March 2006

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: March 31, 2006

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	**75-2508900**
(State or other Jurisdiction of Incorporation or Organization)	**(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 a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" or "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

As of April 24, 2006, the number of shares outstanding of the registrant's sole class of common stock, par value $0.0001 per share, was 26,854,899.

Mannatech, Incorporated
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MANNATECH, INCORPORATED
CONSOLIDATED BALANCE SHEETS – *(UNAUDITED)*
(in thousands, except share information and per share amounts)

	December 31, 2005	March 31, 2006
ASSETS		
Cash and cash equivalents	$ 56,207	$ 54,262
Short-term investments	1,974	1,984
Restricted cash	2,777	2,838
Accounts receivable	548	921
Income tax receivable	—	2,389
Inventories, net	19,811	17,051
Prepaid expenses and other current assets	3,471	6,393
Deferred tax assets	671	424
Note receivable from affiliate	153	155
Total current assets	**85,612**	**86,417**
Long-term investments	15,375	15,375
Property and equipment, net	10,951	11,174
Construction in progress	8,157	12,813
Long-term restricted cash	1,476	1,479
Other assets	1,121	1,176
Long-term deferred tax assets	103	114
Total assets	**$122,795**	**$128,548**
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current portion of capital lease	$23	$21
Accounts payable	5,476	3,499
Accrued expenses	16,941	17,535
Commissions and incentives payable	15,588	18,338
Taxes payable	5,773	3,427
Deferred revenue	3,712	4,530
Total current liabilities	**47,513**	**47,350**
Long-term royalties due to an affiliate	3,341	3,224
Long-term deferred tax liabilities	1,086	2,075
Long-term liabilities	537	565
Total liabilities	**52,477**	**53,214**
Commitments and contingencies		
Shareholders’ equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.0001 par value, 99,000,000 shares authorized, 27,404,513 shares issued and 26,738,364 shares outstanding in 2005 and 27,507,048 shares issued and 26,840,899 shares outstanding in 2006	3	3
Additional paid-in capital	36,699	37,848
Retained earnings	42,505	46,266
Accumulated other comprehensive loss	(1,098)	(992)
	78,109	83,125
Less treasury stock, at cost, 666,149 shares in 2005 and 2006	(7,791)	(7,791)
Total shareholders’ equity	**70,318**	**75,334**
Total liabilities and shareholders’ equity	**$122,795**	**$128,548**

See accompanying notes to unaudited consolidated financial statements.

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

	For the three months ended March 31, 2005	2006
Net sales	**$85,145**	**$98,971**
Cost of sales	12,930	14,561
Commissions and incentives	37,563	45,374
	50,493	59,935
Gross profit	**34,652**	**39,036**
Operating expenses:		
Selling and administrative expenses	16,120	17,777
Other operating costs	10,921	12,004
Total operating expenses	27,041	29,781
Income from operations	**7,611**	**9,255**
Interest income	332	572
Other expense, net	(92)	(514)
Income before income taxes	**7,851**	**9,313**
Provisions for income taxes	(3,189)	(3,405)
Net income	**$ 4,662**	**$ 5,908**
Earnings per share:		
Basic	**$ 0.17**	**$ 0.22**
Diluted	**$ 0.17**	**$ 0.22**
Weighted-average common shares outstanding:		
Basic	27,098	26,764
Diluted	28,035	27,392

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – *(UNAUDITED)*
FOR THE THREE MONTHS ENDED MARCH 31, 2005 and 2006

(in thousands, except per share information)

	Common Stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock		Total shareholders' equity
	Issued shares	Par value				Shares	Amounts	
Balance at December 31, 2004	27,115	$3	$34,917	$21,672	$195	74	$(562)	$56,225
Proceeds from stock options exercised	76	—	138	—	—	—	—	138
Tax benefit from exercise of stock options	—	—	155	—	—	—	—	155
Benefit related to stock options and warrants	—	—	7	—	—	—	—	7
Declared dividends of $0.07 per share	—	—	—	(1,900)	—	—	—	(1,900)
Components of comprehensive income:								
Foreign currency translation	—	—	—	—	(393)	—	—	(393)
Unrealized gain from investments classified as available for sale, net of tax of $15	—	—	—	—	(8)	—	—	(8)
Net income	—	—	—	4,662	—	—	—	4,662
Total comprehensive income								4,261
Balance at March 31, 2005	**27,191**	**$3**	**$35,217**	**$24,434**	**$(206)**	**74**	**$(562)**	**$58,886**

	Common Stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock		Total shareholders' equity
	Issued shares	Par value				Shares	Amounts	
Balance at December 31, 2005	27,404	$3	$36,699	$42,505	$(1,098)	666	$(7,791)	$70,318
Proceeds from stock options exercised	103	—	668	—	—	—	—	668
Tax benefit from exercise of stock options	—	—	275	—	—	—	—	275
Charge related to stock-based compensation expense	—	—	158	—	—	—	—	158
Benefit related to stock options and warrants	—	—	48	—	—	—	—	48
Declared dividends of $0.08 per share	—	—	—	(2,147)	—	—	—	(2,147)
Components of comprehensive income:								
Foreign currency translation	—	—	—	—	100	—	—	100
Unrealized gain from investments classified as available for sale, net of tax of $4	—	—	—	—	6	—	—	6
Net income	—	—	—	5,908	—	—	—	5,908
Total comprehensive income								6,014
Balance at March 31, 2006	**27,507**	**$3**	**$37,848**	**$46,266**	**$(992)**	**666**	**$(7,791)**	**$75,334**

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31, 2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,662	$ 5,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,036	998
Write-down of inventories	25	104
Gain (loss) on disposal of assets	(34)	28
Tax benefit related to exercising stock options	155	—
Accounting charge related to stock options and warrants granted	7	48
Accounting charge related to stock-based compensation expense	—	158
Deferred income taxes	279	1,225
Accrued interest on note receivable	(2)	(2)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(550)	(373)
(Increase) decrease in income tax receivable	1	(2,389)
(Increase) decrease in inventories	(947)	2,666
(Increase) decrease in prepaid expenses and other current assets	518	(2,920)
Increase in other assets	(23)	(43)
Decrease in accounts payable	(1,286)	(1,980)
Increase (decrease) in accrued expenses and taxes payable	2,460	(1,861)
Increase in commissions and incentives payable	1,099	2,742
Increase in deferred revenue	4,381	818
Net cash provided by operating activities	**11,781**	**5,127**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(2,941)	(5,890)
(Increase) decrease in restricted cash	489	(9)
Purchases of investments	(200)	—
Net cash used in investing activities	**(2,652)**	**(5,899)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock options exercised	138	668
Tax benefit related to exercising stock options	—	275
Payment of cash dividends	(1,900)	(2,147)
Repayment of capital lease obligation	(3)	(3)
Net cash used in financing activities	**(1,765)**	**(1,207)**
Effect of exchange rate changes on cash and cash equivalents	(371)	34
Net increase (decrease) in cash and cash equivalents	**6,993**	**(1,945)**
Cash and cash equivalents at the beginning of period	44,198	56,207
Cash and cash equivalents at the end of period	**$ 51,191**	**$ 54,262**
SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Declaration of dividends	$ 1,900	$ 2,147
Unrealized losses related to investments	$ 26	$ 10

See accompanying notes to unaudited consolidated financial statements.

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MANNATECH, INCORPORATED
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mannatech, Incorporated (the "Company") was incorporated in the state of Texas on November 4, 1993 and is located in Coppell, Texas. The Company develops high-quality, proprietary nutritional supplements, topical products, and weight-management products and primarily sells its products through a network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, and Germany.

Independent associates ("associates") purchase the Company's products at published wholesale prices for the primary purpose of personal consumption or sale to retail customers. Members ("members") purchase the Company's products at a discount from published retail prices primarily for personal consumption. The term *customer* includes independent associates, members, and retail customers. The Company cannot distinguish its personal consumption sales from its other sales because it has no involvement in its products after delivery other than usual and customary product returns. Only independent associates are eligible to earn commissions and incentives on their downline growth and sales volume. The Company has twelve wholly-owned subsidiaries; however, only the following subsidiaries are currently active:

Wholly-owned subsidiary name	Date incorporated	Location of subsidiary	Date operations began
Mannatech Australia Pty Limited	April 1998	St. Leonards, Australia	October 1998
Mannatech Limited UK.	November 1998	Didcot, Oxfordshire, United Kingdom	November 1999
Mannatech Japan, Inc.	January 2000	Tokyo, Japan	June 2000
Mannatech Korea Ltd.	February 2004	Seoul, Republic of Korea	September 2004
Mannatech Taiwan Corporation	June 2004	Coppell, Texas*	June 2005
Mannatech (International) Limited	December 2005	Gibraltar	December 2005

* Branch office of Mannatech Taiwan Corporation is located and operates in Taipei, Taiwan.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with 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 accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of Company's management, the accompanying unaudited consolidated financial statements contain all adjustments, including normal recurring adjustments, considered necessary for a fair statement of the Company's consolidated financial information as of, and for, the periods presented. The consolidated results of operations for an interim period are not necessarily indicative of the consolidated results of operations to be expected for its 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 year ended December 31, 2005, filed on March 16, 2006.

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.

Cash and Cash Equivalents

The Company considers all highly liquid investments, including credit card receipts, with original maturities of three months or less to be cash equivalents.

For the year ended December 31, 2005 and the three months ended March 31, 2006, the Company included in its cash and cash equivalents credit card receipts due from its credit card processor of $3.0 million and $2.1 million, respectively, as credit card receipts are received within 24 to 72 hours after receiving the approval code from the credit card processor.

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 of the Company's product sales are sold to independent associates at published wholesale prices and to members at discounted published retail prices. Revenue is recognized on receipt of products by its customers. The Company records a reserve for expected sales refunds based on its historical experience.

The Company defers certain of its revenue. Total deferred revenue consists of revenue received from sales of products and packs, which were shipped but not received by the customers by period end, revenue received related to prepaid registration fees received from customers planning to attend a future corporate-sponsored event, revenue received related to a one-year magazine subscription, and revenue received from pack sales when the pack sale price exceeds the estimated wholesale value of all individual components within the pack. Deferred revenue related to products and packs shipped is recognized upon receipt by the customer and all other deferred revenue is recognized over one year. Components of deferred revenue were as follows:

	December 31, 2005	March 31, 2006
Revenue related to undelivered product/pack sales	$ 2.6 million	$ 3.9 million
Revenue related to one-year magazine subscription and pack sales exceeding the wholesale value of individual components sold	0.7 million	0.6 million
Revenue related to a future corporate-sponsored event	0.4 million	—
Total deferred revenue	$ 3.7 million	$ 4.5 million

Shipping and Handling Costs

The Company records freight and shipping revenue collected from its customers as revenue. The Company records inbound freight as cost of sales and records shipping and handling costs associated with shipping products to customers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately $4.2 million and $4.5 million for the three months ended March 31, 2005 and 2006, respectively.

NOTE 2 SHAREHOLDERS' EQUITY

Accounting for Stock-Based Compensation

The Company has three stock-based compensation plans, all of which were approved by its shareholders. The Company generally grants stock options to its employees and board members at the fair market value of its common stock on the date of grant and have a term no greater than ten years. The stock options generally vest over two or three years. Shareholders who own 5% or more of the Company's outstanding stock are granted stock options 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, have a term no greater than five years, and vest over three years.

Prior to January 1, 2006, the Company applied disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", ("FAS 123"). In accordance with the provisions of FAS 123, the Company accounted for stock options granted to its employees and Board of Directors using the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations, ("APB 25") and accordingly did not recognize compensation expense for stock options issued to employees and board members. For disclosure purposes, the Company used the Black-Scholes option pricing model to calculate the related compensation expense for stock options granted, as if it had applied the fair value recognition provisions of FAS 123. The following table illustrates the effect on the Company's consolidated net income and earnings per share if the Company had applied the fair value recognition provisions of

Statement of Financial Accounting Standards No. 123R, "Share-Based Payments", ("FAS 123R") retroactively to all of its stock options for the three months ended March 31, 2005:

(in thousands, except for per share information)	For the three months ended March 31, 2005
Consolidated net income as reported	$ 4,662
Add: Stock-based employee compensation expense included in reported net income, net of related tax effect of $6	4
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect of $54	(87)
Pro forma net income	$ 4,579
Basic Earnings Per Share:	
As reported	$ 0.17
Pro forma	$ 0.16
Diluted Earnings Per Share:	
As reported	$ 0.17
Pro forma	$ 0.16

Effective January 1, 2006, the Company adopted FAS 123R and selected the modified prospective method to initially report all of its related stock-based compensation expense in its consolidated financial statements. Under the provisions of FAS 123R, the Company is required to measure and recognize compensation expense related to any unvested stock options previously granted, and thereafter recognize compensation expense related to any new stock options granted to its employees and board members using a calculated fair-value based option-pricing model. As a result of selecting the modified prospective method to account for its unvested stock options, the Company did not have to restate its prior period's financial statements, but is required to estimate the fair value for all of its stock options granted to employees and board members on the date of grant using a fair-value based option-pricing model.

As of January 1, 2006, the Company also began utilizing a binomial valuation option-pricing model to determine the fair value of all of its options granted during 2006. For the three months ended March 31, 2006, the Company granted 25,000 stock options to Larry Jobe, a new board member, at an exercise price of $12.23 per share. The options vest ratably over two years, and have a term of ten years. The Company did not grant any stock options during the three months ended March 31, 2005. The following assumptions were used to calculate the fair value of the options granted in 2006:

	2006
Dividend yield:	2.6%
Risk-free interest rate:	4.3%
Expected market price volatility:	62.0%
Expected life of options:	3 years
Fair value of grants:	$ 12.23

As a result of adopting FAS 123R, for the three months ended March 31, 2006, the Company recorded, in other operating costs, stock-based compensation expense totaling $0.2 million related to existing unvested stock options and granting 25,000 stock options in 2006. For the three months ended March 31, 2006 and 2005, the Company recorded a tax benefit related to stock option exercises of $0.3 million and $0.2 million, respectively. At March 31, 2006, the Company had 410,704 stock options available for grant. As of March 31, 2006, the Company expects to record, on a straight-line basis, the following stock-based compensation expenses:

	Total Gross unrecognized compensation expense	Total tax benefit associated with unrecognized compensation expense	Total net unrecognized compensation expense
For the nine months ended December 31, 2006	$0.3 million	$ 0.1 million	$0.2 million
For the twelve months ended December 31, 2007	0.4 million	0.1 million	0.3 million
For the twelve months ended December 31, 2008	0.2 million	0.1 million	0.1 million
	$0.9 million	$ 0.3 million	$0.6 million

As of March 31, 2006, the company had stock options outstanding, as follows:

	Shares (000s)	Weighted average exercise price	Weighted-average contractual term	Aggregate Intrinsic value (000s)
Outstanding at December 31, 2005	1,237	$ 6.09		
Granted	25	$ 12.23		
Exercised	(103)	$ 6.52		
Forfeited or expired	(—)	$ —		
Outstanding at March 31, 2006	1,159	$ 6.19	5.9	$ 7,171
Options exercisable at March 31, 2006	955	$ 5.30	5.9	$ 5,058

The following table summarizes information with respect to the Company's stock options outstanding and exercisable at March 31, 2006:

	Options outstanding			Options exercisable	
Exercise Price Range	Number of shares (000s)	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of shares (000s)	Weighted average exercise price
$1.35 - $2.00	39	$ 1.93	2.4	39	$ 1.93
$2.50 - $2.69	488	$ 2.65	3.2	488	$ 2.65
$3.49 - $4.00	49	$ 3.50	6.5	27	$ 3.50
$7.45 - $8.20	446	$ 8.01	4.2	358	$ 7.98
$12.23 - $12.44	75	$ 12.37	9.5	8	$ 12.23

$17.05 - $18.69	52	$	17.84	9.2	25	$	17.61
$20.64	10	$	20.64	9.0	10	$	20.64
$1.35 - $20.64	1,159	$	6.19	5.9	955	$	5.30

Earnings Per Share

Basic Earnings Per Share ("EPS") calculations are based on the weighted-average number of the Company's common shares outstanding during the period. Diluted EPS calculations are calculated using the weighted-average number of common shares and dilutive common share equivalents outstanding during each period.

