
2003

**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 September 30, 2003.**

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 .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of October 31, 2003, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share was 25,854,190.

Mannatech, Incorporated
TABLE OF CONTENTS

	<u>Page</u>
Part I – FINANCIAL INFORMATION	
Item 1. Financial Statements	2
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	12
Overview and Critical Accounting Policies and Estimates	12
General Summary	14
Results of Operations	18
Three months ended September 30, 2003 compared with the three months ended September 30, 2002	18
Nine months ended September 30, 2003 compared with the nine months ended September 30, 2002	21
Liquidity and Capital Resources	23
Recent Accounting Pronouncements	26
Forward-Looking Statements	27
Item 3. Quantitative and Qualitative Disclosures about Market Risk	28
Item 4. Controls and Procedures	29
Part II – OTHER INFORMATION	29
Item 1. Legal Proceedings	29
Item 2. Changes in Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Submission of Matters to a Vote of Security Holders	29
Item 5. Other Information	30
Item 6. Exhibits and Reports on Form 8-K	31
Signatures	32

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2002	September 30, 2003 (Unaudited)
ASSETS		
Cash and cash equivalents	\$ 17,693	\$ 15,105
Short-term investments	—	1,997
Restricted cash	—	2,134
Accounts receivable	632	698
Income tax receivable	307	—
Current portion of notes receivable from shareholders, net of allowance of \$31 in 2002	143	54
Inventories	5,515	6,896
Prepaid expenses and other current assets	759	2,247
Deferred tax assets	1,013	948
Total current assets	26,062	30,079
Property and equipment, net	7,467	6,054
Notes receivable from shareholders, excluding current portion	247	148
Long-term restricted cash	—	345
Long-term investments	—	10,004
Other assets	1,040	793
Total assets	\$ 34,816	\$ 47,423
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital lease and note payable	\$ 136	\$ 8
Accounts payable	1,846	1,349
Accrued expenses	13,739	16,736
Current portion of accrued severance related to former executives	810	1,097
Total current liabilities	16,531	19,190
Capital lease and note payable, excluding current portion	8	2
Accrued severance, related to former executives, excluding current portion	150	455
Deferred tax liabilities	77	83
Other long-term liabilities	—	267
Total liabilities	16,766	19,997
Commitments and contingencies (Note 5)	—	—
Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 99,000,000 shares authorized, 25,162,541 shares issued and 25,134,840 outstanding in 2002 and 25,835,813 shares issued and 25,795,690 outstanding in 2003	3	3
Additional paid-in capital	18,168	21,845
Retained earnings	481	5,953
Accumulated other comprehensive loss	(502)	(175)
	18,150	27,626
Less treasury stock, at cost, 27,701 shares in 2002 and 40,123 shares in 2003	(100)	(200)
Total shareholders' equity	18,050	27,426
Total liabilities and shareholders' equity	\$ 34,816	\$ 47,423

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2003
(in thousands, except per share information)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
Net sales	\$ 34,452	\$ 49,738	\$ 102,772	\$ 136,727
Cost of sales	6,079	8,187	17,925	22,282
Commissions and incentives	14,375	20,981	43,663	56,912
	<u>20,454</u>	<u>29,168</u>	<u>61,588</u>	<u>79,194</u>
Gross profit	13,998	20,570	41,184	57,533
Operating expenses:				
Selling and administrative expenses	8,011	10,131	23,941	29,228
Other operating costs	5,600	6,096	15,556	18,982
Severance expenses	—	425	—	1,841
	<u>13,611</u>	<u>16,652</u>	<u>39,497</u>	<u>50,051</u>
Income from operations	387	3,918	1,687	7,482
Interest income	73	81	218	214
Interest expense	(6)	(17)	(18)	(21)
Other income (expense), net	(34)	223	15	232
	<u>420</u>	<u>4,205</u>	<u>1,902</u>	<u>7,907</u>
Income before income taxes	420	4,205	1,902	7,907
Income taxes	(191)	(1,323)	(850)	(2,435)
	<u>229</u>	<u>2,882</u>	<u>1,052</u>	<u>5,472</u>
Net income	\$ 229	\$ 2,882	\$ 1,052	\$ 5,472
Earnings per common share:				
Basic	\$ 0.01	\$ 0.11	\$ 0.04	\$ 0.22
Diluted	\$ 0.01	\$ 0.11	\$ 0.04	\$ 0.21
Weighted-average common shares outstanding:				
Basic	25,135	25,655	25,135	25,325
Diluted	25,227	26,213	25,294	26,000

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2003
(in thousands)

	Nine months ended September 30,	
	2002	2003
Cash flows from operating activities:		
Net income	\$ 1,052	\$ 5,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,024	2,462
Provision for doubtful accounts	31	—
Loss on investments and disposals of fixed assets	25	22
Accounting charge (income) related to stock options and warrants granted	(37)	1,163
Tax effect of exercising stock options	—	919
Deferred income taxes	1	71
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	212	(27)
Decrease in income tax receivable	—	307
(Increase) decrease in inventories	2,915	(1,327)
(Increase) decrease in prepaid expenses and other current assets	416	(1,484)
(Increase) decrease in other assets	54	(80)
Increase (decrease) in accounts payable	1,241	(505)
Increase (decrease) in accrued expenses	(3,953)	2,884
Increase (decrease) in accrued severance to former executives	(1,610)	592
Net cash provided by operating activities	3,371	10,469
Cash flows from investing activities:		
Acquisition of property and equipment	(913)	(774)
Purchase of investments	7	(12,001)
Repayments by shareholders/related parties	37	188
Increase in restricted cash	(345)	(2,134)
Net cash used in investing activities	(1,214)	(14,721)
Cash flows from financing activities:		
Proceeds from exercising of stock options	—	1,495
Repayment of capital lease obligations	(32)	(5)
Repayment of notes payable	(538)	(129)
Net cash provided by (used in) financing activities	(570)	1,361
Effect of exchange rate changes on cash and cash equivalents	(6)	303
Net increase (decrease) in cash and cash equivalents	1,581	(2,588)
Cash and cash equivalents:		
Beginning of the period	9,926	17,693
End of the period	\$ 11,507	\$ 15,105
Supplemental disclosure of cash flow information:		
Interest paid	\$ 18	\$ 21
Taxes paid	\$ 2,046	\$ 1,263
Summary of non-cash investing and financing activities follows:		
Assets acquired through a capital lease	\$ 528	\$ —
Asset retirement obligations related to operating leases	\$ —	\$ 250
Treasury shares acquired to exercise stock options	\$ —	\$ 100

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, the instructions to Form 10-Q, and Rule 10-01 of Regulation S-X. Accordingly, the consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of Company's management, the accompanying unaudited consolidated financial statements contain all adjustments, including normal recurring adjustments, considered necessary for a fair statement of the Company's consolidated financial information as of, and for, the periods presented. The consolidated results of operations of an 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 the Company's annual report on Form 10-K for the year ended December 31, 2002.

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

The Company defers all of its revenue until its customers receive their shipments. The Company also defers a portion of its revenue from the sale of its starter and renewal packs because of a one-year magazine subscription offered in some of its packs. In addition, the Company also defers the portion of revenue from each pack that exceeds the total average wholesale value of all individual components included in such packs. The Company amortizes its deferred revenue components over twelve months. Total deferred revenue for the Company was \$1.1 million and \$2.1 million at December 31, 2002 and September 30, 2003, respectively.

[Table of Contents](#)

Shipping and Handling Costs

The Company records freight and shipping revenues collected from associates and members as revenue. The Company records shipping and handling costs associated with shipping products to its associates and members as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately \$1.9 million for the three months ended September 30, 2002, \$2.5 million for the three months ended September 30, 2003, \$5.3 million for the nine months ended September 30, 2002 and \$6.9 million for the nine months ended September 30, 2003.

Accounting for Stock-Based Compensation

Periodically, the Company issues stock options to both employees and nonemployees. For stock-based compensation issued to nonemployees, the Company follows Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." Under SFAS 123, stock-based compensation to nonemployees is measured by the fair value at the date of grant. The Company grants stock options to nonemployees for terms no longer than ten years and the stock options generally vest over three years.

For stock-based compensation issued to employees and members of the Board of Directors, the Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related interpretations. Under the recognition and measurement principles of APB 25, no compensation expense is recognized unless the market price of the stock option exceeds the exercise price on the date of grant. Stock options granted to employees and members of its Board of Directors are nontransferable and are granted for terms no longer than ten years at an exercise price that may not be less than 110% of the fair value of the Company's common stock on the date of grant. Stock options generally vest over three to five years for employees and members of its Board of Directors.

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

	For the three-months ended September 30,		For the nine-months ended September 30,	
	2002	2003	2002	2003
	(in thousands, except for per share information)			
Consolidated net income, as reported	\$229	\$ 2,882	\$ 1,052	\$ 5,472
Add (Subtract): Stock-based employee compensation expense included in reported net income, net of related tax effect	(21)	5	(23)	715
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effect	(249)	(140)	(942)	(776)
Pro forma net income (loss)	<u>(\$ 41)</u>	<u>\$ 2,747</u>	<u>\$ 87</u>	<u>\$ 5,411</u>
<u>Basic Earnings Per Share:</u>				
As reported	<u>\$0.01</u>	<u>\$ 0.11</u>	<u>\$ 0.04</u>	<u>\$ 0.22</u>
Pro forma	<u>\$0.00</u>	<u>\$ 0.11</u>	<u>\$ 0.00</u>	<u>\$ 0.22</u>
<u>Diluted Earnings Per Share:</u>				
As reported	<u>\$0.01</u>	<u>\$ 0.11</u>	<u>\$ 0.04</u>	<u>\$ 0.21</u>
Pro forma	<u>\$0.00</u>	<u>\$ 0.10</u>	<u>\$ 0.00</u>	<u>\$ 0.21</u>

[Table of Contents](#)

Earnings Per Share

Basic earnings per share (“EPS”) calculations are based on the weighted-average number of the Company’s common shares outstanding during the period, while diluted EPS calculations are calculated using the weighted-average number of common shares and dilutive common share equivalents outstanding during each period. The Company’s closing prices of \$1.35 and \$5.46 per share at September 30, 2002 and 2003, respectively, were used to calculate the dilution of its stock options and warrants in the EPS calculation.

The following data shows the amounts used in computing EPS and their effect on the Company’s weighted-average number of common shares and dilutive common share equivalents for the three months ended September 30, 2002 and 2003. At September 30, 2002, 2,648,000 common stock options and 100,000 warrants were excluded from the diluted EPS calculation and at September 30, 2003, 714,100 of the common stock options and 100,000 warrants were excluded from the diluted EPS calculation, as their effect was antidilutive. The amounts are rounded to the nearest thousand, except for per share amounts.

	For the three months ended September 30,			For the three months ended September 30,		
	2002			2003		
	Income (Numerator)	Shares (Denominator)	Per share amount	Income (Numerator)	Shares (Denominator)	Per share amount
Basic EPS:						
Net income available to common shareholders	\$ 229	25,135	\$ 0.01	\$ 2,882	25,655	\$ 0.11
Effect of dilutive securities:						
Stock options	—	88	—	—	522	—
Warrants	—	4	—	—	36	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	\$ 229	25,227	\$ 0.01	\$ 2,882	26,213	\$ 0.11

The following data shows the amounts used in computing EPS and their effect on the Company’s weighted-average number of common shares and dilutive common share equivalents for the nine months ended September 30, 2002 and 2003. At September 30, 2002, 2,648,000 common stock options and 100,000 warrants were excluded from the diluted EPS calculation and at September 30, 2003, 714,100 of the common stock options and 100,000 warrants were excluded from the diluted EPS calculation, as their effect was antidilutive. The amounts are rounded to the nearest thousand, except for per share amounts.

	For the nine months ended September 30,			For the nine months ended September 30,		
	2002			2003		
	Income (Numerator)	Shares (Denominator)	Per share amount	Income (Numerator)	Shares (Denominator)	Per share amount
Basic EPS:						
Net income available to common shareholders	\$ 1,052	25,135	\$ 0.04	\$ 5,472	25,325	\$ 0.22
Effect of dilutive securities:						
Stock options	—	147	—	—	634	(0.01)
Warrants	—	12	—	—	41	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	\$ 1,052	25,294	\$ 0.04	\$ 5,472	26,000	\$ 0.21

[Table of Contents](#)

NOTE 2 INVESTMENTS

The Company accounts for its investments in accordance with the provisions of Statement of Financial Accounting Standards No. 115 (“SFAS 115”), “Accounting for Certain Investments in Debt and Equity Securities.” Under SFAS 115, debt securities that have readily determinable fair values are classified in three categories: held-to-maturity, trading securities, and available-for-sale. The Company’s investments are all categorized as available-for-sale and are recorded at fair value, which is determined based on quoted market prices with unrealized gains and losses included in shareholders’ equity, net of tax. Any realized gains and losses on sales of its investments are included in other income (expense), net in the accompanying Statement of Operations. At September 30, 2003, the Company’s investments consisted of the following:

	September 30, 2003
	(in thousands)
Short-term:	
Federal National Mortgage Association	\$ 1,997
Long-term:	
Federal Home Loan Bank	\$ 4,004
Corporate asset-based obligations	5,000
State regulated utility company obligation	1,000
	<u>\$ 10,004</u>

Investments by contractual maturity at September 30, 2003 are as follows:

<u>Matures</u>	<u>Amortized cost</u>	<u>Gross unrealized gain</u>	<u>Fair value</u>
		(in thousands)	
0-1 year	\$ 1,989	\$ 8	\$ 1,997
1-5 years	4,000	4	4,004
5+ years	6,000	—	6,000
	<u>\$ 11,989</u>	<u>\$ 12</u>	<u>\$12,001</u>

NOTE 3 INVENTORIES

At December 31, 2002 and September 30, 2003, inventories consisted of the following:

	2002	2003
	(in thousands)	
Raw materials	\$1,481	\$1,388
Finished goods, less inventory reserves of \$124 in 2002 and \$102 in 2003	4,034	5,508
	<u>\$5,515</u>	<u>\$6,896</u>

NOTE 4 COMPREHENSIVE INCOME

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

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
	(in thousands)			
Net income	\$ 229	\$ 2,882	\$ 1,052	\$ 5,472
Foreign currency translation adjustment	(32)	322	57	317
Unrealized gains from investments classified as available-for-sale, net of tax of \$4	—	8	—	8
Comprehensive income	\$ 197	\$ 3,212	\$ 1,109	\$ 5,797

NOTE 5 COMMITMENTS AND CONTINGENCIES**Leases and a line of credit**

In 2002, the Company leased approximately \$0.3 million of computer hardware under a noncancellable master-operating lease, which contains seven separate three-year operating leases that expire at various times through October 2005. The master-operating lease requires the Company to restrict cash of \$345,000 as collateral for the life of the lease. In April 2003, the Company obtained two additional master operating leases, with a financial institution to lease additional computer hardware in an amount up to \$0.8 million. As of September 30, 2003, the Company had leased approximately \$0.4 million related to these master operating leases that is payable through October 2006.

