3 of this Article VI may have or hereafter acquire under any law (common or statutory), provision of the Amended and Restated Articles of Incorporation or these bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

SECTION 6. INSURANCE. The Corporation may purchase and maintain insurance and, to the extent permitted by the TBCA, similar arrangements, at its expense, to protect itself and any person who is or was serving as a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, proprietorship, employee benefit plan, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under this Article VI.

SECTION 7. SHAREHOLDER NOTIFICATION. To the extent required by law, any indemnification of or advance of expenses to a director or officer in accordance with this Article VI shall be reported in writing to the shareholders with or before the notice or waiver of notice of the next shareholder's meeting or with or before the next submission to shareholders of a consent to action without a meeting.

SECTION 8. SAVINGS CLAUSE. If this Article VI or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each director, officer or any other person indemnified pursuant to this Article VI as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the full extent permitted by any applicable portion of this Article VI that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VII

CAPITAL STOCK

SECTION 1. CERTIFICATES OF STOCK. The certificates for shares of the capital stock of the Corporation shall be in such form, consistent with that required by law and the Amended and Restated Articles of Incorporation, as shall be approved by the Board of Directors. The Chairman of the Board, President or a Vice President (if any) shall cause to be issued to each shareholder one or more certificates, which shall be signed by (a) one of the Chairman of the Board, President, or a Vice President and (b) one of the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer certifying the number of shares (and, if the stock of the Corporation shall be divided into classes or series, the class and series of such shares) owned by such shareholder in the Corporation; provided however, that any or all of the signatures on the certificate may be facsimile. If the Board of Directors shall have provided for a seal, such certificates shall bear such seal or a facsimile thereof. The stock record books and the blank stock certificate books shall be kept by the Secretary, or at the office of such transfer agent or transfer agents as the Board of Directors may from time to time by resolution determine. In case any officer, transfer agent or registrar who shall have signed or have ceased to be such officer, transfer agent or registrar before such certificate is issued by the Corporation, such certificate may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The stock certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued and shall exhibit the holder's name and number of shares.

SECTION 2. TRANSFER OF SHARES. The shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives, upon surrender and cancellation of certificates for a like number of shares (or upon compliance with the provisions of Section 4 of this Article VII, if applicable). Upon such surrender to the Corporation or a transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer (or upon compliance with the provisions of Section 4 of this Article VII, if applicable) and of compliance with any transfer restrictions applicable thereto contained in an agreement to which the Corporation is a party or of which the Corporation has knowledge by reason of legend with respect thereto placed on any such surrendered stock certificate, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

SECTION 3. REGULATIONS REGARDING CERTIFICATES. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issuance, transfer and registration or the replacement of certificates for shares of capital stock of the Corporation.

SECTION 4. LOST, STOLEN, DESTROYED OR MUTILATED CERTIFICATES. The Board of Directors may determine the conditions upon which a new certificate of stock may be issued in place of a certificate that is alleged to have been lost, stolen, destroyed or mutilated; and may, in its discretion, require the owner of such certificate or his legal representative to give bond, with sufficient surety, to indemnify the Corporation and each transfer agent and registrar against any and all losses or claims which may arise by reason of the issuance of a new certificate in the place of the one so lost, stolen, destroyed or mutilated.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

SECTION 1. FISCAL YEAR. The fiscal year of the Corporation shall be such as established from time to time by the Board of Directors.

SECTION 2. CORPORATE SEAL. The Board of Directors may provide a suitable seal, containing the name of the Corporation. The Secretary shall have charge of the seal (if any). If and when so directed by the Board of Directors, duplicates of the seal may be kept and used by the Treasurer, if any, or by any Assistant Secretary or Assistant Treasurer.

SECTION 3. NOTICE AND WAIVER OF NOTICE. Whenever any notice is required to be given by law, the Amended and Restated Articles of Incorporation or these bylaws, except with respect to notices of meetings of shareholders (with respect to which the provisions of Article II, Section 6 apply) and except with respect to notices of special meetings of the Board of Directors (with respect to which the provisions of Article III, Section 6 apply), said notice shall be deemed to be sufficient if given (a) by telegraphic, cable, telecopy, facsimile, electronic mail, or wireless transmission or (b) by deposit of same in a post office box in a sealed prepaid wrapper addressed to the person entitled thereto at his or her address as it appears on the records

of the Corporation, and such notice shall be deemed to have been given on the day of such transmission or mailing, as the case may be.

Whenever notice is required to be given by law, the Amended and Restated Articles of Incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the notice required to be given by law, the Amended and Restated Articles of Incorporation or these bylaws, as the case may be.

SECTION 4. RESIGNATIONS. Any director, member of a committee or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the chief executive officer or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

SECTION 5. FACSIMILE SIGNATURES. In addition to the provisions for the use of facsimile signatures elsewhere specifically authorized in these bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors.

SECTION 6. BOOKS AND RECORDS. The Corporation shall keep books and records of account and shall keep minutes of the proceedings of its shareholders, its Board of Directors and each committee of its Board of Directors. The Corporation shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of the original issuance of shares issued by the Corporation and a record of each transfer of those shares that have been presented to the Corporation for registration of transfer. Such records shall contain the names and addresses of all past and current shareholders of the Corporation and the number and class of shares issued by the Corporation held by each of them. Any books, records, minutes and share transfer records may be in written form or in any other form capable of being converted into written form within a reasonable time.

SECTION 7. AMENDMENT OF BYLAWS. No provision of the Corporation's bylaws which has been adopted by the shareholders may be amended, modified or repealed, except by the vote of a majority of the shareholders. No bylaw provision which conflicts with or is contrary to a bylaw adopted by the shareholders may be adopted, except by the vote of a majority of the shareholders.

ARTICLE IX

AMENDMENTS

The power to alter, amend or repeal the bylaws or adopt new bylaws shall be vested in the Board of Directors.