The following data shows the amounts used in computing the Company's EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the three months ended March 31, 2005 and 2006. At March 31, 2005, none of the Company's common stock options or warrants were excluded from the diluted EPS calculation. However, as of March 31, 2006, 61,757 common stock options were excluded from the diluted EPS calculation since their exercise price was greater than the quarterly average fair market price of its common stock and thus their effect on earnings was antidilutive. The amounts are rounded to the nearest thousands, except for per share amounts.

	2005			2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:						
Net income available to common shareholders	$4,662	27,098	$0.17	$5,908	26,764	$0.22
Effect of dilutive securities:						
Stock options	—	823	—	—	523	—
Warrants	—	114	—	—	105	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	$4,662	28,035	$0.17	$5,908	27,392	$0.22

NOTE 3 TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

MannaRelief. The Company's Chairman and Chief Executive Officer, Samuel L. Caster, founded MannaRelief in 1999 and has served as its Chairman since its inception. Defined under the Internal Revenue Code, MannaRelief is a 501(c)(3) charitable organization that provides services for 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 of Mr. Caster and is also the brother-in-law of Terry L. Persinger, who serves as the Company's President and Chief Operating Officer and as a member of the Company's Board of Directors.

Historically, the Company has made cash donations to MannaRelief, sold certain of its products to MannaRelief at cost plus shipping and handling charges, and shipped products purchased by MannaRelief to their chosen recipients. In addition, certain Company employees and consultants periodically volunteer to work on various fund raising projects and events for MannaRelief at no cost to MannaRelief.

For the three months ended March 31, 2005 and 2006, the Company sold products to MannaRelief at cost plus shipping and handling of approximately $0.3 million each period and made cash donations of approximately $0.1 million, respectively, each period. The Company has agreed to an annual donation of approximately $0.6 million to MannaRelief, payable in 2006. At December 31, 2005 and March 31, 2006, the Company recorded a receivable due from MannaRelief for purchases of its products totaling $0.3 million and $0.1 million, respectively.

Clinical Study. In June 2004, the Company signed a cancelable three-year research agreement with St. George's Hospital & Medical School, in London, England, to fund research costs related to a clinical trial involving one of the Company's products. The principal investigator in the clinical trials, Dr. John Axford, is employed by St. George's Hospital & Medical School and is also a member of the Company's Board of Directors and Chairman of its Science Committee. Pursuant to this research agreement, the Company agreed to fund approximately $0.7 million over three years for this study. This is the second clinical study funded by the Company for St. George's Hospital & Medical School. For the three months ended March 31, 2005, the Company paid $0.1 million toward this clinical study. The Company has not made any payments in 2006 toward this study.

Fredrick Media, LLC. In November 2005, the Company entered into a consulting services agreement with Fredrick Media, LLC, which is owned by Mr. Landen Fredrick, son of Mr. J. Stanley Fredrick. Pursuant to the Consulting Agreement, the Company agreed to pay approximately $0.2 million to Fredrick Media, LLC for various consulting services, including consulting related to the development of the Company's website. For the three months ended March 31, 2006, the Company paid Fredrick Media, LLC approximately $0.1 million related to this consulting agreement. In May 2006, the Company terminated the consulting agreement and hired its founder Mr. Landen Fredrick as its Director of Sales and Marketing. Landen Fredrick is the son of J. Stanley Fredrick, who serves as the Company's Lead Director on its Board of Directors.

NOTE 4 INVESTMENTS

The Company classifies its investments as available-for-sale. At December 31, 2005 and March 31, 2006, the Company's investments consisted of the following:

	December 31, 2005		
	Amortized cost	Gross unrealized loss	Fair value
		(in thousands)	
Federal Home Loan Bank bond	$2,000	$(26)	$1,974
State or federal agency backed obligations	15,375	—	15,375
Total investments	$17,375	$(26)	$17,349

	March 31, 2006		
	Amortized cost	Gross unrealized loss	Fair value
		(in thousands)	
Federal Home Loan Bank bond	$2,000	$(16)	$1,984
State or federal agency backed obligations	15,375	—	15,375
Total investments	$17,375	$(16)	$17,359

The Company's fair values of investments by contractual maturity at December 31, 2005 and March 31, 2006, are as follows:

	December 31, 2005	March 31, 2006
	(in thousands)	
Due in one year or less	$1,974	$1,984
Due between one and five years	—	—
Due after ten years	15,375	15,375
	$17,349	$17,359

NOTE 5 INVENTORIES

Inventories

Inventories consist of raw materials, finished goods and sales aids that are stated at the lower of cost (using standard costs, which approximate average costs) or market. The Company provides an adequate allowance for any slow moving or obsolete inventories. Inventories at December 31, 2005 and March 31, 2006, consisted of the following:

	December 31, 2005	March 31, 2006
	(in thousands)	
Raw materials	$5,759	$4,271
Finished goods, less inventory reserves for obsolescence of $387 in 2005 and $453 in 2006	14,052	12,780
	$19,811	$17,051

NOTE 6 COMMITMENTS AND CONTINGENCIES

Royalty and Consulting Agreements

On August 7, 2005, the two year employment agreement with Dr. Bill McAnalley, who served as the Company's Chief Science Officer, expired. As a result, the Company entered into a Release Agreement and a one-year Consulting Agreement in which the Company is required to pay Dr. McAnalley a total of $0.9 million. As of March 31, 2006, the Company had paid Dr. McAnalley a total of $0.6 million in connection with services provided under this one-year Consulting Agreement.

In August 2003, the Company also entered into a Long-Term Post-Employment Royalty Agreement with Dr. McAnalley, pursuant to which the Company is required to pay Dr. McAnalley or his heirs' royalties for 10 years beginning September 2005 through August 2015. Quarterly payments related to this Long-Term Post-Employment Royalty Agreement are based on certain applicable annual global product sales, by the Company, in excess of $105.4 million. At the time the Company entered into this Long-Term Post-Employment Royalty Agreement, it was considered a post-employment benefit. The Company was required to measure and accrue the present value of the estimated future royalty payments related to the post-employment royalty benefit and recognize it over the life of Dr. McAnalley's employment agreement. As of December 31, 2005, the Company recorded a long-term liability of $3.9 million related to this Royalty Agreement, of which $0.5 million was currently due at December 31, 2005. As of March 31, 2006, the Company accrued a total liability of $3.7 million related to this Royalty Agreement, of which $0.5 million was included in accrued expenses.

Purchase Commitments

On March 22, 2006, the Company entered into a ten year supply agreement to purchase plant-derived mineral nutrition products from a manufacturer. Under the terms of the agreement, the Company is required to purchase a total of $9.6 million through 2016.

NOTE 7 LITIGATION

The Company has been sued in three securities class action lawsuits in the United States District Court for the District of New Mexico.

- First, on August 1, 2005, Mr. Jonathan Crowell filed a putative class action lawsuit against the Company and Mr. Samuel L. Caster, its Chief Executive Officer, in the United States District Court for the District of New Mexico, on behalf of himself and all others who purchased or otherwise acquired the Company's common stock between August 10, 2004 and May 9, 2005, inclusive, and who were damaged thereby.
- Second, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against the Company, Mr. Caster, Mr. Terry L. Persinger, its President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, its Chief Financial Officer.
- Third, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against the Company, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

The allegations in these class action lawsuits are substantially identical. The complaints allege the Company violated Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, alleging that defendants artificially inflated the value of the Company's common stock by knowingly allowing independent contractors to recklessly misrepresent the efficacy of its products during the purported class period.

On December 12, 2005, the Court granted a motion to consolidate the three putative class action lawsuits. These lawsuits have been consolidated into the civil action styled "In re Mannatech, Incorporated Securities Litigation." Also, on January 4, 2006, the Court granted a motion in the consolidated putative class action lawsuit to appoint "The Mannatech Group," consisting of Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John C. Ogden, and the Plumbers and Pipefitters Local 51 Pension Fund, as lead plaintiffs. The January 4, 2006 court order also appointed the law firms Lerach Coughlin Stoia Geller Rudman & Robbins LLP as lead counsel, and Freedman Boyd Daniels Hollander & Goldberg, P.A. as liaison counsel, for the putative class. On March 3, 2006, the plaintiffs in the consolidated cases filed a Consolidated Class Action Complaint for Securities Fraud.

Pursuant to an order entered on April 11, 2006, the timetable for the Company and the Individual Defendants to move to dismiss, answer, or otherwise plead in response to the amended consolidated complaint is dependent on the Court's rulings on our motion filed on April 4, 2006, to transfer venue to the United States District Court for the Northern District of Texas. If the Court denies the motion to transfer venue, we will have until May 18, 2006 to file a motion to move to dismiss, answer, or otherwise plead. However, if the Court grants the motion to transfer venue, the order does not specify a deadline for our response to the amended complaint and the timetable will be determined by the transferee court.

The Company has also been sued in three shareholder derivative lawsuits.

- First, on October 18, 2005, a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division.
- Second, on January 11, 2006, a shareholder derivative action was filed by Kelly Schrimpf, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Steven W. Lemme, and Stephen D. Fenstermacher in the 162nd District Court of Dallas County, Texas.
- Third, on January 13, 2006, a shareholder derivative action was filed by Frances Nystrom, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Stephen D. Fenstermacher, John Stuart Axford, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, Patricia A. Wier, and Donald A. Buchholz in the United States District Court for the Northern District of Texas.

Each of these shareholder derivative lawsuits makes allegations similar to the allegations of the shareholder class action litigation described above. The Company's independent directors have appointed a Special Litigation Committee to review these matters and determine the proper corporate response. On February 22, 2006, the company filed a motion Requesting Stay of Derivative Proceedings Pending Inquiry into Plaintiffs Claims in the Schrimpf lawsuit. By an order entered on April 25, 2006, the 162nd District Court of Dallas County, Texas, stayed further action in the Schrimpf derivative action pending the disposition of the Middleton case, the first-filed derivative action.

On March 13, 2006, the Company filed motions to consolidate the Middleton and Nystrom derivative actions into one action and to stay each action pursuant to Texas Business Corporation Act art. 5.14. However, by order dated May 2, 2006, the United States District Court for the Northern District of Texas denied the motion to stay the Nystrom action but the motion to consolidate and the motion to stay pursuant to art. 5.14 of the Texas Business Corporation Act in the Middleton action, both of which have not been opposed, as well as the unopposed motion to stay and to appoint lead derivative plaintiff and lead derivative counsel, filed by Middleton's counsel on November 29, 2005, remain pending before the court.

Plaintiffs in the consolidated putative class actions and in the shareholder derivative actions seek an unspecified amount of compensatory damages, interest, and costs, including legal and expert fees.

In response to these actions, the Company continues to work with our experienced securities litigation counsel to vigorously defend us and our officers and directors. The Company also believes this type of litigation is inherently unpredictable. It should be noted that a court must certify a class before a case can proceed as a class action lawsuit and that the determination has not been made in the consolidated securities cases. The Company believes these types of repetitive lawsuits (seeking class action status) are common in today's litigious society and many reputable companies have successfully defended themselves against such litigation. It is not possible at this time to predict whether the Company will incur any liability, or to estimate the damages or the range of damages, if any, that the company might incur in connection with any of these above mentioned securities and derivative lawsuits.

On February 25, 2005, as part of its worldwide enforcement efforts of its intellectual property rights, the Company filed a patent infringement lawsuit in the High Court, Chancery Division, Patents Court in London, seeking a permanent injunction and certain damages against BION, Inc., a nutritional supplement provider, and its principal Mr. Veilis Boye, claim no. HC05C00436 as the Company alleged infringement of certain claims of our European Patent (UK) No. 0 923 383. On March 20, 2006, under an order by the Court, BION, Inc. agreed to cease "in any form and by any means", manufacturing, sales, and importation of all of its dietary supplements related to glyconutrition.

On March 16, 2006, the Company filed a patent infringement lawsuit against Glycobiotics International, Inc. for alleged infringement of our utility U.S. Patent No. 6,929,807 ("Compositions of Plant Carbohydrates as Dietary Supplements") in the United States District Court of the Northern District of Texas. The Company sued Glycobiotics to cease the manufacture, sale, and use of their glyconutritional product marketed under the brand name "Glycomannan" and for alleged unfair competition due to false and misleading statements.

On May 5, 2006, the Company also filed a patent infringement lawsuit against Techmedica Health™ Inc., for alleged infringement of its utility U.S. Patent No. 6,929,807 ("Compositions of Plant Carbohydrates as Dietary Supplements") in the United States District Court of the Northern District of Texas. The Company sued Techmedica Health to cease the manufacture, sale, and use of their glyconutritional product marketed under the brand name "Nutraose".

The Company also has several pending claims incurred in the normal course of business. In the opinion of management, such claims can be resolved without any material affect on our consolidated financial position, results of operations, or cash flows.

The Company maintains certain liability insurance in amounts it believes is adequate. However, certain costs of defending lawsuits, such as those below the insurance deductible amount, are not covered by or only partially covered by our insurance policies, and its insurance carriers could refuse to cover certain of these claims in whole or in part.

NOTE 8 RECENT ACCOUNTING PRONOUNCEMENTS

FAS 156. In March 2006, FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140", ("FAS 156"). The provisions of FAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. In addition, the provisions FAS 156 require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value. The provisions of FAS 156 is effective for fiscal years beginning after September 15, 2006. The Company does not believe that the adoption of FAS 156 will have a significant effect on its consolidated financial position, results of operations, or cash flows.