In March 2003, the Company entered into a one-year, \$2.0 million line of credit with one of its primary banking institutions, J.P. Morgan/Chase Bank. Through November 1, 2003, the Company had not drawn on its line of credit. The line of credit agreement does not contain any financial covenants or any commitment fees; however, the Company is required to restrict \$2.1 million of its cash as collateral for this line of credit.

Purchase commitment

Since 1994, the Company has maintained a purchase commitment with one of its suppliers to purchase Manapol[®], a raw material found in a majority of the Company's products. In November 2003, the Company agreed in principle to renew this purchase agreement under which the Company and its manufacturers will be required to collectively purchase approximately \$2.4 million of the raw material through October 2004.

Separation agreements

On April 15, 2003, Robert M. Henry resigned from the Company as its Chief Executive Officer and as a member of its Board of Directors, and the Company entered into a Separation Agreement with Mr. Henry. Under the terms of the Separation Agreement and because of the termination of Mr. Henry's employment agreement, which would have expired on December 31, 2004, the Company is required to pay Mr. Henry approximately \$1.3 million, of which \$0.9 million remained unpaid at September 30, 2003. Of the remaining \$0.9 million, approximately \$0.1 million will be paid during the remainder of 2003, \$0.4 million in 2004, and \$0.4 million in 2005. The severance payments primarily related to the Company's contractual obligations of Mr. Henry's terminated employment agreement, outplacement fees, attorney fees, relocation fees, health and life insurance, and title to his leased vehicle. In addition, the Company extended the term of Mr. Henry's 266,667 vested stock options to the earlier of ten years from the original date of grant or one year after Mr. Henry's death and recorded a one-time non-cash compensation charge of \$0.6 million. Pursuant to the Separation Agreement, Mr. Henry agreed to provide certain consulting services to the Company through December 31, 2005 and is prohibited from being affiliated with another dietary supplement network-marketing company that specializes in products that are glyconutritional or aloe-based for a specified period.

Table of Contents

In September 2003, the Company recorded a severance charge of \$0.3 million related to the resignation of Mr. Brad Wayment, its Senior Vice President of Marketing. Subsequently, in October 2003, the Company entered into an agreement with Mr. Wayment whereby the Company agreed to accelerate the vesting period of 16,666 of Mr. Wayment's stock options and to extend the term of Mr. Wayment's 100,000 stock options from November 14, 2003 until October 13, 2004. The change in Mr. Wayment's stock options resulted in the Company recording an additional non-cash compensation charge of \$0.3 million, in the fourth quarter of 2003.

Non-compete and confidentiality agreement

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

Agreements for employment, consulting, lock-up and royalties

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

The Company maintains a royalty agreement with Jett, a high level associate and a 4.8% shareholder whereby the Company agreed to pay him a royalty of \$5.00 for each specific training material and sales aid that is developed by him and sold by the Company, up to \$1.6 million. At September 30, 2003, the Company paid Jett accumulated royalties associated with this agreement of \$0.4 million.

On August 7, 2003, the Company entered into a new two-year Employment Agreement and a separate Royalty Agreement with Dr. Bill H. McAnalley, its Chief Science Officer. Under the terms of the Employment Agreement, the Company agreed to pay Dr. McAnalley a specified annual salary and the greater of his annual royalties or an annual executive bonus. The Company does not anticipate Dr. McAnalley's annual royalties to exceed his annual executive bonus for 2003. Either party may cancel the Employment Agreement; however, if the Company cancels without cause, the Company would be required to pay Dr. McAnalley's minimum salary either for the remaining duration of the employment agreement or for twelve months, whichever is longer. Under the terms of his Royalty Agreement, the Company is required to pay Dr. McAnalley or his heirs royalties that are based on the increase in product sales volume. The Royalty Agreement is effective during the course of Dr. McAnalley's employment plus ten years thereafter.

NOTE 6 RECENT ACCOUNTING PRONOUNCEMENTS

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

[Table of Contents](#)

FIN 45. In November 2002, FASB issued Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 is applicable to guarantees issued or modified after December 31, 2002. FIN 45 expands the existing disclosure required for most guarantees, including loan guarantees such as standby letters of credit. FIN 45 also requires a company to recognize an initial liability for the fair market value of the obligations it assumes under that guarantee upon issuance and disclosure of certain information about the guarantee in its interim and annual financial statements. The adoption of this interpretation did not have a significant impact on the Company’s financial condition, results of operations, or cash flows.

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

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

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

[Table of Contents](#)**NOTE 7 SEGMENT INFORMATION**

The Company aggregates its operating segments because it believes it operates as a single reportable segment as a seller of nutritional supplements in six different countries. The Company's management reviews its financial information by country and concentrates its internal reporting and analysis of revenues on pack sales and product sales. The Company sells its products through its independent associates and distributes its products through similar distribution channels in each country. Each of the Company's operations sells primarily the same products and possesses similar economic characteristics such as similar gross margins. No single associate accounted for more than 10% of its total sales for the three or nine months ended September 30, 2002 and 2003, respectively. Net sales by country are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
	(in millions)			
United States	\$ 25.5	\$ 33.4	\$ 77.8	\$ 93.0
Canada	3.9	4.1	12.4	12.2
Australia	1.4	4.2	4.6	10.2
United Kingdom	0.4	1.3	1.1	2.9
Japan	2.2	4.9	5.8	13.5
New Zealand	1.1	1.8	1.1	4.9
Total	\$ 34.5	\$ 49.7	\$ 102.8	\$ 136.7

A summary of the Company's pack and product sales are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
	(in millions)			
Product sales	\$ 25.9	\$ 36.7	\$ 76.8	\$ 101.8
Pack sales	7.1	10.6	21.8	28.9
Other, including freight	1.5	2.4	4.2	6.0
Total	\$ 34.5	\$ 49.7	\$ 102.8	\$ 136.7

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 nine months ended September 30, 2003 compared to the same period in 2002. 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 its Consolidated Financial Statements and related notes includes Mannatech and all of its subsidiaries on a consolidated basis.

Overview and Critical Accounting Policies and Estimates

For nearly a decade, Mannatech has developed innovative, high-quality, proprietary nutritional supplements, topical products, and weight-management products that are sold through a global network-marketing system throughout the United States, Canada, Australia, the United Kingdom, Japan, and New Zealand. New Zealand began operations on June 10, 2002 and is serviced by Mannatech's Australian subsidiary. Mannatech operates as a single segment and primarily sells its products through a network of approximately 243,000 independent associates and members who have purchased Mannatech's packs and products within the last twelve months.

Table of Contents

For a complete review of Mannatech's critical accounting policies and new accounting pronouncements that may impact Mannatech's operations, refer to Mannatech's Annual Report on Form 10-K for the year ended December 31, 2002. In response to SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," Mannatech identified certain policies that are important to the portrayal of its consolidated financial condition and consolidated results of operations. These policies require the application of significant judgment by Mannatech's management. Mannatech periodically analyzes the need for certain estimates, including the need for such items as inventory reserves, impairment of long-lived assets, tax valuation allowances, provisions for doubtful accounts, revenue recognition, sales returns, contingencies and litigation. Mannatech bases any estimates needed on its historical experience, industry standards, and various other assumptions that may be reasonable under the circumstances. Mannatech cautions its readers that actual results could differ from its estimates under different assumptions or conditions. If circumstances change relating to the various assumptions or conditions used in such estimates Mannatech could experience an adverse effect on its consolidated financial condition, changes in financial condition, and results of operations. Mannatech's critical accounting policies at September 30, 2003 include the following:

- Inventory carrying value is reviewed and compared to the fair market value of Mannatech's inventory and any inventory value in excess of fair market value is written down. In addition, Mannatech reviews its inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Mannatech's determination of obsolescence is based on assumptions about demand for its products, product expiration dates, estimated future sales, and management's future plans. If actual sales or management plans are less favorable than those originally projected by management, additional inventory reserves or write-downs may be required. Inventory value at September 30, 2003 was \$6.9 million and includes an inventory reserve of \$0.1 million.
- Mannatech's property and equipment book value is reviewed for impairment whenever an event or change in circumstances indicates that the net book value of an asset or group of assets may be unrecoverable. Mannatech's impairment review includes a comparison of future projected cash flows generated by the asset or group of assets with its associated carrying value. Mannatech believes the expected future cash flows approximate or exceed its net book value; however, if circumstances change and the net book value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), Mannatech would have to recognize an impairment loss to the extent the net book value of an asset exceeds its fair value. At September 30, 2003, the net book value of Mannatech's property and equipment was \$6.1 million.
- Mannatech evaluates the probability of realizing the future benefits of any of its deferred tax assets and records a valuation allowance when it believes a portion or all of its deferred tax assets may not be realized. If Mannatech were unable to realize the expected future benefits of its deferred tax assets, it would be required to provide an additional valuation allowance. As of September 30, 2003, Mannatech recorded deferred tax assets of \$1.0 million, which is net of a valuation allowance of \$2.3 million, related to the net operating losses in Japan.
- Mannatech defers all of its revenue until its customers receive their shipments. Mannatech also defers a portion of its revenue from the sale of its starter and renewal packs because of a one-year magazine subscription offered in some of its packs. In addition, Mannatech also defers the portion of revenue from each pack that exceeds the total average wholesale value of all individual components included in such packs. Mannatech amortizes its deferred revenue components over twelve months. In the future, Mannatech may change the contents of its packs or its shipping methods, and as a result may be required to defer additional revenue and/or recognize the deferred revenue over a longer period of time.
- Mannatech capitalizes salaries and consulting fees related to the development of certain qualifying internally-developed software applications including: *GlycoScience.com*, a scientific web database; *Enterprise System*, a sales and commission database; and *Success Tracker*[™], a web-based training and marketing tool for its independent associates. Mannatech amortizes such qualifying costs over the estimated useful life of the software application, which is either three or five years. If accounting standards change or if the capitalized software becomes obsolete, Mannatech may be required to write off its capitalized software or accelerate its amortization period. As of September 30, 2003, Mannatech's capitalized software had a remaining net book value of \$0.5 million.

[Table of Contents](#)

General Summary

Mannatech aggregates its operating segments because it believes it operates as a single reportable segment as a seller of nutritional supplements in six different countries. Mannatech's management reviews its financial information by country and concentrates its internal reporting and analysis on its pack sales and product sales. Mannatech sells its products through independent associates and distributes its products through similar distribution channels in each country. Each of Mannatech's operations sells primarily the same products and possesses similar economic characteristics such as similar gross margins.

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

Mannatech periodically changes its starter and renewal packs to meet current market demands. Each of its starter and renewal pack includes some combination of Mannatech's products and promotional materials. Mannatech tries to offer comparable packs in each country in which it does business; however, because each country has different regulatory guidelines, not all of Mannatech's packs can be offered in all countries. Consolidated net sales by country, in millions, are as follows:

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

	Three months ended September 30,				Nine months ended September 30,			
	2002		2003		2002		2003	
United States	\$25.5	73.9%	\$33.4	67.2%	\$ 77.8	75.6%	\$ 93.0	68.0%
Canada	3.9	11.3	4.1	8.2	12.4	12.1	12.2	8.9
Australia	1.4	4.0	4.2	8.5	4.6	4.5	10.2	7.5
United Kingdom	0.4	1.2	1.3	2.6	1.1	1.1	2.9	2.1
Japan	2.2	6.4	4.9	9.9	5.8	5.6	13.5	9.9
New Zealand	1.1	3.2	1.8	3.6	1.1	1.1	4.9	3.6
Total	\$34.5	100.0%	\$49.7	100.0%	\$102.8	100.0%	\$136.7	100.0%

For the nine months ended September 30, 2003, Mannatech's foreign operations accounted for one-third of its consolidated net sales, whereas in the same period in 2002, Mannatech's foreign operations accounted for only one-quarter of its consolidated net sales. Mannatech is considering plans to accelerate its planned international expansion into South Korea to the second half of 2004 and into Taiwan in the first quarter of 2005. In June 2003, Mannatech entered into a consulting agreement with a consultant to help stimulate sales for its Canadian operations. Mannatech believes the increase in its overall consolidated net sales is largely attributable to the following:

- an increase in its pack sales during 2002 and 2003 related to introducing its annual travel incentive program;
- an increase in pack and product sales due to the increase in associates and the introduction of its new products: Ambrotose[®] AO[™], GI-Zyme, and GI-Pro;
- launching its revamped global associate career and compensation plan in September 2002; and
- initiating strategic personnel changes, including appointing one of its founders as its new CEO and the completion of personnel changes for its international operations.

