

2004

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

FORM 10-Q

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

For the quarterly period ended June 30, 2004.

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 July 31, 2004, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share was 26,351,356.

Mannatech, Incorporated
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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 Mannatech’s corporate website at www.mannatech.com or by contacting Mannatech’s investor relations department at ir@mannatech.com or calling 972-471-6512.

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

	December 31, 2003	June 30, 2004
		(unaudited)
ASSETS		
Cash and cash equivalents	\$ 28,291	\$ 35,041
Restricted cash	2,140	393
Accounts receivable	134	460
Current portion of notes receivable from shareholders	55	—
Inventories	7,861	9,134
Prepaid expenses and other current assets	2,084	1,475
Deferred tax assets	2,363	2,336
	<hr/>	<hr/>
Total current assets	42,928	48,839
Property and equipment, net	5,514	5,772
Long-term investments	9,994	17,065
Notes receivable from shareholders, excluding current portion	150	155
Deferred tax assets	631	644
Restricted cash	—	549
Other assets	806	1,377
	<hr/>	<hr/>
Total assets	\$ 60,023	\$ 74,401
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases and notes payable	\$ 16	\$ 10
Accounts payable	2,687	2,301
Accrued expenses	19,940	27,291
Deferred revenue	3,142	4,400
Current portion of accrued severance related to former executives	953	486
	<hr/>	<hr/>
Total current liabilities	26,738	34,488
Capital leases and notes payable, excluding current portion	32	28
Accrued severance related to former executives, excluding current portion	359	169
Long-term liabilities	106	405
Deferred tax liabilities	—	12
	<hr/>	<hr/>
Total liabilities	27,235	35,102
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 99,000,000 shares authorized, 26,227,171 shares issued and 26,183,422 outstanding in 2003 and 26,425,671 shares issued and 26,351,356 outstanding in 2004	3	3
Additional paid-in capital	24,175	25,030
Retained earnings	9,271	15,327
Accumulated other comprehensive loss	(422)	(499)
	<hr/>	<hr/>
	33,027	39,861
Less treasury stock, at cost, 43,749 shares in 2003 and 74,315 in 2004	(239)	(562)
	<hr/>	<hr/>
Total shareholders' equity	32,788	39,299
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 60,023	\$ 74,401

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2004	2003	2004
Net sales	\$ 46,519	\$ 74,318	\$ 86,989	\$ 132,705
Cost of sales	7,397	11,283	14,094	19,940
Commissions and incentives	19,590	34,139	35,932	60,005
	<u>26,987</u>	<u>45,422</u>	<u>50,026</u>	<u>79,945</u>
Gross profit	19,532	28,896	36,963	52,760
Operating expenses:				
Selling and administrative expenses	9,267	11,526	19,097	23,831
Other operating costs	7,162	8,342	12,886	15,326
Severance expenses	1,417	—	1,417	—
	<u>17,846</u>	<u>19,868</u>	<u>33,400</u>	<u>39,157</u>
Income from operations	1,686	9,028	3,563	13,603
Interest income	58	155	134	293
Interest expense	(2)	(15)	(4)	(16)
Other income (expense), net	(104)	(755)	8	(847)
	<u>1,638</u>	<u>8,413</u>	<u>3,701</u>	<u>13,033</u>
Income before income taxes	1,638	8,413	3,701	13,033
Income taxes	(467)	(2,839)	(1,111)	(4,354)
	<u>\$ 1,171</u>	<u>\$ 5,574</u>	<u>\$ 2,590</u>	<u>\$ 8,679</u>
Net income	\$ 1,171	\$ 5,574	\$ 2,590	\$ 8,679
Earnings per common share:				
Basic	\$ 0.05	\$ 0.21	\$ 0.10	\$ 0.33
Diluted	\$ 0.04	\$ 0.20	\$ 0.10	\$ 0.32
Weighted-average common shares outstanding:				
Basic	25,179	26,343	25,156	26,289
Diluted	26,526	27,389	26,618	27,380

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2003	2004
<u>Cash flows from operating activities:</u>		
Net income	\$ 2,590	\$ 8,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,732	1,288
Loss on disposal of assets	11	20
Accounting charge related to stock options and warrants granted	1,387	36
Tax benefit of exercising stock options	(116)	262
Deferred income taxes	1	26
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	109	(327)
Increase in inventories	(468)	(1,281)
(Increase) decrease in prepaid expenses and other current assets	(245)	608
Increase in other assets	(74)	(575)
Decrease in accounts payable	(445)	(384)
Increase in accrued expenses	3,423	7,669
Increase in deferred revenue	822	1,258
Increase (decrease) in accrued severance to former executives	402	(657)
	<u>9,129</u>	<u>16,622</u>
<u>Cash flows from investing activities:</u>		
Acquisition of property and equipment	(360)	(1,602)
Purchases of investments	(11,989)	(7,071)
Repayments by shareholders/related parties	188	50
(Increase) decrease in restricted cash	(2,123)	1,198
	<u>(14,284)</u>	<u>(7,425)</u>
<u>Cash flows from financing activities:</u>		
Payment of cash dividend	—	(2,623)
Proceeds from stock options exercised	241	234
Repayment of capital lease obligation	(3)	(10)
Repayment of note payable	(129)	—
	<u>109</u>	<u>(2,399)</u>
Effect of exchange rate changes on cash and cash equivalents	4	(48)
Net increase (decrease) in cash and cash equivalents	(5,042)	6,750
<u>Cash and cash equivalents:</u>		
Beginning of the period	17,693	28,291
End of the period	<u>\$ 12,651</u>	<u>\$ 35,041</u>
<u>SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</u>		
Asset retirement obligations related to operating leases	\$ 253	\$ —
Treasury shares tendered to exercise stock options	\$ —	\$ 323

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. The Company plans to open operations in South Korea in September 2004 and plans to open operations in Taiwan in the first quarter of 2005. Independent associates ("associates") purchase the Company's products at published wholesale prices for the purpose of personal consumption and/or sale to retail customers. Members ("members") purchase the Company's products at a discount from published retail prices. Only associates are eligible to earn commissions and incentives on their downline growth and sales volume. The Company has twelve wholly-owned subsidiaries, although only the following subsidiaries are currently active:

<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
Mannatech Korea Limited	February 2004	Seoul, Republic of Korea	September 2004*
Mannatech Taiwan Corporation	June 2004	Coppell, Texas	First Quarter of 2005*

* estimated date to begin sales operations.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles from interim financial information, the instructions for 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 period presented. The consolidated results of operations for an interim period are not necessarily indicative of the consolidated results of operations to be expected for the entire 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, 2003.

Principles of Consolidation

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

Reclassification

Certain prior years' balances have been reclassified to conform to the Company's 2004 consolidated financial statement presentation.

Revenue Recognition

The Company's revenues are primarily derived from sales of its products, sales of starter and renewal packs, and shipping fees. Substantially all product sales are sold to associates at published wholesale prices and to members at discounted published retail prices. The Company records a reserve for expected sales refunds based on its historical experience. The Company defers revenues and amortizes it over twelve months. Total deferred revenue at December 31, 2003 and June 30, 2004 was \$3.1 million and \$4.4 million, respectively. Total deferred revenue consisted of revenue received from customer product sales, which were shipped to customers but not received, revenue related to a one-year magazine subscription, and revenue from its pack sales when the pack sale price exceeds the estimated wholesale value of all individual components within the pack. At December 31, 2003 and June 30, 2004, total deferred revenue related to undelivered shipments was approximately \$2.7 million and \$3.7 million, respectively. At December 31, 2003 and June 30, 2004, deferred revenue related to magazine subscription and revenue exceeding the total average wholesale value was \$0.4 million and \$0.7 million, respectively.

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Shipping and Handling Costs

The Company records freight and shipping revenue 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 \$2.2 million for the three months ended June 30, 2003 and approximately \$3.4 million for the three months ended June 30, 2004. For the six months ended June 30, 2003, total shipping and handling costs included in selling and administrative expenses were approximately \$4.4 million and approximately \$6.3 million for the six months ended June 30, 2004.

Accounting for Stock-Based Compensation

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

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

For stock-based compensation issued to employees and members of its Board of Directors, the Company elected to follow Accounting Principles Board Opinion No. 25, ("APB 25") "Accounting for Stock Issued to Employees" 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.

For disclosure purposes only, the Company estimated the fair value for all of its stock options granted to employees and board members on the date of grant using the fair-value based option-pricing model and estimated the amount of expense that it would have recognized for each stock option granted over its vesting period. 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 June 30,		For the six-months ended June 30,	
	2003	2004	2003	2004
	(in thousands, except per share amounts)			
Consolidated net income, as reported	\$ 1,171	\$ 5,574	\$ 2,590	\$ 8,679
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect	706	25	722	23
Deduct: Total stock-based employee compensation expense determined under a fair value based method for all awards, net of related tax effect	(433)	(133)	(644)	(266)
Pro forma net income	<u>\$ 1,444</u>	<u>\$ 5,466</u>	<u>\$ 2,668</u>	<u>\$ 8,436</u>
<u>Basic Earnings Per Share:</u>				
As reported	\$ 0.05	\$ 0.21	\$ 0.10	\$ 0.33
Pro forma	<u>\$ 0.06</u>	<u>\$ 0.21</u>	<u>\$ 0.11</u>	<u>\$ 0.32</u>
<u>Diluted Earnings Per Share:</u>				
As reported	\$ 0.04	\$ 0.20	\$ 0.10	\$ 0.32
Pro forma	<u>\$ 0.05</u>	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.31</u>

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Earnings Per Share

Basic Earnings Per Share (“EPS”) calculations are based on the weighted-average number of common shares outstanding during the period, while diluted EPS calculations are calculated using the weighted-average number of common shares and dilutive common share equivalents outstanding during each period. The Company’s average closing price for the period is used to calculate the dilution of stock options and warrants in its EPS calculation.

The following data shows the amounts used in computing EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the three months ended June 30, 2003 and 2004. At June 30, 2003, 671,500 common stock options were excluded from the diluted EPS calculation, as their effect was antidilutive. At June 30, 2004, none of the common stock options or warrants were excluded from the diluted EPS calculation. The amounts are rounded to the nearest thousand, except for per share amounts.

	For the three months ended June 30,			For the three months ended June 30,		
	2003			2004		
	Income (Numerator)	Shares (Denominator)	Per share amount	Income (Numerator)	Shares (Denominator)	Per share amount
Basic EPS:						
Net income available to common shareholders	\$ 1,171	25,179	\$ 0.05	\$ 5,574	26,343	\$ 0.21
Effect of dilutive securities:						
Stock options	—	1,265	(0.01)	—	952	(0.01)
Warrants	—	82	—	—	94	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	\$ 1,171	26,526	\$ 0.04	\$ 5,574	27,389	\$ 0.20

The following data shows the amounts used in computing EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the six months ended June 30, 2003 and 2004. At June 30, 2003, 671,500 common stock options were excluded from the diluted EPS calculation, as their effect was antidilutive. At June 30, 2004, none of the common stock options or warrants were excluded from the diluted EPS calculation. The amounts are rounded to the nearest thousand, except for per share amounts.

	For the six months ended June 30,			For the six months ended June 30,		
	2003			2004		
	Income (Numerator)	Shares (Denominator)	Per share amount	Income (Numerator)	Shares (Denominator)	Per share amount
Basic EPS:						
Net income available to common shareholders	\$ 2,590	25,156	\$ 0.10	\$ 8,679	26,289	\$ 0.33
Effect of dilutive securities:						
Stock options	—	1,374	—	—	995	(0.01)
Warrants	—	88	—	—	96	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	\$ 2,590	26,618	\$ 0.10	\$ 8,679	27,380	\$ 0.32

NOTE 2 TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

MannaRelief. The Company’s Chairman and Chief Executive Officer, Samuel L. Caster, founded MannaRelief and currently serves as its Chairman. Under the Internal Revenue Code, MannaRelief is a 501(c)(3) charitable organization that provides glyconutritional products to under-privileged children. Donald Herndon, who serves as the Company’s Vice President of Field Services, also serves on MannaRelief’s Board. Mr. Herndon is the brother-in-law to Mr. Caster and is also the brother-in-law to Terry L. Persinger, who serves as the Company’s President, Chief Operating Officer and director.

During 2003 and 2004, the Company donated cash to MannaRelief, sold certain of its products to MannaRelief at cost plus shipping and handling charges, and shipped products purchased by MannaRelief to the Charity’s chosen recipients. Certain Company employees and consultants periodically work on various fund raising projects and events for MannaRelief at no cost to MannaRelief. The Company intends to continue to support MannaRelief with cash donations and with contributions of time and effort from certain employees and consultants. During the three months ended June 30, 2004 and 2003, the Company sold MannaRelief products at cost plus shipping and handling of approximately \$0.2 million and \$0.1 million, respectively, and donated cash of approximately \$0.1 million, respectively. For the first six months of 2004 and 2003, the Company sold MannaRelief products at cost plus shipping and handling of approximately \$0.3 million and \$0.2 million, respectively, and donated cash of approximately \$0.2 million and \$0.1 million, respectively.

Clinical Study. In June 2004, the Company signed a cancellable three-year research agreement with St. George’s Hospital & Medical School, the employer of Dr. John Axford, who is a member of the Company’s Board of Directors. Pursuant to the research agreement, the Company agrees to provide approximately \$0.7 million over three years to fund the research costs related to a clinical study. St. George’s Hospital & Medical School is located in London, England where Dr. Axford is the Lead Investigator in the clinical study funded by the Company. This is the second clinical study funded by the Company for St. George’s Hospital & Medical School. As of June 30, 2004, the Company funded \$0.2 million toward this clinical study.