EITF 04-13. In September 2005, the FASB Emerging Issues Task Force ("EITF") released Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty", ("EITF 04-13"). The provisions of EITF 04-13 provide guidance on how to account for two or more inventory purchases and sales transactions with the same counterparty entered into in contemplation of one another and requires those transactions be combined under certain circumstances for purposes of applying Opinion 29, Accounting for Nonmonetary Transactions. The provisions of EITF 04-13 are effective for new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period after March 15, 2006. The Company does not believe the adoption of EITF 04-13 will have a significant effect on its consolidated financial position, results of operations, or cash flows.

NOTE 9 SEGMENT INFORMATION

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

The Company aggregates all of its operating units because it operates as a single reportable segment as a seller of nutritional supplements through its network-marketing distribution channels operating in ten different countries. In each country, the Company markets its products and pays commissions and incentives in similar market environments. The Company's management reviews its financial information by country and focuses its internal reporting and analysis of revenues by packs and product sales. The Company sells its products through its independent associates and distributes its products through similar distribution channels in each country. Each of the Company's operations sells similar packs and products and possesses similar economic characteristics such as similar selling prices and gross margins.

The Company has 6 active subsidiaries that operate in 6 physical locations and sells products in 10 different countries around the world. The 6 physical locations include the United States, Australia, the United Kingdom, Japan, the Republic of Korea, and Taiwan. Each of the Company's physical locations service different geographical areas. The United States parent processes orders for Canada, but products and packs sold in Canada are shipped through a third party distribution facility located in Canada. The Company's Australian location processes orders for both Australia and New Zealand, but the orders are shipped for Australia and New Zealand through a third party distribution facility located in Australia. The Company's United Kingdom location processes and ships orders for the United Kingdom, Denmark, and Germany.

All of the Company's 6 active subsidiaries are fully operating subsidiaries, except for Australia and the United Kingdom. The Company's Australian and United Kingdom subsidiaries operate as limited-risk service providers and are responsible for providing management, marketing and administrative services, processing and shipping orders, and overseeing the payment of cost of sales and commissions for processed orders on behalf of its parent operating in the United States. For these services, the limited-risk service providers are paid a management fee from the United States parent, which is eliminated in the Company's consolidated financial statements. In addition to the processing and shipping of orders in the United States and Canada, the United States parent owns all of the sales and inventories and accrues all commissions and costs related to activities in New Zealand, Australia, the United Kingdom, Denmark, and Germany.

By country of operation, consolidated net sales primarily shipped to customers in these locations, along with pack and product information for the three months ended March 31, 2005 and 2006, respectively, are as follows:

	Three months ended March 31,			
	2005		2006	
	(in millions)			
United States	$56.1	65.9%	$67.1	67.8%
Canada	6.7	7.9%	7.3	7.4%
Australia	8.1	9.5%	7.9	8.0%
United Kingdom	2.4	2.8%	2.0	2.0%
Japan	7.8	9.2%	9.2	9.3%
New Zealand	3.6	4.2%	2.5	2.5%
Republic of Korea	0.4	0.5%	1.6	1.6%
Taiwan*	—	— %	0.8	0.8%
Denmark**	—	— %	0.6	0.6%
Germany***	—	— %	—	— %
Totals	$85.1	100%	$99.0	100%

* Taiwan began its operations in June 2005.
** United Kingdom began selling products in Denmark in August 2005.
*** United Kingdom began selling products in Germany in March 2006.

	Three months ended March 31, 2005	2006
	(in millions)	
Consolidated product sales	$ 64.7	$ 74.6
Consolidated pack sales	20.5	20.6
Consolidated other, including freight	(0.1)	3.8
Total consolidated net sales	$ 85.1	$ 99.0

Long-lived assets, which include property, plant and equipment and construction in progress, for each of our six subsidiaries, is as follows:

Country	December 31, 2005	March 31, 2006
	(in millions)	
Australia	$ 0.2	$ 0.2
Japan	0.3	0.3
Republic of Korea	0.6	0.6
Taiwan	0.3	0.6
United Kingdom	0.5	0.4
United States	17.2	21.9
	$ 19.1	$ 24.0

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 our consolidated financial position and our results of operations for the three months ended March 31, 2006 as compared to the first quarter of 2005. 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

Since November 1993, we have developed innovative, high-quality, proprietary nutritional supplements and topical and weight-management products that are sold through a global network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, and Germany. Canada is serviced by our United States operations, while Denmark and Germany are serviced by our United Kingdom subsidiary and New Zealand is serviced by our Australian subsidiary. As previously discussed, our Australian and United Kingdom subsidiaries operate as limited-risk service providers for the United States parent, which owns all of the sales and inventories and accrues all commissions and cost of sales related to activities in New Zealand, Australia, the United Kingdom, Denmark and Germany. The United States parent pays its limited-risk service providers a management fee for processing and shipping orders in these countries.

We operate as a single segment and primarily sell our products through a network of approximately 510,000 independent associates and members who have purchased our products and/or packs within the last 12 months. These independent associates and members are referred to herein as *current independent associates and members*. We sell our nutritional supplements through network-marketing distribution channels operating in 10 different countries. We review and analyze our net sales by geographical location and further analyze our net sales by packs and products. Each of our subsidiaries sells the same type of products and possesses similar economic characteristics, such as similar selling prices and gross margins.

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For the three months ended March 31, 2006, consolidated net sales increased $13.9 million, or 16.3%, to $99.0 million from $85.1 million in the first quarter of 2005. Foreign operations accounted for approximately 32.2% of our consolidated net sales for the three months ended March 31, 2006 as compared to 34.1% for the first quarter of 2005. Consolidated net sales primarily shipped to customers in these locations, in dollars and as a percentage of consolidated net sales, for the three months ended March 31, are as follows:

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

	Three months ended March 31,			
	2005		2006	
	(in millions)			
United States	$56.1	65.9%	$67.1	67.8%
Canada	6.7	7.9%	7.3	7.4%
Australia	8.1	9.5%	7.9	8.0%
United Kingdom	2.4	2.8%	2.0	2.0%
Japan	7.8	9.2%	9.2	9.3%
New Zealand	3.6	4.2%	2.5	2.5%
Republic of Korea	0.4	0.5%	1.6	1.6%
Taiwan*	—	— %	0.8	0.8%
Denmark**	—	— %	0.6	0.6%
Germany***	—	— %	—	— %
Totals	$85.1	100%	$99.0	100%

* Taiwan began operations in June 2005.

** United Kingdom began selling products in Denmark in August 2005.

*** United Kingdom began selling products in Germany in March 2006.

We derive our revenue from sales of our products, sales of our starter and renewal packs, and from shipping fees collected from our customers. In August 2005, we increased shipping fees charged to our customers due to an increase in shipping rates charged to us. We defer the recognition of our product and pack revenues until our customers receive their shipments. Substantially all of our product sales are made either to independent associates at published wholesale prices or to members at discounted published retail prices. We have no involvement in our products after delivery other than usual and customary product returns. Our sales mix can be influenced by any one of the following:

- changes in consumer demand;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products;
- discontinuation of existing products;
- negative publicity;
- changes in our commissions and incentives plan; and
- changes in our sales prices.

We believe our future success in increasing our net sales is dependent on the following factors:

- continuing our product development strategy, which includes continual enhancement of existing proprietary products and the introduction of new products;
- continuing our plans for international expansion; and
- continuing to attract and retain independent associates by introducing new incentives, refining existing commissions and incentives, and providing additional training aids, promotional materials and technology tools.

Cost of sales primarily consists of products purchased from third-party manufacturers, costs of promotional materials sold to our independent associates, in-bound freight, provisions for slow-moving or obsolete inventories, and costs associated with complementary shipped products. Our inventories turned at an annual rate of 3.2 times during the first quarter of 2006. At March 31, 2006, inventories decreased by $2.7 million, or 13.6%, to $17.1 million as compared to $19.8 million at December 31, 2005. The decrease in inventories primarily related to a $1.5 million decrease in raw materials on hand and a $1.2 million decrease in finished goods and promotional materials on hand.

Commissions and incentives are heavily dependent on the sales mix and types of incentives offered. Commissions and incentives is our largest expense in our Consolidated Statement of Operations and are paid to our independent associates in accordance with our global associate career and compensation plan. Commissions and incentives are calculated using commissionable net sales, which consists of finished product and pack sales. Our commissions and incentives program calculates commissions and incentives based on the following criteria:

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

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

Each year, we offer new travel incentives and contests that are designed to stimulate both our pack and product sales. In 2005, we had 1,500 associates qualify for the travel incentive at a total cost of approximately $4.0 million. In 2006, we expect our annual travel incentive to cost between $3.8 million and $4.5 million.

Critical Accounting Policies and Estimates

In response to SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we review our policies related to the portrayal of our consolidated financial position and consolidated results of operations that require the application of significant judgment by management. We also analyze the need for certain estimates, including the need for such items as inventory reserves, capitalization of software development costs, tax valuation allowances, revenue recognition and deferred revenues, accounting for stock based compensation, and contingencies and litigation. Our estimates are based on historical experience, industry standards, and various other assumptions that we believe are applicable and reasonable under the circumstances. We caution our readers that actual results could differ from our estimates under different assumptions or conditions, and if circumstances change relating to the various assumptions or conditions used in our estimates, we could experience an adverse effect on our consolidated financial position, our consolidated results of operations, and our consolidated cash flows. We have identified the following applicable critical accounting policies and estimates as of March 31, 2006.

Inventory Reserves

We review our inventory carrying value and compare it to the estimated fair market value. Any inventory value in excess of our estimated fair market value is written down. In addition, we review our inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Our determination of obsolescence is based on assumptions about the demand for our products, product expiration dates, estimated future sales, and our future plans. If actual sales or our plans are less favorable than those originally projected by us, additional inventory reserves or write-downs may be required. At March 31, 2006, our inventories totaling $17.1 million included a reserve of approximately $0.5 million.

Software Capitalization

We capitalize costs associated with internally-developed software projects. We amortize these costs associated with these projects over their useful lives, which is usually five years. If accounting standards change or if the capitalized software becomes obsolete, we may be required to write-off our unamortized capitalized software or accelerate the amortization period.

During 2004, we began the development and/or configuration of several large-scaled information technology projects that are intended to increase functionality of our operations and expand our reporting capabilities. One of these projects was the configuration of our internally-developed global re-architecture software project, also called our Oracle/JDE Globalview fully-integrated software project. As of March 31, 2006, we had approximately $3.4 million of unamortized capitalized software development costs included in property and equipment and $12.3 million included in construction in progress.

Tax Valuation Allowances

We evaluate the probability of realizing the future benefits of our deferred tax assets and record a valuation allowance when we believe that a portion or all of our deferred tax assets may not be realized. If we are unable to realize the expected future benefits of our deferred tax assets, we are required to provide a valuation allowance. As of March 31, 2006, our net deferred tax assets totaled approximately $3.8 million, which includes a valuation allowance of approximately $0.9 million related to deferred tax assets for our operations in Taiwan and the Republic of Korea.

Revenue Recognition and Deferred Revenues

We defer all revenues until our customers receive their shipments. We also defer a portion of our revenues from the sale of certain starter and renewal packs which contain a one-year magazine subscription and defer a portion of revenue from each pack in which the total price of the pack exceeds the total average wholesale value of all individual components included in such packs. We amortize the deferred revenues associated with our one-year magazine subscriptions and any pack sales that exceed the total average wholesale value of the individual components included in such packs over twelve months. Although we have no immediate plans to significantly change the contents of our packs or our shipping methods, any such change in the future could result in additional revenue deferrals or cause us to recognize deferred revenue over a longer period of time.

Accounting for Stock-Based Compensation

Under FAS 123R, we are required to measure and recognize compensation expense related to any unvested stock options granted and any new stock options granted to our employees and board members, which is based on various assumptions, including the number of options expected to vest, expected volatility, and expected discount rates. The calculated compensation expense is recognized in our consolidated statements of operations over the stock options' vesting period. As of March 31, 2006, we had 381,052 unvested stock options outstanding with a remaining calculated fair value of approximately $0.8 million. In addition, we have 410,704 stock options available to grant in the future. If the assumptions used in computing the calculated fair-value change, we may be required to recognize additional compensation expense.

Contingencies and Litigation

Each quarter, we evaluate the need to accrue for legal claims or assessments. The accrual evaluation is based on our estimated amount of damages and the probability of losing any threatened legal claim. If circumstances change or we experience an unanticipated adverse outcome of any legal action, we would be required to increase our estimated amount accrued related to any potential legal action.

Results of Operations

The table below summarizes our consolidated operating results as a percentage of net sales for the three months ended March 31, 2005 and 2006.

	Three months ended March 31, 2005	Three months ended March 31, 2006
Net sales	100.0%	100.0%
Cost of sales	15.1	14.7
Commissions and incentives	44.2	45.9
Gross profit	**40.7**	**39.4**
Operating expenses:		
Selling and administrative expenses	18.9	18.0
Other operating costs	12.9	12.1
Total operating expenses	31.8	30.1
Income from operations	**8.9**	**9.3**
Interest income	0.4	0.6
Other expense, net	(0.1)	(0.5)
Income before income taxes	**9.2**	**9.4**
Provisions for income taxes	(3.7)	(3.4)
Net income	**5.5%**	**6.0%**

Three months ended March 31, 2006 compared with the first quarter in 2005

Net Sales

	For the three months ended March 31, 2006	2005	Dollar and percentage change 2006 over 2005	
		(in millions)		
Consolidated product sales	$ 74.6	$ 64.7	$ 9.9	15.3%
Consolidated pack sales	20.6	20.5	0.1	0.5%
Consolidated other, including freight	3.8	(0.1)	3.9	Not applicable
Total consolidated net sales	**$ 99.0**	**$ 85.1**	**$13.9**	**16.3%**

Our consolidated net sales have increased primarily due to the increase in volume of product sales. For the three months ended March 31, 2006 opening operations in Taiwan and selling products in Denmark and Germany increased our net sales by $1.4 million. Pack sales have a strong correlation to new and continuing independent associates and members who purchase our products. However, there is not a direct correlation between the increase in the number of new independent associates purchasing packs and the amount of the increase in product sales because independent associates and members may consume different products at different consumption levels.