[Table of Contents](#)

For the third quarter of 2003, Mannatech reported its highest quarterly pack sales in its ten-year history. For the third quarter of 2003, Mannatech's quarterly pack sales increased 49.3% to \$10.6 million from \$7.1 million for the third quarter of 2002. For the third quarter of 2003, Mannatech signed up 32,000 new independent associates and members, which increased the total new associates and members who signed up within the twelve months ended September 30, 2003 to 87,000. In contrast, Mannatech signed up 19,000 new independent associates and members during the third quarter of 2002, which increased the total new associates and members who signed up within the twelve months ended September 30, 2002 to 61,000.

Mannatech believes its annual travel incentive program is uniquely designed to increase the number of independent associates purchasing its products and is also used as a motivational vehicle for retaining its independent associates. Mannatech's annual travel incentive usually has a qualification period of between four- and seven-months, during which an independent associate qualifies for the annual travel incentive by earning points primarily on the sales of high dollar packs and product purchases, and by achieving the necessary group point volume growth requirements. Under its annual travel incentive program, Mannatech requires its associates to maintain their associate position and its associates are prohibited from subsequently returning any qualifying packs or products, except to subsequently exchange for like-kind products and packs. Mannatech believes its annual travel incentive program has been instrumental in increasing the number of independent associates, as reflected by the 32.6% increase in pack sales for the nine months ended September 30, 2003 compared to the comparable period in 2002. The number of new independent associates and members and the number of continuing independent associates and members who purchased Mannatech's products within the last twelve months are as follows:

Associates and Members	For the twelve months ended December 31,		For the twelve months ended September 30,			
	2002		2002		2003	
New	83,000	41.5%	61,000	32.4%	87,000	35.8%
Continuing	117,000	58.5%	127,000	67.6%	156,000	64.2%
Total	200,000	100.0%	188,000	100.0%	243,000	100.0%

Mannatech believes it needs to continue its concentration on increasing its net sales and primarily focuses on the following factors:

- continuing its product development strategy that includes the recent launch of its new antioxidant product, Ambrotose[®] AO[™], in the United States and Canada in August 2003;
- continuing the launch of its new digestive products called GI-Zyme and GI-Pro, which were introduced in the United Kingdom in September 2003 and are planned to be launched in the United States and Canada by the first quarter of 2004;
- continuing its planned international expansion into South Korea and Taiwan;
- continuing to monitor and refine its global associate career and compensation plan to ensure associates are uniquely compensated; and
- increasing and maintaining the number of independent associates and members who routinely purchase its products.

Mannatech's multi-faceted product development strategy targets three primary areas, which are as follows:

- working to ensure its primary products are available in all countries in which Mannatech conducts business;
- continuing to develop new products that either complement its existing products or create a new demand for its products; and
- continuing to monitor and test its existing product formulas to help ensure ingredient integrity, high quality production, efficient potency levels, and economies of scale.

[Table of Contents](#)

Cost of sales consists of products purchased from third-party manufacturers, costs of promotional materials sold to Mannatech's independent associates, freight, and occasional reserves and write-offs of inventories. Mannatech's sales mix of products and packs directly affects its cost of sales and gross profit because products sold have a higher margin than its packs sold. Mannatech's sales mix can be influenced by the following:

- changes in Mannatech's commission and incentive programs;
- introduction or discontinuation of certain promotional activities;
- changes in consumer demand;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products; and
- discontinuation of existing products

Commissions and incentives are paid to Mannatech's independent associates and directly correlate to its commissionable net sales. Mannatech's commissionable net sales consist of finished products and pack sales. Mannatech launched its revamped global associate career and compensation plan in September 2002 to motivate and financially reward its independent associates for their efforts. Mannatech's commission and incentive program is designed to pay commissions and incentives to independent associates for the following:

- an associate's placement and position within Mannatech's overall global plan;
- the volume of an associate's direct and indirect commissionable sales; and
- an associate's achievement of certain sales levels to qualify for various incentives/compensation programs.

The global associate career and compensation plan allows new and existing independent associates to build their individual global networks by expanding their existing downlines into newly formed international markets rather than requiring independent associates to establish new downlines to qualify for commissions and incentives within each new country. Periodically, Mannatech offers new travel incentives and contests, which are designed to stimulate both its pack and product sales. In the first quarter of 2003, Mannatech launched a travel incentive for its independent associates called "Sun and Salsa in 2003." The travel incentive allowed independent associates achieving certain sales levels by August 15, 2003 to qualify for a trip for two to Cancun, Mexico, plus a chance to win \$5,000 in cash for additional achievements. In September 2003, Mannatech announced that approximately 750 winners qualified for its 2003 Sun and Salsa travel incentive and the incentive is estimated to cost Mannatech approximately \$2.2 million, which was accrued as of September 30, 2003.

Table of Contents

Operating costs consist of selling and administrative expenses, other operating expenses, non-cash variable accounting charges related to Mannatech's stock options and warrants, and severance charges to former executives. A brief summary of these costs are as follows:

- Selling and administrative expenses include a combination of both fixed and variable expenses and consist of compensation and benefits of employees, contract labor, shipping and freight, and marketing-related expenses, such as monthly magazine development costs and hosting Mannatech's corporate-sponsored events.
- Other operating costs include utilities, depreciation, travel, consulting fees, professional fees, office expenses, printing-related expenses, off-site storage fees, and other miscellaneous operating expenses. For the nine months ended September 30, 2003, other operating expenses included a non-cash charge relating to the variable accounting treatment of certain stock options issued to Deanne Varner and Patrick Cobb and warrants issued to Anthony Canale, three former executives who resigned in 2001. The stock options and warrants were issued in 2001 to replace the stock options to the former executives that would have unexpired with such executive's resignation. The quarterly non-cash variable accounting charge is recorded as the change between the fair market price of the stock options and warrants multiplied by the number of expired options and warrants available to the former executives. The significant increase in the quarterly charge for 2003 was the result of the increase in Mannatech's stock price in the second quarter of 2003. The stock price increased from \$2.53 per share at March 31, 2003 to \$7.50 per share at June 30, 2003. In July and August of 2003, all of the stock options issued to Patrick Cobb and substantially all of the stock options issued to Deanne Varner were exercised. In addition, in the second quarter of 2003, Mannatech recorded a one-time non-cash charge of \$0.6 million related to the extension of the term of Robert M. Henry's 266,667 stock options to the earlier of ten years from date of termination or one year after his death, as set forth in his Separation Agreement.
- Finally, operating costs include severance charges of \$1.4 million related to the resignation of Mr. Henry and two other vice presidents in the second quarter of 2003. The severance charges primarily related to certain compensation due to Mr. Henry through 2005, in accordance with his Separation Agreement. In September 2003, Mannatech also recorded \$0.4 million in severance charges related to the resignation of Brad Wayment, its Senior Vice President of Marketing and two other marketing employees. These severance charges also related to compensation, vacation, health insurance, outplacement fees, and title to a leased vehicle.

In October 2003, Mannatech finalized its Separation Agreement with Mr. Wayment and agreed to accelerate the vesting of 16,666 of his remaining unvested stock options. In addition, Mannatech agreed to extend the term of Mr. Wayment's 100,000 stock options from November 13, 2003 until October 13, 2003. These changes to Mr. Wayment's stock options resulted in Mannatech recording a one-time non-cash charge of \$0.3 million, which will be recorded in other operating costs, in the fourth quarter of 2003.

Income taxes include both domestic and foreign taxes. In 2002, Mannatech's United States federal statutory tax rate was 34%. This rate is expected to increase to 35% for 2003. Mannatech also expects to pay taxes in Australia and in the United Kingdom at a statutory rate of approximately 30% and expects to pay taxes in Japan at a statutory tax rate ranging between 42% and 48%. A portion of Mannatech's income from its international operations is subject to taxation in the countries in which it operates. Although Mannatech may receive foreign tax credits that would reduce the amount of United States taxes owed, Mannatech may not be able to fully utilize its foreign tax credits in the United States. Mannatech may incur net operating losses that may not be fully realizable and as a result records a valuation allowance for any expected net operating losses that are not expected to be fully realizable in the future.

[Table of Contents](#)

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 September 30,		Nine months ended September 30,	
	2002	2003	2002	2003
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	17.6	16.4	17.4	16.3
Commissions and incentives	41.8	42.2	42.5	41.6
Gross profit	40.6	41.4	40.1	42.1
Operating expenses:				
Selling and administrative expenses	23.2	20.4	23.3	21.4
Other operating costs	16.3	12.3	15.2	13.9
Severance expenses	—	0.8	—	1.3
Income from operations	1.1	7.9	1.6	5.5
Interest income	0.2	0.2	0.2	0.2
Interest expense	0.0	0.0	0.0	0.0
Other income (expense), net	(0.1)	0.4	0.1	0.1
Income before income taxes	1.2	8.5	1.9	5.8
Income taxes	(0.5)	(2.7)	(0.9)	(1.8)
Net income	0.7%	5.8%	1.0%	4.0%

Three months ended September 30, 2003 compared with the three months ended September 30, 2002

Net sales. Net sales increased 44.1%, or \$15.2 million, to \$49.7 million for the three months ended September 30, 2003 from \$34.5 million for the comparable period in 2002. The increase in net sales consisted of the following:

	For the three months ended September 30,		Dollar change	Percentage Change
	2002	2003		
	(in millions)			
Product sales	\$ 25.9	\$ 36.7	\$10.8	41.7%
Pack sales	7.1	10.6	3.5	49.3
Other, including freight	1.5	2.4	0.9	60.0
Total net sales	\$ 34.5	\$ 49.7	\$15.2	44.1%

The \$10.8 million increase in product sales consisted of the following:

- a \$1.5 million increase related to the 4% product price increase implemented in September 2002;
- a \$1.3 million increase related to the launching of its new products: Ambrotose AO™, GI-Zyme and GI-Pro; and
- an \$8.0 million increase related to an increase in the volume of products sold, some of which is attributable to the increase in the number of associates and members purchasing products.

The \$3.5 million increase in pack sales consisted of the following:

- A \$3.2 million increase related to 32,000 new associates who joined Mannatech during the three months ended September 30, 2003 as compared to 19,000 associates and members who joined Mannatech during the three months ended September 30, 2002. Mannatech believes the increase in new associates and members was primarily the result of implementing its global associates career and compensation plan including various contests and travel incentive programs, and the introduction of new products.

Table of Contents

- A \$0.3 million increase in renewal packs sold. The dollar increase in renewal packs sold relates to a shift toward the selling of the higher dollar renewal packs. The overall increase was partially offset by a decrease in the number of renewal packs sold, which relates to Mannatech's revamped global associates career and compensation plan implemented in September 2003. The revamped plan allows Mannatech's lower-level associates to automatically renew their associate status without having to actually purchase a renewal pack, but the high-level associates are still required to annually purchase a renewal pack, which includes certain promotional and educational materials.

Other sales primarily consisted of freight revenue charged to associates and members. Other sales increased by \$0.9 million, which primarily related to the increase in the volume of products and packs sold.

Cost of sales. Cost of sales increased 34.4% to \$8.2 million for the three months ended September 30, 2003 from \$6.1 million for the comparable period in 2002. The dollar increase was the result of an increase in volume of products and packs sold. As a percentage of net sales, cost of sales decreased to 16.4% for the three months ended September 30, 2003 from 17.6% for the comparable period in 2002. The percentage decrease in cost of sales as a percentage of net sales was primarily due to the favorable impact from implementing the 4% sales price increase in September 2002 on products sold and a change in the mix of products and packs sold, resulting from the increase in the number of new and continuing associates. For the three months ended September 30, 2003, the product mix continued to shift toward a larger increase in product sales, which have a higher margin than pack sales.

Commissions and incentives. Commissions and incentives increased 46.5% to \$21.1 million for the three months ended September 30, 2003 from \$14.4 million for the comparable period in 2002. The dollar increase was the result of implementing the revamped global associate career and compensation plan, which increased commissions and incentives by \$1.0 million and an increase in the volume of commissionable net sales. As a percentage of net sales, commissions and incentives increased to 42.2% for the three months ended September 30, 2003, from 41.8% for the comparable period in 2002. The increase as a percentage of net sales was the result of the change in mix of commissionable net sales and implementing the revamped global associate career and compensation plan.

Gross profit. Gross profit increased 47.1% to \$20.6 million for the three months ended September 30, 2003 from \$14.0 million for the comparable period in 2002. The dollar increase was the result of an increase in the sales volume and the change in sales mix of products and packs sold. As a percentage of net sales, gross profit increased to 41.4% for the three months ended September 30, 2003 from 40.6% for the comparable period in 2002. The percentage increase was primarily attributable to the change in product and pack mix sold as discussed above.