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The Company classifies its investments as available-for-sale. At June 30, 2004, the Company's investments consisted of the following:

	<u>Amortized cost</u>	<u>Gross unrealized loss</u>	<u>Fair value</u>
		(in thousands)	
Long-term:			
Federal Home Loan Bank	\$ 4,000	\$ (60)	\$ 3,940
Guaranteed Student Loan Securities	12,125	—	12,125
State regulated utility company obligation	1,000	—	1,000
Total investments	\$ 17,125	\$ (60)	\$17,065

The Company's fair value of investments by contractual maturity at December 31, 2003 and June 30, 2004, are as follows:

	<u>December 31, 2003</u>	<u>June 30, 2004</u>
	(in thousands)	
Due in one year or less and restricted for use	\$ 2,140	\$ —
Due in one year or less	—	—
Due between one and three years	3,994	3,940
Due after three years	6,000	13,125
	\$ 12,134	\$17,065

NOTE 4 INVENTORIES

During the first six months of 2004, the Company wrote-off approximately \$127,000 against its inventory reserve. At December 31, 2003 and June 30, 2004, inventories consisted of the following:

	<u>December 31, 2003</u>	<u>June 30, 2004</u>
	(in thousands)	
Raw materials	\$ 1,517	\$1,353
Finished goods, less inventory reserves for obsolescence of \$246 in 2003 and \$147 in 2004	6,344	7,781
	\$ 7,861	\$9,134

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NOTE 5 COMPREHENSIVE INCOME

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's comprehensive income is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2003	2004	2003	2004
	(in thousands)			
Net income	\$ 1,171	\$ 5,574	\$ 2,590	\$ 8,679
Foreign currency translation adjustment	(42)	(203)	(3)	(43)
Unrealized loss from investments classified as available-for-sale, net of related tax effect of \$20 for 2004	—	(40)	—	(33)
Comprehensive income	<u>\$ 1,129</u>	<u>\$ 5,331</u>	<u>\$ 2,587</u>	<u>\$ 8,603</u>

NOTE 6 COMMITMENTS AND CONTINGENCIES

Royalty Agreement. On August 7, 2003, the Company entered into a royalty agreement with Dr. Bill H. McAnalley, its Chief Science Officer. While Dr. McAnalley is employed by the Company, the Company has agreed to pay him the greater of his annual royalty or an annual executive bonus. After Dr. McAnalley's employment with the Company ceases, the Company is required to pay Dr. McAnalley, or his heirs, royalties for ten years that are based on the Company's annual global sales of its products containing Ambrotose™ in excess of \$105.4 million for each year. As of June 30, 2004, the Company accrued approximately \$0.3 million related to future payments due to Dr. McAnalley for his long-term royalty agreement.

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 amended the Non-Compete and Confidentiality Agreement to extend the agreement for an additional year and agreed to continue to pay Dr. McDaniel \$25,000 a month through June 2004, related to this agreement. In March 2004, the Company further amended this agreement to renew the terms of his Non-Compete and Confidentiality Agreement through January 2005.

Consulting and Lockup Agreement. In October 2001, the Company entered into a two-year Consulting and Lockup Agreement with Mr. J. Stanley Fredrick. Mr. Fredrick serves as the Company's Lead Director on its Board of Directors. This Agreement was modified in June 2003 to eliminate the consulting arrangement, although Mr. Fredrick remains prohibited from selling any of his 3.5 million shares of common stock of the Company while this Agreement remains in effect, unless he obtains prior approval from the Company's Board of Directors. In June 2004, the Company's Board of Directors granted Mr. Fredrick permission to sell up to 350,000 shares of his Company's common stock.

Employment Agreement. In June 2004, the Company amended Mr. Terry L. Persinger's employment agreement. This second amendment extended Mr. Persinger's employment agreement as President and Chief Operating Officer from December 31, 2004 until December 31, 2006 and increased his annual salary from \$340,000 to \$357,000.

Repurchase Plan. On June 30, 2004, the Company's Board of Directors authorized the Company to repurchase up to 1.3 million shares of the Company's outstanding common stock. The Company has not formalized or adopted any Stock Repurchase Plan and currently has no present plans to initiate any repurchase activity in the near future. As of July 31, 2004, the Company had not repurchased any of its common stock in the open market or through any private sales.

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Operating Leases. In the second quarter of 2004, the Company signed new building leases with lessors in the United Kingdom, Japan, South Korea, and Taiwan. The Company plans to move its operations in the United Kingdom and Japan into new facilities in September 2004. The new building leases expire on various dates from August 2006 through November 2009. Future minimum rental commitments related to these four building leases are approximately \$0.4 million for the remainder of 2004, \$1.5 million in 2005, \$1.3 million in 2006, \$0.5 million in 2007, and \$0.2 million in 2008 and 2009, respectively.

NOTE 7 RECENT ACCOUNTING PRONOUNCEMENTS

FIN 46R. In December 2003, the Financial Accounting Standards Board (“FASB”) issued a revised Interpretation No. 46 (“FIN 46R”), “Consolidation of Variable Interest Entities, and Interpretation of Accounting Research Bulletin No. 51,” which replaced the original interpretation issued in January 2003. FIN 46R requires certain entities to be consolidated by enterprises that lack majority voting interest when equity investors of those entities have insignificant capital at risk or lack voting rights, the obligation to absorb expected losses, or the right to receive expected returns. Entities identified with these characteristics are called variable interest entities and the interests that enterprises have in these entities are called variable interest. These interests are derived from certain guarantees, leases, loans, or other arrangements, that result in risks and rewards that are disproportionate to the voting interests in the entities. The adoption of FIN 46R as of March 31, 2004 did not have a material effect on the Company’s consolidated financial condition, results of operations, or cash flows.

NOTE 8 LITIGATION

The Company was notified in February 2003 by the New Zealand Ministry of Health of an investigation of the sales practices of some of the Company’s New Zealand associates. The matter was investigated, and the Company disciplined its independent associates related to this matter. The New Zealand Ministry of Health has continued to monitor the Company’s actions and reserves the right to prosecute individual associates or the Company in the event of any further violations.

In March 2004, MedSafe, a business unit of the New Zealand Ministry of Health, notified the Company that several of its associates in New Zealand were using promotional materials containing therapeutic claims to promote the Company’s products that were in violation of the New Zealand’s Medicines Act 1981. In response to this inquiry and allegations from MedSafe, the Company initiated disciplinary investigation proceedings against the named associates identified by MedSafe when it discovered that certain of its New Zealand associates were using unapproved materials. In the second quarter of 2004, the Company concluded its investigation, and disciplinary action was taken against certain associates and introduced additional training materials to further inform its New Zealand associates about the regulatory environment and relevant New Zealand legal requirements. In June 2004, MedSafe informed the Company that this matter was considered closed.

On June 11, 2004, the Australian Therapeutic Goods Administration notified the Company of a complaint that certain of its Australian associates had made therapeutic claims to promote the Company’s products. In response to this complaint, the Company notified the Australian Therapeutic Goods Administration that it had initiated disciplinary proceedings and terminated the Australian associates’ accounts.

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 consolidated financial position and its results of operations for the three months and six months ended June 30, 2004 as compared to the same periods in 2003. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of its subsidiaries on a consolidated basis.

Company Overview

For over a decade, Mannatech has developed innovative, high-quality, proprietary nutritional supplements, topical products, and weight-management products that are sold through a global network-marketing system. Currently Mannatech operates in the United States, Canada, Australia, the United Kingdom, Japan, and New Zealand. Mannatech plans to open operations in South Korea in September 2004 and plans to open operations in Taiwan in the first quarter of 2005.

Mannatech operates as a single segment and primarily sells its products through a network of approximately 314,000 associates and members who have purchased Mannatech's packs and products within the last 12 months. Mannatech aggregates its operating segments because it believes it operates as a single reportable segment selling its nutritional supplements and optimal health products in similar distribution channels in each of its operations. Mannatech's management reviews all of its financial information in each country by pack sales and by product sales. Each of Mannatech's operations sells primarily the same products and possesses similar economic characteristics, such as similar gross margins. For the six months ended June 30, 2004, Mannatech's sales continued to grow both domestically and in its foreign operations. Mannatech's foreign operations accounted for approximately 35.0% of its consolidated net sales for the six months ended June 30, 2004, as compared to 31.8% of its consolidated net sales for the same period in 2003.

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

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

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

- continuing to follow its product development strategy, which includes enhancing its existing proprietary products and introducing new products, such as the launch of its antioxidant product, Ambrotose AO™, in the United States in September 2003;
- plans to reformulate Phytobears® and rename the product Mannabears™ in September 2004;
- plans to launch two unique water-filtration devices in September 2004;
- continuing its planned international expansion; and
- attracting new associates and retaining continuing associates to purchase its products by introducing new incentives and products and refining its existing commissions and incentives.

In 2004, Mannatech continues to focus on registering its Ambrotose AO™ product in its existing foreign markets and registering its most popular products in South Korea and Taiwan. Mannatech had originally planned to launch an improved nutritional food bar in September 2004, but wants to further research the best way to improve its food bars to provide a more complete array of essential nutrients in the food bars. In September 2004, Mannatech does plan to introduce two water-filtration devices, which are manufactured by a third party.

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Commissions and incentives include both commissions on sales and incentives, which include Mannatech's annual travel incentive. Commissions are dependent on the commissionable sales mix and typically range between 40% and 45% of Mannatech's net sales and incentives typically range between 2% and 3% of its net sales. Commissions and incentives are earned by Mannatech's independent associates in accordance with its global associate career and compensation plan and are based on commissionable net sales, which consist of sales of finished products and packs.

Periodically, Mannatech offers new travel incentives and contests, which are designed to stimulate both pack and product sales. In March 2004, Mannatech announced its 2004 travel incentive, which is a 5-day cruise for two in the Caribbean. The 2004 travel incentive allows independent associates who achieve certain sales levels from February 28, 2004 through July 16, 2004 to qualify for this trip incentive. In the second quarter of 2004, Mannatech increased its projected number of winners from approximately 750 to 900 of its independent associates and increased its estimated cost from \$2.7 million to at least \$3.0 million.

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

Net income increased by 376.1% to \$5.6 million for the three months ended June 30, 2004 and by 235.0% to \$8.7 million for the first six months of 2004 as compared to the same periods in 2003. Mannatech believes the strong increase was the result of continuing increases in its net sales in all countries, continuing to contain operating expenses, and introducing its antioxidant product, Ambrotose AO™, in September 2003.

Outlook

Mannatech believes the remainder of 2004 should remain strong with its projected growth in pack and product sales for the three and six months ended June 30, 2004 as compared to the comparable periods in 2003. Mannatech expects commissions as a percentage of net sales to remain in the 42% to 45% range for the remainder of 2004 based on the expected increase in pack sales and the shift of pack sales to higher dollar packs. In the third and fourth quarter of 2004, Mannatech also intends to continue to capitalize certain payroll and consulting fees of between \$3.0 million to \$4.0 million related to its planned internally-developed capital software projects. In the third quarter of 2004, Mannatech expects to accrue between \$0.5 million to \$0.8 million of additional expenses related to its 2004 annual travel incentive and in the second half of 2004 expects to incur up to \$0.7 million in consulting fees related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Critical Accounting Policies and Estimates

In response to SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," Mannatech has identified certain policies that are important to the portrayal of its consolidated financial condition and consolidated results of operations. These policies require the application of significant judgment by Mannatech's management. Mannatech periodically analyzes the need for certain estimates, including the need for such items as inventory reserves, impairment of long-lived assets, capitalization of software development, tax valuation allowances, provisions for doubtful accounts, revenue recognition, sales returns, accounting for stock options and warrants, 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 June 30, 2004 include the following:

Inventory Reserves

Mannatech reviews and compares its inventory carrying value to its fair market value and any inventory value in excess of its estimated fair market value is written down. In addition, Mannatech reviews its inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Mannatech's determination of obsolescence is based on assumptions about the demand for its products, product expiration dates, estimated future sales, and management's future plans. In the future, if actual sales or management plans are less favorable than those originally projected by management, additional inventory reserves or write-downs may be required. Mannatech's inventory value at June 30, 2004 was \$9.1 million, which includes an inventory reserve of approximately \$0.1 million.

Asset Impairment

Mannatech reviews the book value of its property and equipment for impairment whenever an event or change in circumstances indicates that the net book value of an asset or group of assets may not be recoverable. Mannatech's impairment review includes a comparison of future projected cash flows generated by the asset or group of assets with its associated carrying value. Mannatech believes its expected future cash flows approximate or exceed its net book value. However, if circumstances change and the net book value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), Mannatech would have to recognize an impairment loss to the extent the net book value of an asset exceeds its fair value. At June 30, 2004, the net book value of Mannatech's property and equipment was \$5.8 million.

Tax Valuation Allowances

Mannatech evaluates the probability of realizing the future benefits of any of its deferred tax assets and records a valuation allowance when it believes a portion or all of its deferred tax assets may not be realized. If Mannatech is unable to realize the expected future benefits of its deferred tax assets, it would be required to provide an additional valuation allowance. As of June 30, 2004, Mannatech recorded deferred tax assets of \$3.0 million, which includes a valuation allowance of approximately \$0.7 million related to its Japanese net operating loss carry forwards. Mannatech expects to record a valuation allowance for its South Korean operations at the end of 2004 related to its projected net operating losses.

Deferred Revenues

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

Software Capitalization

In prior years, Mannatech capitalized salaries and consulting fees related to the development of certain qualifying internally-developed software applications including: *GlycoScience.org*, a scientific and educational web database and *Success Tracker™*, a web-based training and marketing tool for its independent associates.

During 2004, Mannatech began the development of several information technology projects that are expected to increase functionality, improve the efficiency and effectiveness of its operations and internal controls, and expand its reporting capabilities. Internally-developed projects include improvements to its corporate website, establishment of a comprehensive Japanese E-Commerce system, translation and application development of its South Korea computer application software, and development of its global re-architecture project. Mannatech has projected the total costs related to these projects to be between \$8.0 and \$10.0 million over the next eighteen months of which, Mannatech anticipates capitalizing between \$6.0 million to \$8.0 million of its salaries and consulting fees related to these projects. In the first quarter of 2004, Mannatech capitalized \$0.1 million and in the second quarter of 2004 Mannatech capitalized approximately \$0.4 million related to internal salaries and outside consulting services for these internally-developed projects. In late June 2004, Mannatech signed an agreement with PeopleSoft to purchase an off-the-shelf ERP system for approximately \$1.0 million for its re-architecture project. Mannatech plans to customize this ERP system for its financial and operational needs during 2004 and 2005. This re-architecture project of its back office system includes implementing a multi-faceted financial system by January 2005 and then implementing a sales and customer support system, distribution system, and data management system by January 2006.

Mannatech amortizes 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 June 30, 2004, Mannatech's internally-developed capitalized software had a remaining net book value of approximately \$0.6 million.

Accounting for Stock-Based Compensation

Currently, Mannatech follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related interpretations for stock options granted to employees and members of its Board of Directors. Under the recognition and measurement principles of APB 25, Mannatech is not required to recognize any compensation expense unless the market price of the stock exceeds the exercise price on the date of grant or the terms of the grant are subsequently modified.

FASB has recently indicated that it expects to issue a change in the recognition and measurement principles for equity-based compensation granted to employees and board members. Under the proposed rules, all companies including Mannatech, would be required to recognize compensation expense related to stock options and warrants granted to employees and Board members after December 15, 2004. The compensation expense would be calculated based on the number of options expected to vest and would be recognized over the stock options' vesting period, which could have a material effect on Mannatech's future consolidated results of operations. On July 20, 2004 the United States House of Representatives approved a proposed bill to prevent FASB from issuing its proposed guidance on expensing stock options and to block the mandatory expensing of stock options by corporations until the United States Secretary of Commerce and the United States Secretary of Labor complete a one-year joint study on the economic impact of the FASB's proposal. After the joint study is completed, corporations would be only required to expense stock options granted to their five highest-paid executives rather than having to expense stock options granted to all employees. However, the bill would allow, but not require, corporations to expense stock options that are granted to other employees under existing accounting guidance. If the bill is passed into law, the United States Securities and Exchange Commission will be able to regard these accounting principles as "generally accepted." The bill is currently in the United States Senate. FASB is expected to redeliberate its proposed guidance during the third quarter of 2004 and issue its final standard by the end of 2004.

