2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003.

OR

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

For the transition period from ______ to ______.

Commission File No. 000-24657

MANNATECH, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Texas	**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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐.

As of August 8, 2003, the number of shares outstanding of the registrant's sole class of common stock, par value $0.0001 per share was 25,644,521.

Mannatech, Incorporated
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Since its initial public offering, Mannatech's common stock has traded on the NASDAQ National Market under the symbol "MTEX." Corporate filings can be viewed on Mannatech's corporate website at www.mannatech.com or by contacting Mannatech's investors' relations department at IR@mannatech.com or calling 972-471-6512.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2002	June 30, 2003
		(Unaudited)
ASSETS		
Cash and cash equivalents	$ 17,693	$ 12,651
Short-term investments	—	1,989
Restricted cash	—	2,123
Accounts receivable	632	519
Income tax receivable	307	307
Current portion of notes receivable from shareholders, net of allowance of $31 in 2002 and 2003	143	56
Inventories	5,515	5,975
Prepaid expenses and other current assets	759	1,003
Deferred tax assets	1,013	1,018
Total current assets	**26,062**	**25,641**
Property and equipment, net	7,467	6,327
Notes receivable from shareholders, excluding current portion	247	146
Long-term investments	—	10,000
Other assets	1,040	1,112
Total assets	**$ 34,816**	**$ 43,226**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases and notes payable	$ 136	$ 8
Accounts payable	1,846	1,401
Accrued expenses	13,739	17,972
Current portion of accrued severance related to former executives	810	820
Total current liabilities	**16,531**	**20,201**
Capital leases and notes payable, excluding current portion	8	4
Accrued severance, related to former executives, excluding current portion	150	542
Deferred tax liabilities	77	83
Other long-term liabilities	—	247
Total liabilities	**16,766**	**21,077**
Commitments and contingencies (Note 5)	—	—
Shareholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.0001 par value, 99,000,000 shares authorized, 25,162,541 shares issued and 25,134,840 outstanding in 2002 and 25,285,174 shares issued and 25,257,473 outstanding in 2003.	3	3
Additional paid-in capital	18,168	19,680
Retained earnings	481	3,071
Accumulated other comprehensive loss—foreign currency translation adjustment	(502)	(505)
	18,150	22,249
Less treasury stock, at cost, 27,701 shares in 2002 and 2003	(100)	(100)
Total shareholders' equity	**18,050**	**22,149**
Total liabilities and shareholders' equity	**$ 34,816**	**$ 43,226**

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2002	**2003**	**2002**	**2003**
Net sales	**$ 35,395**	**$ 46,519**	**$ 68,320**	**$ 86,989**
Cost of sales	5,943	7,397	11,846	14,094
Commissions and incentives	15,468	19,590	29,288	35,932
	21,411	26,987	41,134	50,026
Gross profit	**13,984**	**19,532**	**27,186**	**36,963**
Operating expenses:				
Selling and administrative expenses	8,428	9,267	15,930	19,097
Other operating costs	5,420	7,162	9,957	12,886
Severance expenses	—	1,417	—	1,417
Total operating expenses	13,848	17,846	25,887	33,400
Income from operations	**136**	**1,686**	**1,299**	**3,563**
Interest income	71	58	145	134
Interest expense	(6)	(2)	(12)	(4)
Other income (expense), net	67	(104)	50	8
Income before income taxes	**268**	**1,638**	**1,482**	**3,701**
Income taxes	(40)	(467)	(659)	(1,111)
Net income	**$ 228**	**$ 1,171**	**$ 823**	**$ 2,590**
Earnings per common share:				
Basic	$ 0.01	$ 0.05	$ 0.03	$ 0.10
Diluted	$ 0.01	$ 0.04	$ 0.03	$ 0.10
Weighted-average common shares outstanding:				
Basic	25,135	25,179	25,135	25,156
Diluted	25,360	26,526	25,327	26,618