Pack Sales

We sell starter packs to our independent associates and members. Depending on the type of pack purchased, a starter pack may include certain products, promotional and educational information, policies and procedures, and entitle the independent associate to purchase our products at wholesale prices. We also sell annual renewal packs to our independent business-building associates. Independent associates can purchase upgrade packs, which entitle the independent associate to additional promotional materials and achievement of additional commissions and incentives levels. The number of new and continuing independent associates and members who purchased our products and packs during the last 12-months ended March 31, 2006 and 2005 were as follows:

	For the twelve months ended March 31,			
	2006		2005	
Current Independent Associates and Members				
New	228,000	45%	192,000	48%
Continuing	282,000	55%	209,000	52%
Total	**510,000**	**100.0%**	**401,000**	**100.0%**

For the twelve months ended March 31,

(in millions except % and associate information)

	2006		2005		2006 to 2005	
	Number of associates and members	Pack sales	Number of associates and members	Pack sales	Dollar and percentage change of pack sales	
New	228,000	$13.1	192,000	$14.5	$ (1.4)	(9.7)%
Continuing	282,000	7.5	209,000	6.0	$ 1.5	25.0%
Total	**510,000**	**$20.6**	**401,000**	**$20.5**	**$ 0.1**	**0.5%**

For the three months ended March 31, 2006, our quarterly pack sales increased by $0.1 million, or 0.5%, to $20.6 million as compared to $20.5 million for the first quarter of 2005. This increase in pack sales in the first quarter of 2006 consisted of a $1.3 million increase in existing independent business-building associates purchasing renewal and upgrade packs and an increase of $0.6 million independent associates and members purchasing new or upgrade packs in Taiwan and Denmark. This $1.9 million increase was partially offset by a decrease of $1.8 million in new independent associates and members purchasing packs in existing countries in which we operate. We believe the change partially reflected a hurricane-related delay for most of our 2005 annual travel incentive trip winners as the trip, which was originally scheduled for November 2005 was postponed until February 2006.

Product Sales

Product sales continued to grow for the three months ended March 31, 2006 as compared to the first quarter of 2005. Product sales growth primarily related to expansion into new markets and an increase in the number of our independent associates and members purchasing our products. During the three months ended March 31, 2006, the sale of our products in Taiwan and Denmark increased our total product sales by $0.8 million. The remaining increase in total product sales related to an increase in the number of associates and members purchasing our products.

Other Sales

Other sales primarily consist of the following:

- freight revenue charged to our independent associates and members;
- sales of promotional materials;
- training and event registration fees;
- monthly fees collected for Success Tracker™, a customized electronic business-building and educational materials database for our independent associates that helps stimulate product sales and provide business management;
- a reserve for estimated sales refunds; and
- the change in deferred revenue that primarily pertains to the timing of recognition of revenue for pack and product shipments.

For the three months ended March 31, 2006, other sales increased by $3.9 million as compared to the first quarter of 2005. Other sales increased by $3.5 million associated with the timing of revenue recognition. The increase in other sales also related to an increase of $0.5 million in freight fees collected from customers and $0.4 million in additional freight fees collected from customers associated with a fee increase effective August 2005. These increases were partially offset by a $0.3 million decrease in the sale of promotional materials related to introducing a new training DVD in the first quarter of 2005.

Cost of Sales

Our cost of sales primarily consists of products purchased from third-party manufacturers, costs of promotional materials sold to our independent associates, in-bound freight, provisions for slow-moving or obsolete inventories, and costs associated with complementary shipped products. Our cost of sales as a percentage of net sales is affected by the mix of products and packs sold because product sales have higher gross margins than pack sales. Our sales mix can be influenced by any of the following:

- changes in our sales prices;
- changes in consumer demand;
- changes in competitors' products;
- changes in economic conditions;
- changes in regulations;
- announcements of new scientific studies and breakthroughs;
- introduction of new products;
- discontinuation of existing products; and
- changes in our commissions and incentives programs.

For the three months ended March 31, 2006, cost of sales increased by $1.6 million, or 12.3%, to $14.6 million from $13.0 million from the first quarter of 2005. The increase in cost of sales relates to the increase in sales volume. For the three months ended March 31, 2006, cost of sales as a percentage of net sales decreased to 14.7% as compared to 15.1% for the first quarter of 2005. The percentage decrease primarily related to operational efficiencies achieved by using more economical product components.

Commissions and Incentives

Commissions and incentives include commissions related to commissionable net sales and various incentives, including our annual travel incentive and car bonus program. Commissions and incentives are dependent on the sales mix and types of incentives offered. We believe we can continue to successfully operate with commissions and incentives in the range of 42% to 46% of our total consolidated net sales. Commissions and incentives are earned by our independent associates in accordance with our global associate career and compensation plan. Commissions and incentives are calculated using commissionable net sales, which consist of finished products and pack sales, and are based on the following criteria:

- the independent associate's earned placement and position within our overall global career and compensation plan;
- specific timing and sales volume of an independent associate's direct and indirect commissionable sales; and
- the achievement of certain sales levels.

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

For the three months ended March 31, 2006, the combined expenses of commissions and incentives increased by $7.8 million, or 20.7%, to $45.4 million as compared to $37.6 million for the first quarter of 2005. For the three months ended March 31, 2006, the combined expenses of commissions and incentives as a percentage of net sales also increased to 45.8% as compared to 44.2% for the first quarter of 2005. These increases in the combined expenses of commissions and incentives related to the increase in commissionable net sales and the timing of the qualification period for our annual travel incentives.

Commissions

For the three months ended March 31, 2006, commissions increased by 17.2%, or $6.2 million, to $42.2 million as compared to $36.0 million for the first quarter of 2005. For the three months ended March 31, 2006, commissions as a percentage of net sales increased to 42.6% from 42.3% for the first quarter of 2005. The increase in commissions related to the increase in volume of products sold.

Incentives

We accrue travel incentive expenses during the months when independent associates qualify to win the trip. In 2006, the qualification period for the travel incentives started in January 2006 instead of March, so a larger portion of the incentive cost was accrued in the first quarter compared to the prior years. For the three months ended March 31, 2006, the cost of incentives increased by 100.0%, or $1.6 million, to $3.2 million as compared to $1.6 million for the first quarter of 2005. For the three months ended March 31, 2006, incentive expense as a percentage of net sales increased to 3.2% as compared to 1.8% for the first quarter of 2005.

Gross Profit

For the three months ended March 31, 2006, gross profit increased by $4.3 million, or 12.4%, to $39.0 million as compared to $34.7 million for the first quarter of 2005. The dollar increase in gross profit for the three months ended March 31, 2006 as compared to the first quarter of 2005 was the result of an increase in product sales volume and achieving certain supply-chain efficiencies, partially offset by an increase in commissions and incentives related to the shift in mix of pack and product sales.

Gross profit as a percentage of net sales for the three months ended March 31, 2006, decreased to 39.4% as compared to 40.7% for the first quarter of 2005. This decrease was primarily related to the timing of accruing expenses related to our annual travel incentive.

Selling and Administrative Expenses

Selling and administrative expenses include a combination of both fixed and variable type expenses. These expenses consist of compensation and benefits for employees, temporary and contract labor, outbound shipping and freight, and marketing-related expenses, such as monthly magazine development costs and costs related to hosting our corporate-sponsored events.

For the three months ended March 31, 2006, selling and administrative expenses increased $1.7 million, or 10.6%, to $17.8 million as compared to $16.1 million for the first quarter of 2005. For the three months ended March 31, 2006, as a percentage of net sales, selling and administrative expenses decreased to 18.0% as compared to 18.9% for the first quarter of 2005. The dollar increase in selling and administrative expenses primarily consisted of the following:

- an increase of $1.1 million in compensation-related costs associated with supporting our recent sales growth. The $1.0 million in compensation-related costs included a $1.0 million increase in payroll and payroll related costs and a $0.6 million increase in temporary labor costs, partially offset by capitalizing $0.5 million in compensation-related costs associated with our internally-developed software project;
- an increase of $0.4 million in marketing related expenses. The costs associated with hosting our annual corporate-sponsored event, Mannafest, increased by $0.5 million to $2.2 million for 2006 as compared to $1.7 million for 2005. This increase was partially offset by a decrease in marketing related expenses of $0.1 million in marketing-related expenses associated with the timing of incurring certain marketing-type expenses; and
- an increase of $0.3 million in freight-out and third party warehouse costs associated with an increase in fuel costs from transportation vendors and an increase in volume of net sales.

Other Operating Costs

Other operating costs generally include travel, accounting/legal/consulting fees, royalties, credit card processing fees, banking fees, off-site storage fees, utilities, depreciation, and other miscellaneous operating type expenses.

For the three months ended March 31, 2006, other operating costs increased by $1.1 million, or 10.1%, to $12.0 million as compared to $10.9 million for the first quarter of 2005. For the three months ended March 31, 2006, other operating expenses as a percentage of net sales decreased to 12.1% as compared to 12.9% for the first quarter of 2005.

Generally, changes in other operating costs are associated with the changes in our net sales; however, specific changes in other operating costs are discussed below:

Travel

For the three months ended March 31, 2006, travel expenses increased by $0.3 million to $1.3 million as compared to $1.0 million for the first quarter of 2005. The increase in travel expenses related to the timing and an increase in attendance at our corporate-sponsored events.

Accounting, legal, and consulting fees

For the three months ended March 31, 2006, accounting, legal, and consulting fees increased by $0.1 million to $2.3 million as compared to $2.2 million for the first quarter of 2005. Consulting fees increased by $0.4 million related to additional non-capitalizable costs associated with our internally-developed software project. This increase was partially offset by a decrease of $0.3 million in accounting fees associated with gaining operational efficiencies in resources used to test internal controls and hiring additional accounting personnel.

For the three months ended March 31, 2006, legal fees remained the same as compared to the first quarter of 2005. To date we have incurred approximately $1.0 million in legal fees associated with legal defense costs against shareholder derivatives and class action lawsuits, of which, $0.5 million was incurred during the three months ended March 31, 2006. Some of these expenses will be paid by our liability insurance carriers. However, we expect to continue to incur legal fees in the future in connection with vigorously defending ourselves against such legal matters.

Royalties

For the three months ended March 31, 2006, royalty expense decreased by $0.9 million to $0.3 million as compared to $1.2 million for the first quarter of 2005. The decrease in royalty expense related to fully accruing future royalties associated with the long-term post-retirement royalty agreement with Dr. Bill McAnalley in the third quarter of 2005, and beginning to make quarterly payments to Dr. McAnalley in the fourth quarter of 2005 related to this ten-year agreement.

Credit card processing fees

For the three months ended March 31, 2006, credit card processing fees increased by $0.2 million to $2.1 million as compared to $1.9 million for the first quarter of 2005. The increase was directly related to an increase in net sales.

Non-cash stock based compensation charge

In January 2006, we adopted FAS 123R, which requires companies to record a stock-based compensation charge associated with all non-vested stock options granted to its employees and board members and for any new stock options granted. As of March 31, 2006, we recorded $0.2 million of stock-based compensation related to the vesting of our non-vested stock options outstanding as of December 31, 2005 and granting 25,000 stock options to Larry Jobe, our new Board member.

Other miscellaneous operating expenses

The remaining miscellaneous operating expenses are primarily variable in nature and relate directly to the increase in net sales. Variable costs included in other miscellaneous operating expenses consist of telephone, postage, insurance, and offsite storage fees. For the three months ended March 31, 2006, other miscellaneous operating expenses increased by $1.2 million, or 23.9%, to $5.8 million as compared to $4.6 million for the first quarter of 2005.

Interest Income

We maintain interest-bearing accounts for certain of our cash equivalents and restricted cash and record interest related to our investments. For the three months ended March 31, 2006, interest income increased by $0.3 million to $0.6 million as compared to $0.3 million for the first quarter of 2005. The increase in interest income was primarily due to an increase in the average balance we held in cash, cash equivalents, restricted cash, and investments as compared to the first quarter of 2005. Our cash and investments increased as a result of improving overall profit and negotiating a higher average yield on investments.

Other Expense, Net

Other expense, net primarily consists of foreign currency transaction gains and losses related to translating our foreign subsidiaries’ assets, liabilities, revenues, and expenses to the United States dollar and translating the United States parents’ cash accounts held in foreign locations using current and weighted-average currency exchange rates. Net foreign currency transaction gains and losses are the result of the United States dollar fluctuating in value against foreign currencies. For the three months ended March 31, 2006, we recorded a net transaction gain of $0.6 million as compared to recording a net transaction gain of $0.3 million for the first quarter of 2005.

Provisions for Income Taxes

Provisions for income taxes include both current and deferred income taxes for both our domestic and foreign operations. Our statutory income tax rates by jurisdiction are as follows:

Country	For the three months ended March 31, 2006	For the three months ended March 31, 2005
United States*	37%	38%
Australia	30%	30%
United Kingdom	30%	30%
Japan	42%	42%
Republic of Korea	30%	25%
Taiwan *(began operations in June 2005)*	25%	—%

* For 2006 and 2005, the United States statutory income tax rates include a Federal income tax rate of 35% and an average state income tax rate of 2.5% for 2006 and 3.0% for 2005.

Approximately one-third of our total consolidated net sales are derived from our international operations and subject to the country-specific applicable statutory income tax rates. Income from our international operations is subject to taxation in the countries in which we operate. Although we may receive foreign tax credits that would reduce the total amount of income taxes owed in the United States, we may not be able to fully utilize our foreign tax credits in the United States.

We use the recognition and measurement provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", ("FAS 109") to account for income taxes. The provisions of FAS 109 require companies to record a valuation allowance when the "*more likely than not*" criteria for realizing net deferred tax assets cannot be met. Furthermore, the weight given to the potential effect of such evidence should be commensurate with the extent to which it can be objectively verified. As a result, we review the operating results, as well as all of the positive and negative evidence related to realizability of such deferred assets to evaluate the need for a valuation allowance in each tax jurisdiction. As of March 31, 2006 and 2005, we maintain a valuation allowance for deferred tax assets in the Republic of Korea and Taiwan totaling $0.9 million and $0.3 million, respectively, as we believe the "*more likely than not*" criteria for recognition and realization purposes, as defined in FAS 109, has not been fully met.

The dollar amount of the provisions for income taxes has increased as a result of an increase in our profitability and the change in the mix of taxable income. For the three months ended March 31, 2006, our effective tax rate decreased to 36.6% from 40.6% for the first quarter of 2005 related to the change in the mix of taxable income.

Net Income

For the three months ended March 31, 2006, net income increased by $1.2 million, or 25.5%, to $5.9 million from $4.7 million for the first quarter of 2005. As a percentage of net sales, net income for the three months ended March 31, 2006, increased to 6.0% as compared to 5.5% for the first quarter of 2005. For the three months ended March 31, 2006, our diluted earnings per share increased by 29.4% , or $0.05 per share, to $0.22 per share from $0.17 per share for the first quarter of 2005. The increase in net income and earnings per share primarily related to an increase in gross profit and reducing operating costs as discussed above.