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Results of Operations

The following table summarizes Mannatech's consolidated operating results as a percentage of net sales for each of the three and six months ended June 30, 2003 and 2004:

	Three months ended June 30,		Six months ended June 30,	
	2003	2004	2003	2004
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	15.9	15.2	16.2	15.0
Commissions and incentives	42.1	45.9	41.3	45.2
Gross profit	42.0	38.9	42.5	39.8
Operating expenses:				
Selling and administrative expenses	19.9	15.5	22.0	18.0
Other operating costs	15.4	11.2	14.8	11.5
Severance expenses	3.1	0.0	1.6	0.0
Income from operations	3.6	12.2	4.1	10.3
Interest income	0.1	0.2	0.2	0.2
Interest expense	0.0	—	0.0	—
Other income (expense), net	(0.2)	(1.1)	0.0	(0.7)
Income before income taxes	3.5	11.3	4.3	9.8
Income taxes	(1.0)	(3.8)	(1.3)	(3.3)
Net income	2.5%	7.5%	3.0%	6.5%

2004 compared to 2003
Net Sales
Net Sales in Dollars and as a Percentage of Consolidated Net Sales
(in millions)

Three months ended June 30,

	United States		Canada		Australia		United Kingdom		Japan		New Zealand		Totals	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
2004	\$49.5	66.6%	\$5.8	7.8%	\$7.4	10.0%	\$2.6	3.5%	\$5.9	7.9%	\$3.1	4.2%	\$74.3	100%
2003	\$31.7	68.2%	\$4.2	9.0%	\$3.4	7.3%	\$1.0	2.2%	\$4.6	9.9%	\$1.6	3.4%	\$46.5	100%

Six months ended June 30,

	United States		Canada		Australia		United Kingdom		Japan		New Zealand		Totals	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
2004	\$86.3	65.0%	\$10.5	7.9%	\$13.9	10.5%	\$5.4	4.1%	\$10.9	8.2%	\$5.7	4.3%	\$132.7	100%
2003	\$59.6	68.5%	\$8.1	9.3%	\$6.0	6.9%	\$1.6	1.8%	\$8.6	9.9%	\$3.1	3.6%	\$87.0	100%

Recap of Consolidated Net Sales

(in millions)

	For the three months ended June 30,		Percentage change	For the six months ended June 30,		Percentage change
	2003	2004		2003	2004	
	(in millions)		2004 over 2003	(in millions)		2004 over 2003
Product sales	\$34.2	\$49.9	45.9%	\$65.1	\$94.8	45.6%
Pack sales	10.1	20.5	101.8%	18.3	32.9	79.5%
Other, including freight	1.9	3.9	105.3%	3.6	5.0	38.9%
Total net sales	\$46.5	\$74.3	59.8%	\$87.0	\$132.7	52.5%

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For the three months ended June 30, 2004, net sales increased \$27.8 million, or 59.8%, to \$74.3 million as compared to the same period in 2003. For the first six months of 2004, net sales increased \$45.7 million, or 52.5%, to \$132.7 million as compared to the same period in 2003. Mannatech's net sales continued to increase in all countries in both pack sales and product sales primarily related to continued growth following the implementation of its revamped global associate career and compensation plan, which was implemented in September 2002. Product sales are impacted by growth in pack sales, because growth in pack sales relate to the number of new and continuing associates and members who want to purchase Mannatech's products.

Product Sales

Mannatech's product sales have increased in 2004 in all countries. The increase is primarily the result of an increase in the number of associates and members purchasing Mannatech products, an increase in sales volume and in September 2003 launching three products, including its antioxidant product called Ambrotose AO™. New products increased total product sales for the three months ended June 30, 2004 by approximately \$5.2 million as compared to the same period in 2003 and further increased total product sales for the first six months of 2004 by approximately \$10.0 million as compared to the same period in 2003. At Mannatech's corporate-sponsored event in Portland, Oregon, to be held in September 2004, Mannatech plans to introduce its reformulated Phytobears®, which it will rename Mannabears™. Mannatech will also introduce two water-filtration devices, which can be used by consumers to help filter their water for consumption to help achieve optimal health.

For the three months ended June 30, 2004, existing product sales increased by approximately \$10.5 million, or 30.8%, to \$44.7 million as compared to the same period in 2003. For the first six months of 2004, existing product sales increased by \$19.8 million, or 30.4%, to \$84.8 million as compared to the same period in 2003. The increase in Mannatech's existing product sales related to a continued increase in the number of new and existing associates and members purchasing Mannatech products.

Pack Sales

For the three months ended June 30, 2004, Mannatech had approximately 44,000 new independent associates and members purchasing packs as compared to 35,000 new independent associates and members purchasing packs for the same period in 2003. For the twelve months ended June 30, 2004, the number of new and continuing independent associates and members who purchased packs increased by approximately 88,000, or 38.9%, to approximately 314,000 at June 30, 2004 as compared to approximately 226,000 at June 30, 2003. The number of new and continuing independent associates and members who purchased Mannatech's products during the preceding 12 months, by quarter, were as follows:

Associates & Members	For the twelve months ended									
	June 30, 2003		September 30, 2003		December 31, 2003		March 31, 2004		June 30, 2004	
New	112,000	49.6%	125,000	51.4%	134,000	50.8%	141,000	49.1%	150,000	47.8%
Continuing	114,000	50.4%	118,000	48.6%	130,000	49.2%	146,000	50.9%	164,000	52.2%
Total	226,000	100.0%	243,000	100.0%	264,000	100.0%	287,000	100.0%	314,000	100.0%

For the three months ended June 30, 2004, pack sales strongly increased by \$10.4 million, or 101.8%, to \$20.5 million, as compared to the same period in 2003. For the first six months of 2004, pack sales increased by \$14.6 million, or 79.5%, to \$32.9 million as compared to the first six months of 2003. This continued increase related to the increase in the number of new associates and the increase in the number of continuing associates who purchase products and renewal packs from Mannatech. Pack sales from new associates and members accounted for 69.2% of the total increase in pack sales for the three months ended June 30, 2004 and accounted for 67.7% of the total increase in pack sales for the first six months of 2004.

In the three months ended June 30, 2004, pack sales to new associates and members increased by \$7.2 million, or 100.0%, to \$14.3 million as compared to the same period in 2003. For the first six months of 2004, pack sales to new associates and members increased by \$9.9 million, or 76.4%, to \$22.8 million as compared to the same period in 2003. Mannatech continues to believe the increase in the number of packs sold to new associates and members and packs sold to continuing associates over the past few years correlates to the changes made in Mannatech's revamped global associate career and compensation plan; introducing new associate incentives, including an annual travel incentive; introducing Ambrotose AO™; and implementing several key management changes in 2003.

Other Sales

Other sales increased by \$2.0 million to \$3.9 million for the three months ended June 30, 2004, which related to the increase in pack and product sales and correlated to the freight revenue charged to associates and members for the three months ended June 30, 2004 as compared to the same period in 2003. Other sales increased by \$1.4 million to \$5.0 million in the first six months of 2004 as compared to the same period in 2003, which also related to the increase in pack and product sales for the first six months of 2004 as compared to the same period in 2003.

Cost of Sales

Cost of sales consists of products purchased from third-party manufacturers, costs of promotional materials sold to Mannatech's independent associates, costs of freight-in, and provisions for slow moving or obsolete inventories. Mannatech's inventory turnover ratio decreased to 4.7 for the first six months of 2004 as compared to 4.9 for the same period in 2003. The decrease in the inventory turnover rates was due to the increase in inventory on hand at June 30, 2004 as compared to June 30, 2003. Mannatech's sales mix of products and packs affects its cost of sales and gross profit differently because the gross margins for its products vary and because the average gross margin of its products sold is higher than the average gross margin of its packs sold. Mannatech's sales mix can be influenced by the following:

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

For the three months ended June 30, 2004, cost of sales increased by \$3.9 million, or 52.5%, to \$11.3 million as compared to the same period in 2003 due to an increase in the volume of packs and products sold. Cost of sales as a percentage of net sales decreased to 15.2% for the three months ended June 30, 2004 as compared to 15.9% for the same period in 2003. This decrease as a percentage of net sales was the result of a change in product mix sold and cost efficiencies from certain manufacturers and freight handlers in 2004, which favorably impacted Mannatech's gross profit.

For the first six months of 2004, cost of sales increased by \$5.8 million, or 41.4%, to \$19.9 million as compared to the same period in 2003. The increase was due to an increase in the volume of packs and products sold during 2004 as compared to the same period in 2003. Cost of sales as a percentage of net sales decreased from 16.2% for the first six months of 2003 to 15.0% for the same period in 2004. This decrease as a percentage of net sales was the result of a change in product mix sold and cost efficiencies from certain manufacturers and freight handlers in 2004, which favorably impacted Mannatech's gross profit.

For the first six months of 2004 and 2003, Mannatech maintained a provision for inventory write-offs of approximately \$0.1 and \$0.2 million, respectively. The provision primarily relates to discontinued promotional materials, normal spoilage, and damaged products.

Commissions and Incentives

Commissions and incentives include both commissions related to commissionable net sales and various incentives, including an annual travel incentive. Mannatech announces its annual travel incentive at its annual corporate-sponsored event, called Mannafest, which was held in March of 2004 and 2003. For the three months ended June 30, 2004, commissions and incentives increased by \$14.5 million, or 74.3%, to \$34.1 million as compared to the same period in 2003. As a percentage of net sales, commissions and incentives increased for the three months ended June 30, 2004 to 45.9% as compared to 42.1% for the same period in 2003. For the first six months of 2004 commissions and incentives increased by \$24.1 million, or 67.0%, to \$60.0 million as compared to the same period in 2003. As a percentage of net sales, commissions and incentives increased for the first six months of 2004 to 45.2% as compared to 41.3% for the same period in 2003.

Commissions

From the total increase in commissions and incentives totaling \$14.5 million, commissions related to commissionable net sales increased by \$13.8 million to \$32.4 million for the three months ended June 30, 2004 as compared to the same period in 2003. As a percentage of net sales, commissions increased for the three months ended June 30, 2004 to 43.6% as compared to 39.9% for the same period in 2003. Mannatech attributes the increase in commissions to the change in mix of packs sold toward the higher dollar packs and the increase in the number of new and continuing associates who qualify for commissions. The shift toward the higher dollar packs is partially the result of the announcement of Mannatech's annual travel incentive in March 2004, which is reflected in the average pack sale increasing by 39.6% to \$352.07 for the three months ended June 30, 2004 as compared to \$252.24 for the same period in 2003.

The total increase in commissions and incentives of \$24.1 million, commissions related to commissionable net sales increased by \$23.2 million to \$57.4 million for the first six months of 2004 as compared to the same period in 2003. As a percentage of net sales, commissions increased for the first six months of 2004 to 43.3% as compared to 39.3% for the same period in 2003. Mannatech attributes the increase in commissions to the change in mix of packs sold toward the higher dollar packs and the increase in the number of new and continuing associates who qualify for commissions. The shift toward the higher dollar packs is partially the result of the announcement of Mannatech's annual travel incentive in March 2004 and is also reflected in the average pack sale increasing 26.0% to \$306.42 for the first six months of 2004 as compared to \$243.27 for the same period in 2003. Mannatech expects commissions to remain in the range of 42% to 45% if the number of new associates continues to increase and the shift of the pack mix sold continues to shift toward the higher dollar packs.

Incentives

For the three months ended June 30, 2004, the remaining increase in commissions and incentives of \$0.7 million related to an increase in incentives. For the three months ended June 30, 2004 incentives increased by \$0.7 million to \$1.7 million as compared to the same period in 2003. As a percentage of net sales, incentives increased for the three months ended June 30, 2004 to 2.3% as compared to 2.1% for the same period in 2003.

For the first six months of 2004, the remaining increase in commissions and incentives of \$0.9 million related to an increase in incentives. For the first six months of 2004, incentives increased by \$0.9 million to \$2.6 million as compared to the same period in 2003. As a percentage of net sales, incentives remained at 2.0% for the first six months of 2004 as compared the same period in 2003. The dollar increase for the three months ended June 30, 2004 and the first six months of 2004 relates to Mannatech announcing its annual travel incentive in March 2004, the increase in the total estimated cost due to the location of the travel incentive, and the increase in the number of expected winners from 850 in 2003 to 900 winners in 2004. The total projected expense related to Mannatech's 2004 travel incentive is expected to be up to \$3.0 million, whereas the total cost associated with the 2003 travel incentive was approximately \$2.2 million.

Gross Profit

For the three months ended June 30, 2004, gross profit increased by \$9.4 million, or 48.0%, to \$28.9 million as compared to \$19.5 million in the same period in 2003. This increase was primarily the result of an increase in net sales partially offset by the increase in commissions and incentives related to the additional accrual for the annual travel incentive and the increase in the number of associates earning commissions. As a percentage of net sales, gross profit decreased for the three months ended June 30, 2004 to 38.9% as compared to 42.0% for the same period in 2003. This decrease was due to an increase in commissions and incentives, which related to the sales mix sold and the increase in the annual travel incentive accrual related to the increase in the number of associates participating in the incentive as compared to the same period in 2003.

For the first six months of 2004, gross profit increased to \$52.8 million as compared to \$37.0 million for the same period in 2003. This increase was primarily the result of an increase in net sales partially offset by the increase in commissions and incentives related to the additional accrual for the annual travel incentive and the increase in the number of associates earning commissions. As a percentage of net sales, gross profit decreased for the first six months of 2004 to 39.8% as compared to 42.5% for the same period in 2003. This decrease was primarily due to the increase in commissions and incentives, which continue to relate to the sales mix sold and the increase in the annual travel incentive accrual related to the strong increase in the number of associates participating in the incentive as compared to the same period in 2003.

Selling and Administrative Expenses

Selling and administrative expenses include a combination of both fixed and variable expenses and consist of compensation and benefits for employees, contract labor, outbound shipping and freight, and marketing-related expenses, such as monthly magazine development costs and hosting Mannatech's corporate-sponsored events. For the three months ended June 30, 2004, selling and administrative expenses increased by \$2.3 million, or 24.4%, to \$11.5 million as compared to the same period in 2003. The dollar increase in selling and administrative expenses primarily consists of an increase in compensation-related costs, out-bound freight costs and third-party distribution costs associated with the increase in net sales. Selling and administrative expenses as a percentage of net sales decreased from 19.9% for the three months ended June 30, 2003 to 15.5% in the same period in 2004. The decrease in selling and administrative expenses as a percentage of net sales in 2004 was primarily due to Mannatech's ability to control costs, while increasing net sales.