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2002	2003
Cash flows from operating activities:		
Net income	$ 823	$ 2,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,031	1,732
Provision for doubtful accounts	31	—
Loss on disposal of assets	3	11
Accounting charge related to stock options and warrants granted	(4)	1,387
Tax effect of exercising stock options	—	(116)
Deferred income taxes	1	1
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(380)	109
(Increase) decrease in inventories	3,125	(468)
(Increase) decrease in prepaid expenses and other current assets	268	(245)
(Increase) decrease in other assets	36	(74)
Increase (decrease) in accounts payable	4	(445)
Increase in accrued expenses	531	4,245
Increase (decrease) in accrued severance to former executives	(1,523)	402
Net cash provided by operating activities	**4,946**	**9,129**
Cash flows from investing activities:		
Acquisition of property and equipment	(677)	(360)
Purchase of investments	—	(11,989)
Repayments by shareholders/related parties	44	188
Increase in restricted cash	(345)	(2,123)
Net cash used in investing activities	**(978)**	**(14,284)**
Cash flows from financing activities:		
Proceeds from exercising of stock options	—	241
Repayment of capital lease obligations	(21)	(3)
Repayment of notes payable	(167)	(129)
Net cash provided by (used in) financing activities	**(188)**	**109**
Effect of exchange rate changes on cash and cash equivalents	(1)	4
Net increase (decrease) in cash and cash equivalents	**3,779**	**(5,042)**
Cash and cash equivalents:		
Beginning of the period	9,926	17,693
End of the period	$ 13,705	$ 12,651
Supplemental disclosure of cash flow information:		
Interest paid	$ 12	$ 2
Taxes paid	$ 1,695	$ 242
Summary of non-cash investing and financing activities follows:		
Assets acquired through a capital lease	$ 25	$ —
Asset retirement obligations related to operating leases	$ —	$ 253

See accompanying notes to consolidated financial statements.

MANNATECH, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Principles of Consolidation

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

Revenue Recognition

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

The Company defers a portion of its pack sales and recognizes it over twelve months related to its one-year magazine subscription offered in certain packs. The Company also defers a portion of its pack revenue because the purchase of a pack gives an associate the rights and privileges of being an associate for one year. After one year, associates are required to renew their associate status on an annual basis. The Company separates the components of its pack sales and accounts for each component separately based on its estimated fair value and records pack revenue in excess of the total average wholesale value of each individual component of the pack as a service fee and amortizes this service fee over twelve months. Finally, the Company defers all of its revenues until its customers receive their shipments. Total deferred revenue for the Company was $1.1 million and $1.9 million at December 31, 2002 and June 30, 2003, respectively.

Shipping and Handling Costs

The Company records freight and shipping revenues collected from associates and members as revenue. The Company records shipping and handling costs associated with shipping products to its associates and members as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses were approximately $1.7 million for the three months ended June 30, 2002, $2.2 million for the three months ended June 30, 2003, $3.4 million for the six months ended June 30, 2002 and $4.4 million for the six months ended June 30, 2003.

Accounting for Stock-Based Compensation

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

For stock-based compensation issued to employees and members of the Board of Directors, the Company elected to continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related interpretations. Under the recognition and measurement principles of APB 25, no compensation expense is recognized unless the market price of the stock option exceeds the exercise price on the date of grant. Stock options granted to employees and members of the Board of Directors are nontransferable and are granted for terms no longer than ten years at an exercise price that may not be less than 100% of the fair value of the Company's common stock on the date of grant. Stock options generally vest over three years for employees and members of the Board of Directors.

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

	For the three-months ended June 30,		For the six-months ended June 30,	
	2002	2003	2002	2003
Consolidated net income, as reported	$ 228	$1,171	$ 823	$2,590
Add (Subtract): Stock-based employee compensation expense included in reported net income, net of related tax effect	7	706	(2)	722
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(390)	(433)	(694)	(644)
Pro forma net income (loss)	($ 155)	$1,444	$ 127	$3,248
Basic Earnings Per Share:				
As reported	$ 0.01	$ 0.05	$0.03	$ 0.10
Pro forma	($0.01)	$ 0.01	$0.06	$ 0.11
Diluted Earnings Per Share:				
As reported	$ 0.01	$ 0.04	$0.03	$ 0.10
Pro forma	($0.01)	$ 0.01	$0.05	$ 0.10

Earnings Per Share

Basic earnings per share (“EPS”) calculations are based on the weighted-average number of common shares outstanding during the period, while diluted EPS calculations are calculated using the weighted-average number of common shares and dilutive common share equivalents outstanding during each period. The Company’s closing prices of $2.50 and $7.50 per share at June 30, 2002 and 2003, respectively, were used to calculate the dilution of stock options and warrants in the EPS calculation.