We increased our quarterly cash dividend from $0.07 per share to $0.08 per share for 2006. We periodically re-evaluate our dividend policy based on our ongoing consolidated results of operations, financial position, cash requirements, and other relevant factors. We have declared and paid the following dividends:

Date dividends declared	Date dividends paid	Total amount of dividends	Dividend paid per common share
November 2004	January 2005	$ 1.9 million	$ 0.07
March 2005	April 2005	$ 1.9 million	$ 0.07
June 2005	July 2005	$ 1.9 million	$ 0.07
September 2005	October 2005	$ 1.9 million	$ 0.07
November 2005	January 2006	$ 2.1 million	$ 0.08
March 2006	April 2006	$ 2.1 million	$ 0.08

Liquidity and Capital Resources

Our principal use of cash is to pay for operating expenses, including commissions and incentives, capital assets, inventory purchases, funding international expansion, and payment of quarterly dividends. We generally fund our business objectives, operations, and expansion of our operations through our net cash flows from operations rather than incurring long-term debt and we plan to continue to fund our needs through our net cash flows from operations. We have approximately $54.3 million in cash equivalents and $17.3 in investments which can be used along with our normal cash flows from operations to fund any unanticipated shortfalls in our future cash flows.

Cash and Cash Equivalents and Investments

For the three months ended March 31, 2006, we continue to preserve our strong cash and investment position. Our investment balance remained steady at $17.3 million. Our cash and cash equivalents decreased by 3.4%, or $1.9 million, to $54.3 million from $56.2 million at December 31, 2005. The decrease in cash and cash equivalents related to prepaying expenses and reducing accrued operating expenses, which were both associated with the timing of payment of operating expenses and capital asset purchases.

Working Capital

For the three months ended March 31, 2006, our working capital improved by 3.7%, or $1.4 million, to $39.5 million from $38.1 million at December 31, 2005. The increase in our working capital consisted of improving current assets by $0.8 million and reducing current liabilities associated with operating expenses by approximately $0.6 million. The increase in current assets was composed of recording an income tax receivable of $2.4 million and increasing prepaid expenses by $2.9 million, which related to prepaying for our annual travel incentive. This was partially offset by reducing cash and cash equivalents by $1.9 million and reducing inventories by $2.7 million.

Our net consolidated cash flows consist of the following:

	For the three months ended March 31,	
Provided by (used in):	**2005**	**2006**
Operating activities	$ 11.8 million	$ 5.1 million
Investing activities	$ (2.7 million)	$ (5.9 million)
Financing activities	$ (1.8 million)	$ (1.2 million)

Operating Activities

For the three months ended March 31, 2006, our net operating activities provided cash of $5.1 million compared to providing cash of $11.8 million for the first quarter of 2005. For the three months ended March 31, 2006, net income adjusted for noncash activities provided cash of $8.5 million as compared to providing cash of $6.1 million for the first quarter of 2005 and our working capital accounts used cash of $3.4 million in net operating cash flow as compared to providing $5.7 million in net operating cash flow for the first quarter of 2005. Our working capital accounts include increases and decreases in cash, investments, receivables, inventories, prepaid expenses and other current assets, payables, deferred revenues, accrued commissions, incentives and accrued expenses.

Investing Activities

Our net investing activities used cash of $5.9 million in 2006 as compared to using cash of $2.7 million for the first quarter of 2005. For the three months ended March 31, 2006, we purchased $5.9 million in capital assets as compared to purchasing $3.2 million in capital assets and investments for the first quarter of 2005, which was partially offset by decreasing restricted cash of $0.5 million related to our annual travel incentive security deposit.

Capital asset purchases include capitalized costs associated with our internally-developed software system. In 2004, we substantially completed the development of Phase I of this project, and in 2005 we began configuring Phase II of this project. We anticipate substantially completing the project in the third quarter of 2006. A recap of the total expected cost associated with this internally-developed software system is as follows:

	Capitalized costs	Non-capitalized costs	Total estimated costs
2004	$ 3.1 million	$0.5 million	$ 3.6 million
2005	$ 8.4 million	$2.3 million	$10.7 million
Three months ended March 31, 2006	$ 4.4 million	$0.8 million	$ 5.2 million
Anticipated costs to be incurred for the remainder of 2006	$10.1 million	$1.4 million	$11.5 million
Total costs of project	$26.0 million	$5.0 million	$31.0 million

Financing Activities

For the three months ended March 31, 2006, we used cash of $1.3 million as compared to using cash of $1.8 million for the first quarter of 2005, to fund our financing activities. For the three months ended March 31, 2006, we used cash of $2.1 million to fund a quarterly cash dividend to our shareholders, which was partially offset by receiving $0.7 million in cash proceeds from option holders exercising their stock options and recorded a tax benefit related to stock options exercised of $0.3 million. For the three months ended March 31, 2005, we used cash of $1.9 million to fund a quarterly cash dividend to our shareholders, which was partially offset by receiving $0.1 million in cash proceeds from option holders exercising their stock options.

General Liquidity and Cash Flows

We continue to generate positive cash flows from our operations and believe our existing liquidity and cash flows from operations are adequate to fund our normal business operations expected in the future, along with our estimated payments of cash dividends, plans for international expansion, and the development of our back-office systems for the next 12 to 24 months. However, if our existing capital resources or cash flows become insufficient to meet current business plans, projections, and existing capital requirements, we would be required to raise additional funds, which may not be available on favorable terms, if at all.

We do not have any special-purpose entity type arrangements, nor do we have any off balance-sheet arrangements. However, we do maintain certain future commitments associated with various agreements and contracts. As of March 31, 2006, our future commitments and obligations are as follows:

- funding various operating leases for building and equipment rental of $11.6 million through 2017;
- funding a 10-year supply agreement to purchase raw materials of $9.6 million through 2016;
- funding a 5-year supply agreement to exclusively purchase raw materials of $7.0 million through 2007;
- funding approximately $3.8 million for costs associated with our 2006 annual travel incentives;
- funding an estimated $3.3 million of the long-term post-employment royalty benefit related to royalties payable to Dr. McAnalley through 2015;
- funding a 5-year supply agreement to purchase raw materials of $3.2 million through 2010;
- funding a total of $2.2 million for non-cancellable employment agreements through December 2007, with Mr. Caster, Mr. Persinger, Mr. Price, and Ms. Simon all executive officers of the Company;
- funding a 5-year supply agreement to purchase raw materials of $1.3 million through 2008;
- funding $0.5 million for a one-year purchase commitment with a manufacturer to purchase raw materials in 2006 related to our new preservative-free skin care products;
- funding a cash donation of $0.5 million in 2006 to MannaRelief, a non-profit 501(c)(3) charity;
- funding $0.3 million related to a one-year consulting agreement with Dr. McAnalley; and
- funding $0.3 million for a clinical study with St. George's Hospital through 2006.

Recent Financial Accounting Standards Board Statements

FAS 156. In March 2006, FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140", ("FAS 156"). The provisions of FAS 156 require an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. In addition, the provisions of FAS 156 require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value. The provisions of FAS 156 is effective for fiscal years beginning after September 15, 2006. We do not believe that the adoption of FAS 156 will have a significant effect on our consolidated financial position, results of operations, or cash flows.

EITF 04-13. In September 2005, the FASB Emerging Issues Task Force ("EITF") released Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty", ("EITF 04-13"). The provisions of EITF 04-13 provide guidance on how to account for two or more inventory purchases and sales transactions with the same counterparty entered into in contemplation of one another and requires those transactions be combined under certain circumstances for purposes of applying Opinion 29, Accounting for Non-monetary Transactions. The provisions of EITF 04-13 are effective for new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period after March 15, 2006. We do not believe the adoption of EITF 04-13 will have a significant effect on our consolidated financial position, results of operations, or cash flows.

Forward-Looking Statements

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

- management's plans and objectives for our future operations;
- the adequacy of our existing cash flows to fund future operational needs;
- future plans related to our budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;
- the realization of our net deferred tax assets;
- our ability to maintain existing operating expenditure levels;
- our applicable statutory tax rates remaining unchanged;
- the impact of future market changes due to exposure to foreign currency translations;
- the possibility of certain of our policies, procedures, and internal processes minimizing exposure to market risk;
- the impact of any future accounting pronouncements on our financial position, results of operations, or cash flows;
- the outcome of new or existing regulatory and litigation matters; and
- other assumptions described in this report underlying such forward-looking statements.

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

- overall expected growth in the nutritional supplements industry;
- our plans for expected future product development;
- changes in our product mix and/or manufacturing costs;
- the future impact of any changes to our global associate career and compensation plan or incentives;
- our ability to attract and retain independent associates and members;
- regulatory changes that may affect our operations and/or products;
- any impact of competition, competitive products, and pricing;
- the political, social, and economic climate in which we conduct our operations; and
- the risk factors described in this report, as well as other reports we have filed with the United States Securities and Exchange Commission.

Forward-looking statements generally can be identified by the use of 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 our objectives, plans, strategies, targets or beliefs contained herein are also considered forward-looking statements. If one or more of these risks or uncertainties materialize, or if any underlying assumption proves incorrect, actual results may vary materially from those anticipated, expected, or projected. Such forward-looking statements reflect our current views with respect to future events and are subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. A detailed discussion of risks is included, under the caption “Risk Factors” in our Form 10-K, filed on March 16, 2006. We do not undertake any obligation to update or revise any of our forward-looking statements, whether as a result of new information, future events or otherwise. 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 since 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

We do not engage in trading market risk sensitive instruments and do not purchase investments as hedges or for purposes “other than trading” that are likely to expose us to certain types of market risk, including interest rate, commodity price, or equity price risk. Although we have some investments, we believe there has been no material change in our exposure to interest rate risk. We have not issued any debt instruments, entered into any forward or futures contracts, purchased any options, or entered into any swap agreements.

We are exposed to certain other market risks, including changes in currency exchange rates as measured against the United States dollar. The change in value of the United States dollar measured against foreign currency may affect our consolidated financial results, and as such, changes in foreign currency exchange rates could positively or negatively affect our results as expressed in United States dollars. For example, when the United States dollar strengthens against foreign currencies in which our products are sold or weakens against foreign currencies in which we may incur costs, our consolidated net sales and/or related costs and expenses could be adversely affected.

We believe inflation has not had a material impact on our consolidated operations or profitability. We expanded into Canada in 1996, into Australia in 1998, into the United Kingdom in 1999, into Japan in 2000, into New Zealand in 2002, into the Republic of Korea in 2004, into Taiwan and Denmark in 2005, and into Germany in 2006. Our United States operations services shipments to Canada, our Australian operation services shipments to New Zealand, and our United Kingdom operation services shipments to Denmark and Germany. We translate our revenues and expenses in certain foreign markets using either a current (spot) rate or weighted-average rate.

We believe we maintain policies, procedures, and internal processes that help monitor any significant market risks and we do not use any financial instruments to manage our exposure to such risks. We assess the sensitivity of our earnings and cash flows to variability in currency exchange rates by applying an appropriate range of potential rate fluctuations to our assets, obligations, and projected transactions denominated in foreign currencies.

We caution that we cannot predict with any certainty our future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on our future business, product pricing, operating expenses, and on our consolidated financial position, results of operations, or cash flows. However, to combat such market risk, we believe we closely monitor our exposure to currency fluctuations. The foreign currencies in which we currently have exposure to foreign currency exchange rate risk include currencies in Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, and Germany. The current (spot) rate, weighted-average currency exchange rates, and the low and high of such currency exchange rates as compared to the United States dollar, for each of these countries as of and for the three months ended March 31, 2006 were as follows:

Country (foreign currency name)	Low	High	Weighted-Average	Spot
Australia (Dollar)	$0.7044	$0.7562	$0.7398	$0.7603
Canada (Dollar)	$0.8536	$0.8825	$0.8142	$0.8662
Denmark (Krone)	$0.1585	$0.1647	$0.1612	$0.1622
Germany (Euro)	$1.1840	$1.2288	$1.2026	$1.1844
Japan (Yen)	$0.0084	$0.0088	$0.0086	$0.0089
New Zealand (Dollar)	$0.6028	$0.6992	$0.6664	$0.6813
Republic of Korea (Won)	$0.0010	$0.0011	$0.0010	$0.0010
Taiwan (Dollar)	$0.0303	$0.0314	$0.0310	$0.0304
United Kingdom (British Pound)	$1.7228	$1.7859	$1.7525	$1.7628

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chairman of the Board and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer) have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (as defined in Exchange Act Rules 13(a) and 15(d)-15(e)), 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 the Company in such reports is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2006, there were no changes in our internal control over our financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over our financial reporting. However, in the next six months, we plan to complete the conversion of our existing financial system in the Oracle/JD Edwards Enterprise One System, which will include converting existing balances from certain foreign operations within our Oracle/JD Edwards Enterprise One System. We also plan to complete the implementation of Phase II of our internally-developed software project, which will complete the integration of our global operational systems with our financial system into the Oracle/JD Edwards Enterprise One System. We do not anticipate the completion of the implementation of the fully-integrated system will have a material affect on our internal control over our financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We have been sued in three securities class action lawsuits in the United States District Court for the District of New Mexico.

- First, on August 1, 2005, Mr. Jonathan Crowell filed a putative class action lawsuit against us and Mr. Samuel L. Caster, our Chief Executive Officer, in the United States District Court for the District of New Mexico, on behalf of himself and all others who purchased or otherwise acquired our common stock between August 10, 2004 and May 9, 2005, inclusive, and who were damaged thereby.
- Second, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against us, Mr. Caster, Mr. Terry L. Persinger, our President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, our Chief Financial Officer.
- Third, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against us, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

The allegations in these class action lawsuits are substantially identical. The complaints allege we violated Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, alleging that defendants artificially inflated the value of our common stock by knowingly allowing independent contractors to recklessly misrepresent the efficacy of our products during the purported class period.

On December 12, 2005, the Court granted a motion to consolidate the three putative class action lawsuits. These lawsuits have been consolidated into the civil action styled “In re Mannatech, Incorporated Securities Litigation.” Also, on January 4, 2006, the Court granted a motion in the consolidated putative class action lawsuit to appoint “The Mannatech Group,” consisting of Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John C. Ogden, and the Plumbers and Pipefitters Local 51 Pension Fund, as lead plaintiffs. The January 4, 2006 court order also appointed the law firms Lerach Coughlin Stoia Geller Rudman & Robbins LLP as lead counsel, and Freedman Boyd Daniels Hollander & Goldberg, P.A. as liaison counsel, for the putative class. On March 3, 2006, the plaintiffs in the consolidated cases filed a Consolidated Class Action Complaint for Securities Fraud.

Pursuant to an order entered on April 11, 2006, the timetable for the Company and the Individual Defendants to move to dismiss, answer, or otherwise plead in response to the amended consolidated complaint is dependent on the Court’s rulings on our motion filed on April 4, 2006, to transfer venue to the United States District Court for the Northern District of Texas. If the Court denies the motion to transfer venue, we will have until May 18, 2006 to file a motion to move to dismiss, answer, or otherwise plead. However, if the Court grants the motion to transfer venue, the order does not specify a deadline for our response to the amended complaint and the timetable will be determined by the transferee court.