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For the first six months of 2004, selling and administrative expenses increased by \$4.7 million, or 24.8%, to \$23.8 million as compared to the same period in 2003. The dollar increase in selling and administrative expenses primarily consists of an increase in compensation-related costs, corporate-sponsored rally expenses, and out-bound freight costs and third-party distribution costs associated with the increase in net sales. Selling and administrative expenses as a percentage of net sales decreased from 22.0% for the first six months of 2003 to 18.0% in the same period in 2004. The decrease in selling and administrative expenses as a percentage of net sales in 2004 was primarily due to Mannatech's ability to control costs while increasing net sales.

Overall compensation related costs increased for the three months ended June 30, 2004 by \$0.9 million to \$7.0 million as compared to the same period in 2003. In 2004, the increase was primarily composed of an increase in wages and benefits of \$0.7 million related to globally hiring 31 additional employees during the three months ended June 30, 2004. Wages also increased by \$0.5 million to \$1.0 million related to the accrual of corporate performance bonuses resulting from improvement of Mannatech's operations. This increase in wages was partially offset by capitalizing salaries of \$0.3 million related to internally-developed software projects. For the first six months of 2004, compensation related costs increased by \$2.1 million to \$14.3 million as compared to the same period in 2003. In 2004, the increase was composed of an increase in wages and benefits of \$1.4 million related to globally hiring 35 additional employees during the first six months of 2004, partially offset by capitalizing salaries of approximately \$0.3 million related to internally-developed software projects. Wages also increased by \$1.0 million to \$1.8 million related to the accrual of corporate performance bonuses, resulting from the improvement of Mannatech's operations.

Out-bound freight and third-party distribution costs increased for the three months ended June 30, 2004 by \$1.2 million to \$3.4 million as compared to the same period in 2003. The increase in costs consisted of an increase in out-bound freight of \$1.0 million and an increase in third-party distribution costs of \$0.2 million. The increases in 2004 relate to the increase in net sales volume and a shift in sales mix. Out-bound freight and third party distribution costs increased for the first six months of 2004 by \$1.9 million to \$6.3 million as compared to the same period in 2003, which consisted of an increase in out-bound freight of \$1.6 million and an increase in third-party distribution costs of \$0.3 million. The increases in 2004 relate to the increase in net sales volume and a shift in sales mix.

Mannatech typically sponsors its annual corporate rally each year in the month of March. For the three months ended June 30, 2004, the expense of Mannatech's corporate-sponsored rally increased by \$0.2 million to \$1.1 million primarily related to additional costs associated with increased attendance at its corporate-sponsored rally. For the first six months of 2004, the expense of the corporate-sponsored rally increased by \$0.8 million to \$3.2 million, which primarily related to additional costs associated with the record attendance at its corporate-sponsored event in 2004.

Other Operating Costs

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. Other operating costs as a percentage of net sales decreased from 15.4% for the three months ended June 30, 2003 to 11.2% for the same period in 2004. The decrease in other operating costs as a percentage of net sales in 2004 was primarily due to an increase in net sales and Mannatech's overall ability to control its operating costs.

For the three months ended June 30, 2004, other operating costs increased by \$1.2 million, or 16.5%, to \$8.3 million as compared to the same period in 2003. For the first six months of 2004, other operating costs increased by \$2.4 million, or 18.9%, to \$15.3 million as compared to the same period in 2003. The dollar increase in other operating costs primarily consisted of increases in accounting and consulting fees, and various operating costs, partially offset by a decrease in depreciation and prior year non-cash accounting charges for variable accounting treatment related to certain stock options and warrants for former executives. Other operating costs as a percentage of net sales decreased from 14.8% for the six months ended June 30, 2003 to 11.5% for the same period in 2004. The decrease in other operating costs as a percentage of net sales in 2004 was primarily due to an increase in net sales and Mannatech's ability to control operating costs.

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Accounting and consultant-related costs increased by \$0.8 million to \$1.6 million for the three months ended June 30, 2004 as compared to the same period in 2003. The increase in 2004 was composed of (1) \$0.3 million related to consulting fees regarding Mannatech's compliance with Section 404 of the Sarbanes-Oxley Act of 2002; (2) \$0.2 million related to Mannatech's planned information technology infrastructure projects; and (3) \$0.3 million related to consulting fees for legal matters, regulatory matters and clinical studies. For the first six months of 2004 accounting and consultant-related costs increased by \$1.2 million to \$2.8 million as compared to the same period in 2003. The increase in 2004 was composed of (1) \$0.5 million related to consulting fees regarding Mannatech's compliance with Section 404 of the Sarbanes-Oxley Act of 2002; (2) \$0.3 million related to Mannatech's planned information technology infrastructure projects; and (3) \$0.4 million related to consulting fees for legal matters, marketing projects, regulatory matters and clinical studies.

Various other operating costs increased by \$1.7 million to \$6.1 million for the three months ended June 30, 2004 as compared to the same period in 2003. This increase included travel, utilities, insurance, equipment rental, royalties, and credit card fees, which largely correlated to the increase in net sales volume. For the first six months of 2004 various other operating costs increased by \$2.8 million to \$11.2 million as compared to the same period in 2003, which correlated to the increase in net sales volume.

The increase in operating costs was partially offset by a decrease in depreciation and non-cash accounting charges. For the three months ended June 30, 2004, depreciation decreased by \$0.2 million to \$0.6 million as compared to the same period in 2003. This decrease consisted of a decrease in depreciation expense related to assets that were placed in service in prior years and fully depreciated by 2004, partially offset by an increase in depreciation expense related to purchasing \$1.2 million in property and equipment during the three months ended June 30, 2004. For the first six months of 2004, depreciation decreased by \$0.4 million to \$1.3 million as compared to the same period in 2003. This decrease consisted of a decrease in depreciation expense related to assets that were placed in service in prior years and fully depreciated by 2004, partially offset by an increase in depreciation expense related to purchasing \$1.6 million in property and equipment during the first six months of 2004.

The decrease also consisted of a decrease in non-cash accounting charges from the prior year. The second quarter of 2003 included a one-time charge of \$0.6 million for Mr. Robert M. Henry, Mannatech's former Chief Executive Officer who resigned in April 2003 and a \$0.5 million non-cash charge for variable accounting treatment related to certain stock options and warrants issued to three former executives who resigned in 2001. The stock options and warrants were issued in 2001 to replace stock options that would have expired with each executive's resignation. The non-cash variable accounting charge reflects the quarterly change between the fair market price of the stock options and warrants. The \$0.5 million charge in 2003 was the result of the increase in Mannatech's stock price from \$2.53 per share at March 31, 2003 to \$7.50 per share, at June 30, 2003. In the third quarter of 2003, all but 500 stock options and all of the warrants granted to former executives were exercised. The \$0.6 million one-time charge related to extending the term of Mr. Henry's 266,667 stock options to the earlier of ten years from date of grant or one year after his death, as set forth in his Separation Agreement entered into in April 2003.

Severance Expenses

In the second quarter of 2003, Mannatech accrued \$1.4 million related to severance expenses for former employees. Of the \$1.4 million, \$1.3 million consisted of compensation related to the cancellation of Mr. Henry's employment agreement and accrued vacation, health and life insurance, automobile costs, relocation fees, and outplacement fees that will be paid to Mr. Henry through 2005. In the second quarter of 2003, Mannatech also entered into two separation agreements with former executives for a total of \$0.1 million, which were paid by September 2003.

Interest Income

Mannatech maintains interest-bearing accounts for its cash equivalents, restricted cash, and investments. Interest income increased by \$0.1 million to \$0.2 million for the three months ended June 30, 2004 as compared to the same period in 2003. For the first six months in 2004, interest income increased by \$0.2 million to \$0.3 million as compared to approximately \$0.1 million for the same period in 2003. The increase related to increases in cash, cash equivalents and investments during 2004 as compared to the same period in 2003.

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Other Income (Expense), Net

Other income (expense), net consists primarily of foreign currency transaction gains and losses and translation adjustments related to translating assets, liabilities, revenues, and expenses from its foreign operations to the United States dollar using current and weighted-average currency exchange rates. For the three months ended June 30, 2004, currency translation adjustments increased by \$0.8 million as compared to the same period in 2003. For the first six months of 2004, currency translation adjustments increased by \$0.9 million as compared to the same period in 2003. These increases are primarily the result of the increase in operations from Mannatech's foreign subsidiaries and gains and losses resulting from a weakening of the United States dollar against the related foreign currencies during the three and six months ended June 30, 2004.

Income Tax Expense

Income taxes include both domestic and foreign taxes. In 2003, Mannatech's United States federal statutory tax rate was 35% and its statutory tax rate was 30% in Australia, 19% in the United Kingdom, and 42% in Japan. The statutory tax rates for Mannatech's operations are expected to remain the same for 2004. 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 has net operating loss carryforwards from its Japan operations of approximately \$734,000, which may not be fully realizable in the future. Further, Mannatech expects to record an operating loss for its South Korean operations in 2004. As a result, Mannatech expects to establish a valuation allowance for its South Korean operations and continue to maintain a valuation allowance for its net operating loss carryforwards from Japan, as it believes that the likelihood of realizing an income tax benefit in the future does not meet the more likely than not criteria for recognition. However, Mannatech monitors its operations in Japan and may eliminate its valuation allowance if its Japanese operation continues to be profitable.

Mannatech's effective tax rate increased from 28.5% in the second quarter of 2003 to 33.7% in the same period in 2004. Mannatech's effective tax rate also increased from 30.0% for the six months ended June 30, 2003 to 33.4% for the six months ended June 30, 2004. Mannatech's effective tax rate increased as a result of the shift in income mix between its domestic and its foreign operations, the increase in profitability, and the reduction in its valuation allowance reserve related to its Japanese operations.

Net Income

For the three months ended June 30, 2004, net income increased by \$4.4 million, or 376.1%, to \$5.6 million as compared to the same period in 2003. For the first six months ended June 30, 2004, net income increased by \$6.1 million, or 235.0%, to \$8.7 million as compared to the same period in 2003. Mannatech believes the strong increase in its net income in 2004 was the result of increasing its net sales, which was largely due to an increase in associates and members purchasing Mannatech's products and its ability to control operating costs. The increase was partially offset by an increase in commissions due to the increase in net sales and the introduction of its annual travel incentive in March 2004.

Liquidity and Capital Resources

Mannatech principally uses its cash from operations to fund its operating expenses, including commissions and incentives, capital expenditures, inventory purchases, and planned international expansion. Mannatech plans to continue to fund its business objectives, working capital, and operations through reliance on its cash flows from operations rather than incurring long-term debt. However, Mannatech does maintain operating leases to fund the use of its computer hardware and to lease corporate office facilities and automobiles. In February 2004, Mannatech entered into a \$1.0 million master operating lease line-of-credit. At June 30, 2004, \$0.3 million of the lease line-of-credit had been utilized to lease computer hardware for its operations. Mannatech believes it can continue to use its operating lease line-of-credit along with its normal cash flows from operations to fund any unanticipated shortfalls in its cash flows.

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Cash and Cash Equivalents and Investments

At June 30, 2004, Mannatech strengthened its strong cash and investment position as it increased its cash and cash equivalents and investments by \$13.8 million, to \$52.2 million from December 31, 2003. The increase in Mannatech's cash and cash equivalents and its investments are directly attributable to containing operating expenses and continuing to increase its operating profits, partially offset by paying a cash dividend to its shareholders of \$2.6 million in the first quarter of 2004. Mannatech's Board of Directors plans to continue to assess its financial position relative to the payment of any future cash dividends. In addition, Mannatech may utilize some of its cash to repurchase up to 1.3 million shares of its common stock in the open market or through private purchases. Mannatech has no present plans to initiate any repurchase activity in the near future.

Working Capital

Mannatech's working capital decreased by \$1.8 million to \$14.4 million at June 30, 2004 from \$16.2 million at December 31, 2003. Mannatech's decrease in working capital at June 30, 2004 primarily related to using cash to purchase \$7.1 million in long-term investments, paying cash dividends to its shareholders of \$2.6 million, accruing \$7.3 million in additional operating expenses, paying \$0.7 million of accrued severance expenses, and deferring \$1.3 million in additional revenue. This decrease was partially offset by increasing inventories on hand by \$1.3 million.

Mannatech's cash flows consist of the following:

<u>Provided by (used in):</u>	<u>For the six months ended June 30,</u>	
	<u>2003</u>	<u>2004</u>
Operating activities	\$ 9.1 million	\$ 16.6 million
Investing activities	\$(14.2 million)	\$ (7.4 million)
Financing activities	\$ 0.1 million	\$ (2.4 million)

Operating Activities

For the first six months of 2004, Mannatech's operating activities provided \$16.6 million in cash compared to cash provided by operating activities of \$9.1 million in the same period in 2003. For the first six months of 2004, net earnings adjusted for noncash activities provided cash of \$10.3 million compared to \$5.6 million in the first six months of 2003.

Management of Mannatech's working capital accounts, which include receivables, inventories, prepaid expenses, payables, deferred revenues, accrued commissions and incentives, and expenses for operations, generated \$7.0 million in positive cash flow in the first six months of 2004 as compared to \$3.1 million in positive cash flow generated in the same period in 2003. In the first six months of 2004, working capital accounts increased primarily because of an increase in accrued expenses, which was partially offset by increasing inventories by \$1.3 million, which were both associated with an increase in net sales. Operating activities also increased as a result of an increase in deferred revenue of \$1.3 million related to the increase in net sales. In the first six months of 2003, working capital accounts primarily increased because of a \$3.8 million increase in accrued operating expenses and deferred revenues, partially offset by increasing inventory by \$0.5 million, which were all related to an increase in net sales.

Operating activities also used cash to pay accrued severance costs of approximately \$0.7 million to its former executives during the first six months of 2004, as compared to accruing \$1.3 million of severance costs during the first six months of 2003, for the resignation of Mr. Robert M. Henry, which was partially offset by paying approximately \$0.9 million of accrued severance costs to former executives during the first six months of 2003. Mannatech expects that its operating cash flows for the remainder of 2004 and 2005 will be sufficient to fund its current operations, information technology projects, and its plans for international expansion into South Korea and Taiwan.

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Investing Activities

In the first six months of 2004, Mannatech's investing activities used a total of \$7.4 million in cash compared to using \$14.2 million in cash for the same period in 2003. Mannatech's investing activities include purchasing investments, restricting cash from future use, and purchasing capital assets.