Selling and administrative expenses. Selling and administrative expenses increased 26.3% to \$10.1 million for the three months ended September 30, 2003 from \$8.0 million for the comparable period in 2002. As a percentage of net sales, selling and administrative expenses decreased to 20.4% for the three months ended September 30, 2003 from 23.2% for the comparable period in 2002, primarily due to Mannatech's ability to control fixed costs. The dollar increase was primarily due to the following:

- a \$1.0 million increase in payroll and payroll related expenses related to hiring additional personnel and increasing corporate bonuses that directly correlates to Mannatech's profitability;
- a \$0.6 million increase in out-bound freight related to the increase in net sales; and
- a \$0.5 million increase in variable marketing expenses, primarily related to an increase in magazine costs, which related to the increase in the number of associates and members.

[Table of Contents](#)

Other operating costs. Other operating costs increased 8.9% to \$6.1 million for the three months ended September 30, 2003 from \$5.6 million for the comparable period in 2002. As a percentage of net sales, other operating costs decreased to 12.3% for the three months ended September 30, 2003 from 16.3% for the comparable period in 2002. The dollar increase was primarily due to the following:

- a \$0.3 million increase in legal and consulting fees related to beginning to explore operating in South Korea and Taiwan, working with a consultant to expand Mannatech's presence in Canada, and beginning the planning and design phase of developing Mannatech's new sales and commission database;
- a \$0.4 million increase in variable operating expenses related to an increase in net sales, including credit card fees, utilities, repair and maintenance, and royalties;
- partially offset by a decrease of (\$0.2 million) in depreciation related to fully depreciating some of Mannatech's fixed assets.

Severance expenses. In the third quarter of 2003, Mannatech accrued \$0.4 million related to severance expenses for Brad Wayment and two other marketing employees. The expenses relate to compensation, accrued vacation, health insurance, outplacement fees, and title to a leased vehicle.

Interest income. Interest income increased 11.0% to \$81,000 for the three months ended September 30, 2003 from \$73,000 for the comparable period in 2002. The dollar increase was primarily related to an increase in the yield on its average investments.

Interest expense. Interest expense increased 183.3% to \$17,000 for the three months ended September 30, 2003 from \$6,000 for the comparable period in 2002. The dollar increase was primarily related to Mannatech using part of its master operating lease line of credit.

Other income (expense), net. Other income (expense), net consists primarily of foreign currency translation adjustments related to Mannatech's foreign operations. Other income (expense), net increased to \$223,000 for the three months ended September 30, 2003 from (\$34,000) for the comparable period in 2002. The change in other income (expense), net primarily consisted of currency translation exchange gains and losses.

Income taxes. Income taxes increased to \$1.3 million for the three months ended September 30, 2003 from \$0.2 million for the comparable period in 2002 due to the increase in Mannatech's profitability. Mannatech's effective tax rate decreased to 31.5% for the three months ended September 30, 2003 from 45.4% for the comparable period in 2002. Mannatech's effective tax rate decreased because of the expected shift in income mix between its domestic and its foreign operations and the reversal of part of its valuation allowances for the use of prior year's net operating losses from its Japan subsidiary.

Net income. Net income increased 135.0% to \$2.9 million for the three months ended September 30, 2003 from \$0.2 million for the comparable period in 2002. Earnings per share for the three months ended September 30, 2003 increased 1000.0% to \$0.11 per diluted share as compared to \$0.01 per diluted share for the comparable period in 2002. As a percentage of net sales, net income increased to 5.8% for the three months ended September 30, 2003 from 0.7% for the comparable period in 2002. The increase was primarily the result of the increase in net sales and Mannatech's ability to control expenses.

Nine months ended September 30, 2003 compared with the nine months ended September 30, 2002

Net sales. Net sales increased 33.0%, or \$33.9 million, to \$136.7 million for the nine months ended September 30, 2003 from \$102.8 million for the comparable period in 2002. The increase in net sales consisted of the following:

	For the nine months ended September 30,		Dollar Change	Percentage change
	2002	2003		
	(in millions)			
Product sales	\$ 76.8	\$ 101.8	\$ 25.0	32.6%
Pack sales	21.8	28.9	7.1	32.6
Other, including freight	4.2	6.0	1.8	42.9
Total net sales	\$ 102.8	\$ 136.7	\$ 33.9	33.0%

The \$25.0 million increase in product sales consisted of the following:

- a \$5.2 million increase related to the 4% product price increase implemented in September 2002;
- a \$1.3 million increase related to the launching of its new products: Ambrotose AO™, GI-Zyme, and GI-Pro; and
- a \$14.5 million increase related to the increase in the volume of products sold, some of which is attributable to the increase in the number of associates and members purchasing products.

The \$7.1 million increase in pack sales consisted of the following:

- An \$8.2 million increase in pack sales related to the increase of 63,000 new associates who joined Mannatech during the nine months ended September 30, 2003 as compared to 44,000 new associates and members that joined Mannatech during the nine months ended September 30, 2002.
- This increase was partially offset by a (\$1.1 million) decrease in renewal packs sold. The decrease is the result of revamping Mannatech's global associate career and compensation plan in September 2002, so that its lower-level associates are not required to purchase a renewal pack, but its high-level associates are required to purchase an annual renewal pack, which includes certain updated promotional and educational materials.

Other sales primarily consist of freight revenue from associates and members. Other sales increased by \$1.8 million, which primarily related to the increase in the sales volume of products and packs sold.

Cost of sales. Cost of sales increased 24.6% to \$22.3 million for the nine months ended September 30, 2003 from \$17.9 million for the comparable period in 2002. The dollar increase was the result of an increase in volume of products and packs sold. As a percentage of net sales, cost of sales decreased to 16.3% for the nine months ended September 30, 2003 from 17.4% for the comparable period in 2002. The percentage decrease in cost of sales as a percentage of net sales was primarily due to the favorable impact from implementing the 4% sales price increase on products sold in September 2002 and the shift in product and pack mix sold toward a larger dollar increase in product sales, which have a higher margin than pack sales.

Commissions and incentives. Commissions and incentives increased 30.2% to \$56.9 million for the nine months ended September 30, 2003 from \$43.7 million for the comparable period in 2002. The dollar increase was the result of implementing the revamped global associate career and compensation plan, an increase in the volume of commissionable net sales, and an increase in the number of associates. As a percentage of net sales, commissions decreased to 41.6% for the nine months ended September 30, 2003 from 42.5% for the comparable period in 2002. The decrease as a percentage of net sales was the result of the change in mix of commissionable net sales and implementing the revamped global associate career and compensation plan.

Table of Contents

Gross profit. Gross profit increased 39.6% to \$57.5 million for the nine months ended September 30, 2003 from \$41.2 million for the comparable period in 2002. The dollar increase was the result of an increase in net sales and a change in mix of products and packs sold. As a percentage of net sales, gross profit increased to 42.1% for the nine months ended September 30, 2003 from 40.1% for the comparable period in 2002. The percentage increase was primarily attributable to the decrease in cost of sales and commissions as a percentage of net sales primarily due to the change in product and pack mix sold as discussed above.

Selling and administrative expenses. Selling and administrative expenses increased 22.2% to \$29.2 million for the nine months ended September 30, 2003 from \$23.9 million for the comparable period in 2002. As a percentage of net sales, selling and administrative expenses decreased to 21.4% for the nine months ended September 30, 2003 from 23.3% for the comparable period in 2002, primarily related to Mannatech's ability to control fixed costs. The dollar increase was primarily due to the following:

- a \$2.3 million increase in payroll and payroll related expenses related to hiring additional personnel and increasing bonuses that directly correlates to Mannatech's profitability;
- a \$1.6 million increase in out-bound freight related to the increase in net sales; and
- a \$1.4 million increase in variable marketing expenses, primarily related to an increase in magazine costs, which related to the increase in the number of associates and members.

Other operating costs. Other operating costs increased 21.8% to \$19.0 million for the nine months ended September 30, 2003 from \$15.6 million for the comparable period in 2002. As a percentage of net sales, other operating costs decreased to 13.9% for the nine months ended September 30, 2003 from 15.2% for the comparable period in 2002. The dollar increase was primarily due to the following:

- a one time non-cash charge of \$0.6 million related to extending the term of Mr. Henry's stock options, as set forth in his Separation Agreement;
- a \$0.6 million increase related to the non-cash charge for the variable accounting charge of certain stock options and warrants previously discussed;
- a \$0.5 million increase in travel expenses related to an increase in international travel; and
- the remaining \$1.7 million increase in variable operating expenses including offsite storage fees, credit card fees, utilities, repair and maintenance, and royalties, all related to the increase in net sales.

Severance expenses. Mannatech recorded \$1.8 million related to severance expenses for former employees, which consisted of the following:

- \$1.3 million related to the cancellation of Mr. Henry's employment agreement in April 2003;
- \$0.3 million related to Mannatech and Mr. Wayment entering into a separation agreement as previously discussed; and
- \$0.2 million related to the resignation of various other employees in 2003.

Interest income. Interest income decreased (1.8%) to \$214,000 for the nine months ended September 30, 2003 from \$218,000 for the comparable period in 2002. The dollar decrease was primarily related to a decrease in the average yield on its investments.

Interest expense. Interest expense increased 16.7% to \$21,000 for the nine months ended September 30, 2003 from \$18,000 for the comparable period in 2002. The dollar increase was primarily related to Mannatech using part of its master operating lease line of credit.

Table of Contents

Other income (expense), net. Other income (expense), net consists primarily of foreign currency translation adjustments related to Mannatech's foreign operations. Other income (expense), net increased to \$232,000 for the nine months ended September 30, 2003 from \$15,000 for the comparable period in 2002. The increase in other income (expense), net was primarily due to currency translation exchange gains and losses.

Income taxes. Income taxes increased to \$2.4 million for the nine months ended September 30, 2003 from \$0.9 million for the comparable period in 2002 due to the increase in Mannatech's profitability. Mannatech's effective tax rate decreased to 30.8% for the nine months ended September 30, 2003 from 44.7% for the comparable period in 2002. Mannatech's effective tax rate decreased because of the expected shift in the income mix between its domestic and its foreign operations and the reversal of part of its valuation allowances for the use of prior year's net operating losses from its Japan subsidiary.

Net income. Net income increased 400.0% to \$5.5 million for the nine months ended September 30, 2003 from \$1.1 million for the comparable period in 2002. Earnings per share for the nine months ended September 30, 2003, increased 425.0% to \$0.21 per diluted share as compared to \$0.04 per diluted share for the comparable period in 2002. The dollar increase was primarily the result of the increase in net sales and Mannatech's ability to control expenses, partially offset by recording \$1.8 million in severance charges, and \$1.1 million in non-cash stock option and warrant charges related to former executives. As a percentage of net sales, net income increased to 14.0% for the nine months ended September 30, 2003 from 1.0% for the comparable period in 2002, which primarily related to a 33.0% increase in net sales, partially offset by a 2.1% increase in operating expenses related to recording severance costs for former executives.

Liquidity and Capital Resources

Mannatech's principal use of funds is to pay operating expenses, including commissions and incentives, capital expenditures, and inventory purchases. Historically, Mannatech has generally funded its business objectives, working capital, and operations primarily through reliance on its cash flows from operations rather than incurring long-term debt. Mannatech plans to continue to fund its business objectives, working capital, and operations primarily through its cash flows from operations; however, in March 2003 Mannatech established a \$2.0 million line of credit and a \$0.8 million master-operating lease to help fund any unanticipated shortfalls in its cash flows. In 2004, Mannatech plans to fund its design and implementation of its new sales and commission database, which could cost up to \$4.0 million, through an established credit line.

Cash and cash equivalents and investments. Mannatech's cash, cash equivalents, and investments increased by \$9.5 million to \$27.2 million at September 30, 2003 from \$17.7 million at December 31, 2002 due to the increase in net sales and operating profits, partially offset by restricting \$2.1 million in cash for its unused line of credit.

Working Capital. Mannatech's working capital increased to \$10.9 million at September 30, 2003 from \$9.5 million at December 31, 2002. The \$1.4 million increase in working capital was primarily attributable to the increase in cash and inventory levels due to an increase in sales. Working capital also increased because of an increase in prepaid expenses related to renewing insurance premiums, partially offset by an increase in accrued expenses related to the timing of receiving inventory.

Mannatech's cash flows consist of the following:

<u>Provided by (Used in):</u>	<u>For the nine months ended September 30,</u>	
	<u>2002</u>	<u>2003</u>
	(in millions)	
Operating activities	\$ 3.4	\$ 10.5
Investing activities	\$ (1.2)	\$ (14.7)
Financing activities	\$ (0.6)	\$ (1.4)

[Table of Contents](#)

Operating activities. For the nine months ended September 30, 2002, operating activities primarily consisted of \$4.1 million in earnings before depreciation and amortization, a \$2.9 million decrease in inventories, and a \$0.4 million decrease in prepaid expenses and other current assets, partially offset by the decrease in operating expense accruals of (\$2.7 million) and severance of (\$1.6 million).

For the nine months ended September 30, 2003, operating activities primarily consisted of \$7.9 million in earnings before depreciation and amortization and a \$0.9 million charge related to recording the tax benefit of exercising stock options. Operating activities also consisted of a \$2.4 million increase in accounts payable and accrued expenses related to the increase in net sales and receiving inventory, and \$1.7 million in variable option charges for former executives. These operating activities were partially offset by a (\$1.3 million) increase in inventory and a (\$1.5 million) increase in prepaid expenses related to the increase in annual insurance premiums. Mannatech believes it minimizes its inventory levels without jeopardizing anticipated sales and has kept its operating costs relatively constant, which resulted in an improvement of its overall inventory turnover ratio to 4.8 for the nine months ended September 30, 2003 from 3.5 for the comparable period in 2002.