The following data shows the amounts used in computing EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the three months ended June 30, 2002 and 2003. At June 30, 2002, 1,471,500 common stock options and 100,000 warrants were excluded from the diluted EPS calculation and at June 30, 2003, 671,500 of the common stock options were excluded from the diluted EPS calculation, as their effect was antidilutive. The amounts are rounded to the nearest thousand, except for per share amounts.

	For the three months ended June 30,			For the three months ended June 30,		
	2002			2003		
	Income (Numerator)	Shares (Denominator)	Per share amount	Income (Numerator)	Shares (Denominator)	Per share amount
Basic EPS:						
Net income available to common shareholders	$ 228	25,135	$ 0.01	$ 1,171	25,179	$ 0.05
Effect of dilutive securities:						
Stock options	—	206	—	—	1,265	0.01
Warrants	—	19	—	—	82	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	$ 228	25,360	$ 0.01	$ 1,171	26,526	$ 0.04

The following data shows the amounts used in computing EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the six months ended June 30, 2002 and 2003. At June 30, 2002, 1,471,500 common stock options and 100,000 warrants were excluded from the diluted EPS calculation and at June 30, 2003, 671,500 of the common stock options were excluded from the diluted EPS calculation, as their effect was antidilutive. The amounts are rounded to the nearest thousand, except for per share amounts.

	For the six months ended June 30,			For the six months ended June 30,		
	2002			2003		
	Income (Numerator)	Shares (Denominator)	Per share amount	Income (Numerator)	Shares (Denominator)	Per share amount
Basic EPS:						
Net income available to common shareholders	$ 823	25,135	$ 0.03	$ 2,590	25,156	$ 0.10
Effect of dilutive securities:						
Stock options	—	176	—	—	1,374	—
Warrants	—	16	—	—	88	—
Diluted EPS:						
Net income available to common shareholders plus assumed conversions	$ 823	25,327	$ 0.03	$ 2,590	26,618	$ 0.10

NOTE 2 INVESTMENTS

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

At June 30, 2003, short-term investments consisted of an obligation of the Federal National Mortgage Association of $2.0 million, which matures in November 2003. At June 30, 2003, the Company also had five long-term investments, of which two long-term investments, totaling $4.0 million mature within five years and consisted of obligations of the Federal Home Loan Bank. At June 30, 2003, the three remaining long-term investments, totaling $6.0 million mature in twelve to thirty years and consisted of two corporate asset-based obligations and an obligation of a state regulated utility company. Information relating to these investments are as follows:

Matures	Amortized cost	Gross unrealized gain/(loss)	Fair value
	(in thousands)		
0-1 year	$ 1,989	$ —	$ 1,989
1-5 years	4,000	—	4,000
5+ years	6,000	—	6,000
	$ 11,989	$ —	$11,989

NOTE 3 INVENTORIES

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

	2002	2003
	(in thousands)	
Raw materials	$1,481	$1,435
Finished goods, less inventory reserves of $124 in 2002 and $103 in 2003	4,034	4,540
	$5,515	$5,975

NOTE 4 COMPREHENSIVE INCOME

Comprehensive income is defined as the change in equity of a business enterprise during a period related to transactions and other events and circumstances from nonowner sources. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company’s comprehensive income includes foreign currency translation adjustments and unrealized gains and losses from investments classified as available-for-sale. At June 30, 2003, there was no unrealized gains and losses associated with its investments. Comprehensive income is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	(in thousands)			
Net income	$ 228	$ 1,171	$ 823	$ 2,590
Foreign currency translation adjustment	146	(42)	89	(3)
Comprehensive income	$ 374	$ 1,129	$ 912	$ 2,587

NOTE 5 COMMITMENTS AND CONTINGENCIES

Leases and a line of credit

In 2002, the Company began leasing approximately $0.3 million of computer hardware under a noncancelable master-operating lease. The master-operating lease contains seven separate three-year operating leases that expire at various times through October 2005. The master-operating lease requires the Company to restrict cash of $345,000 as collateral for the life of the lease. In April 2003, the Company obtained another three year master-operating lease to begin leasing additional computer hardware in an amount up to $0.8 million. As of June 30, 2003, the Company had leased approximately $0.2 million related to this master operating lease.