In the first six months of 2004, Mannatech used \$5.0 million of its cash to purchase higher yielding investments and released \$2.1 million of its restricted cash, which was used to purchase higher yielding long-term investments. In addition, in the first six months of 2004, Mannatech restricted cash of \$1.2 million as long-term collateral. The \$1.2 million was composed of restricting cash as collateral of approximately \$0.4 million for a payment due for Mannatech's 2004 travel incentive cruise for its associates. In addition, Mannatech restricted cash as collateral of approximately \$0.5 million associated with obtaining additional surety bonds in Canada. The remaining \$0.2 million increase in restricted cash related to holding time deposits as collateral for its building leases in Australia and South Korea. In contrast, in the first six months of 2003, Mannatech used \$12.0 million of its cash to purchase investments and restricted cash of \$2.1 million as collateral for a one-year line-of-credit.

Investing activities also include purchases of property and equipment. In the first six months of 2004, investing activities included purchases of \$1.6 million of office furniture, leasehold improvements, computer hardware and software, and capitalizing internally-developed costs associated with developing computer software. In the first six months of 2003, Mannatech purchased \$0.4 million of property and equipment, primarily related to computer hardware and software. To help minimize the initial cash outlay and write-offs associated with technological obsolescence related to purchasing computer hardware, Mannatech leases certain of its computer hardware through master operating leases rather than using its cash to purchase and capitalize computer hardware. Mannatech believes that utilizing master operating leases allows it to lease certain computer hardware at a reduced cost and minimize its initial cash outlays, while keeping the option to either purchase the computer hardware for an agreed upon estimated fair value or return the computer hardware to the financial institution at no additional cost at the end of the three-year operating lease.

Over the next eighteen months, Mannatech plans to complete and implement its information technology projects, including its re-architecture project involving a new global back-office system. Mannatech intends to spend between \$8.0 million to \$10.0 million on all of its information technology projects through 2005, of which \$6.0 million to \$8.0 million will be capitalized as computer software, including certain payroll and consulting costs relating to the programming and implementation of its computer software. In addition, for the remainder of 2004 and 2005, Mannatech plans to purchase up to \$2.0 million in various property and equipment, some of which relate to corporate leasehold improvements and its planned international expansion into South Korea and Taiwan.

Financing Activities

In the first six months of 2004, Mannatech's financing activities used \$2.4 million in cash as compared to providing \$0.1 million of cash for the same period in 2003. During the first six months of 2004, Mannatech used cash to pay its shareholders cash dividends of \$2.6 million, which was partially offset by receiving cash proceeds from stock options exercised of approximately \$0.2 million. In the first six months of 2003, Mannatech received cash proceeds from stock option activity of \$0.2 million, which was partially offset by using \$0.1 million of cash to repay its note payable and capital lease-obligations.

General Liquidity and Cash Flows

Historically, Mannatech has generated positive cash flows from its operations and believes that its existing liquidity and cash flows from operations, including cash and investments totaling \$52.2 million and access to its master operating lease line-of-credit, should be adequate to fund expected business operations and its plans for international expansion and a new back-office system for the next 12 to 24 months. Mannatech also believes its positive cash flows will fund any future plans to repurchase any of Mannatech's outstanding common stock in the open market or through private purchases. Mannatech believes its existing liquidity and cash flows will be adequate for its future as most of its operating expenses are variable in nature. However, if Mannatech's operations begin to decline, its existing capital resources or cash flows could become insufficient to meet its current business plans, projections, and existing capital requirements. If Mannatech's existing capital resources become insufficient, it would be required to raise additional funds, which may not be available on favorable terms, if at all.

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Mannatech is required to fund certain commitments and obligations, which as of June 30, 2004 are as follows:

- funding the remaining payments related to severance agreements with former executives. Under the terms of various separation agreements, Mannatech is required to pay the remaining aggregate amount of approximately \$0.7 million;
- funding up to \$2.0 million of estimated unpaid costs related to its 2004 annual travel incentive award;
- funding an estimated \$1.8 million of royalty payments to Dr. McAnalley for future royalties associated with his ten-year royalty agreement;
- funding the non-compete payments related to the renewal of the non-compete agreement with Dr. Reg. McDaniel, a former employee, totaling \$0.2 million, which is payable in monthly installments of \$25,000 through January 2005;
- funding its five year purchase agreement of \$1.8 million to a supplier of a raw material used in Mannatech's antioxidant product; and
- funding various operating leases for building and equipment rental of approximately \$8.0 million through 2007.

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

Mannatech intends to continue to open additional operations in new foreign markets. Mannatech plans to expand into South Korea in September 2004 and plans to open its Taiwan operations in the first quarter of 2005. The expansions into South Korea and Taiwan are estimated to cost between \$4.0 million and \$6.0 million in the aggregate, of which approximately \$1.5 million will relate to property and equipment purchases that will be depreciated over the life of the assets or lease term.

During 2004, Mannatech approved several large scale information technology projects that are expected to increase functionality, improve the efficiency and effectiveness of operations, as well as internal controls and expand its reporting capabilities. Mannatech has projected the total costs related to these projects to be between \$8.0 and \$10.0 million over the next eighteen months of which Mannatech anticipates capitalizing additional payroll and consulting fees related to these information technology projects in the range of \$6.0 million to \$8.0 million. In the first quarter of 2004, Mannatech capitalized \$0.1 million and in the second quarter of 2004, Mannatech capitalized approximately \$0.4 million related to payroll and outside consulting services related to these information technology projects. In late June 2004, Mannatech signed an agreement with PeopleSoft to purchase an off-the-shelf ERP system for approximately \$1.0 million and will customize the ERP system over 18 months to meet its financial and operational needs. This project is called Mannatech's global re-architecture project and will be implemented in its operations in each country. The global re-architecture project includes implementing a multi-faceted financial system in January 2005 and implementing a sales and customer support system, distribution system, and data management system in January 2006. Mannatech also plans to purchase various other property and equipment of up to \$2.0 million during 2004 and 2005.

In June 2004, Mannatech agreed to indemnify four of its executive officers, Stephen Fenstermacher, Bettina Simon, Jack Crowley, and Ron Norman, who were appointed to the Board of Directors of Mannatech's subsidiary – Mannatech Korea Ltd. Regulations in South Korea require each board member to personally guarantee the operations of Mannatech Korea Ltd. As a result, Mannatech, Incorporated, has agreed to indemnify each of these four officers for any liability incurred related to their personal guarantee.

Recent Financial Accounting Standards Board Statements

FIN 46R. In December 2003, FASB issued a revised Interpretation No.46 (“FIN 46R”), “Consolidation of Variable Interest Entities, and Interpretation of Accounting Research Bulletin No. 51,” which replaces the original interpretation issued in January 2003. FIN 46R requires certain entities to be consolidated by enterprises that lack majority voting interest when equity investors of those entities have insignificant capital at risk or lack voting rights, the obligation to absorb expected losses, or the right to receive expected returns. Entities identified with these characteristics are called variable interest entities and the interests enterprises have in these entities are called variable interest. These interests are derived from certain guarantees, leases, loans, or other arrangements that result in certain risks and rewards, which are disproportionate to the voting interests in such entities. The adoption of FIN 46R as of March 31, 2004 did not have a material effect on Mannatech’s consolidated financial condition, results of operations, or cash flows.

Forward-Looking Statements

Certain disclosure and analysis included in this report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, which are subject to various risks and uncertainties. Opinions, forecasts, projections, guidance, or other statements, other than statements of historical fact are considered forward-looking statements and reflect the current views of Mannatech about future events and financial performance. These forward-looking statements are subject to certain events, risks, and uncertainties that may be outside Mannatech’s control. Some of these forward-looking statements include statements regarding:

- plans for growth for the remainder of 2004;
- existing capital resources, cash flows, and the operating lease line-of-credit being adequate to fund Mannatech’s future cash needs;
- future plans related to Mannatech’s budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;
- plans for information technology projects including capitalizing a significant amount of internal salaries and outside consulting fees;
- the realization of Mannatech’s deferred tax assets;
- the expected future cash flows of Mannatech’s assets exceeding the net book value of such assets;
- the impact of future market changes due to exposure to foreign currency translations from Mannatech’s business;
- the impact of Mannatech’s product development strategy;
- plans to introduce new products and reformulation of existing products;
- Mannatech’s ability to offer innovative incentives in the future;
- no significant impact of recent accounting pronouncements on Mannatech’s financial condition, results of operations, or cash flows;
- plans for any future dividends;
- the outcome of regulatory and litigation matters;
- the possibility of certain policies, procedures, and internal processes combating Mannatech’s exposure to market risk; and
- other assumptions described in this report underlying such forward-looking statements.

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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;
- changes in inventory costs;
- the future impact of any changes to Mannatech's global career and compensation plan or incentives;
- the ability to attract and retain independent associates and members;
- timely development and acceptance of new products and refinements of existing products;
- changes in product mix;
- the markets for Mannatech's domestic and international operations;
- changes in global statutory tax rates;
- 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 by Mannatech with the United States Securities and Exchange Commission.

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

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 investments, there has been no material change in its exposure to interest rate risk. Mannatech has not issued any debt instruments, entered into any forward or futures contracts, purchased any options, or entered into any swaps.

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

Mannatech believes inflation has not had a material impact on its operations or profitability. Mannatech expanded into Canada in 1996, into Australia in 1998, into the United Kingdom in 1999, into Japan in 2000, and into New Zealand in 2002. Mannatech's New Zealand operation is serviced through its Australian operations. Mannatech plans to expand its international operations into South Korea in September 2004 and into Taiwan in the first quarter of 2005. Revenues and expenses in foreign markets are currently translated using historical and weighted-average currency exchange rates.

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Mannatech maintains policies, procedures, and internal processes that it believes help monitor any significant market risks. Mannatech currently does not use any financial instruments to manage its exposure to such risks. The sensitivity of earnings and cash flows to variability in currency exchange rates is assessed by applying an appropriate range of potential rate fluctuations to Mannatech's assets, obligations, and projected transactions denominated in foreign currencies. Mannatech cautions that it cannot predict with any certainty its future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on its future business, product pricing, consolidated financial condition, results of operations, or cash flows. However to combat such risk, Mannatech closely monitors current fluctuations for exposure to such market risk. The foreign currencies in which Mannatech currently has exposure to foreign currency exchange rate risk include the currencies of Canada, Australia, the United Kingdom, Japan, New Zealand, South Korea, and Taiwan. The low and high currency exchange rates to the United States dollar, for each of these countries, for the six months ended June 30, 2004 are as follows:

<u>Country/Currency</u>	<u>Low</u>	<u>High</u>
Australia/Dollar	\$ 0.683100	\$ 0.798600
Canada/Dollar	\$ 0.716600	\$ 0.786900
Japan/Yen	\$ 0.008736	\$ 0.009640
New Zealand/Dollar	\$ 0.597000	\$ 0.709700
South Korea/Won	\$ 0.000836	\$ 0.000886
Taiwan/Dollar	\$ 0.029390	\$ 0.030500
United Kingdom/British Pound	\$ 1.755200	\$ 1.893100

Item 4. Controls and Procedures

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

There were no changes in Mannatech's internal controls during the second quarter of 2004 that have materially affected or that are reasonably likely to materially affect its internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Mannatech was notified in February 2003 by the New Zealand Ministry of Health of an investigation of the sales practices of some of its New Zealand independent associates. The matter was investigated, and Mannatech disciplined its independent associates related to this matter. The New Zealand Ministry of Health has continued to monitor Mannatech's actions and reserves the right to prosecute individual associates or Mannatech in the event of any further violations.

In March 2004, MedSafe, a business unit of the New Zealand Ministry of Health, notified Mannatech that several of its associates in New Zealand were using promotional materials containing therapeutic claims to promote Mannatech's products that were in violation of the New Zealand's Medicines Act 1981. In response to the inquiry and allegations from MedSafe, Mannatech initiated disciplinary investigation proceedings against the named associates identified by MedSafe when it discovered that certain of its New Zealand associates were using unapproved materials. In the second quarter of 2004, Mannatech concluded its investigation, and disciplinary action was taken against certain associates and Mannatech introduced additional training materials to further inform its New Zealand associates about the regulatory environment and relevant New Zealand legal requirements. In June 2004, MedSafe informed Mannatech that this matter was considered closed.

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On June 11, 2004, the Australian Therapeutic Goods Administration notified Mannatech of a complaint that certain of its Australian associates had made certain therapeutic claims to promote its products. In response to this complaint Mannatech notified the Australian Therapeutic Goods Administration that it had initiated disciplinary proceedings and terminated the accounts of such Australian associates.

There have been no other 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 2003 as filed with the United States Securities and Exchange Commission on March 14, 2004.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On June 30, 2004, the Company's Board of Directors authorized a stock repurchase program to purchase up to 1.3 million shares of the Company's outstanding common stock. The Company has not formalized or adopted any Stock Repurchase Plan and currently has no present plans to initiate any repurchase activity in the near future. As of July 31, 2004, the Company had not repurchased any of its common stock in the open market or through any private sales.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

- a. Mannatech held its 2004 Annual Shareholders' Meeting on June 7, 2004 and the two proposals voted on were described in detail in Mannatech's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 28, 2004.
- b. Samuel L. Caster, J. Stanley Fredrick, and Patricia A. Wier were elected to serve as Class II directors until Mannatech's 2007 Annual Shareholders' Meeting.
- c. The voting results for the two proposals voted on at Mannatech's 2004 Annual Shareholders' Meeting are as follows:

Proposal 1 – Election of Class II Directors:

<u>Director</u>	<u>For</u>	<u>Against or Withheld</u>
Samuel L. Caster	22,439,155	382,933
J. Stanley Fredrick	22,459,707	362,381
Patricia A. Wier	22,802,046	20,042

Proposal 2 – Ratification of Independent Auditors:

The appointment of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 31, 2004 was ratified according to the following votes:

<u>For</u>	<u>Against or Withheld</u>	<u>Abstentions</u>
22,790,655	14,025	17,408

- d. None.

Item 5. Other Information

Effective August 3, 2004, Samuel L. Caster resigned from Mannatech's Nominating Committee as a non-voting member and Patricia A. Wier was appointed as an additional voting member of Mannatech's Nominating Committee. Other members of Mannatech's Nominating Committee include Alan Kennedy, Gerald Gilbert, and non-voting member, J. Stanley Fredrick.

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* Second Amendment to the Employment Agreement between Mannatech and Mr. Terry L. Persinger, dated June 7, 2004.
- 10.2* Form of Indemnification Agreement between Mannatech and each member of the Board of Directors of Mannatech Korea Limited, dated March 3, 2004.
- 10.3* First Amendment to the Non-Compete and Confidentiality Agreement between Mannatech and Dr. H. Reginald McDaniel, dated March 3, 2004.
- 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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.
- 32.2* Certification pursuant to 18 U.S.C. Section 1350, as adopted 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.

Mannatech filed a Form 8-K on May 11, 2004 announcing its financial and operating results for the first quarter of 2004.

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.

August 9, 2004

MANNATECH, INCORPORATED

/S/ SAMUEL L. CASTER

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

August 9, 2004

/S/ STEPHEN D. FENSTERMACHER

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

INDEX TO EXHIBITS

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* filed herewith.