Investing activities. For the nine months ended September 30, 2002, investing activities consisted of \$0.9 million in capital asset additions primarily related to internally-developed computer software and restricting \$0.3 million in cash as collateral as required by the master operating lease.

For the nine months ended September 30, 2003, investing activities primarily consisted of restricting cash of \$2.1 million as collateral for its line of credit, acquiring \$0.8 million of new computer hardware and acquiring \$12.0 million in investments. Mannatech estimates it will purchase approximately \$0.7 million in additional computer hardware and software during the remainder of 2003. Mannatech is also planning to design changes for its new sales and commission database, which it estimates will cost between \$2.0 and \$4.0 million. Mannatech plans to begin implementing this new system by the end of 2004.

Financing activities. For the nine months ended September 30, 2002, financing activities consisted of the repayment of capital leases and notes payable. For the nine months ended September 30, 2003, financing activities consisted of \$1.5 million in cash proceeds from the exercise of 587,699 employee and director stock options, which was partially offset by the repayment of a capital lease and a note payable of (\$0.1 million).

General liquidity and cash flows. For the three and nine months ended September 30, 2003, Mannatech generated positive cash flows from its operations and believes that at September 30, 2003, its existing liquidity and cash flows from operations, including current cash-on-hand and investments totaling \$27.2 million and its access to a \$2.0 million unused line of credit should be adequate to fund its business operations, commitments and planned international expansion for the next twelve months. Mannatech plans to obtain a line of credit of up to \$4.0 million to fund its design and implementation of its new sales and commission database. Mannatech believes most of its expenses are primarily variable in nature and, as a result, any reduction in its revenues should result in a reduction of its future cash flow needs. However, if Mannatech's existing capital resources or cash flows become insufficient to meet its current business plans and existing capital requirements, Mannatech would be required to raise additional funds, which may not be available on favorable terms, if at all.

Mannatech's Board periodically reviews and recommends changes to its policies regarding certain aspects of Mannatech's business philosophies and objectives including Mannatech's investment and dividend policies.

Mannatech's existing commitments and contractual obligations include the following:

- funding the remaining \$0.2 million in payments related to the resignations of former executives in 2001, funding \$0.9 million of payments related to Robert Henry's resignation in April 2003, and funding \$0.4 million related to the resignation of Brad Wayment and two other employees in October 2003;
- funding the non-compete payments to Dr. H. Reginald McDaniel, a former medical director, of \$225,000, payable in monthly installments of \$25,000 through June 2004;
- funding the remaining payment of \$1.4 million related to Mannatech's annual travel incentive program for associates;

Table of Contents

- purchasing capital assets of \$0.7 million for the remainder of 2003; and
- funding various operating leases for building and equipment rentals of \$3.6 million through 2007.

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

	For the three months ended December 31,	For the twelve months ended December 31,				Total
	2003	2004	2005	2006	2007	
			(in thousands)			
Severance payments to former executives	\$ 489	\$ 765	\$ 341	\$ —	\$ —	\$1,595
Non-compete payments to Dr. McDaniel	75	150	—	—	—	225
Payment of the annual travel incentive program for associates	1,400	—	—	—	—	1,400
Purchasing capital assets	700	—	—	—	—	700
Minimum rental commitment related to noncancellable operating leases	405	1,163	937	806	303	3,614
Totals contractual obligations and commitments	\$ 3,069	\$2,078	\$1,278	\$806	\$303	\$7,534

Mannatech has no present commitments or agreements with respect to acquisitions or purchases of any manufacturing facilities. Mannatech believes any unanticipated future changes in its operations could force it to consume available capital resources faster than anticipated. Mannatech also believes that its existing capital requirements depend on its ability to continue to distribute high-quality, proprietary products that attract and retain independent associates and members.

Mannatech has no present contractual obligations or commitments with respect to expanding its operations into South Korea by the second half of 2004 and into Taiwan by the first quarter of 2005; however, Mannatech estimates that it will have to purchase up to \$2.4 million in capital assets and spend up to \$2.5 million related to its planned expansion into these countries in 2004 and 2005.

Off-balance sheet and other contractual arrangements. Mannatech does not utilize off-balance sheet financing arrangements and had no such arrangements as of September 30, 2003. Mannatech does finance the use of certain facilities and equipment under various operating lease agreements. As of September 30, 2003, the total future minimum lease payments under such arrangements totalled \$3.6 million and are properly not reflected in our consolidated balance sheets.

In March 2003, Mannatech established a one-year, \$2.0 million line of credit with J.P Morgan/Chase Bank, which had not been utilized through November 1, 2003. The line of credit was established to strengthen Mannatech's credit rating and fund any unanticipated operating deficiencies.

Since 1994, Mannatech has maintained a purchase commitment agreement with its supplier of Manapol[®]. Currently the purchase commitment requires Mannatech and its manufacturers to collectively purchase a minimum of \$0.2 million per month of Manapol[®] through October 2004. Presently Mannatech's manufacturers' monthly purchases of Manapol[®] have met or exceeded the monthly-required commitment of \$0.2 million and are projected to continue to meet the required minimum monthly purchase commitment through October 2004.

Recent Accounting Pronouncements

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

FIN 45. In November 2002, FASB issued Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 is applicable to guarantees issued or modified after December 31, 2002. FIN 45 expands the existing disclosure required for most guarantees, including loan guarantees such as standby letters of credit. FIN 45 also requires a company to recognize an initial liability for the fair market value of the obligations it assumes under that guarantee upon issuance and disclosure of certain information about the guarantee in its interim and annual financial statements. The adoption of this interpretation is not expected to have a significant impact on Mannatech’s financial condition, results of operations, or cash flows.

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

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

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

Forward-Looking Statements

Certain disclosure and analysis included under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures about Market Risk,” “Other Information,” “Notes to Consolidated Financial Statements”, and elsewhere in this report include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995, and are subject to various risks and uncertainties. Opinions, forecasts, projections, guidance, or other statements, other than statements of historical fact, are considered forward-looking statements and only reflect the current view of Mannatech about future events and its 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 capital resources, cash flows, and the line of credit being adequate to fund Mannatech’s future cash needs;
- management’s plans and objectives for Mannatech’s future operations;
- the realization of deferred tax assets;
- the expected future cash flows of Mannatech’s assets exceeding the net book value of such assets;
- the planned design and implementation of Mannatech’s new sales and commission database costing up to \$4.0 million;
- the impact of market changes due to Mannatech’s exposure to foreign currency translations;
- the planned impact of Mannatech’s international operations accounting for an increasing percentage of its consolidated net sales;
- the future planned opening of new operations in South Korea and Taiwan;
- the impact of Mannatech’s product development strategy;
- the introduction of new products;
- Mannatech’s ability to continue to offer innovative incentives in the future;
- changes to Mannatech’s global career and compensation plan and their effect on Mannatech’s operations;
- recent accounting pronouncements having any significant impact on Mannatech’s financial condition, changes in financial conditions, results of operations or cash flows;
- the outcome of present or future regulatory and litigation matters;
- the expected income tax rates; and
- the establishment of certain policies, procedures, and internal processes to combat exposure to market risk.

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

- those described in the context of such forward-looking statements;
- future manufacturing costs remaining unchanged;
- the impact of any existing or future changes to Mannatech’s global career and compensation plan;

[Table of Contents](#)

- the retention and expansion of Mannatech’s independent associates and members;
- timely development and acceptance of new products or refinements of existing products;
- the markets for Mannatech’s domestic and international operations, including expanding into other countries;
- the statutory tax rates remaining unchanged;
- the impact of new competition and 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,” “hopes,” “intends,” “anticipates,” “believes,” “estimates,” “approximates,” “predicts,” “potential,” “projects,” “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 risks and uncertainties and any other cautionary statements in this report as all of such statements contained herein speak only as of the date of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Mannatech has established policies, procedures, and internal processes that it believes help monitor any significant market risk. Mannatech currently does not use any financial instruments to manage its exposure to such risks. The sensitivity of earnings and cash flows to variability in currency exchange rates is assessed by applying an appropriate range of potential rate fluctuations to Mannatech’s assets, obligations, and projected transactions denominated in foreign currencies. Mannatech cautions that it cannot predict with any certainty its future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on its future business, product pricing, consolidated financial condition, results of operations, or cash flows. However, to combat such risk, Mannatech closely monitors current fluctuations for exposure to such market risk. The foreign currencies in which Mannatech currently has exposure to foreign currency exchange rate risk include the currencies of Canada, Australia, the United Kingdom, Japan, and New Zealand. The low and high currency exchange rates to the United States dollar, for each of these countries, for the nine months ended September 30, 2003 are as follows:

<u>Country/Currency</u>	<u>Low</u>	<u>High</u>
Australia/Dollar	\$0.56150	\$0.68150
Canadian/Dollar	\$0.63370	\$0.75010
Japan/Yen	\$0.00823	\$0.00898
New Zealand/Dollar	\$0.52290	\$0.59630
United Kingdom/British Pound	\$1.55430	\$1.68540

Item 4. Controls and Procedures

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

There were no changes in our internal controls during the period covered by this report that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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 the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 31, 2003 and in its Form 10-Q (File No. 000-24657) for the second quarter of 2003, filed with the Securities and Exchange Commission on August 14, 2003.

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

None.

Item 5. Other Information

On August 7, 2003, Mannatech entered into a new two-year Employment Agreement and a separate Royalty Agreement with Dr. Bill H. McAnalley, its Chief Science Officer. Under the terms of the Employment Agreement, Mannatech agreed to pay Dr. McAnalley a specified annual salary and the greater of his annual royalties or an annual executive bonus. Mannatech does not anticipate Dr. McAnalley's annual royalties to exceed his annual executive bonus for 2003. Either party may cancel the Employment Agreement; however, if Mannatech cancels the Employment Agreement without cause, Mannatech would be required to pay Dr. McAnalley's minimum salary either for the remaining duration of the Employment Agreement or for twelve months, whichever is longer. Under the Royalty Agreement, Mannatech is required to pay Dr. McAnalley or his heirs royalties that are based on the increase in product sales volume. This Royalty Agreement is effective during the course of Dr. McAnalley's employment plus ten years thereafter.

On August 7, 2003, Mannatech amended and restated its 1997, 1998 and 2000 stock option plans. The amendments related to clarification of certain language, set limits on the number of options granted to any one employee.

In September 2003, Mannatech recorded a severance charge of \$0.3 million related to the resignation of Mr. Brad Wayment, its Senior Vice President of Marketing. Subsequently, in October 2003, Mannatech entered into an agreement with Mr. Wayment whereby Mannatech agreed to accelerate the vesting period for 16,666 of Mr. Wayment's stock options and to extend the term of Mr. Wayment's 100,000 stock options from November 14, 2003 until October 13, 2004. The change in Mr. Wayment's stock options resulted in Mannatech recording an additional non-cash compensation charge of \$0.3 million, in the fourth quarter of 2003.

On October 15, 2003, Mannatech's Board of Directors changed certain members of its committees because of the appointment of Ms. Wier and the resignation of Mr. Zimmerman to the Board. The memberships of Mannatech's Board and its Committees are as follows:

Board Member	Audit	Compensation	Executive	Nominating/ Governance	Qualified Legal Compliance	Science
Samuel Caster – Chairman			X	(1)		X
J. Stanley Fredrick – Lead Director	(1)	X*	X*	X*		
Dr. John Axford						X*
Gerald Gilbert	X	X		X	X*	X
Alan Kennedy	X	X		X	X	X
Terry Persinger			X			X
Ray Robbins			X			X
Patricia Wier	X*	X			X	

* Chairman

(1) Nonvoting member

On November 6, 2003, Mannatech promoted Eileen Vennum to Senior Vice President from Vice President of GlycoScience Information. Ms. Vennum joined Mannatech in 1997 as Director of Regulatory Affairs and since then has served in various capacities in Mannatech's Research and Development department. Prior to joining Mannatech, Ms. Vennum served as a Director of Regulatory Affairs, Document Control and Technical Editor for Carrington Laboratories, Inc. a public pharmaceutical research, development and manufacturing company. Ms. Vennum holds a Regulatory Affairs Certified designation from the Regulatory Affairs Professional Society.

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 in Mannatech's Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 3.2 Fourth Amended and Restated Bylaws of Mannatech dated August 8, 2001, incorporated herein by reference to Exhibit 99.1 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on August 22, 2001.
- 4.1 Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share, incorporated herein by reference to Exhibit 4.1 in Mannatech's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 10.1 Employment Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley, incorporated herein by reference to Exhibit 10.3 in Mannatech's Form 10-Q (File No. 000-024657) filed with the Commission on August 14, 2003.
- 10.2 Royalty Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley, incorporated herein by reference to Exhibit 10.4 in Mannatech's Form 10-Q (File No. 000-024657) filed with the Commission on August 14, 2003.
- 10.3 Separation Agreement dated October 14, 2003, between Mannatech and Brad Wayment, incorporated herein by reference to Exhibit 99.2 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on October 20, 2003.
- 10.4* Amended and Restated 1997 Stock Option Plan dated August 7, 2003.
- 10.5* Amended and Restated 1998 Stock Option Plan dated August 7, 2003.
- 10.6* Amended and Restated 2000 Stock Option Plan dated August 7, 2003.
- 10.7* Lock up Agreement between Mannatech and J. Stanley Fredrick dated November 6, 2003.
- 31.1* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.
- 31.2* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.
- 32.1* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.
- 32.2* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.

* filed herewith.

(b) Reports on Form 8-K.

On August 13, 2003, Mannatech filed a Form 8-K (File No. 000-24657) with the SEC in connection with the announcement of its second quarter 2003 earnings.