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

Purchase commitment

Since 1994, the Company has maintained a purchase commitment with one of its suppliers to purchase Manapol®, a raw material found in a majority of the Company's products. In May 2002, the Company modified its inventory purchase commitment to reduce the required monthly commitment and extend the terms of the agreement through August 31, 2003. In February 2003, the Company entered into an agreement related to this purchase agreement with its supplier to include raw material purchases from its manufacturers as part of its required monthly commitment. Under the terms of this amended inventory purchase commitment, the Company and its manufacturers are required to purchase approximately $0.6 million of raw materials through August 31, 2003. The Company is currently negotiating with this supplier to renew its purchase commitment with substantially the same terms.

Separation agreements

On April 15, 2003, Robert M. Henry resigned from the Company as its Chief Executive Officer and as a member of the Board of Directors, and the Company entered into a Separation Agreement with Mr. Henry. Under the terms of the Separation Agreement and as a result of the termination of Mr. Henry's employment agreement, which would have expired on December 31, 2004, the Company is required to pay Mr. Henry approximately $1.3 million, of which $0.9 million remains unpaid at June 30, 2003. Of the remaining $0.9 million, approximately $0.2 million will be paid during the remainder of 2003, $0.4 million in 2004, and $0.3 million in 2005. The severance payments primarily relate to the Company's contractual obligations related to Mr. Henry's terminated employment agreement, outplacement fees, attorney fees, relocation fees, health and life insurance, and title to his leased vehicle. In addition, the Company extended the term of Mr. Henry's 266,667 vested stock options to the earlier of ten years from the original date of grant or one year after Mr. Henry's death and recorded a $0.6 million non-cash compensation charge. In addition, pursuant to the Separation Agreement, Mr. Henry agreed to provide certain consulting services to the Company through December 31, 2005 and is prohibited from being affiliated with another dietary supplement network-marketing company that specializes in products that are glyconutritional or aloe-based for a specified period.

Non-compete and confidentiality agreement

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

Consulting and royalty agreements

In June 2003, the Company modified its two-year Consulting and Lockup Agreement with Mr. J. Stanley Fredrick who provides advice and performs various functions for the Company's Board of Directors. Under the terms of the original agreement dated October 1, 2001, the Company agreed to pay Mr. Fredrick $185,000 per year and the agreement automatically renews annually unless thirty-day written notice is given to all parties. In addition, Mr. Fredrick is prohibited from selling his Company shares while this agreement is in effect. The modification of this agreement increased Mr. Fredrick's annual payment from $185,000 to $285,000 annually.

The Company maintains a royalty agreement with Jett, a high level associate and 4.8% shareholder, whereby the Company agreed to pay him $5.00 for each specific training material and sales aid that is developed by him and sold by the Company, up to a maximum of $1.6 million. At June 30, 2003, the Company paid Jett accumulated royalties associated with this agreement of $0.3 million.

On August 7, 2003, the Company entered into a new two-year Employment Agreement and a separate ten-year Royalty Agreement with Dr. Bill H. McAnalley, its Chief Science Officer. Under the terms of the Employment Agreement, the Company agreed to pay Dr. McAnalley a specified annual salary and the greater of his annual royalty payments or an annual executive bonus. Either party may cancel the Employment Agreement; however, if the Company cancels without cause, the Company would be required to pay Dr. McAnalley's minimum salary for either the remaining duration of the employment agreement or for twelve-months, whichever is longer. Under the terms of his Royalty Agreement the Company is required to pay Dr. McAnalley's royalties through 2015, which are based on increased product sales volume from certain products sold.

NOTE 6 RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 143. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143") "Accounting for Asset Retirement Obligations." SFAS 143 is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. In addition, SFAS 143 requires the related asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset and to be amortized over the life of the lease. On January 1, 2003, the Company adopted SFAS 143, which resulted in an increase in its leasehold improvements and long-term liabilities of $253,000 for the estimated restoration costs of its Japanese leased facilities. The Company considers the cumulative effect of this adjustment to be insignificant.