**SECOND AMENDMENT TO
EMPLOYMENT AGREEMENT**

This Second Amendment to the Employment Agreement of Terry L. Persinger ("Second Amendment") is entered into by and between Terry L. Persinger ("Employee") and Mannatech, Incorporated ("Employer"), this 7th day of June, 2004, and amends that certain Employment Agreement entered into by and between the Employee and the Employer, effective November 1, 1999, and First Amended effective January 1, 2002.

This Second Amendment shall modify the following terms of the Employment Agreement as follows:

"Title. Employee's title is hereby changed from Executive Vice President and Chief Operating Officer for Domestic Operations to President and Chief Operating Officer."

ARTICLE I.

Paragraph 1, second sentence, shall be replaced with the following:

"The term of this Agreement, unless otherwise modified in writing is for a two year calendar period, ending on December 31, 2006."

Paragraph 2, first sentence shall be replaced with the following:

"Employee is engaged to serve as President and Chief Operating Officer at an annual salary of \$357,000 (Three Hundred and Fifty Seven Thousand Dollars) per annum, commencing June 1, 2004.

In all other things except the foregoing Amendment, the Agreement shall remain in full force and effect.

Effective this 7th day of June, 2004.

Mannatech, Incorporated

/s/ Terry L. Persinger
Terry L. Persinger,
President and Chief Operating Officer

By: /s/ Samuel L. Caster
Samuel L. Caster, Chairman

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "**Agreement**") dated the 7th day of June, 2004, by and between Mannatech, Incorporated, a Texas corporation (the "**Company**"), and Bettina Simon, Stephen Fenstermacher, Ron Norman, and John Crowley, as to each ("**Indemnitee**").

RECITALS

A. Competent and experienced persons are reluctant to serve or to continue to serve as directors and officers of corporations or in other capacities unless they are provided with adequate protection through insurance or indemnification (or both) against claims against them arising out of their service and activities on behalf of the corporation.

B. The current uncertainties relating to the availability of adequate insurance have increased the difficulty for corporations of attracting and retaining competent and experienced persons to serve in such capacity.

C. The Board of Directors of the Company (the "**Board of Directors**") has determined that the continuation of present trends in litigation will make it more difficult to attract and retain competent and experienced persons to serve as directors and officers of the Company, that this situation is detrimental to the best interests of the Company's shareholders and that the Company should act to assure such persons that there will be increased certainty of adequate protection in the future.

D. As a supplement to and in the furtherance of the Company's Articles of Incorporation, as amended (the "**Articles**"), and Bylaws, as amended (the "**Bylaws**"), it is reasonable, prudent, desirable and necessary for the Company contractually to obligate itself to indemnify, and to pay in advance expenses on behalf of, officers and directors to the fullest extent permitted by law so that they will serve or continue to serve the Company free from concern that they will not be so indemnified and that their expenses will not be so paid in advance.

E. This Agreement is not a substitute for, nor does it diminish or abrogate any rights of Indemnitee under, the Articles and the Bylaws or any resolutions adopted pursuant thereto (including any contractual rights of Indemnitee that may exist).

F. Indemnitee is an officer of the Company and a director of the Company's subsidiary, Mannatech Korea Limited ("**MKL**") wherein Republic of Korea requires registration with the Direct Selling Mutual Aid Cooperative ("**DSMAC**") administered by the MLM industry association, which provides additional consumer protection for citizens of the Republic of Korea.

G. Registration with DSMAC requires mandatory personal guarantees of the members of the Board of Directors of MKL and his willingness to continue to serve in such capacity is predicated, in substantial part, upon the Company's willingness to indemnify his to the fullest extent permitted by the laws of the State of Texas and upon the other undertakings set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and covenants contained herein, the Company and Indemnitee hereby agree as follows:

ARTICLE 1 CERTAIN DEFINITIONS

Capitalized terms used but not otherwise defined in this Agreement have the meanings set forth below:

“**Change of Control**” means the occurrence of any of the following events:

(a) The acquisition after the date of this Agreement by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”)) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then-outstanding shares of common stock of the Company (the “**Outstanding Company Common Stock**”) or the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “**Outstanding Company Voting Securities**”); *provided, however*, that none of the following acquisitions will constitute a Change of Control:

(i) Any acquisition directly from the Company or any Controlled Affiliate of the Company;

(ii) Any acquisition by the Company or any Controlled Affiliate of the Company;

(iii) Any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Controlled Affiliate of the Company; or

(iv) Any acquisition by any entity or its security holders pursuant to a transaction that complies with clauses (i), (ii) and (iii) of paragraph (c) of this definition.

(b) Individuals who, as of the date of this Agreement, constitute the Board of Directors (the “**Incumbent Directors**”) cease for any reason to constitute at least a majority of the Board of Directors; *provided, however*, that any individual who becomes a director of the Company subsequent to the date of this Agreement and whose election or appointment by the Board of Directors or nomination for election by the Company’s shareholders was approved by a vote of at least two-thirds (2/3) of the then Incumbent Directors will be considered as an Incumbent Director, unless such individual’s initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person or entity other than the Company;

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company or an acquisition of assets or stock of another entity by the Company or any of its Subsidiaries (each a “**Business Combination**”) unless, in each case, following such Business Combination (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 80% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including a corporation that, as a result of such Business Combination, owns the Company or all or substantially all of the Company’s assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (ii) no person or entity (excluding (A) any entity resulting from such Business Combination or (B) any employee benefit plan (or related trust) of the Company or corporation resulting from such Business Combination) beneficially owns, directly or indirectly 20% or more of either the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to such Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

“**Controlled Affiliate**” means any corporation, limited liability company, partnership, joint venture, trust or other entity, whether or not for profit, that is directly or indirectly controlled by the Company. For purposes of this definition, the term “control” means the possession, directly or indirectly, of the power to direct, or cause the direction of, the management or policies of an enterprise, whether through the ownership of voting securities, through other voting rights, by contract or otherwise; *provided, however*, that direct or indirect beneficial ownership of capital stock or other interests in an entity entitling the holder to cast 30% or more of the total number of votes generally entitled to be cast in the election of directors (or persons performing comparable functions) of such entity will be deemed to constitute “control” for purposes of this definition.

“**Corporate Status**” means the status of a person who is or was a director, officer, employee, partner, member, manager, venturer, proprietor, trustee, fiduciary or agent of the Company or of any other Enterprise which such person is or was serving at the request of the Company. In addition to any service at the actual request of the Company, Indemnitee will be deemed, for purposes of this Agreement, to be serving or to have served at the request of the Company as a director, officer, employee, partner, member, manager, venturer, proprietor, trustee, fiduciary or agent of another Enterprise if Indemnitee is or was serving as a director,

officer, employee, partner, member, manager, venturer, proprietor, trustee, fiduciary or agent of such Enterprise and (i) such Enterprise is or at the time of such service was a Controlled Affiliate, (ii) such Enterprise is or at the time of such service was an employee benefit plan (or related trust) sponsored on maintained by the Company or a Controlled Affiliate or (iii) the Company or a Controlled Affiliate directly or indirectly caused Indemnitee to be nominated, elected, appointed, designated, employed, engaged or selected to serve in such capacity.

“Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

“Enterprise” means the Company and any other corporation, partnership, limited liability company, joint venture, employee benefit plan, trust, other entity or other enterprise of which Indemnitee is or was serving at the request of the Company in a Corporate Status.

“Expenses” means all attorney’s fees, disbursements and retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, fax transmission charges, secretarial services, delivery service fees and all other disbursements or expenses paid or incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding, or in connection with seeking indemnification under this Agreement. Expenses will also include Expenses paid or incurred in connection with any appeal resulting from any Proceeding, including the premium, security for and other costs relating to any appeal bond or its equivalent. Expenses, however, will not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

“Independent Counsel” means an attorney or firm of attorneys that is experienced in matters of corporation law and neither currently is, nor in the past five (5) years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement and/or the indemnification provisions of the Articles or Bylaws, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” does not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

“Losses” means any loss, liability, judgments, damages, amounts paid in settlement, fines (including excise taxes and penalties assessed with respect to employee benefit plans), penalties (whether civil, criminal or otherwise) and all interest, assessments and other charges paid or payable in connection with or in respect of any of the foregoing.

“Proceeding” means any threatened, pending or completed action, suit, claim, demand, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, including any and all appeals, whether brought by or in the right of the Company or otherwise, whether civil, criminal, administrative, arbitative or investigative, whether formal or informal, and in each case whether or not commenced prior to the date of this Agreement, in which Indemnitee was, is or will be involved

as a party or otherwise, by reason of or relating to Indemnitee's Corporate Status and by reason of or relating to either (i) any action or alleged action taken by Indemnitee (or failure or alleged failure to act) or of any action or alleged action (or failure or alleged failure to act) on Indemnitee's part, while acting in his Corporate Status or (ii) the fact that Indemnitee is or was serving at the request of the Company as director, officer, employee, partner, member, manager, trustee, fiduciary or agent of another Enterprise, in each case whether or not serving in such capacity at the time any Loss or Expense is paid or incurred for which indemnification or advancement of Expenses can be provided under this Agreement, except one initiated by Indemnitee to enforce his rights under this Agreement. For purposes of this definition, the term "threatened" will be deemed to include Indemnitee's good faith belief that a claim or other assertion may lead to institution of a Proceeding.

References to "***servicing at the request of the Company***" include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to any employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan will be deemed to have acted in a manner "***not opposed to the best interests of the Company***" as referred to under applicable law or in this Agreement.

ARTICLE 2 SERVICES TO THE COMPANY

2.1 Services to the Company. Indemnitee agrees to serve as a director of the Enterprise. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company will have no obligation under this Agreement to continue Indemnitee in such position. This Agreement will not be construed as giving Indemnitee any right to be retained in the employ of the Company (or any other Enterprise).

ARTICLE 3 INDEMNIFICATION

3.1 Company Indemnification. Except as otherwise provided in this Article 3, if Indemnitee was, is or becomes a party to, or was or is threatened to be made a party to, or was or is otherwise involved in, any Proceeding, the Company will indemnify and hold harmless Indemnitee to the fullest extent permitted by the Articles, Bylaws and applicable law, as the same exists or may hereafter be amended, interpreted or replaced (but in the case of any such amendment, interpretation or replacement, only to the extent that such amendment, interpretation or replacement permits the Company to provide broader indemnification rights than were permitted prior thereto), against any and all Expenses and Losses, and any federal, state, local or foreign taxes imposed as a result of the actual or deemed receipt of any payments under this Agreement, that are actually and reasonably paid or incurred by Indemnitee in connection with such Proceeding. For purposes of this Agreement, the meaning of the phrase "***to the fullest extent permitted by law***" will include to the fullest extent permitted by Article 2.02-1 of the

Texas Business Corporation Act (“TBCA”) or any article that replaces or succeeds Article 2.02-1 of the TBCA with respect to such matters.

3.2 Mandatory Indemnification if Indemnitee is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement (other than Section 6.9), to the extent that Indemnitee has been successful, on the merits or otherwise, in defense of any Proceeding or any part thereof, the Company will indemnify Indemnitee against all Expenses that are actually and reasonably paid or incurred by Indemnitee in connection therewith. If Indemnitee is not wholly successful in such Proceeding, but is successful, on the merits or otherwise, as to one or more but fewer than all claims, issues or matters in such Proceeding, the Company will indemnify and hold harmless Indemnitee against all Expenses paid or incurred by Indemnitee in connection with each successfully resolved claim, issue or matter on which Indemnitee was successful. For purposes of this Section 3.2, the termination of any Proceeding, or any claim, issue or matter in such Proceeding, by dismissal with or without prejudice will be deemed to be a successful result as to such Proceeding, claim, issue or matter.

3.3 Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, the Company will indemnify Indemnitee against all Expenses actually and reasonably paid or incurred by Indemnitee on his behalf in connection therewith.

3.4 Exclusions. Notwithstanding any other provision of this Agreement, the Company will not be obligated under this Agreement to provide indemnification in connection with the following:

(a) Any Proceeding (or part of any Proceeding) initiated or brought voluntarily by Indemnitee against the Company or its directors, officers, employees or other indemnities, unless a majority of Disinterested Directors, even though less than a quorum of the Board of Directors, has authorized or consented to the initiation of the Proceeding (or such part of any Proceeding); *provided, however*, that nothing in this Section 3.4(a) shall limit the right of Indemnitee to be indemnified under Section 8.4.

(b) For an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or any similar successor statute.

ARTICLE 4 ADVANCEMENT OF EXPENSES

4.1 Expense Advances. Except as set forth in Section 4.2, the Company will, if requested by Indemnitee, advance, to the fullest extent permitted by law, to Indemnitee (hereinafter an “*Expense Advance*”) any and all Expenses actually and reasonably paid or incurred by Indemnitee in connection with any Proceeding (whether prior to or after its final disposition). Indemnitee’s right to each Expense Advance will not be subject to the satisfaction of any standard of conduct and will be made without regard to Indemnitee’s ultimate entitlement to indemnification under the other provisions of this Agreement, or under provisions of the

Articles or Bylaws or otherwise. Each Expense Advance will be unsecured and interest free and will be made by the Company without regard to Indemnitee's ability to repay the Expense Advance; *provided, however*, that, if applicable law requires, an Expense Advance will be made only upon delivery to the Company of a written affirmation by Indemnitee of such Indemnitee's good faith belief that Indemnitee has met the standard of conduct necessary for indemnification under the TBCA and a written undertaking (hereinafter an "**Undertaking**"), by or on behalf of Indemnitee, to repay such Expense Advance if it is ultimately determined, by final decision by a court or arbitrator, as applicable, from which there is no further right to appeal, that Indemnitee has not met the standard of conduct necessary for indemnification under the TBCA or is not entitled to be indemnified for such Expenses under the Articles, Bylaws, the TBCA, this Agreement or otherwise. An Expense eligible for an Expense Advance will include any and all reasonable Expenses incurred pursuing an action to enforce the right of advancement provided for in this Article 4, including Expenses incurred preparing and forwarding statements to the Company to support the Expense Advances claimed.

4.2 Exclusions. Indemnitee will not be entitled to any Expense Advance in connection with any of the matters for which indemnity is excluded pursuant to Section 3.4.

4.3 Timing. An Expense Advance pursuant to Section 4.1 will be made within ten business days after the receipt by the Company of a written statement or statements from Indemnitee requesting such Expense Advance (which statement or statements will include, if requested by the Company, reasonable detail underlying the Expenses for which the Expense Advance is requested), whether such request is made prior to or after final disposition of such Proceeding. Such request must be accompanied by or preceded by the Undertaking, if then required by the TBCA or any other applicable law.