On October 14, 2003, Mannatech filed a Form 8-K (File No. 000-24657) with the SEC in connection with (1) the resignation of Brad G. Wayment as its Senior Vice President of Marketing, and (2) in connection with the resignation of Jules Zimmerman from its Board of Directors, and (3) naming Patricia A. Wier as its new Board member, Chairman of its Audit Committee and member of its Compensation Committee.

On November 10, 2003, Mannatech filed a Form 8-K (File No. 000-24657) with the SEC in connection with the announcement of its third quarter 2003 earnings.

SIGNATURES

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

November 14, 2003

MANNATECH, INCORPORATED

/S/ SAMUEL L. CASTER

Samuel L. Caster
Chief Executive Officer and Chairman of the Board
(principal executive officer)

November 14, 2003

/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 in Mannatech's Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 3.2 Fourth Amended and Restated Bylaws of Mannatech dated August 8, 2001, incorporated herein by reference to Exhibit 99.1 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on August 22, 2001.
- 4.1 Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share, incorporated herein by reference to Exhibit 4.1 in Mannatech's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
- 10.1 Employment Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley, incorporated herein by reference to Exhibit 10.3 in Mannatech's Form 10-Q (File No. 000-024657) filed with the Commission on August 14, 2003.
- 10.2 Royalty Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley, incorporated herein by reference to Exhibit 10.4 in Mannatech's Form 10-Q (File No. 000-024657) filed with the Commission on August 14, 2003.
- 10.3 Separation Agreement dated October 14, 2003, between Mannatech and Brad Wayment, incorporated herein by reference to Exhibit 99.2 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on October 20, 2003.
- 10.4* Amended and Restated 1997 Stock Option Plan dated August 7, 2003.
- 10.5* Amended and Restated 1998 Stock Option Plan dated August 7, 2003.
- 10.6* Amended and Restated 2000 Stock Option Plan dated August 7, 2003.
- 10.7* Lock up Agreement between Mannatech and J. Stanley Fredrick dated November 6, 2003.
- 31.1* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.
- 31.2* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.
- 32.1* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.
- 32.2* Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.

* filed herewith.

**AMENDMENT TO
THE MANNATECH, INCORPORATED
1997 STOCK OPTION PLAN
Effective as of August 7, 2003**

The undersigned, constituting all members of the Board of Directors (“**Board**”) of Mannatech, Incorporated, a Texas corporation (the “**Company**”), hereby approve, adopt, and consent to the adoption of the following resolutions by unanimous written consent without a meeting pursuant to the provisions of Article 9.10(B) of the Texas Business Corporation Act:

WHEREAS, the Company maintains a plan known as the Mannatech, Incorporated 1997 Stock Option Plan (the “**Plan**”), which, by its terms, is subject to amendment by action of the Board;

WHEREAS, the Board has determined that it is in the best interests of the Company and the Plan participants to amend the Plan;

NOW, THEREFORE, BE IT HEREBY:

RESOLVED, that Section 4(a) of the Plan shall be amended to include the insertion of the following sentence:

“The Committee, as administrator of the Plan, shall have the authority to administer and interpret the option agreement.”

RESOLVED FURTHER, that the provision of Section 4(a) of the Plan beginning “The Committee shall, in addition to its other authority and subject to the provisions of the Plan, determine ...” shall be amended to include the insertion of the following clause:

“whether a bona fide leave of absence shall be deemed to continue, to the extent that applicable law does not require that it be deemed to continue;”

RESOLVED FURTHER, that Section 5(b) of the Plan shall be amended to read in its entirety as follows:

“(b) An option may be exercised in whole or in part prior to its expiration at the time or times specified in the vesting schedule contained in the stock option agreement. An option shall be deemed to be exercised, in whole or in part, when written notice of such exercise has been given to the Chief Financial Officer of the Company prior to its expiration, in accordance with the terms of the option, by the person entitled to exercise the option, and full payment (including any applicable tax withholding amounts) for the Shares with respect to which the

option is exercised has been received by the Company. Each option shall terminate and is not exercisable after 5:00 p.m. on the day immediately preceding the ten (10) year anniversary of the date of its grant, except if terminated earlier as provided in the stock option agreement.”

RESOLVED FURTHER, that a new Section 5(e) shall be incorporated into the Plan as follows:

“(e) The term of each option shall be ten (10) years from the date of the grant thereof or such shorter term as may be provided in the option agreement. However, in the case of an option granted to an optionee who, at the time the option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any parent or subsidiary, the term of the option shall be five (5) years from the date of the grant thereof or such shorter time as may be provided in the option agreement. Further, the per share exercise price on an option granted to an optionee who, at the time the option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any parent or subsidiary shall be no less than 110% of the fair market value per share on the date of the grant.”

RESOLVED FURTHER, that a new Section 5(f) shall be incorporated into the Plan as follows:

“(f) In the event of any recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Committee deems in its sole discretion to be a similar transaction or circumstance, where the Company is not the surviving entity, if this option is cancelled without substitution of a successor option or payment of alternative consideration that the Committee determines in good faith to be equitable under the circumstances, optionee shall have the right, exercisable during the later of the ten-day period ending on the fifth day prior to such transaction or ten days after the Committee provides notice of cancellation, to exercise this option in whole or in part without regard to any installment exercise provisions in the option agreement.”

RESOLVED FURTHER, that a new Section 5(g) shall be incorporated into the Plan as follows:

“(g) Service shall be deemed to continue while Employee is on a bona fide leave of absence, to the extent required by applicable law. To the extent applicable law does not require such a leave to be deemed to continue while on a bona fide leave of absence, such bona fide leave of absence shall be deemed to continue if, and only if, expressly provided in writing by the Committee or a duly authorized officer of the Company, parent or subsidiary for whom Employee provides services.”

Outstanding options that are not exercisable at the time of termination of service for any reason shall expire at the close of business on the date of such termination.”

RESOLVED FURTHER, that a new Section 5(h) of the Plan shall be incorporated as follows:

“(h) An option may be exercised, in whole or in part, to the extent exercisable, by giving written notice prior to its expiration to the Chief Financial Officer of the Company in the form specified by the Committee, accompanied by payment of the option price. In addition to the option price the optionee will be required to include payment of all federal, state, local or other income excise or employment taxes subject to withholding (if any) by the Company, a parent or subsidiary as a result of the exercise of this option (collectively, the “Exercise Price”) for the total number of shares specified for purchase. The Exercise Price payment shall be payable in full by cash or check. Alternatively, in the sole discretion of the Committee and upon such terms as the Committee shall approve, the option may provide that the Exercise Price may be paid by:

- (1) Cashless Exercise. During any period for which the shares are publicly traded (i.e., the shares are listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market, or if the shares are quoted on the Nasdaq System (but not on the Nasdaq National Market) or any similar system whereby the stock is regularly quoted by a recognized securities dealer but closing sale prices are not reported), by a copy of instructions to a broker directing such broker to sell the shares for which this option is exercised, and to remit to the Company the aggregate Exercise Price of such option (“Cashless Exercise”); provided, however, a Cashless Exercise by a Director or executive officer that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company, a parent or subsidiary in violation of section 402(a) of the Sarbanes-Oxley Act (codified as Section 13(k) of the Securities Exchange Act of 1934, 15 U.S.C. § 78m(k)) shall be prohibited;
- (2) (unless prohibited by the Committee) certificates representing shares of Common Stock of the Company, which will be valued by the Company at the closing fair market value price per share of the Company’s Common Stock on the date of exercise of such certificates to the Company, accompanied by an assignment of the stock to the Company, provided that such shares have been held and owned by the optionee for at least six (6) prior months; or
- (3) (unless prohibited by the Committee) any combination of cash and Common Stock of the Company valued and subject to the restrictions as provided in clause (2). Any assignment of stock shall be in a form and substance satisfactory to the Secretary of the Company, including

guarantees of signature(s) and payment of all transfer taxes if the Secretary deems such guarantees necessary or desirable. “

RESOLVED FURTHER, that a new Section 5(i) of the Plan shall be incorporated as follows:

“(i) Under Section 422(d) of the Code, to the extent that the aggregate fair market value of stock with respect to which incentive stock options are exercisable for the first time by the undersigned during any calendar year (under all incentive stock option plans of the Company, a parent or subsidiaries) exceeds \$100,000.00, such options shall be treated as options which are not incentive stock options, but shall be exercisable by their terms. Where more than one option that has been designated as an incentive stock option, the determination of which options are to be treated as incentive stock options shall be based on the order in which such options were granted. If the \$100,000 annual limitation is first exceeded as the result of the option covered by this agreement, upon each exercise of this option, that fraction of shares of Common Stock covered by such exercise, equal to (i) the amount by which the grant of this option causes the \$100,000 annual limitation to be exceeded, divided by (ii) the aggregate fair market value of this option, determined as provided above, shall be treated as shares acquired upon exercise of options which are not incentive stock options, and the balance shall be treated as shares acquired upon exercise of an incentive stock option.”

RESOLVED FURTHER, that a new Section 5(j) of the Plan shall be incorporated as follows:

“(j) Prior to the time of issuance, the Company shall satisfy its employment tax and other tax withholding obligations by requiring the optionee to pay the amount of withholding tax, if any, that must be paid under federal, state, and local law due to the exercise of the option, subject to such restrictions or procedures as the Company deems necessary to satisfy Rule 16b-3 of the Exchange Act. The payment of such withholding tax may be by certified or official bank check or by the delivery of a number of shares of Common Stock that have been held for at least six months (plus cash if necessary) having a fair market value equal to the Company’s minimum required statutory tax withholding.”

RESOLVED FURTHER, that a new paragraph shall be added to the end of Section 8(a) of the Plan as follows:

“An Employee who is employed by an employer that is a subsidiary of the Company, will be considered to have terminated Employee status in the event that his or her employer ceases to be a subsidiary of the Company.”

The foregoing amendments shall be effective with respect to options granted after the effective date first specified above.

**AMENDMENT TO
THE MANNATECH, INCORPORATED
RESTATED 1998 INCENTIVE STOCK OPTION PLAN
Effective as of August 7, 2003**

The undersigned, constituting all members of the Board of Directors (“**Board**”) of Mannatech, Incorporated, a Texas corporation (the “**Company**”), hereby approve, adopt, and consent to the adoption of the following resolutions by unanimous written consent without a meeting pursuant to the provisions of Article 9.10(B) of the Texas Business Corporation Act:

WHEREAS, the Company maintains a plan known as the Mannatech, Incorporated Restated 1998 Incentive Stock Option Plan (the “**Plan**”), which, by its terms, is subject to amendment by action of the Board;

WHEREAS, the Board has determined that it is in the best interests of the Company and the Plan participants to amend the Plan;

NOW, THEREFORE, BE IT HEREBY:

RESOLVED, that Section 4(a) of the Plan shall be amended to read as follows in its entirety:

“(a) Procedure. The Plan shall be administered by the Board of the Company or the Board may appoint a Committee consisting of not less than two members of the Board of Directors to administer the Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe. To the extent that the Board appoints a Committee to administer the Plan, each member of the Board of Directors who is selected to serve on the Committee shall be a “Non-Employee Director” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 and an “outside director” within the meaning of the regulations adopted under Section 162(m) of the Code. Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint new members in substitution therefore, fill vacancies caused, or remove all members of the Committee and thereafter directly administer the Plan.”

RESOLVED FURTHER, that Section 4(b) of the Plan shall be amended as follows beginning at (x):

“... (x) to administer and interpret the option agreement; (xi) to make determinations as to whether a bona fide leave shall be deemed to continue, to the extent that applicable law does not require that it be deemed to continue; and (xii)

to make all other determinations deemed necessary or advisable for the administration of the Plan.”

RESOLVED FURTHER, that a new Section 5(c) shall be added to the Plan as follows:

“(c) No individual may receive Options under this Plan during any calendar year for more than 250,000 shares of the Company’s stock.”

RESOLVED FURTHER, that the first sentence of Section 7 of the Plan shall be amended as follows:

“Each Option shall terminate and is no longer exercisable after 5:00 p.m. on the day immediately preceding the ten (10) year anniversary of the date of its grant, except if terminated earlier as provided in the Stock Option Agreement.”