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

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

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

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

NOTE 7 SEGMENT INFORMATION

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

Six months ended June 30,	United States	Canada	Australia	United Kingdom	Japan	New Zealand	Total
				(in millions)			
2003	$59.6	$ 8.1	$ 6.0	$ 1.6	$ 8.6	$ 3.1	$87.0
2002	$52.8	$ 8.0	$ 3.2	$ 0.7	$ 3.6	$ —	$68.3

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

	For the six-months ended June 30,	
	2003	2002
	(in millions)	
Product sales	$ 65.1	$ 50.9
Pack sales	18.3	14.7
Other, including freight	3.6	2.7
Total net sales	$ 87.0	$ 68.3

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

The following discussion is intended to assist in the understanding of Mannatech's financial position and its results of operations for the three and six months ended June 30, 2003 compared to the same period in 2002. The Consolidated Financial Statements and related notes should be referred to in conjunction with this discussion. Unless stated otherwise, all financial information presented below, throughout this report, and in the Consolidated Financial Statements and related notes includes Mannatech and all of its subsidiaries on a consolidated basis and are rounded to the nearest thousand or million.

Overview and Critical Accounting Policies and Estimates

For nearly a decade, Mannatech has developed innovative, high-quality, proprietary nutritional supplements, topical products, and weight-management products that are sold through a global network-marketing system throughout the United States, Canada, Australia, the United Kingdom, Japan, and New Zealand. New Zealand began operations on June 10, 2002 and is serviced by Mannatech's Australian subsidiary. Mannatech operates as a single segment and primarily sells its products through a network of approximately 226,000 independent associates and members who have purchased Mannatech's products within the last twelve-months.

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

- Inventory carrying value is reviewed and compared to the market value of inventory and any inventory value in excess of fair market value is written down. In addition, Mannatech reviews its inventory for obsolescence and any inventory identified as obsolete is written off. Mannatech's determination of obsolescence is based on assumptions about demand for its products, product expiration dates, estimated future sales, and management's future plans. If actual sales or management plans are less favorable than those originally projected by management, additional inventory reserves or write-downs may be required. Inventory value at June 30, 2003 was $6.0 million and includes an inventory reserve of $0.1 million.
- Property and equipment book value is reviewed for impairment whenever an event or change in circumstances indicates that the net book value of an asset or group of assets may be unrecoverable. Mannatech's impairment review includes a comparison of future projected cash flows generated by the asset or group of assets with its associated carrying value. Mannatech believes the expected future cash flows approximate or exceed its net book value; however, if circumstances change and the net book value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), Mannatech would have to recognize an impairment loss to the extent the net book value of an asset exceeds its fair value. At June 30, 2003, the net book value of Mannatech's property and equipment was $6.3 million.
- Mannatech evaluates the probability of realizing the future benefits of any of its deferred tax assets and records a valuation allowance when it believes a portion or all of its deferred tax assets may not be realized. If Mannatech is unable to realize the expected future benefits of its deferred tax assets, it would be required to provide an additional valuation allowance. As of June 30, 2003, Mannatech recorded deferred tax assets of $1.0 million, which includes a valuation allowance of $2.4 million, related to net operating losses in Japan.

- Mannatech defers all of its revenue until its customers receive their shipments. Mannatech also defers a portion of its revenue for twelve months, from the sale of its starter and renewal packs, which contain a one-year magazine subscription. Mannatech also defers total revenue of each pack that exceeds the total average wholesale value of all individual components included in such packs. Mannatech amortizes such deferrals over twelve months. In the future, Mannatech may change the contents of its packs or its shipping methods, and as a result may have to defer additional revenue and/or recognize the deferred revenue over an extended period of time.
- Mannatech capitalizes salaries and consulting fees related to the development of certain qualifying internally-developed software applications including: *GlycoScience.com,* a scientific web database; *Enterprise System,* a sales and commission database; and *Success Tracker™,* a web-based training and marketing tool for its independent associates. Mannatech amortizes such qualifying costs over the estimated useful life of the software application, which is either three or five years. If accounting standards change or if the capitalized software becomes obsolete, Mannatech may be required to write off its capitalized software or accelerate its amortization period. As of June 30, 2003, Mannatech's capitalized software had a remaining net book value of $0.6 million.