ARTICLE 5 CONTRIBUTION IN THE EVENT OF JOINT LIABILITY

5.1 Contribution by Company. To the fullest extent permitted by law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, will contribute to the amount of Expenses and Losses actually and reasonably incurred or paid by Indemnitee in connection with any Proceeding in proportion to the relative benefits received by the Company and all officers, directors and employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such Proceeding arose; *provided, however*, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors and employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such Expenses and Losses, as well as any other equitable considerations which applicable law may require to be considered. The relative fault of the Company and all officers, directors and employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such Proceeding), on the one hand, and Indemnitee, on the other hand, will be determined by reference to, among other things, the degree to which their actions were motivated by intent to

gain personal profit or advantage, the degree to which their liability is primary or secondary, and the degree to which their conduct was active or passive.

5.2 Indemnification for Contribution Claims by Others. To the fullest extent permitted by law, the Company will fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by other officers, directors or employees of the Company who may be jointly liable with Indemnitee for any Loss or Expense arising from a Proceeding.

ARTICLE 6
PROCEDURES AND PRESUMPTIONS FOR THE
DETERMINATION OF ENTITLEMENT TO INDEMNIFICATION

6.1 Notification of Claims; Request for Indemnification. Indemnitee agrees to notify promptly the Company in writing of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement; *provided, however*, that a delay in giving such notice will not deprive Indemnitee of any right to be indemnified under this Agreement unless, and then only to the extent that, the Company did not otherwise learn of the Proceeding and such delay is materially prejudicial to the Company's ability to defend such Proceeding; and, *provided, further*, that notice will be deemed to have been given without any action on the part of Indemnitee in the event the Company is a party to the same Proceeding. The omission to notify the Company will not relieve the Company from any liability for indemnification that it may have to Indemnitee otherwise than under this Agreement. Indemnitee may deliver to the Company a written request to have the Company indemnify and hold harmless Indemnitee in accordance with this Agreement. Following such a written request for indemnification, Indemnitee's entitlement to indemnification shall be determined according to Section 6.2. The Secretary of the Company will, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification. The Company will be entitled to participate in any Proceeding at its own expense.

6.2 Determination of Right to Indemnification. Upon written request by Indemnitee for indemnification pursuant to Section 6.1 hereof with respect to any Proceeding, a determination, if, but only if, required by applicable law, with respect to Indemnitee's entitlement thereto will be made by one of the following, at the election of Indemnitee: (1) so long as there are Disinterested Directors with respect to such Proceeding, a majority vote of the Disinterested Directors, even though less than a quorum of the Board of Directors, (2) so long as there are Disinterested Directors with respect to such Proceeding, a committee of such Disinterested Directors designated by a majority vote of such Disinterested Directors, even though less than a quorum of the Board of Directors or (3) Independent Counsel in a written opinion delivered to the Board of Directors, a copy of which will also be delivered to Indemnitee. The election by Indemnitee to use a particular person, persons or entity to make such determination is to be included in the written request for indemnification submitted by Indemnitee (and if no election is made in the request it will be assumed that Indemnitee has elected the Independent Counsel to make such determination). The person, persons or entity chosen to make a determination under this Agreement of the Indemnitee's entitlement to indemnification will act reasonably and in good faith in making such determination.

6.3 Selection of Independent Counsel. If the determination of entitlement to indemnification pursuant to Section 6.2 will be made by an Independent Counsel, the Independent Counsel will be selected as provided in this Section 6.3. The Independent Counsel will be selected by Indemnitee (unless Indemnitee requests that such selection be made by the Board of Directors, in which event the immediately following sentence will apply) and Indemnitee will give written notice to the Company advising it of the identity of the Independent Counsel so selected. If the Independent Counsel is selected by the Board of Directors, the Company will give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten days after such written notice of selection is given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; *provided, however*, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in this Agreement, and the objection will set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected will act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 30 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6.1, no Independent Counsel is selected, or an Independent Counsel for which an objection thereto has been properly made remains unresolved, either the Company or Indemnitee may petition a court of competent jurisdiction for resolution of any objection which has been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court may designate, and the person with respect to whom all objections are so resolved or the person so appointed will act as Independent Counsel under Section 6.2. The Company will pay any and all fees and expenses incurred by such Independent Counsel in connection with acting pursuant to Section 6.2 hereof, and the Company will pay all fees and expenses incident to the procedures of this Section 6.3, regardless of the manner in which such Independent Counsel was selected or appointed.

6.4 Burden of Proof. In making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination will presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption will have the burden of proof and the burden of persuasion, by clear and convincing evidence. In making a determination with respect to entitlement to indemnification hereunder which under this Agreement, the Articles, Bylaws or applicable law requires a determination of Indemnitee's good faith and/or whether Indemnitee acted in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, the person, persons or entity making such determination will presume that Indemnitee has at all times acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption will have the burden of proof and the burden of persuasion, by clear and convincing evidence. Indemnitee will be deemed to have acted in good faith if Indemnitee's action with respect to a particular Enterprise is based on the records or books of account of such Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of such Enterprise in the course of their duties, or on the advice of legal counsel for such Enterprise or on information or records given or reports made to such Enterprise by an independent certified public accountant or

by an appraiser or other expert selected by such Enterprise; *provided, however* this sentence will not be deemed to limit in any way the other circumstances in which Indemnitee may be deemed to have met such standard of conduct. In addition, the knowledge and/or actions, or failure to act, of any other director, officer, agent or employee of such Enterprise will not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

6.5 No Presumption in Absence of a Determination or As Result of an Adverse Determination; Presumption Regarding Success. Neither the failure of any person, persons or entity chosen to make a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief to make such determination, nor an actual determination by such person, persons or entity that Indemnitee has not met such standard of conduct or did not have such belief, prior to or after the commencement of legal proceedings by Indemnitee to secure a judicial determination that Indemnitee should be indemnified under this Agreement under applicable law, will be a defense to Indemnitee's claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief. In addition, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of *nolo contendere*, or its equivalent, will not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by this Agreement or applicable law. In the event that any Proceeding to which Indemnitee is a party is resolved in any manner other than by final adverse judgment (as to which all rights of appeal therefrom have been exhausted or lapsed) against Indemnitee (including, without limitation, settlement of such Proceeding with or without payment of money or other consideration) it will be presumed that Indemnitee has been successful on the merits or otherwise in such Proceeding. Anyone seeking to overcome this presumption will have the burden of proof and the burden of persuasion, by clear and convincing evidence.

6.6 Timing of Determination. The Company will use its reasonable best efforts to cause any determination required to be made pursuant to Section 6.2 to be made as promptly as practicable after Indemnitee has submitted a written request for indemnification pursuant to Section 6.1. If the person, persons or entity chosen to make a determination does not make such determination within 30 days after the later of the date (a) the Company receives Indemnitee's request for indemnification pursuant to Section 6.1 and (b) on which an Independent Counsel is selected pursuant to Section 6.3, if applicable (and all objections to such person, if any, have been resolved), the requisite determination of entitlement to indemnification will be deemed to have been made and Indemnitee will be entitled to such indemnification, so long as (i) Indemnitee has fulfilled his obligations pursuant to Section 6.8 and (ii) such indemnification is not prohibited under applicable law; *provided, however*, that such 30 day period may be extended for a reasonable time, not to exceed an additional 15 days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining of or evaluating of documentation and/or information relating thereto.

6.7 Timing of Payments. All payments of Expenses, including any Expense Advance, and other amounts by the Company to the Indemnitee pursuant to this Agreement will be made as soon as practicable after a written request or demand therefor by Indemnitee is presented to the Company, but in no event later than thirty (30) days after (i) such demand is

presented or (ii) such later date as a determination of entitlement to indemnification is made in accordance with Section 6.6, if applicable; *provided, however*, that an Expense Advance will be made within the time provided in Section 4.3 hereof.

6.8 Cooperation. Indemnitee will cooperate with the person, persons or entity making a determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Expenses incurred by Indemnitee in so cooperating with the person, persons or entity making such determination will be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company will indemnify Indemnitee therefor and will hold Indemnitee harmless therefrom.

6.9 Time for Submission of Request. Indemnitee will be required to submit any request for indemnification pursuant to this Article 6 within a reasonable time, not to exceed one year, after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere (or its equivalent) or other full or partial final determination or disposition of the Proceeding (with the latest date of the occurrence of any such event to be considered the commencement of the one-year period).

ARTICLE 7 LIABILITY INSURANCE

7.1 Company Insurance. Subject to Section 7.3, the Company will obtain and maintain a policy or policies of insurance with one or more reputable insurance companies providing Indemnitee with coverage in such amount as will be determined by the Board of Directors for Losses and Expenses paid or incurred by Indemnitee as a result of acts or omissions of Indemnitee in his Corporate Status, and to ensure the Company's performance of its indemnification obligations under this Agreement; *provided, however*, in all policies of director and officer liability insurance obtained by the Company, Indemnitee will be named as an insured party in such manner as to provide Indemnitee with the same rights and benefits as are afforded to the most favorably insured directors or officers, as applicable, of the Company under such policies; *provided, however*, the Company may obtain additional insurance coverage for "independent directors" (within the meaning of the corporate governance rules of the Nasdaq National Market) without providing Indemnitee with the same rights and benefits afforded to the independent directors under such policy unless, at the time the policy is obtained, Indemnitee is insurable as an independent director. Any reductions to the amount of director and officer liability insurance coverage maintained by the Company as of the date hereof will be subject to the approval of a majority of the Incumbent Directors.

7.2 Notice to Insurers. If, at the time of receipt by the Company of a notice from any source of a Proceeding as to which Indemnitee is a party or participant, the Company will give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies, and the Company will provide Indemnitee with a copy of such notice and copies of all subsequent correspondence between the Company and such insurers related thereto. The Company will thereafter take all necessary or desirable actions to cause such

insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

7.3 Insurance Not Required. Notwithstanding Section 7.1, the Company will have no obligation to obtain or maintain the insurance contemplated by Section 7.1 if a majority of the Incumbent Directors determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionately high compared to the amount of coverage provided, or if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit. The Company will promptly notify Indemnitee of any such determination not to provide insurance coverage.

ARTICLE 8 REMEDIES OF INDEMNITEE

8.1 Action by Indemnitee. In the event that (i) a determination is made pursuant to Article 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) an Expense Advance is not timely made pursuant to Section 4.3 of this Agreement, (iii) no determination of entitlement to indemnification is made within the applicable time periods specified in Section 6.6 or (iv) payment of indemnified amounts is not made within the applicable time periods specified in Section 6.7, Indemnitee will be entitled to an adjudication in an appropriate court of the State of Texas, or in any other court of competent jurisdiction, of his entitlement to such indemnification or payment of an Expense Advance. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. The provisions of Texas law (without regard to its conflict of laws rules) will apply to any such arbitration. The Company will not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

8.2 De Novo Review if Prior Adverse Determination. In the event that a determination is made pursuant to Article 6 that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Article 8 will be conducted in all respects as a *de novo* trial or arbitration, as applicable, on the merits and Indemnitee will not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Article 8, Indemnitee will be presumed to be entitled to indemnification under this Agreement, the Company will have the burden of proving Indemnitee is not entitled to indemnification and the Company may not refer to or introduce evidence of any determination pursuant to Article 6 adverse to Indemnitee for any purpose. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Article 8, Indemnitee will not be required to reimburse the Company for any Expense Advance made pursuant to Article 4 until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed).

8.3 Company Bound by Favorable Determination by Reviewing Party. If a determination is made that Indemnitee is entitled to indemnification pursuant to Article 6, the Company will be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Article 8, absent (i) a misstatement by Indemnitee of a material fact or an omission of a material fact necessary to make Indemnitee's statements in connection with

the request for indemnification not materially misleading or (ii) a prohibition of such indemnification under law.

8.4 Company Bears Expenses if Indemnitee Seeks Adjudication. In the event that Indemnitee, pursuant to this [Article 8](#), seeks a judicial adjudication or arbitration of his rights under, or to recover damages for breach of, this Agreement, any other agreement for indemnification, the indemnification or advancement of expenses provisions in the Articles or Bylaws, payment of Expenses in advance or contribution hereunder or to recover under any director and officer liability insurance policies maintained by the Company, the Company will, to the fullest extent permitted by law, indemnify and hold harmless Indemnitee against any and all Expenses which are paid or incurred by Indemnitee in connection with such judicial adjudication or arbitration, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, payment of Expenses in advance or contribution or insurance recovery. In addition, if requested by Indemnitee, the Company will (within ten days after receipt by the Company of the written request therefor), pay as an Expense Advance such Expenses, to the fullest extent permitted by law.

8.5 Company Bound by Provisions of this Agreement. The Company will be precluded from asserting in any judicial or arbitration proceeding commenced pursuant to this [Article 8](#) that the procedures and presumptions of this Agreement are not valid, binding and enforceable and will stipulate in any such judicial or arbitration proceeding that the Company is bound by all the provisions of this Agreement.

ARTICLE 9
NON-EXCLUSIVITY, SUBROGATION; NO DUPLICATIVE PAYMENTS;
MORE FAVORABLE TERMS

9.1 Non-Exclusivity. The rights of indemnification and to receive Expense Advances as provided by this Agreement will not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Articles, the Bylaws, any agreement, a vote of shareholders, a resolution of the directors or otherwise. To the extent Indemnitee otherwise would have any greater right to indemnification or payment of any advancement of Expenses under any other provisions under applicable law, the Articles, Bylaws, any agreement, vote of shareholders, a resolution of directors or otherwise, Indemnitee will be entitled under this Agreement to such greater right. No amendment, alteration or repeal of this Agreement or of any provision hereof limits or restricts any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee prior to such amendment, alteration or repeal. To the extent that a change in the TBCA, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Articles, Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy will be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, will not prevent the concurrent assertion or employment of any other right or remedy.

9.2 Subrogation. In the event of any payment by the Company under this Agreement, the Company will be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee with respect thereto and Indemnitee will execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights (it being understood that all of Indemnitee's reasonable Expenses related thereto will be borne by the Company).

9.3 No Duplicative Payments. The Company will not be liable under this Agreement to make any payment of amounts otherwise indemnifiable (or any Expense for which advancement is provided) hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise. The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee in respect of Proceedings relating to Indemnitee's service at the request of the Company as a director, officer, employee, partner, member, manager, venturer, proprietor, trustee, fiduciary or agent of any other Enterprise will be reduced by any amount Indemnitee has actually received as indemnification or advancement of Expenses from such other Enterprise.

9.4 More Favorable Terms. In the event the Company enters into an indemnification agreement with another officer or director, as the case may be, containing terms more favorable to the indemnitee thereof than the terms contained herein (and absent special circumstances justifying such more favorable terms), Indemnitee will be afforded the benefit of such more favorable terms and such more favorable terms will be deemed incorporated by reference herein as if set forth in full herein. As promptly as practicable following the execution thereof, the Company will (a) send a copy of the agreement containing more favorable terms to Indemnitee, and (b) prepare, execute and deliver to Indemnitee an amendment to this Agreement containing such more favorable terms.