RESOLVED FURTHER, that Section 8(c) of the Plan shall be amended to read as follows:

“(c) An option may be exercised, in whole or in part, to the extent exercisable, by giving written notice prior to its expiration to the Chief Financial Officer of the Company in the form specified by the Committee, accompanied by payment of the option price. In addition to the option price the optionee will be required to include payment of all federal, state, local or other income excise or employment taxes subject to withholding (if any) by the Company, a parent or subsidiary as a result of the exercise of this option (collectively, the “Exercise Price”) for the total number of shares specified for purchase. The Exercise Price payment shall be payable in full by cash or check. Alternatively, in the sole discretion of the Committee and upon such terms as the Committee shall approve, the option may provide that the Exercise Price may be paid by:

(1) Cashless Exercise. During any period for which the shares are publicly traded (i.e., the shares are listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market, or if the shares are quoted on the Nasdaq System (but not on the Nasdaq National Market) or any similar system whereby the stock is regularly quoted by a recognized securities dealer but closing sale prices are not reported), by a copy of instructions to a broker directing such broker to sell the shares for which this option is exercised, and to remit to the Company the aggregate Exercise Price of such option (“Cashless Exercise”); provided, however, a Cashless Exercise by a Director or executive officer that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company, a parent or subsidiary in violation of section 402(a) of the Sarbanes-Oxley Act (codified as Section 13(k) of the Securities Exchange Act of 1934, 15 U.S.C. § 78m(k)) shall be prohibited;

(2) (unless prohibited by the Committee) certificates representing shares of Common Stock of the Company, which will be valued by the

Company at the closing fair market price per share of the Company's Common Stock on the date of exercise of such certificates to the Company, accompanied by an assignment of the stock to the Company, provided that such shares have been held and owned by the optionee for at least six (6) prior months; or

(3) (unless prohibited by the Committee) any combination of cash and Common Stock of the Company valued and subject to the restrictions as provided in clause (2). Any assignment of stock shall be in a form and substance satisfactory to the Secretary of the Company, including guarantees of signature(s) and payment of all transfer taxes if the Secretary deems such guarantees necessary or desirable. "

RESOLVED FURTHER, that a new Section 8(d) of the Plan shall be incorporated as follows:

"(d) Under Section 422(d) of the Code, to the extent that the aggregate fair market value of stock with respect to which incentive stock options are exercisable for the first time by the undersigned during any calendar year (under all incentive stock option plans of the Company, a parent or subsidiaries) exceeds \$100,000.00, such options shall be treated as options which are not incentive stock options, but shall be exercisable by their terms. Where more than one option that has been designated as an incentive stock option, the determination of which options are to be treated as incentive stock options shall be based on the order in which such options were granted. If the \$100,000 annual limitation is first exceeded as the result of the option covered by this agreement, upon each exercise of this option, that fraction of shares of Common Stock covered by such exercise, equal to (i) the amount by which the grant of this option causes the \$100,000 annual limitation to be exceeded, divided by (ii) the aggregate fair market value of this option, determined as provided above, shall be treated as shares acquired upon exercise of options which are not incentive stock options, and the balance shall be treated as shares acquired upon exercise of an incentive stock option."

RESOLVED FURTHER, that the first sentence of the third paragraph of Section 9(a) of the Plan, beginning "An Option shall be deemed..." shall be deleted and replaced with the following language:

"An Option may be exercised in whole or in part prior to its expiration at the time or times specified in the vesting schedule contained in the Stock Option Agreement. An Option shall be deemed to be exercised, in whole or in part, when written notice of such exercise has been given to the Chief Financial Officer of the Company prior to its expiration, in accordance with the terms of the Option, by the person entitled to exercise the Option, and full payment (including any applicable withholding amounts) for the Shares with respect to which the Option is exercised has been received by the Company."

RESOLVED FURTHER, that three new paragraphs shall be added to the end of Section 9(b) of the Plan as follows:

“An Employee who is employed by an employer that is a subsidiary of the Company, will be considered to have terminated Employee status in the event that the employer ceases to be a subsidiary of the Company.

Service shall be deemed to continue while Employee is on a bona fide leave of absence, to the extent required by applicable law. To the extent applicable law does not require such a leave to be deemed to continue while on a bona fide leave of absence, such bona fide leave of absence shall be deemed to continue if, and only if, expressly provided in writing by the Committee or a duly authorized officer of the Company, parent or subsidiary for whom Employee provides services.

Outstanding options that are not exercisable at the time of termination of service for any reason shall expire at the close of business on the date of such termination.”

RESOLVED FURTHER, that the provision in the first paragraph of Section 11 of the Plan beginning with “shall be proportionately adjusted” and ending with “or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company” shall be amended to read as follows:

“...shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of Common Stock, recapitalization, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company ...”

RESOLVED FURTHER, that the last sentence of the second paragraph of Section 11 of the Plan shall be deleted and replaced with the following language:

“In the event of any recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Committee deems in its sole discretion to be a similar transaction or circumstance, where the Company is not the surviving entity, if this option is cancelled without substitution of a successor option or payment of alternative consideration that the Committee determines in good faith to be equitable under the circumstances, Optionee shall have the right, exercisable during the later of the ten-day period ending on the fifth day prior to such transaction or ten days after the Committee provides Optionee with a notice of cancellation, to exercise this option in whole or in part without regard to any installment exercise provisions in the Stock Option Agreement.”

RESOLVED FURTHER, that a new paragraph shall be added to the end of Section 14 of the Plan as follows:

“The Company may, but shall not be obligated to, register or qualify the sale of shares under the Securities Act of 1933 or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the sale of shares under this agreement to comply with any law.”

The foregoing amendments shall be effective with respect to options granted after the effective date first specified above.

AMENDMENT TO
THE MANNATECH, INCORPORATED
2000 INCENTIVE STOCK OPTION PLAN

Effective as of August 7, 2003

The undersigned, constituting all members of the Board of Directors (“**Board**”) of Mannatech, Incorporated, a Texas corporation (the “**Company**”), hereby approve, adopt, and consent to the adoption of the following resolutions by unanimous written consent without a meeting pursuant to the provisions of Article 9.10(B) of the Texas Business Corporation Act:

WHEREAS, the Company maintains a plan known as the Mannatech, Incorporated 2000 Incentive Stock Option Plan (the “**Plan**”), which, by its terms, is subject to amendment by action of the Board;

WHEREAS, the Board has determined that it is in the best interests of the Company and the Plan participants to amend the Plan;

NOW, THEREFORE, BE IT HEREBY:

RESOLVED, that Section 4(a) of the Plan shall be amended to read as follows in its entirety:

“(a) Procedure. The Plan shall be administered by the Board of the Company or the Board may appoint a Committee consisting of not less than two members of the Board of Directors to administer the Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe. To the extent that the Board appoints a Committee to administer the Plan, each member of the Board of Directors who is selected to serve on the Committee shall be a “Non-Employee Director” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 and an “outside director” within the meaning of the regulations adopted under Section 162(m) of the Code. Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint new members in substitution, fill vacancies caused, or remove all members of the Committee and thereafter directly administer the Plan.”

RESOLVED FURTHER, that Section 4(b) of the Plan shall be amended as follows beginning at (x):

“... (x) to administer and interpret the option agreement; (xi) to make determinations as to whether a bona fide leave shall be deemed to continue, to the extent that applicable law does not require that it be deemed to continue; and (xii)

to make all other determinations deemed necessary or advisable for the administration of the Plan.”

RESOLVED FURTHER, that a new Section 5(c) shall be added to the Plan as follows:

“(c) No individual may receive Options under this Plan during any calendar year for more than 500,000 shares of the Company’s stock.”

RESOLVED FURTHER, that the first sentence of Section 7 of the Plan shall be amended to read as follows:

“Each Option shall terminate and is no longer exercisable after 5:00 p.m. on the day immediately preceding the ten (10) year anniversary of the date of its grant, except if terminated earlier as provided in the Stock Option Agreement.”

RESOLVED FURTHER, that Section 8(c) of the Plan shall be amended to read as follows:

“(c) An option may be exercised, in whole or in part, to the extent exercisable, by giving written notice prior to its expiration to the Chief Financial Officer of the Company in the form specified by the Committee, accompanied by payment of the option price. In addition to the option price the optionee will be required to include payment of all federal, state, local or other income excise or employment taxes subject to withholding (if any) by the Company, a parent or subsidiary as a result of the exercise of this option (collectively, the “Exercise Price”) for the total number of shares specified for purchase. The Exercise Price payment shall be payable in full by cash or check. Alternatively, in the sole discretion of the Committee and upon such terms as the Committee shall approve, the option may provide that the Exercise Price may be paid by:

(1) Cashless Exercise. During any period for which the shares are publicly traded (i.e., the shares are listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market, or if the shares are quoted on the Nasdaq System (but not on the Nasdaq National Market) or any similar system whereby the stock is regularly quoted by a recognized securities dealer but closing sale prices are not reported), by a copy of instructions to a broker directing such broker to sell the shares for which this option is exercised, and to remit to the Company the aggregate Exercise Price of such option (“Cashless Exercise”); provided, however, a Cashless Exercise by a Director or executive officer that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company, a parent or subsidiary in violation of section 402(a) of the Sarbanes-Oxley Act (codified as Section 13(k) of the Securities Exchange Act of 1934, 15 U.S.C. § 78m(k)) shall be prohibited;

(2) (unless prohibited by the Committee) certificates representing shares of Common Stock of the Company, which will be valued by the Company at the closing fair market price per share of the Company's Common Stock on the date of exercise of such certificates to the Company, accompanied by an assignment of the stock to the Company, provided that such shares have been held and owned by the optionee for at least six (6) prior months; or

(3) (unless prohibited by the Committee) any combination of cash and Common Stock of the Company valued and subject to the restrictions as provided in clause (2). Any assignment of stock shall be in a form and substance satisfactory to the Secretary of the Company, including guarantees of signature(s) and payment of all transfer taxes if the Secretary deems such guarantees necessary or desirable. "

RESOLVED FURTHER, that a new Section 8(d) of the Plan shall be incorporated as follows:

"(d) Under Section 422(d) of the Code, to the extent that the aggregate fair market value of stock with respect to which incentive stock options are exercisable for the first time by the undersigned during any calendar year (under all incentive stock option plans of the Company, a parent or subsidiaries) exceeds \$100,000.00, such options shall be treated as options which are not incentive stock options, but shall be exercisable by their terms. Where more than one option that has been designated as an incentive stock option, the determination of which options are to be treated as incentive stock options shall be based on the order in which such options were granted. If the \$100,000 annual limitation is first exceeded as the result of the option covered by this agreement, upon each exercise of this option, that fraction of shares of Common Stock covered by such exercise, equal to (i) the amount by which the grant of this option causes the \$100,000 annual limitation to be exceeded, divided by (ii) the aggregate fair market value of this option, determined as provided above, shall be treated as shares acquired upon exercise of options which are not incentive stock options, and the balance shall be treated as shares acquired upon exercise of an incentive stock option."

RESOLVED FURTHER, that the first sentence of the third paragraph of Section 9(a) of the Plan, beginning "An Option shall be deemed..." shall be deleted and replaced with the following language:

"An Option may be exercised in whole or in part prior to its expiration at the time or times specified in the vesting schedule contained in the Stock Option Agreement. An Option shall be deemed to be exercised, in whole or in part, when written notice of such exercise has been given to the Chief Financial Officer of the Company prior to its expiration, in accordance with the terms of the Option, by the person entitled to exercise the Option, and full payment (including any

applicable withholding amounts) for the Shares with respect to which the Option is exercised has been received by the Company.”

RESOLVED FURTHER, that the following three new paragraphs shall be added to the end of Section 9(b) of the Plan:

“An Employee who is employed by an employer that is a subsidiary of the Company, will be considered to have terminated Employee status in the event that the employer ceases to be a subsidiary of the Company.

Service shall be deemed to continue while Employee is on a bona fide leave of absence, to the extent required by applicable law. To the extent applicable law does not require such a leave to be deemed to continue while on a bona fide leave of absence, such bona fide leave of absence shall be deemed to continue if, and only if, expressly provided in writing by the Committee or a duly authorized officer of the Company, parent or subsidiary for whom Employee provides services.

Outstanding options that are not exercisable at the time of termination of service for any reason shall expire at the close of business on the date of such termination.”

RESOLVED FURTHER, that the provision in the first paragraph of Section 11 of the Plan beginning with “shall be proportionately adjusted” and ending with “or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company” shall be amended to read as follows:

“...shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of Common Stock, re-capitalization, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company ...”

RESOLVED FURTHER, that the last sentence of the second paragraph of Section 11 of the Plan shall be deleted and replaced with the following language:

“In the event of any recapitalization, merger, consolidation, transfer of assets, reorganization, conversion or what the Committee deems in its sole discretion to be a similar transaction or circumstance, where the Company is not the surviving entity, if this option is cancelled without substitution of a successor option or payment of alternative consideration that the Committee determines in good faith to be equitable under the circumstances, Optionee shall have the right, exercisable during the later of the ten-day period ending on the fifth day prior to such transaction or ten days after the Committee provides Optionee with a notice of cancellation, to exercise this option in whole or in part without regard to any installment exercise provisions in the Stock Option Agreement.”

RESOLVED FURTHER, that a new paragraph shall be added at the end of Section 14 of the Plan as follows:

“The Company may, but shall not be obligated to, register or qualify the sale of shares under the Securities Act of 1933 or any other applicable law. The Company shall not be obligated to take any affirmative action in order to cause the sale of shares under this agreement to comply with any law.”

The foregoing amendments shall be effective with respect to options granted after the effective date first specified above.

LOCK-UP AGREEMENT

This Lock (“Agreement”) is made and effective this 6th day of November, 2003 by and between Mannatech, Incorporated (“Company”), a Texas corporation with its principal place of business located at 600 S. Royal Lane, Suite 200, Coppel, Texas 75019 and Stan Fredrick (“Fredrick”) whose principal address is 3509 Wingren, Irving, Texas 75062.

WITNESSETH:

WHEREAS, Company is in the business of operating a network marketing company which sells a proprietary line of dietary supplements, cosmetics and over-the-counter products (“Products”) and which compensates its distributors (“Associates”) by a defined compensation plan in the United States, Canada, Australia, New Zealand, Japan and the United Kingdom;

WHEREAS, Fredrick or a trust controlled by him owns certain shares of Common Stock of the Company (“**Shares**”);

WHEREAS, the Parties hereto desire to restrict the sale, assignment, transfer, encumbrance or other disposition of the Shares subject to the terms and conditions of this Agreement;

WHEREAS, Fredrick has agreed to certain restrictions on the sale of Shares subject to the terms and conditions of this Agreement;

WHEREAS, Company intends to enter into a confidential relationship with Fredrick whereby Fredrick will acquire an intimate knowledge and access to Company’s business and will obtain or has obtained specialized skills. Company will permit Fredrick to have access to and to utilize the business goodwill, cost and pricing information, Confidential Information (as defined herein) and various trade secrets of Company, including without limitation, marketing programs, business relationships, customer lists, business plans, financial data, privileged legal information and other compilations of information developed by Company and essential to its business; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and upon the terms, conditions and provisions hereinafter set forth, Company and Fredrick do hereby agree as follows:

ARTICLE I.