General Summary

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

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

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

Net Sales as a Percentage of Consolidated Net Sales

Three months ended June 30,	United States	Canada	Australia	United Kingdom	Japan	New Zealand	Total
2003	68.2%	9.0%	7.3%	2.2%	9.9%	3.4%	100.00%
2002	77.2%	10.7%	5.6%	1.1%	5.4%	— %	100.00%
Six months ended June 30,	**United States**	**Canada**	**Australia**	**United Kingdom**	**Japan**	**New Zealand**	**Total**
2003	68.5%	9.3%	6.9%	1.8%	9.9%	3.6%	100.00%
2002	77.3%	11.7%	4.7%	1.0%	5.3%	— %	100.00%

Net Sales in Dollars

Three months ended June 30,	United States	Canada	Australia	United Kingdom	Japan	New Zealand	Total
				(in millions)			
2003	$31.7	$ 4.2	$ 3.4	$ 1.0	$ 4.6	$ 1.6	$46.5
2002	$27.3	$ 3.8	$ 2.0	$ 0.4	$ 1.9	$ —	$35.4

Six months ended June 30,	United States	Canada	Australia	United Kingdom	Japan	New Zealand	Total
				(in millions)			
2003	$59.6	$ 8.1	$ 6.0	$ 1.6	$ 8.6	$ 3.1	$87.0
2002	$52.8	$ 8.0	$ 3.2	$ 0.7	$ 3.6	$ —	$68.3

For the six months ended June 30, 2003, Mannatech's foreign operations accounted for 31.5% of consolidated net sales, whereas in the same period in 2002, Mannatech's foreign operations accounted for only 22.7% of consolidated net sales. Mannatech is considering plans to accelerate its planned international expansion into South Korea and Taiwan from 2005 to the second half of 2004. Mannatech has also contracted with John Robert to act as Mannatech's principal consultant for its Canadian Operations, which Mannatech believes will help stimulate its Canadian sales. Mannatech believes the increase in its overall consolidated net sales is largely attributable to the following:

- an increase in pack sales during 2002 and 2003 due to the introduction of its travel incentive programs;
- launching its revamped global associate career and compensation plan; and
- initiating effective personnel changes in its international operations.

For the second quarter of 2003, quarterly pack sales were $10.2 million as compared to $8.0 million for the second quarter of 2002. For the second quarter of 2003, Mannatech signed up 33,000 new independent associates and members, which brought the total new associates and members who signed up within the twelve months ended June 30, 2003 to 104,000. For the second quarter of 2002, Mannatech signed up 21,000 new independent associates and members, which brought the total new associates and members who signed up within the twelve months ended June 30, 2002 to 73,000.

Mannatech believes its travel incentive program is designed to increase the number of associates and is used as a motivational vehicle for retaining associates and members. The travel incentive usually has a qualification period of between four- to seven-months, in which an associate qualifies for the travel incentive by earning points primarily on the sales of certain high dollar packs and by obtaining the necessary group point volume growth requirements. Under the travel incentive program, an associate is also required to maintain their associate position and cannot subsequently return any qualifying packs or products, except to subsequently exchange for like-kind of products and packs. Mannatech believes this travel incentive program has been instrumental in increasing its associates as demonstrated by the 24.5% increase in pack sales for the six months ended June 30, 2003 compared to the comparable period in 2002. The number of new independent associates and members and the number of independent associates and members who purchased Mannatech's products within the last twelve months are as follows:

	For the twelve months ended December 31,		For the twelve months ended June 30,			
Associates and Members	2002		2002		2003	
New	83,000	41.5%	73,000	38.8%	104,000	46.0%
Continuing	117,000	58.5%	115,000	61.2%	122,000	54.0%
Total	200,000	100.0%	188,000	100.0%	226,000	100.0%

For the remainder of 2003, Mannatech plans to continue to concentrate on increasing its net sales. Mannatech believes increasing net sales is primarily dependant upon the following factors:

- continuing its product development strategy, including its plan to launch a new antioxidant product in August 2003;
- continuing its plans to expand into South Korea and Taiwan, which Mannatech is considering accelerating from 2005 to the second half of 2004:
- continuing to monitor and refine its global associate career and compensation plan; and
- increasing the number of independent associates and members who routinely purchase products.

Mannatech's product development strategy focuses on three primary areas, which are as follows:

- working to ensure certain of its products are available in all countries in which Mannatech does business;
- continuing to develop new products that either complement its existing products or create a new demand for its products; and
- continuing to monitor and modify its existing product formulas to ensure high quality and economies of scale.

Cost of sales consists of products purchased from third-party manufacturers, costs of promotional materials sold to Mannatech's independent associates, and occasional write-offs of inventories. The sales mix directly affects cost of sales and gross profit, as products have a higher margin than packs. The sales mix can be influenced by changes in Mannatech's commission and incentive programs, introduction or discontinuation of certain promotional activities, changes in consumer demand, changes in competitors' products, changes in economic conditions, and announcements of new scientific studies and breakthroughs.