We have also been sued in three shareholder derivative lawsuits.

- First, on October 18, 2005, a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division.
- Second, on January 11, 2006, a shareholder derivative action was filed by Kelly Schrimpf, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Steven W. Lemme, and Stephen D. Fenstermacher in the 162nd District Court of Dallas County, Texas.
- Third, on January 13, 2006, a shareholder derivative action was filed by Frances Nystrom, Derivatively and on Behalf of Nominal Defendant Mannatech, Incorporated v. Samuel L. Caster, Terry L. Persinger, Stephen D. Fenstermacher, John Stuart Axford, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, Patricia A. Wier, and Donald A. Buchholz in the United States District Court for the Northern District of Texas.

Each of these shareholder derivative lawsuits makes allegations similar to the allegations of the shareholder class action litigation described above. Our independent directors have appointed a Special Litigation Committee to review these matters and determine the proper corporate response. On February 22, 2006, we filed a Motion Requesting Stay of Derivative Proceedings Pending Inquiry into Plaintiffs Claims in the Schrimpf lawsuit. By an order entered on April 25, 2006, the 162nd District Court of Dallas County, Texas, stayed further action in the Schrimpf derivative action pending the disposition of the Middleton case, the first-filed derivative action.

On March 13, 2006, we filed motions to consolidate the Middleton and Nystrom derivative actions into one action and to stay each action pursuant to Texas Business Corporation Act art. 5.14. However, by order dated May 2, 2006, the United States District Court for the Northern District of Texas denied the motion to stay the Nystrom action but the motion to consolidate and the motion to stay pursuant to art. 5.14 of the Texas Business Corporation Act in the Middleton action, both of which have not been opposed, as well as the unopposed motion to stay and to appoint lead derivative plaintiff and lead derivative counsel, filed by Middleton's counsel on November 29, 2005, remain pending before the court.

Plaintiffs in the consolidated putative class actions and in the shareholder derivative actions seek an unspecified amount of compensatory damages, interest, and costs, including legal and expert fees.

In response to these actions, we continue to work with our experienced securities litigation counsel to vigorously defend us and our officers and directors. We also believe this type of litigation is inherently unpredictable. It should be noted that a court must certify a class before a case can proceed as a class action lawsuit and that the determination has not been made in the consolidated securities cases. We believe these types of repetitive lawsuits (seeking class action status) are common in today's litigious society and many reputable companies have successfully defended themselves against such litigation. It is not possible at this time to predict whether we will incur any liability, or to estimate the damages or the range of damages, if any, that we might incur in connection with any of these above mentioned securities and derivative lawsuits.

On February 25, 2005, as part of our worldwide enforcement efforts of our intellectual property rights, we filed a patent infringement lawsuit in the High Court, Chancery Division, Patents Court in London, seeking a permanent injunction and certain damages against BION, Inc., a nutritional supplement provider, and its principal Mr. Veilis Boye, claim no. HC05C00436 as we alleged infringement of certain claims of our European Patent (UK) No. 0 923 383. On March 20, 2006, under an order by the Court, BION, Inc. agreed to cease "in any form and by any means", manufacturing, sales, and importation of all of its dietary supplements related to glyconutrition.

On March 16, 2006, we filed a patent infringement lawsuit against Glycobiotics International, Inc. for alleged infringement of our utility U.S. Patent No. 6,929,807 ("Compositions of Plant Carbohydrates as Dietary Supplements") in the United States District Court of the Northern District of Texas. We sued Glycobiotics to cease the manufacture, sale, and use of their glyconutritional product marketed under the brand name "Glycomannan" and for alleged unfair competition due to false and misleading statements.

On May 5, 2006, we also filed a patent infringement lawsuit against Techmedica Health™ Inc., for alleged infringement of our utility U.S. Patent No. 6,929,807 ("Compositions of Plant Carbohydrates as Dietary Supplements") in the United States District Court of the Northern District of Texas. We sued Techmedica Health to cease the manufacture, sale, and use of their glyconutritional product marketed under the brand name "Nutraose".

We also have several pending claims incurred in the normal course of business. In the opinion of management, such claims can be resolved without any material affect on our consolidated financial position, results of operations, or cash flows.

We maintain certain liability insurance in amounts we believe are adequate. However, certain costs of defending lawsuits, such as those below the insurance deductible amount, are not covered by or only partially covered by our insurance policies, and our insurance carriers could refuse to cover certain of these claims in whole or in part.

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Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business and/or our consolidated financial position, results of operations, and cash flows. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may become materially adverse or may affect our business in the future and/or our consolidated financial position, results of operations, or cash flows.

Item 2. Unregistered Sales or Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

Effective March 31, 2006, Jeffrey Bourgoyne, our Senior Vice President of Supply Chain and Associate Care, resigned to pursue other interests and on April 18, 2006, Steven Lemme, our Senior Vice President of Sales and Marketing, resigned to pursue personal interests.

In April 2006, we hired Robert Pancio, as our Vice President of Global Human Resources and Gary Spinell, as our Vice President of Treasury and Investor Relations. In May 2006, we cancelled the consulting agreement with Fredrick Media LLC and also hired its founder, Landen Fredrick as our Director of Sales and Marketing. Landen Fredrick is the son of J. Stanley Fredrick, who serves as our Lead Director on our Board of Directors.

Item 6. Exhibits

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Exhibit (s)**	**Filing Date**
3.1	Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998.	S-1	333-63133	3.1	October 28.1998
3.2	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001.	8-K	000-24657	99.1	August 22, 2001
4.1	Specimen Certificate representing Mannatech's common stock, par value $0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1	Letter of Understanding between Mannatech and Dr. John Axford, dated April 19, 2006.	8-K	000-24657	99.1	April 20, 2006
10.2*	Supply agreement between Mannatech and InB:Biotechnologies, Inc., dated March 22, 2006. (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	*	*	*	*
10.3*	Supply agreement between Mannatech and Fine Chemetics, Inc., dated March 29, 2006 (Portions of this exhibit were omitted pursuant to a confidential treatment request submitted pursuant to Rule 24b-2 of the Exchange Act.)	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*

* filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

MANNATECH, INCORPORATED

May 10, 2006	/S/ SAMUEL L. CASTER **Samuel L. Caster** Chief Executive Officer and Chairman of the Board (principal executive officer)
May 10, 2006	/S/ STEPHEN D. FENSTERMACHER **Stephen D. Fenstermacher** Senior Vice President and Chief Financial Officer (principal financial officer)

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INDEX TO EXHIBITS

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* filed herewith.

****** Indicates omitted material that is the subject of a confidential treatment request filed separately with the Commission.***

SUPPLY LICENSE AGREEMENT

This Supply License Agreement (this ***"Agreement"***), dated as of March 22, 2006, is entered into by and between Mannatech, Inc., a Texas corporation having a place of business at 600 South Royal Lane, Suite 200, Coppell, TX 75019 ***("Buyer")*** and InB:Biotechnologies, Inc., a New Jersey corporation having a place of business at 255 Long Avenue, Hillside, New Jersey 07205 ("***Seller***").

R E C I T A L S

WHEREAS, Seller is engaged in the business of manufacturing and supplying certain types of plant-derived mineral nutrition technologies, including but not limited to the nutritional supplements and methods for the production thereof disclosed and claimed in U.S. Patent No. 6,270,809 (collectively, ***"Plant-Derived Mineral Nutrition Products")***;

WHEREAS, Buyer develops and sells proprietary nutritional supplements and topical products (collectively, ***"Buyer Products")*** through a network marketing system throughout the United States, Canada, Australia, New Zealand, the United Kingdom, Denmark, South Korea, Taiwan and Japan by distributors referred to as Independent Associates ***("Distributors");***

WHEREAS, Buyer and Seller now wish to set forth the terms by which Seller grants to Buyer an exclusive license under Seller's intellectual property and the terms on which Buyer will, during the period set forth in this Agreement, order and purchase Plant-Derived Mineral Nutrition Products that are manufactured by Seller (the "***InB:B Technology***").

A G R E E M E N T

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Intellectual Property License.

(a) License. During the Term (defined below) and subject to the terms and conditions contained herein, Seller hereby grants to Buyer an exclusive license for the Field and Territory (as defined below) and subject to minimum purchase requirements as set forth in paragraph 2 hereof under Seller 's intellectual property, including U.S. Patent No. 6,270,809, and any other related intellectual property (collectively the ***"Seller Intellectual Property")***. Buyer's license under the Seller Intellectual Property shall include the right to make, have made, use, sell and have sold Buyer Products that include InB:B Technology. Buyer's license under the Seller Intellectual Property shall not include the right to grant sub-licenses to third parties, however, notwithstanding anything to the contrary herein, Seller acknowledges and agrees that the Distributors of Buyer Products shall have the right to sell Buyer Products that include Plant-Derived Mineral Nutrition Products.

(b) "***Field***" The field ***("Field")*** of Buyer's license under the Seller Intellectual Property is for InB:B Technology containing six or more mineral ingredients in a single formula, such as products sold under the trade name Multimins™ and products that include the "InB:B-MM Formula," which is set forth in the Quality Assurance Agreement referred to in paragraph 7 hereof, and incorporated by reference herein Seller acknowledges and agrees that insofar as this Agreement is concerned, Buyer shall not be restricted from including the InB:B Technology in any Buyer Products or from combining the InB:B Technology with any other ingredients.

(c) "***Territory***" The territory shall be worldwide and exclusive with respect to InB:B Technology sold in a multi-level marketing and as related to China, in a direct sales distribution system.

(d) "***Manufacturing***" During the Term (defined below), Buyer shall not, directly or indirectly, engage in or arrange to subcontract for the manufacture of InB:B Technology; provided that Buyer shall not be restricted from manufacturing the InB:B Technology during the Term if Seller permanently ceases the manufacture of InB:B Technology or Seller is unable to fulfill Buyer's orders for InB:B Technology by the Shipment Date in accordance with Section 3.

(e) "***Buyer Non-Exclusivity***". This Agreement does not prohibit, and shall not be construed or deemed to prohibit, Buyer from obtaining Plant-Derived Mineral Nutrition Products or any other dietary or nutritional supplement, product or ingredient therefor from any supplier of such items other than Seller, provided that the sale and purchase of such other products do not violate Seller's intellectual property rights and provided further that Buyer is not in default of its obligations to Seller under this Agreement.

(f) ***"Term"*** shall mean the period beginning on the date hereof for a ten (10) year period or unless earlier terminated by either party subject to sections 2(d) and 10 hereof.

(g) ***"Renewals"*** The term of this Agreement may be extended for additional ten (10) year terms by mutual written agreement between the parties.

2. Supply of InB:B Technology. In order to obtain and maintain its rights hereunder, during the Term and subject to the terms and conditions contained herein, Buyer will order and purchase the minimum quantities of InB:B: Technology from Seller set forth in this Section 2 (each a "Purchase Commitment"). Seller warrants that the InB:B Technology will comply with GMP standards applicable to such products and meet the product specifications set forth in the Quality Agreement as defined in paragraph 7 hereof.

(a) First Twelve (12) Month Period. Concurrently with the execution of this Agreement, Buyer will place an irrevocable purchase order for 5,000 Kg of InB:B Technology but may arrange for shipment of this Initial Purchase Commitment over the course of the first eleven-(11) month period after the date of this Agreement, with payment in relation to each shipment such that full payment for this Purchase Commitment will be made before the end of twelve (12) months after the date of this Agreement.

(b) Second Twelve (12) Month Period. In order to maintain its exclusive license hereunder, not later than ninety (90) days before the second twelve (12) month period of the Term ("***Second Agreement Year***"), Buyer will place an irrevocable purchase order for not less than 10,000 Kg. of InB:B Technology but may arrange for shipment of such Purchase Commitment over the course of the first eleven (11) months of the Second Agreement Year, with payment in relation to each shipment such that full payment for such Purchase Commitment will be made before the end of the Second Agreement Year.

(c) Additional Twelve (12) Month Periods. In order to maintain its exclusive license hereunder, not later than ninety (90) days before the commencement of any subsequent twelve (12) month period during the Term ("***Subsequent Agreement Year***"), Buyer will place an irrevocable purchase order for not less than 15,000 Kg. of InB:B Technology but may arrange for shipment of such Purchase Commitment over the course of the first eleven (11) months of any Subsequent Agreement Year, with payment in relation to each shipment such that full payment for such Purchase Commitment will be made before the end of any such Subsequent Agreement Year.

(d) Conversion. In the event Buyer shall not meet or exceed the Purchase Commitments set forth in Sections 2(b) or (c) above for any twelve (12) month period, Seller shall have the right, upon sixty (60) days notice, to convert the License granted in Section 1 from exclusive to nonexclusive, or, if Buyer has not met its Purchase Commitment set forth in Section 2(a) and at least fifty percent (50%) of any subsequent Purchase Commitment, Seller shall be entitled to cancel the license completely without further obligation of either party other than to satisfy any accrued liabilities and obligations including the obligation to accept and pay for any open balance of a Purchase Commitment created by Buyer's delivery of an irrevocable order pursuant to this Section 2. The foregoing notwithstanding, Seller shall have a reasonable period of time to exhaust its current inventory of Buyer's Products containing Seller's InB:B Technology. Buyer may, however, maintain the exclusivity of its license, notwithstanding any notice from Seller, if prior to expiration of the sixty (60) day notice period, Buyer shall pay to Seller a sum which is equal to the price of InB:B Technology necessary to bring Buyer's orders of InB:B Technology up to the specified minimum for such twelve (12) month period. Failure of Seller to give the notice provided for in this Section 2(d) shall not constitute a waiver of the right to give such notice in reference to any subsequent twelve (12) month period during the Term.

3. Orders.

(a) Buyer may place orders for InB:B Technology in such manner and on such form as Buyer and Seller may agree upon from time to time; provided, that in the absence of such agreement, each order shall (i) be in writing, (ii) specify the quantity of InB:B Technology ordered, (iii) subject to Section 3(b), specify the date on which the InB:B Technology must be shipped to Buyer or its designee (the ***"Shipment Date")***, and (iv) be faxed to Seller at (302) 737-2708 or such other fax number as Seller shall designate in accordance with Section 14(e). Each order placed by Buyer for InB:B Technology during the Term shall be subject to the terms of this Agreement (including without limitation the price and other terms set forth in Section 6), whether or not either party signs and delivers a purchase order, invoice or other document, instrument or agreement that includes terms that are in conflict with the terms of this Agreement.