DUTIES AND COMPENSATION

- 1.1 **Term.** The term of this Agreement, unless otherwise modified in writing, is for a two (2) year calendar period, beginning June 15, 2003 and ending June 15, 2005 (the “**Term**”). The Term shall be extended automatically for an additional successive one (1) calendar year period as of each anniversary of the effective date after the initial term; provided however, that if either party shall give written notice to the other at least thirty days prior to such anniversary, then no such automatic extension shall occur and Fredrick’s obligations under this Agreement shall terminate on the day prior to such anniversary.

- 1.2 **Compensation.** In exchange for the Share restrictions and other obligations as set forth herein, the Company agrees to pay Fredrick \$185,000 annually payable on a monthly basis in equal installments.
- 1.3 **Independent Contractor.** The Parties agree that this Agreement shall not be considered an employment agreement nor is it an offer for employment. Fredrick will not be eligible for any employee benefits, nor will Company make deductions from payments to Fredrick for taxes, insurance, bonds or the like.

ARTICLE II
LOCK-UP AGREEMENT

- 2.1 **Lock-Up Period.** Except as contemplated in this Agreement (the "**Lock-Up Period**"), Fredrick hereby agrees during the term of this Agreement, that he will not offer, sell, assign, pledge, transfer, hypothecate, contract to sell, grant any option for the sale of or otherwise dispose of, directly or indirectly, and except to a family member or family controlled trust, upon prior written notification to the Company, any of the Shares or securities convertible into or exchangeable or exercisable for any shares of common stock, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such aforementioned transaction is to be settled by delivery of the Shares or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Company. Any securities received upon exercise of options granted to Fredrick will also be subject to the provisions set forth in this Article II. Fredrick agrees and consents to the entry and stop transfer instructions with Company's transfer agent against any transfer of shares of common stock held directly or indirectly by Fredrick not in compliance with this Agreement.
- 2.2 **Extended Lock-Up.** The Lock-Up shall be extended so long as the Company continues to pay Fredrick in accordance with Section 1.2 hereof or until the Company makes a secondary offering of its common stock.

ARTICLE III.
CONFIDENTIAL INFORMATION

- 3.1 Prior to and during the course of the Agreement, Fredrick will be given access to Company's Confidential Information concerning Products and the business operations of Company.
- 3.2 Fredrick acknowledges that in the further course of the Agreement with Company, Fredrick will gain a close, personal and special influence with Company's customers and will be acquainted with all of Company's business, particularly Company's Confidential Information concerning the business of Company and its affiliates.
- 3.3 For purposes of this Agreement "Confidential Information" shall mean and include information disclosed to Fredrick or known by Fredrick, not generally known in

Company's industry, or otherwise known to Fredrick or received from a source other than the Company about Company's products, processes and services, including but not limited to information concerning inventions, trade secrets, research and development, as well as all data or information concerning customers (including, Associates), customer lists (including downline reports and similar reports of business activities and relevant information concerning persons who conduct the same), prospect lists, mailing lists, sales leads, contracts, financial reports, sales, purchasing, price lists, product costs, marketing programs, marketing plans, business relationships, business methods, accounts payable, accounts receivable, accounting procedures, control procedures and training materials.

- 3.4 Fredrick recognizes that his position with Company is one of the highest trust and confidence by reason of Fredrick's access to the Confidential Information and Fredrick agrees to use his best efforts and will exercise utmost diligence to protect and safeguard the Confidential Information. In this respect, Fredrick agrees that fulfilling the obligations of this Article III constitutes valuable consideration for which the Company has agreed to make such Confidential Information known to him.
- 3.5 Except as may be required by Company in connection with and during the Agreement with Company, or with the express written permission of Company, Fredrick shall not, directly or indirectly, download, print out, copy, remove from the premises of Company, use for his own benefit or for the benefit of another, or disclose to another, any Confidential Information of Company, its customers, contractors, or any other person or entity with which Company has a business relationship.
- 3.6 Fredrick agrees that all files, memoranda, data, notes, records, drawings, charts, graphs, analyses, letters, reports or other documents or similar items made or compiled by Fredrick, made available to him or otherwise coming into his possession during the Agreement concerning any process, apparatus or products manufactured, sold, used, developed, investigated or considered by Company concerning the Confidential Information or concerning any other business or activity of Company shall remain at all times the property of Company and shall be delivered to Company upon termination of this Agreement or at any other time upon request.
- 3.7 Fredrick agrees that during the term of this Agreement or upon termination thereof, and if requested by Company to do so, he will sign an appropriate list of any and all Confidential Information of Company of which he has knowledge about or which he has acquired information.
- 3.8 Fredrick acknowledges that the violation of any of the provisions of this Section 3 will cause irreparable loss and harm to Company which cannot be reasonably or adequately compensated by damages in an action at law, and accordingly, Company will be entitled, without posting bond or other security, to injunctive and other equitable relief to enforce the provisions of this Section 3; but no action for any such relief shall be deemed to waive the right of Company to an action for damages.

ARTICLE IV
TERMINATION

This Agreement shall become null and void, and no further payment obligations shall become due upon the death of Fredrick.

ARTICLE V
MISCELLANEOUS

- 5.1 **Enforcement.** It is the express intention of the Parties to this Agreement to comply with all laws applicable to the covenants and provisions contained in this Agreement. If any of the covenants contained in this Agreement are found to exceed in duration or scope permitted by law, it is expressly agreed that such covenant may be reformed or modified by the award or decree of an arbitrator, if applicable ("***Reformation***"). The Reformation shall be governed by a final judgment of a court of competent jurisdiction or other lawful constituted authority, as the case may be, to reflect a lawful and enforceable duration or scope, and such covenant automatically shall be deemed to be amended and modified so as to comply. If any one or more of the provisions contained herein shall for any reason be held invalid, illegal or unenforceable in any respect, even after formation, such invalidity, illegality or unenforceability shall not affect the enforceability or validity of any other provision contained in this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.
- 5.2 **Adequacy of Consideration; Separate Agreements.** Fredrick agrees that the Lock-Up agreements and Confidentiality agreements set forth herein each constitute separate agreements, independently supported by good and adequate consideration and shall be severable from the other provisions of this Agreement and shall survive the termination thereof.
- 5.3 **Representation and Warranties.** Fredrick represents and warrants that:
- 5.3.1 He has no obligations, legal or otherwise, inconsistent with the terms of this Agreement or with his undertaking this relationship with Company;
- 5.3.2 With respect to Article II hereof, all of the shares of Shares held by Fredrick are Shares free and clear of any claims, liens, encumbrances, pledges, security interests or other arrangements or restriction whatsoever, except for such legend and related transfer restrictions as required under the Securities Act of 1933, as amended;
- 5.3.3 The performance of the this Agreement does not and will not violate any applicable law, rule or regulation or any proprietary or other right of any third party;
- 5.3.4 Fredrick has not entered into or will enter into any agreement (whether oral or written) in conflict with this Agreement except those enterprises otherwise disclosed herein.
- 5.4 **Agreement to Perform Necessary Acts.** Fredrick agrees to perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

- 5.5 **Injunctive Relief.** Fredrick recognizes and acknowledges that damages in the event of his breach of certain provisions of this Agreement would be inadequate, and Fredrick agrees that Company, in addition to all other remedies it may have, shall have the right to injunctive relief via arbitration if there is a breach by Fredrick of any one or more of the provisions contained herein.
- 5.6 **Arbitration.** Arbitration, including the right to invoke injunctive relief and any emergency relief or measures provided for, shall be the exclusive remedy for any and all disputes, claims or controversies, whether statutory, contractual or otherwise, between Company and Fredrick concerning the Agreement or the termination thereof. In the event either party provides a Notice of Arbitration of Dispute to the other party, Company and Fredrick agree to submit such dispute or controversy, whether statutory or otherwise, to an arbitrator or arbitrators selected from a panel of arbitrators of the American Arbitration Association located in Dallas, Texas. The effective rules at the time of the commencement of the Commercial Arbitration of the American Arbitration Association shall control the arbitration. In any arbitration proceeding conducted subject to these provisions, the arbitrator(s) is/are specifically empowered to decide any question pertaining to limitations, and may do so by documents or by a hearing, in his or her sole discretion. In this regard, the arbitrator may authorize the submission of pre-hearing motions similar to a motion to dismiss or for summary adjudication for the purposes of consideration in this matter. The arbitrator's decision will be final and binding upon the Parties. The Parties further agree to abide by and perform any award rendered by the arbitrator. Each party in such proceeding shall pay its own attorney's fees. In rendering the award, the arbitrator shall state the reasons therefor, including any computations of actual damages or offsets, if applicable.
- 5.7 **Notices.** Notices required to be given under this Agreement shall be in writing and shall be deemed to have been given and received when personally delivered, or when mailed by registered or certified mail, postage prepaid, return receipt requested, or when sent by overnight delivery service to the address as first written above.
- 5.8 **No Agency.** This Agreement does not constitute a joint venture or partnership of any kind between Company and Fredrick.
- 5.9 **Assignment.** In the event Fredrick assigns the Shares to a family member or trust ("Assignee") as contemplated in Section 2.1, the Assignee, its successors, representatives and assigns, whether individually and/or collectively, shall be bound by all of the terms and conditions of this Agreement.
- 5.10 **Waiver.** A waiver by either party of any term or condition of this Agreement in any instance shall not be deemed or construed to be a waiver of such term or condition for the future, or any breach of such term or condition.
- 5.11 **Authority.** The Parties represent that they have full capacity and authority to grant all rights and assume all obligations they have granted and assumed under this Agreement.
- 5.12 **Captions.** The headings of the sections in this Agreement are intended solely for convenience of reference and are not intended and shall not be deemed for any purpose whatsoever to modify or explain or place constriction upon any of the provisions of this Agreement.

- 5.13 **Governing Law.** The Parties hereto agree that this Agreement shall be governed by the laws of the State of Texas without regard to the conflicts of law principles. The Parties further agree that exclusive jurisdiction and venue to enforce the arbitration provisions of this agreement shall be in a state or federal court of appropriate jurisdiction in Dallas County, Texas. Each party consents to personal jurisdiction in Dallas County, Texas, for any action to enforce arbitration including any further rules provided for emergency or extraordinary relief, as to this Agreement.
- 5.14 **Disclosure.** Each of the Parties agree to keep confidential the specific terms of this Agreement, and shall not disclose the terms of this Agreement to any person except the financial, tax and legal advisors of the other (and the Board of Directors of Company) unless required to disclose the same to others by legal process, in which event the Party so ordered shall first give notice to the other Party and an opportunity to seek a protective order. This Agreement may be disclosed or appended as an exhibit to any securities filing required to be made by Company. However, after having been so disclosed or appended, Fredrick shall have no further duty of confidentiality concerning this Agreement, as set forth in this paragraph.
- 5.15 **Approvals and Consents.** This Agreement is subject to the approval of the Board of Directors and the Compensation Committee of Company.
- 5.16 **Acknowledgement.** Fredrick affirms and attests by signing this Agreement that he has read this Agreement before signing it and that he fully understands its purposes, terms, and provisions, which he hereby expressly acknowledges to be reasonable in all respects. Fredrick further acknowledges receipt of one (1) copy of this Agreement.
- 5.17 **Counterparts.** This Agreement may be executed in multiple counterparts, any one of which will be deemed an original, but all of which will constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement is executed by the Parties hereto, effective as of the 6th day of November, 2003.

/s/ J. Stanley Fredrick

J. Stanley Fredrick

COMPANY:
MANNATECH, INCORPORATED
A Texas Corporation

By: **/s/ Samuel L. Caster**

Samuel L. Caster
Its: Chairman & CEO

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Samuel L. Caster, the Chairman and Chief Executive Officer of Mannatech, Incorporated (“the registrant”); certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mannatech, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: November 14, 2003

/s/ Samuel L. Caster

Samuel L. Caster
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Stephen D. Fenstermacher, Chief Financial Officer of Mannatech, Incorporated (“the registrant”); certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mannatech, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: November 14, 2003

/s/ Stephen D. Fenstermacher
Stephen D. Fenstermacher
Chief Financial Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

This certification is furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies this quarterly report on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2003 of Mannatech, Incorporated (the "Company").

I, Samuel L. Caster, Chairman and Chief Executive Officer of the Company, certify, to the best of my knowledge that:

- (1) Form 10-Q the Company fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003.

/s/ Samuel L. Caster

Name: Samuel L. Caster

Subscribed and sworn to before me
This 14th day of November, 2003

/s/ Christina Meissner

Name: Christina Meissner

Title: Notary Public, State of Texas

My commission expires: March 19, 2006

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

This certification is furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies this quarterly report on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2003 of Mannatech, Incorporated (the "Company").

I, Stephen D. Fenstermacher, Chief Financial Officer of the Company, certify, to the best of my knowledge that:

- (1) Form 10-Q the Company fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2003.

/s/ Stephen D. Fenstermacher

Name: Stephen D. Fenstermacher

Subscribed and sworn to before me

This 14th day of November, 2003

/s/ Christina Meissner

Name: Christina Meissner

Title: Notary Public, State of Texas

My commission expires: March 19, 2006