ARTICLE 10 DEFENSE OF PROCEEDINGS

10.1 Company Assuming the Defense. Subject to Section 10.3 below, in the event the Company is obligated to pay in advance the Expenses of any Proceeding pursuant to Article 4, the Company will be entitled, by written notice to Indemnitee, to assume the defense of such Proceeding, with counsel approved by Indemnitee, which approval will not be unreasonably withheld. The Company will identify the counsel it proposes to employ in connection with such defense as part of the written notice sent to Indemnitee notifying Indemnitee of the Company's election to assume such defense, and Indemnitee will be required, within ten days following Indemnitee's receipt of such notice, to inform the Company of its approval of such counsel or, if it has objections, the reasons therefor. If such objections cannot be resolved by the parties, the Company will identify alternative counsel, which counsel will also be subject to approval by Indemnitee in accordance with the procedure described in the prior sentence.

10.2 Right of Indemnitee to Employ Counsel. Following approval of counsel by Indemnitee pursuant to Section 10.1 and retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees and expenses of counsel subsequently incurred by Indemnitee with respect to the same Proceeding; *provided, however*, that (a) Indemnitee has the right to employ counsel in any such Proceeding at

Indemnitee's expense and (b) the Company will be required to pay the fees and expenses of Indemnitee's counsel if (i) the employment of counsel by Indemnitee has been previously authorized by the Company, (ii) Indemnitee reasonably concludes that there is an actual or potential conflict between the Company (or any other person or persons included in a joint defense) and Indemnitee in the conduct of such defense or representation by such counsel retained by the Company or (iii) the Company does not continue to retain the counsel approved by Indemnitee.

10.3 Company Not Entitled to Assume Defense. Notwithstanding Section 10.1, the Company will not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or any Proceeding as to which Indemnitee has reasonably made the conclusion provided for in Section 10.2(b)(ii).

ARTICLE 11 SETTLEMENT

11.1 Company's Prior Consent Required. Notwithstanding anything in this Agreement to the contrary, the Company will have no obligation to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent.

11.2 When Indemnitee's Prior Consent Required. The Company will not, without the prior written consent of Indemnitee, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnitee, any non-monetary remedy imposed on Indemnitee or a Loss for which Indemnitee is not wholly indemnified hereunder or (ii) with respect to any Proceeding with respect to which Indemnitee may be or is made a party or a participant or may be or is otherwise entitled to seek indemnification hereunder, does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release will be in form and substance reasonably satisfactory to Indemnitee. Neither the Company nor Indemnitee will unreasonably withhold its consent to any proposed settlement; *provided, however*, Indemnitee may withhold consent to any settlement that does not provide a full and unconditional release of Indemnitee from all liability in respect of such Proceeding.

ARTICLE 12 ESTABLISHMENT OF TRUST

12.1 Request by Indemnitee. In the event a Change of Control occurs after the date of this Agreement, the Company will be required, upon receipt of a written request from Indemnitee following initiation of a Proceeding for which Indemnitee reasonably believes that he may be entitled to indemnification by the Company under this Agreement, the Articles, the Bylaws or otherwise, to create a trust (the "*Trust*") for the benefit of the Indemnitee. The trustee of the Trust will be selected by the Indemnitee.

12.2 Funding Obligations. Following a request from Indemnitee pursuant to Section 12.1 to establish the Trust with respect to a particular Proceeding, the Company will, from time to time upon written request of Indemnitee, fund the Trust in an amount sufficient to satisfy any

and all Expenses and Losses reasonably anticipated at the time of such request to be incurred by or on behalf of Indemnitee in connection with such Proceeding. The amount or amounts to be deposited in the Trust pursuant to the foregoing obligation will be determined by mutual agreement of Indemnitee and the Company, and if they are unable to reach such agreement, then by Independent Counsel (selected as provided in [Section 6.3](#)). The terms of the Trust will provide that (i) except upon prior written consent of Indemnitee, the Trust will not be revoked or the principal thereof invaded, (ii) the trustee will advance to Indemnitee, within ten business days of a written request by Indemnitee, any and all Expenses (and Indemnitee hereby agrees to execute the Undertaking contemplated by [Section 4.1](#), if required at the time any request for an Expense Advance is submitted to the trustee), (iii) the Trust will continue to be funded by the Company in accordance with the funding obligations set forth in this [Section 12.2](#), (iv) the trustee will promptly pay to Indemnitee any amounts to which Indemnitee is entitled to indemnification pursuant to this Agreement or otherwise and (v) all unexpended funds in the Trust will revert to the Company upon a final determination by the person, persons or entity making a determination of entitlement to indemnification pursuant to [Article 6](#) or a court or arbitrator presiding over an action commenced pursuant to [Article 8](#), as the case may be, that Indemnitee has been fully indemnified with respect to the Proceeding giving rise to the establishment of the Trust.

ARTICLE 13 DURATION OF AGREEMENT

13.1 Duration of Agreement. This Agreement will continue until and terminate upon the latest of (a) the statute of limitations applicable to any claim that could be asserted against an Indemnitee with respect to which Indemnitee may be entitled to indemnification and/or an Expense Advance under this Agreement, (b) ten years after the date that Indemnitee has ceased to serve as a director or officer of the Company or as a director, officer, employee, partner, member, manager, fiduciary or agent of any other Enterprise which Indemnitee served at the request of the Company, or (c) if, at the later of the dates referred to in (a) and (b) above, there is pending a Proceeding in respect of which Indemnitee is granted rights of indemnification or the right to an Expense Advance under this Agreement or a Proceeding commenced by Indemnitee pursuant to [Article 8](#) of this Agreement, one year after the final termination of such Proceeding, including any and all appeals.

ARTICLE 14 MISCELLANEOUS

14.1 Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties in respect of the subject matter hereof and supersedes all prior understandings, agreements or representations by or among the parties, written or oral, to the extent they relate in any way to the subject matter hereof; *provided, however*, it is agreed that the provisions contained in this Agreement are a supplement to, and not a substitute for, any provisions regarding the same subject matter contained in the Articles, the Bylaws and any employment or similar agreement between the parties.

14.2 Assignment; Binding Effect; Third Party Beneficiaries. No party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior

written approval of the other party; *provided, however*, that the Company may assign all (but not less than all) of its rights, obligations and interests hereunder to any direct or indirect successor to all or substantially all of the business or assets of the Company by purchase, merger, consolidation or otherwise and will cause such successor to be bound by and expressly assume the terms and provisions hereof. All of the terms, agreements, covenants, representations, warranties and conditions of this Agreement are binding upon, and inure to the benefit of and are enforceable by, the parties and their respective successors, permitted assigns, heirs, executors and personal and legal representatives. There are no third party beneficiaries having rights under or with respect to this Agreement.

14.3 Notices. All notices, requests and other communications provided for or permitted to be given under this Agreement must be in writing and be given by personal delivery, by certified or registered United States mail (postage prepaid, return receipt requested), by a nationally recognized overnight delivery service for next day delivery, or by facsimile transmission, as follows (or to such other address as any party may give in a notice given in accordance with the provisions hereof):

If to the Company:

Mannatech, Incorporated
600 S. Royal Lane, Suite 200
Coppell, Texas 75019
Attention: Chief Executive Officer
Facsimile: (214) 265-1999

If to Indemnitee:

Stephen Fenstermacher
715 Aberdeen Way
Southlake, Texas 79062

All notices, requests or other communications will be effective and deemed given only as follows: (i) if given by personal delivery, upon such personal delivery, (ii) if sent by certified or registered mail, on the fifth business day after being deposited in the United States mail, (iii) if sent for next day delivery by overnight delivery service, on the date of delivery as confirmed by written confirmation of delivery, (iv) if sent by facsimile, upon the transmitter's confirmation of receipt of such facsimile transmission, except that if such confirmation is received after 5:00 p.m. (in the recipient's time zone) on a business day, or is received on a day that is not a business day, then such notice, request or communication will not be deemed effective or given until the next succeeding business day. Notices, requests and other communications sent in any other manner, including by electronic mail, will not be effective.

14.4 Specific Performance; Remedies. Each party acknowledges and agrees that the other party would be damaged irreparably if any provision of this Agreement were not performed in accordance with its specific terms or were otherwise breached. Accordingly, the parties will be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement

and to enforce specifically this Agreement and its provisions, in addition to any other remedy to which they may be entitled, at law or in equity. Except as expressly provided herein, the rights, obligations and remedies created by this Agreement are cumulative and in addition to any other rights, obligations or remedies otherwise available at law or in equity. Except as expressly provided herein, nothing herein will be considered an election of remedies.

14.5 Submission to Jurisdiction. Any Proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement may only be brought in a federal or state court sitting in Dallas County, Texas, which will be the exclusive and only proper forum for adjudicating such Proceeding, and each party consents to the exclusive jurisdiction and venue of such court (and of the appropriate appellate courts therefrom) in any such Proceeding and irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such Proceeding in any such court or that any such Proceeding brought in any such court has been brought in an inconvenient forum. Process in any such action, suit or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court.

14.6 Headings. The article and section headings contained in this Agreement are inserted for convenience only and will not affect in any way the meaning or interpretation of this Agreement.

14.7 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Texas, without giving effect to any choice of law principles.

14.8 Amendment. This Agreement may not be amended or modified except by a writing signed by all of the parties.

14.9 Extensions; Waivers. Any party may, for itself only, (i) extend the time for the performance of any of the obligations of any other party under this Agreement, (ii) waive any inaccuracies in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any such extension or waiver will be valid only if set forth in a writing signed by the party to be bound thereby. No waiver by any party of any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, may be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising because of any prior or subsequent such occurrence. Neither the failure nor any delay on the part of any party to exercise any right or remedy under this Agreement will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise of the same or of any other right or remedy

14.10 Severability. The provisions of this Agreement will be deemed severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions hereof; provided that if any provision of this Agreement, as applied to any party or to any circumstance, is judicially determined not to be enforceable in accordance with its terms, the parties agree that the court judicially making such determination may modify the

provision in a manner consistent with its objectives such that it is enforceable, and/or to delete specific words or phrases, and in its modified form, such provision will then be enforceable and will be enforced.

14.11 Counterparts; Effectiveness. This Agreement may be executed in two or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument. This Agreement will become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, which delivery may be made by exchange of copies of the signature page by facsimile transmission. For purposes of determining whether a party has signed this Agreement or any document contemplated hereby or any amendment or waiver hereof, only a handwritten signature on a paper document or a facsimile transmission of a handwritten original signature will constitute a signature, notwithstanding any law relating to or enabling the creation, execution or delivery of any contract or signature by electronic means.

14.12 Construction. This Agreement has been freely and fairly negotiated among the parties. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties and no presumption or burden of proof will arise favoring or disfavoring any party because of the authorship of any provision of this Agreement. Any reference to any law will be deemed also to refer to such law as amended and all rules and regulations promulgated thereunder, unless the context requires otherwise. The words "include," "includes," and "including" will be deemed to be followed by "without limitation." Pronouns in masculine, feminine, and neuter genders will be construed to include any other gender, and words in the singular form will be construed to include the plural and vice versa, unless the context otherwise requires. The words "this Agreement," "herein," "hereof," "hereby," "hereunder," and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The parties intend that each representation, warranty, and covenant contained herein will have independent significance. If any party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the party has not breached will not detract from or mitigate the fact that the party is in breach of the first representation, warranty, or covenant. Time is of the essence in the performance of this Agreement.

[Signature page follows]

March 3, 2004 Via Hand Delivery

Dr. H. Reg. McDaniel

RE: First Amendment to the Confidentiality and Non-Compete Agreement dated February 1, 2004

Dear Dr. Reg,

We have been requested by our auditors to confirm our mutual understanding regarding the term of your Confidentiality and Non-Compete Agreement dated February 1, 2004, which is subject to renewal on an annual basis. The Confidentiality and Non-Compete Agreement will remain in full force and effect with the addition of this paragraph 13:

13. Term.

This Agreement commences on February 1, 2004, subject to the terms and conditions of this Agreement and continues in full force and effect for one (1) year and will expire on January 31, 2005 ("Initial Term"). Mannatech has the option to renew this Agreement for a further one (1) year term on the same terms and conditions, such option to be exercisable by notice in writing by Mannatech given not less than one (1) month prior to the expiration of the Initial Term.

Please execute and return an original of this letter promptly. You should add your copy to your existing agreement.

Very truly yours.

/s/ Sam Caster

Sam Caster
Chairman and CEO
Mannatech, Inc.

ACCEPTED AND AGREED

/s/ H. Reginald McDaniel

H. Reginald McDaniel

**Certification of
Chief Executive Officer
of Mannatech, Incorporated**

This certification is provided pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-Q for the six months ended June 30, 2004 of Mannatech, Incorporated.

I, Samuel L. Caster, the Chief Executive Officer of 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 functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2004

/s/ **Samuel L. Caster**

Samuel L. Caster
Chief Executive Officer

**Certification of
Chief Financial Officer
of Mannatech, Incorporated**

This certification is provided pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and accompanies the annual report on Form 10-Q for the six months ended June 30, 2004 of Mannatech, Incorporated.

I, Stephen D. Fenstermacher, the Chief Financial Officer of 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:
 - c) 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;
 - d) 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 functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2004

/s/ Stephen D. Fenstermacher

Stephen D. Fenstermacher
Chief Financial Officer

**Certification of
Chief Executive Officer
of Mannatech, Incorporated**

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q (the "**Form 10-Q**") for the quarter ended June 30, 2004 of Mannatech, Incorporated (the "Issuer").

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

- (i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: August 9, 2004

/s/ Samuel L. Caster

Samuel L. Caster
Chief Executive Officer

Subscribed and sworn to before me
This 9th day of August, 2004

/s/ Christina Dutton

Name: Christina Dutton
Title: Notary Public, State of Texas

My commission expires: May 19, 2006

*(A signed original of this written statement required by Section 906 has been provided to Mannatech, Incorporated
will be furnished to the Securities and Exchange Commission or its staff upon request.)*

**Certification of
Chief Financial Officer
of Mannatech, Incorporated**

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q (the "**Form 10-Q**") for the quarter ended June 30, 2004 of Mannatech, Incorporated (the "Issuer").

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

- (i) the Form 10-Q fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: August 9, 2004

/s/ Stephen D. Fenstermacher

Stephen D. Fenstermacher
Chief Financial Officer

Subscribed and sworn to before me
This 9th day of August, 2004

/s/ Christina Dutton

Name: Christina Dutton
Title: Notary Public, State of Texas

My commission expires: March 19, 2006

*(A signed original of this written statement required by Section 906 has been provided to Mannatech, Incorporated
will be furnished to the Securities and Exchange Commission or its staff upon request.)*