(b) The Shipment Date for any order placed for the purchase of less than 1,000 Kg of Seller's Products shall be no earlier than 60 days from the date that the order is placed by Buyer. The Shipment Date for any order placed for the purchase of 1,000 Kg or more but less than 2,500 Kg of Seller's Products shall be no earlier than 120 days from the date that the order is placed by Buyer. The Shipment Date for any order placed for the purchase of 2,500 Kg or more of Seller's Products shall be no earlier than 120 days from the date the order is placed by Buyer. If Buyer makes a written request for an order of 2,500 Kg or greater for periodic shipments, then Seller shall use its commercially reasonable efforts to comply with such request. The calculation of permitted Shipment Dates for any new order placed while a prior order is still in process will use the Shipment Date of the prior order as the first point from which the minimum period before the next Shipment Date is measured.

4. Credit Against Commitment Amount. Each order for InB:B Technology submitted to Seller by Buyer in accordance with the terms of this Agreement, shall be deemed to satisfy a portion of the applicable Purchase Commitment amounts set forth in Section 2, in an amount equal to the ordered quantity of such InB:B Technology, whether or not (i) Seller determines not to accept the order under Section 5 or (ii) Seller otherwise fails to manufacture, procure or supply such InB:B Technology; provided, however, that accepted orders that are subsequently canceled by Buyer (for any reason other than material nonperformance by Seller) shall not be deemed to satisfy a portion of the applicable Purchase Commitment amounts; provided further, that No Response Orders (defined below) that are not resubmitted by Buyer in accordance with Section 5 shall not be deemed to satisfy a portion of the applicable Purchase Commitment amounts.

5. Acceptance. After receiving an order for Seller's Products from Buyer, Seller may accept the order and confirm the Shipment Date only by delivering to Buyer a written response not later than the tenth business day after Seller's receipt of the order. If Seller does not timely notify Buyer in writing of such acceptance (a ***"No Response Order"***), then Buyer may resubmit the order to Seller via facsimile in accordance with Section 14(e) hereof. If Buyer does not receive a response within two business days after such resubmission, then (i) the order shall be deemed to have been rejected and Buyer shall have no obligation thereunder (but the order shall count as satisfaction of a portion of the then applicable Purchase Commitment amount); and (ii) Buyer shall be permitted to manufacture or have manufactured the Seller's Products in the quantity set forth in the No Response Order. If Buyer receives a response within two business days after such resubmission, then for the purposes of Section 3(b), the order shall be deemed to have been placed on the date of its resubmission in accordance with this Section 5.

6. Price.

(a) Price. All InB:B Technology ordered by Buyer from Seller during the Term shall be ordered (and, if such order is accepted, and such InB:B Technology actually are sold, purchased and shipped) at prices no greater than those set forth on the price schedule attached hereto as Exhibit A, plus applicable freight and shipping charges and taxes, and subject to the other terms set forth in this Agreement. The terms of payment are two percent (2%) discount for payment within ten (10) days of shipment, the scheduled price for payment between eleven (11) and thirty (30) days after shipment, and interest at one and one-half percent (1 $^{1}/_{2}$%) per month thereafter, provided, however, that payment in full is due before the thirty-first (31st) day and failure to make such payment shall constitute a default hereunder.

(b) Invoices. Simultaneously with or after shipment to Buyer of InB:B Technology ordered by Buyer pursuant to an order that was accepted in accordance with Section 5 of this Agreement, Seller shall deliver a written invoice to Buyer. If the order results in the shipment of InB:B Technology in separate truckloads over a period of time, then Seller may deliver separate invoices to Buyer simultaneously with, or after, each truckload shipment to Buyer of InB:B Technology.

(c) Payment Terms.

(i) During the Term, Buyer shall be entitled to a two percent (2%) discount on all invoices that are remitted in full within ten days of receipt of the applicable invoice by Buyer. All other invoices submitted by Seller shall be paid within 30 days of receipt of the applicable invoice by Buyer (the ***"Normal Payment Period"***) unless Buyer provides written notice of a good faith dispute with respect to such invoice (each, a ***"Dispute Notice"***) to Seller before the expiration of the Normal Payment Period. For example, the basis for Buyer to provide a Dispute Notice might include a dispute relating to the quantity, condition, price or shipment of InB:B Technology corresponding to a particular invoice, but product warranty or product liability claims would not be a basis for a Dispute Notice; provided, however, that the rejection of any InB:B Technology within 30 days after such product has been delivered to Buyer shall not be deemed a product warranty claim. The Dispute Notice shall state the date and the dollar amount of the disputed invoice. If only a portion of an invoice is disputed, the Dispute Notice shall state the dollar amount of the disputed portion and the amount of the undisputed portion of the invoice shall be paid on or before the end of the Normal Payment Period. Buyer and Seller shall use commercially reasonable efforts to resolve any invoice dispute within 10 days of the date of the Dispute Notice. After such time, either Buyer or Seller may submit such dispute to arbitration pursuant to Section 14(m).

(ii) All portions of invoices that are not the subject of a Dispute Notice and are not remitted by Buyer within 30 days of the receipt thereof shall accrue simple interest (calculated effective as of the 31^{st} day following receipt of invoice) at a rate of one and one-half percent ($1\,{}^{1}/_{2}$%) per month.

(e) Shipment Terms. InB:B Technology is sold and priced F.O.B. at Seller's warehouse facility at 225 Long Avenue, Hillside, New Jersey. If Buyer determines to provide or arrange its own freight with respect to any InB:B Technology ordered during the Term, then Seller shall be notified of such determination in writing at the time such InB:B Technology are ordered. Seller shall prepay all freight and insurance charges from the origin for shipments that are arranged or provided by Seller, at the request of Buyer; provided, such amounts shall be added to invoices and not included in product prices. Title to InB:B Technology furnished in accordance with this Agreement, and risk of loss or damage to such InB:B Technology, shall pass to Buyer (or to such Buyer's customer or designee who receives such Seller's Products) upon delivery of such InB:B Technology to the freight provider designated by Buyer, or if none is designated, chosen by Seller. Seller warrants and guarantees to Buyer that when the title to such InB:B Technology passes to Buyer (or to such Buyer's customer or designee who receives such InB:B Technology), such title shall be good and marketable title, free and clear of liens and encumbrances.

(f) Warranty Terms. The currently applicable warranty terms for InB:B Technology are included in the Quality Assurance Agreement incorporated in paragraph 7 hereof.

7. Quality Assurance

The Parties understand and agree that the Quality Assurance Agreement, incorporated by reference herein and executed contemporaneously with this Agreement (the ***"Quality Agreement"),*** sets forth the parties' responsibility for Quality Assurance.

8. Name and Trademarks

(a) Buyer has the right, in its sole discretion, to place such names or trademarks on the Buyer Products that include InB:B Technology as Buyer deems advisable. Prior to shipping the InB:B Technology, Seller shall, if requested by Buyer, place such serial numbers, trade names, trademarks or other marks or identification on the InB:B Technology.

(b) Buyer shall not be obligated to use any of Seller's trademarks or trade names, including but not limited to the mark "Multimins™ " in connection with Buyer's marketing and sale of Buyer Products that include Plant-Derived Mineral Nutrition Products, but Buyer shall be required to include on packaging and collateral the clause "Manufactured under U.S. Patent No. 6,270,809".

(c) Seller shall not use Buyer's corporate name or any trademark or trade name used by Buyer, or any confusingly similar name or trademark without the prior written consent of Buyer.

9. Limitation of Liability.

(a) Direct Damages. Notwithstanding any other provision of this Agreement, in the event either party is entitled to recover damages under this Agreement, such claims or relief shall be limited to direct damages.

(b) Consequential Damages. In no event shall either party hereto shall be liable to the other party for any damages, direct or indirect, consequential, incidental, punitive, special or indirect damages, including but not limited to any damages based on any loss (or anticipated loss) of income, business, sales, profits or earnings, or based on expenditures, investments, costs, actions taken or commitments made or entered into in reliance of or in any way related to the performance of this Agreement or resulting from the use of or inability to use the InB:B Technology or the performance or non-performance of any services, including the failure of essential purpose, even if such party has been notified of the possibility or likelihood of such damages occurring.

10. Termination. This Agreement may be terminated prior to the expiration of the Term or any extension thereof, as follows:

(a) Mutual. By mutual written agreement of Buyer and Seller.

(b) By Buyer. (i) if Seller breaches in any material respect the terms, covenants or agreements set forth in this Agreement and fails to cure such breach within 30 days of its receipt of written notice thereof, (ii) the freight or shipping charges associated with InB:B Technology sold hereunder materially increase in the aggregate as a result of the relocation of the production facilities of Seller, or (iii) if Seller ceases to offer for sale the InB:B Technology. Buyer shall only have 30 days to exercise a right of termination under this Section 10(b), provided such 30-day period shall not commence until Buyer obtains knowledge of such right to terminate or, if Buyer's right to terminate is conditioned upon providing Seller notice and an opportunity to cure, upon the expiration of such cure period (provided Seller has not cured the applicable breach).

(c) By Seller. By Seller if (i) Buyer breaches in any material respect the terms, covenants or agreements set forth in this Agreement and, except with respect to non-payment breaches, fails to cure such breach within 30 days of its receipt of written notice thereof, (ii) (A) Buyer fails to pay any invoices, or portions thereof, that are not the subject of a Dispute Notice for 40 days after the date of Buyer's receipt of such invoices. Seller shall only have 30 days to exercise a right of termination under this Section 10(c), provided such 30-day period shall not commence until Seller obtains knowledge of such right to terminate, or if Seller's right to terminate is conditioned upon providing Buyer notice and an opportunity to cure, upon the expiration of such cure period (provided Buyer has not cured the applicable breach).

(d) By Buyer or Seller. By Buyer or Seller (if such party has not breached in any material respect the terms, covenants or agreements set forth in this Agreement) by written notice to the other party, after the occurrence of one of the following events of a Bankruptcy with respect to the other party:

(i) the filing of an application by the party for, or a consent to the appointment of, a trustee or receiver of its assets;

(ii) the filing by the party of a voluntary petition in bankruptcy or the filing of a pleading in any court of record admitting in writing its inability to pay its debts as they come due;

(iii) the making by the party of a general assignment for the benefit of its creditors;

(iv) the filing by the party of an answer admitting the material allegations of, or its consenting to, or defaulting in answering, a bankruptcy petition filed against it in any bankruptcy proceeding; or

(v) the entry by any court of competent jurisdiction of an order for relief of the party under Chapter 7 or 11 of United States Code, the entry of any order, judgment or decree having a similar effect under any other applicable law or the entry of any order, judgment or decree appointing a trustee or receiver of the assets of the party, and any such order, judgment or decree continuing unstayed and in effect for a period of 30 days after the entry;

11. Effect of Termination. Upon termination of this Agreement (either pursuant to Section 10 or upon expiration or completion of the Term) all obligations of Buyer and Seller created under this Agreement (including without limitation, the Purchase Commitments set forth in Section 2) shall immediately cease and be of no further force and effect and Buyer and Seller shall not have any continuing obligation or liability created under this Agreement; provided, however, that the following obligations shall not terminate upon termination of this Agreement:

(a) Warranty, Indemnity and Defense Payment Obligations. Seller shall remain obligated under all contractual warranties applicable to InB:B Technology previously sold, furnished, or provided to Buyer pursuant to this Agreement, and to the obligations described in Sections 14(k) and 14(m) hereof.

(b) Seller Payment Obligations. Seller shall continue to be obligated to pay or credit amounts due under, or to refund or credit amounts overcharged or otherwise refundable under any invoice for InB:B Technology actually delivered hereunder.

(c) Buyer Payment Obligations. Buyer shall continue to be liable for the payment of all accrued obligations, including amounts due under any invoice, plus any accrued interest thereon, for InB:B Technology actually delivered hereunder and the obligation to accept and pay for any InB:B Technology subsequently shipped or tendered by Seller to fulfill the balance of any Purchase Commitments outstanding as of the date of termination.

(d) Termination Due to Default. If the termination is due to a default by one of the parties, then such defaulting party shall remain liable to the non-defaulting party for damages, if any, in accordance with this Agreement.

(e) Buyer Inventory. Buyer will have a reasonable period of time to exhaust all inventory of sales, marketing and promotional materials and Buyer Products incorporating InB:B Technology.

12. Representations.

(a) Seller Representations. Seller represents and warrants to Buyer as follows:

(i) Seller has the legal capacity and full power and authority to enter into this Agreement. This Agreement constitutes a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with the terms thereof. The execution, delivery and performance by Seller of this Agreement and the compliance by Seller with the provisions hereof will not conflict with, or result in any violation of or default by Seller under any agreement or instrument to which Seller is a party or by which Seller or the Seller Intellectual Property may be bound.

(ii) Seller owns or has the rights to the entire right, title and interest in and to the Seller Intellectual Property, free and clear of all liens and encumbrances, except for and subject to liens for maintenance fees not yet due or payable. The relevant Seller Intellectual Property rights are in Seller's exclusive possession and control.

(iii) Seller has not received any notice of infringement, misappropriation or conflict from any third party with respect to the Seller Intellectual Property or the InB:B Technology and Seller has no knowledge of any reasonable basis for a claim that the Seller Intellectual Property or the InB:B Technology infringe or otherwise conflict with any proprietary information of any third party. Seller has not indemnified any third party for patent, trademark, service mark or copyright infringement relating to the Seller Intellectual Property or the InB:B Technology.

(iv) To the knowledge of Seller, there is no action, suit, claim, judgment, investigation or legal, administrative, arbitration or other proceeding, or governmental investigation or examination, pending or to the knowledge of Seller threatened against or affecting Seller, Seller Intellectual Property or the InB:B Technology, at law or in equity, before or by any governmental entity and no reasonable basis exists for any such action, suit, claim, investigation or proceeding.

(b) Buyer Representations. Buyer represents and warrants to Seller as follows:

(i) Buyer has the legal capacity and full power and authority to enter into this Agreement. This Agreement constitutes a legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with the terms thereof. The execution, delivery and performance by Buyer of this Agreement and the compliance by Buyer with the provisions hereof will not conflict with, or result in any violation of or default by Buyer under any agreement or instrument to which Buyer is a party or by which Buyer may be bound.

(ii) All Buyer Products will be produced and marketed in accordance with all relevant laws, regulations, and safety provisions.

(iii) Buyer has not received any notice of infringement, misappropriation or conflict from any third party with respect to the production or use of Buyer Products and Buyer has no knowledge of any reasonable basis for a claim that the Buyer Products infringe or otherwise conflict with any proprietary information of any third party.

13. Obligations

(a) Joint Obligations

(i) Insurance. Within ten (10) days after the commencement of the Term of this Agreement, each of Seller and Buyer shall deliver to the other a certificate of insurance pertaining to liability coverage including product liability coverage, which shall specifically state that the receiving party, its subsidiaries and its affiliates are named as an additional insured on a primary basis. Such evidence of insurance shall specify the date when such insurance expires and that all insurance coverages will not be canceled without giving the receiving party thirty (30) days advance written notice. In the event such notice of cancellation is given, unless within said 30 day period prior to cancellation, new insurance acceptable is obtained, the party responsible to provide such insurance shall have committed a material breach of this Agreement. The required minimum coverage of the policies required to be provided by Seller and Buyer is as set forth in Exhibit "B" to this Agreement.

(ii) Indemnification. Each party shall indemnify and hold the other party harmless from any actions, suits proceedings, damages, expenses and fees (including any reasonable attorney fees) which the other party incurs as a result of (x) any breach of warranty of such party's product, (y) any failure by such party to comply with any applicable laws or regulations, or (z) any liability to third parties (including reasonable attorney's fees) for any personal injury, property damage or economic loss, or claim therefor, including death or other loss, cost or expense, to the extent caused by the products of such party (whether sounding in tort, contract, negligence, strict liability, or any other legal theory), except to the extent that such claim is determined to be due to the gross negligence or intentional misconduct of, the other party, its customers, its employees, or its agents. In the event of any such claim for indemnity, the party seeking indemnity shall promptly notify the indemnifying party in writing, and the indemnifying party shall have the exclusive right to defend such action, through legal counsel of its own choosing and at its own expense.

(b) Seller Obligations

(i) Patent Maintenance. During the Term, Seller shall pay any and all maintenance fees and annuities to maintain the enforceability of U.S. Patent No. 6,270,809 and any and all other patents and/or patent applications included in the Seller Intellectual Property.

14. Miscellaneous.

(a) Governing Law; Attorneys' Fees. This Agreement shall be governed by, construed, interpreted and applied in accordance with the laws of the State of Delaware, without giving effect to any conflict of laws rules that would refer the matter to the laws of another jurisdiction.

Seller and Buyer hereby irrevocably submit to the jurisdiction of the state or federal courts located in the city of Wilmington, Delaware, for the purposes of any action arising out of this Agreement, or the subject matter hereof, brought by the other party.

To the extent permitted by applicable law, Seller and Buyer hereby waive and agree not to assert, by way of motion, as a defense or otherwise in any such action, any claim (i) that it is not subject to the jurisdiction of the above-named courts, (ii) that the action is brought in an inconvenient forum, (iii) that it is immune from any legal process with respect to itself or its property, (iv) that the venue of the suit, action or proceeding is improper or (v) that this Agreement, or the subject matter hereof or thereof, may not be enforced in or by such courts.

The prevailing party in any action or proceeding relating to this Agreement shall be entitled to recover reasonable attorneys' fees and other costs from the non-prevailing party, in addition to any other relief to which such prevailing party may be entitled.

(b) Successors and Assigns. The provisions hereof shall inure to the benefit of, and be binding upon, the permitted assigns, successors, heirs, executors and administrators of the parties hereto. This Agreement may not be assigned without the written consent of the other party and any attempted assignment without such consent shall be null and void.

(c) Entire Agreement; Amendment. This Agreement constitutes the full and entire understanding and agreement between the parties and supersedes any other agreement, written or oral, with regard to the subject matter hereof. Except as expressly provided herein, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated, except by a written instrument signed by the parties hereto.

(d) No Strict Construction. The parties hereto confirm that they have each participated in the negotiation and preparation of this Agreement and that this Agreement represents the joint agreement and understanding of the parties. The language used in this Agreement has been mutually chosen by the parties hereto, and no rule of strict construction construing ambiguities against the draftsperson shall be applied.

(e) Notices, Etc. Except as specifically provided herein with respect to orders and acceptances of orders hereunder, all notices and other communications required or permitted hereunder shall be in writing and shall be mailed by certified or registered mail, postage prepaid with return receipt requested, telecopy (with hard copy delivered by overnight courier service), or delivered by hand, messenger or overnight courier service, and shall be deemed given when received at the addresses of the parties set forth below, or at such other address furnished in writing to the other parties hereto.

If to Seller:	InB:Biotechnologies, Inc. 255 Long Avenue Hillside, New Jersey 07205 Attn: Orn Adalsteinsson Tel: (302) 545-9831 Fax: (302) 737-2708
If to Buyer:	Mannatech, Inc. 600 South Royal Lane, Suite 200 Coppell, TX 75019 Attn: General Counsel Tel: (972) 471-7388 Fax: (972) 471-7387

(f) No Agency. Nothing contained in this Agreement shall create a joint venture, partnership or agency relationship between the parties hereto.

(g) Reformation; Severability. If a court having jurisdiction holds any provision hereof to be invalid, illegal or unenforceable, such provision shall be reformed to best effectuate the intent of the parties and permit enforcement thereof, and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. Any such provision that is not capable of reformation shall be severed from this Agreement and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one and the same instrument. Any counterpart may be delivered by facsimile; provided that attachment thereof shall constitute the representation and warranty of the person delivering such signature that such person has full power and authority to attach such signature and to deliver this Agreement. Any facsimile signature shall be replaced with an original signature as promptly as practicable.

(i) Titles and Subtitles. The titles of the paragraphs and subparagraphs hereof are for convenience of reference only and are not to be considered in construing this Agreement. References to "Sections" herein are references to sections of this Agreement. The words "herein," "hereof," "hereto" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section or other subdivision.

(j) Expenses. Except as otherwise expressly provided herein, each party hereto shall bear its respective costs and expenses incurred in connection with the preparation, execution and performance of this Agreement and the transactions contemplated herein or therein, including without limitation all fees and expenses of agents, representatives, counsel and accountants.

(k) Confidentiality. During the Term and thereafter, the parties shall treat the terms of this Agreement as being confidential and shall undertake reasonable precautions to safeguard the confidentiality of the terms and provisions hereof to the same extent that the parties safeguard their confidential information in the ordinary course of their respective businesses; provided, however, that the foregoing restriction shall not limit any party from disclosing information about this Agreement, the disclosure of which is required by law, or disclosure in any legal proceeding undertaken primarily to enforce this Agreement; provided, further, that any party that determines that disclosure of this Agreement or any of its contents is required by law shall notify the other party in advance of such disclosure and shall reasonably cooperate with the party hereto who requests that the proposed disclosing party take reasonable actions (including without limitation by seeking a protective order or confidential treatment determination) to limit the information disclosed or the number of persons or entities to whom such information is disclosed.

(l) Force Majeure. If the performance by either party to this Agreement, or of any obligation arising out of or in connection with this Agreement, is prevented, restricted or interfered with by an event or events of force majeure (including but not limited to acts of God, acts of civil, governmental or military authority, fires, floods, earthquakes, strikes, riots and wars) that are beyond the reasonable control of the party affected, the party so affected shall, upon giving prior written notice to the other party, be excused from any nonperformance under this Agreement to the extent of such prevention, restriction or interference, provided, that the party so affected shall use its commercially reasonable efforts to mitigate the effects of such, and shall commence performance hereunder whenever such cause or causes are removed or avoided.

This Agreement has been executed and delivered as of the date first written above.

SELLER:

INB:BIOTECHNOLOGIES, INC.

By: /s/ **Orn Adalsteinsson**
Orn Adalsteinsson, President

BUYER:

MANNATECH, INC.

By: /s/ **Samuel L. Caster**
Samuel L. Caster, Chairman & CEO

EXHIBIT A

PRICE SCHEDULE:

***

***** Indicates omitted material that is the subject of a confidential treatment request filed separately with the Commission.***

INITIAL COMMERCIAL SUPPLY & MANUFACTURING AGREEMENT

29 March 2006

This Initial Commercial Supply & Manufacturing Agreement (hereinafter, the "**Agreement"**) is agreed and entered into by and between **MANNATECH™ INCORPORATED** (hereinafter, the "**Mannatech**") a U.S.A. corporation with its principal office located 600 S. Royal Lane, Suite 200, Coppell, Texas 75109 and **FINE CHEMETICS INC.,** (hereinafter, the **"FCI"),** a Japanese corporation with its principal office located 3-7-1 Higashi-Ikebukuro, Toshima-ku, Tokyo as follows;

1. SUBJECT MATTERS

For the purpose of this Agreement, both Parties have already agreed and executed as follows;

1-1. Mannatech decided to purchase from FCI and FCI will manufacture and supply to Japanese Subsidiary of Mannatech the products described in 1.2 (hereinafter, the "Product").

1-2. Mannatech has already completed purchase order to FCI in accordance with the First Invoice Letter dated 20 December 2005 and the Second Invoice Letter dated 1 March 2006 (hereinafter, the "**Invoice Letters"**) as follows:

(The First Invoice)

Name of Product	Price per unit (JPY)	Amount (pcs)	Product Price (JPY)
Optimal Face Cleansing Cream	***	30,000	***
Optimal Skin Lotion	***	30,000	***
Optima! Skin Serum	***	30,000	***
Optimal Eye Cream	***	30,000	***
Optimal Aftershave Milk	***	30,000	***
Travel Kit Sets	***	5,000	***
Total	***	155,000	***

(The Second Invoice)

Name of Product	Price per unit (JPY)	Amount (pcs)	Product Price (JPY)
Optimal Cleansing Oil (150ml)	***	30,000	***
Optimal Skin Cream (40g)	***	30,000	***
Travel Kit Sets (additional)	***	15,000	***
Total			***

1-2-1. Consumption Taxes (5% of Sales Price) in accordance with Japanese Tax Regulation are [1] not included in Product price set forth in 1-2.

1-2-2. Product price is based upon F.O.B. price.

1-3. ***

1-4. Mannatech has already paid to FCI the part of the Payment Amount which is respectively deducted transmission expenses by means of bank transmission into FCI's designated bank account as follows:

Date	Payment Amount (JPY)	Transmission Expenses (JPY)	Wired Amount (JPY)	Remarks
12 January 2006	***	25,400	***	50% of the First Invoice
22 March 2006	***	24,948	***	100% of the Second Invoice
Total	***	**50,348**	***	

1-5. FCI has completely submitted to Mannatech the samples of Products, Product designs, and Product packages (collectively, the **"Samples"**) and Mannatech has already made FCI full approval regarding the Samples.

2. **PRODUCT SUPPLY**

2-1. FCI shall supply Mannatech the whole amount of Product described in the Invoice Letters within 28 April 2006 (hereinafter, the **"the First Supply Date"**) and 31 May 2006 (hereinafter, **"the Second Supply Date"**)

2-2. In case that either Party wish to change Supply Date, the written notice to change Supply Date shall be sent to the other Party at least 2 weeks prior to the Supply Date and the Supply Date shall be revised through mutual discussion.

3. **PAYMENT**

3-1. Mannatech shall complete the payment of unpaid amount, *** to FCI as follows:

Date	Amount (JPY)	Remarks
31 May 2006	***	70% of the unpaid amount of the First Invoice
30 June 200£	***	30% of the unpaid amount of the First Invoice
Total	***	

3-2. Mannatech shall transmit the aforementioned payment amount set forth in 3-1 into FCI's following designated bank account with currency of Japanese Yen by one installment. The transmission expenses shall be borne by Mannatech.

- **Name of Bank**: ***
- **Address of Bank**: ***
- **Name of Account**: Fine Chemetics Inc.
- **Number of Account**: ***
- **Swift No.**: ***

4. **CONFIDENTIALITY**

4-1. Both Parties shall not disclose to any third party the terms and conditions of this Agreement and all Confidential Information disclosed by the other Party including any technical, and/or commercial confidential information including all technologies, manuals, processes relating to manufacturing and any other business and technical know-how, without previous written consent of the Other Party.

4-2. The obligation of the Confidentiality set forth in 4-1 shall maintain to be effective for 3 years from the Agreement Date.

5. **FORCE MAJEURE**

5-1. Both Parties has no legal responsibility and/or indemnification obligations in case of non-fulfillment of this Agreement due to the events of Force Majeure such as any act of God, fire, casualty, flood, war, strike, lockout, or other labor dispute, failure of public utilities, injunction, act exercise, assertion or requirement of a governmental authority, accident, epidemic, destruction of production or transportation facilities, riot or insurrection, and any other uncontrollable events.

6. **TERMINATION**

6-1. In event that either Party does not observe any provision(s) of this Agreement, the non-execution shall be immediately amended within 1 month after written notice of the other Party and, otherwise, the part or the whole of this Agreement shall be terminated.

7. **INDEMNIFICATION**

7-1. In event that either Party makes any breach to the other Party due to obvious misconducts, the indemnification shall be executed immediately. In case that the cause of the breach is not obviously verified, both Parties shall decide to figure out the breach through mutual cordial discussion.

8. **QUALITY ASSURANCE**

8-1. Regarding Quality Assurance ("**QA**") under this Agreement, the Parties agree that the terms and conditions relating to the QA stipulated in a definitive agreement to be executed between the Parties (hereinafter, **"Definitive Agreement"**) shall apply to the transaction contemplated hereunder.

8-2. The Parties shall solve any other undecided and/or ambiguous matters regarding quality assurance through mutual cordial discussion.

9. **ASSIGNMENT**

9-1. Without previous written approval of the other Party, neither Party shall assign, waive, delegate or offer as collaterals their rights, obligations, and any other properties stipulated in this Agreement to any third party.

10. GOVERNING LAWS

10-1. This Agreement shall be governed by, and interpreted in accordance with the law of Japan.

10-2. Tokyo District Court shall have the exclusive jurisdiction over any dispute arising out of or in relation to this Agreement.

11. **MISCELLANEOUS**

11-1. In event that either Party has any claims and/or ambiguities upon the interpretation of any provision(s) of this Agreement, the Parties shall cordially have discussion and conclude the amendment and/or clarification of the provisions of this Agreement.

11-2. It is mutually agreed and acknowledged by the Parties hereto that the terms regarding Purchase Order, Product Supply and Payment as described in Clause 1.2, 2.1, 2.2, 3.1 and 3.2 of this Agreement shall be independent of and separate from any terms of the Definitive Agreement.

11-3. Regarding the Definitive Agreement, the Parties shall use the best efforts to negotiate its terms and conditions within a reasonable period of time after concluding this Agreement.

IN WITNESS WHEREOF, both Parties have executed this Agreement as of the date first above written.

Mannatech™ Incorporated

By: ***/s/ Sam Caster***
Sam Caster
Chairman and-Chief Executive Officer Fine

Fine Chemetics Inc

By: ***/s/ Shinji Kitamura***
Shinji Kitamura
President and Chief Executive Officer

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 quarterly report on Form 10-Q for the quarter ended March 31, 2006 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) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) 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
   d) 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.
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: May 10, 2006

/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 quarterly report on Form 10-Q for the quarter ended March 31, 2006 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) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) 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
   d) 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.
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: May 10, 2006

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

Exhibit 32.1

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 March 31, 2006 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: May 10, 2006

/s/ Samuel L. Caster
Samuel L. Caster
Chief Executive Officer

Subscribed and sworn to before me
This 10th day of May, 2006

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

My commission expires March 19, 2010

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

Exhibit 32.2

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 March 31, 2006 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: May 10, 2006

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

Subscribed and sworn to before me
This 10th day of May, 2006

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

My commission expires March 19, 2010

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