Commissions and incentives paid to Mannatech's independent associates are considered Mannatech's most important and most significant expense and are based on commissionable net sales. Commissionable net sales are defined as total product and pack sales. Mannatech designs its commissions and incentives to motivate its independent associates and financially reward them for their efforts. Mannatech's commission and incentive program is designed to pay commissions and incentives to independent associates for their global downline activities. The program allows existing and new independent associates to build their individual global networks by expanding their existing downlines into newly-formed international markets rather than requiring independent associates to establish new downlines to qualify for commissions and incentives within each new country. Periodically, Mannatech offers new travel incentives and contests, which are designed to stimulate both pack and product sales. In the first quarter of 2003, Mannatech launched a travel incentive for its independent associates, called "Sun and Salsa in 2003". The travel incentive allows independent associates achieving certain sales levels by August 15, 2003, to qualify for a trip for two to Cancun, Mexico, plus a chance to win $5,000 in cash for additional achievements. The 2003 travel incentive is estimated to have 600 winners and is estimated to cost Mannatech approximately $1.8 million, of which Mannatech has accrued $1.2 million as of June 30, 2003.

After two years of research and development, Mannatech launched its newly revamped global associate career and compensation plan on September 14, 2002. Overall, the plan eliminated the binary commission structure paid only in the United States and Canada and changed certain qualifying measurements for certain existing commission types in order to pay new associates faster. The plan also increased the payouts of certain commissions paid and introduced certain new commission and incentive payments. The plan further concentrates commission and incentive payments on pack and product sales, as well as helps rejuvenate network development. Mannatech generally pays commission and incentives to its independent associates based on the following:

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

Operating expenses have remained consistent and consist of selling and administrative expenses, other operating costs, non-cash variable accounting charges related to stock options and warrants, and severance charges to former executives. Selling and administrative expenses are a combination of both fixed and variable expenses and include salaries and benefits of employees, contract labor, shipping and freight, and marketing-related expenses, such as hosting Mannatech's corporate-sponsored events. Other operating costs include utilities, depreciation, travel, consulting fees, professional fees, office expenses, printing-related expenses, and other miscellaneous operating expenses. Other operating costs also includes a $0.5 million non-cash charge relating to the quarterly charge for the variable accounting treatment related to certain stock options issued to Deanne Varner and Patrick Cobb and warrants issued to Anthony Canale, three former executives who resigned in 2001. The stock options and warrants were issued in 2001 to replace the stock options that would have expired with such executives resignation. The non-cash variable accounting charge is recorded as the quarterly change between the fair market price of the stock options and warrants. The significant increase in the quarterly charge for 2003 was the result of the increase in Mannatech's stock price from $2.53 per share at March 31, 2003 to $7.50 per share, at June 30, 2003. In July 2003, a majority of the stock options issued to Deanne Varner and Patrick Cobb were exercised. In addition, Mannatech also recorded in other operating costs, a $0.6 million non-cash charge related to the extension of the term of Robert M. Henry's 266,667 stock options from the earlier of ten years from date of termination or one year after his death, as set forth in his separation agreement. Finally, on April 15, 2003, Mannatech recorded a $1.3 million severance charge related to the resignation of Mr. Henry. The severance charge primarily relates to certain compensation due to Mr. Henry through 2005, in accordance with his Separation Agreement.

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

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	16.8	15.9	17.3	16.2
Commissions and incentives	43.7	42.1	42.9	41.3
Gross profit	**39.5**	**42.0**	**39.8**	**42.5**
Operating expenses:				
Selling and administrative expenses	23.8	19.9	23.3	22.0
Other operating costs	15.3	15.4	14.6	14.8
Severance expenses	—	3.1	—	1.6
Income from operations	**0.4**	**3.6**	**1.9**	**4.1**
Interest income	0.2	0.1	0.2	0.2
Interest expense	0.0	0.0	0.0	0.0
Other income (expense), net	0.2	(0.2)	0.1	0.0
Income before income taxes	**0.8**	**3.5**	**2.2**	**4.3**
Income taxes	(0.1)	(1.0)	(1.0)	(1.3)
Net income	**0.7%**	**2.5%**	**1.2%**	**3.0%**

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

Net sales. Net sales increased 31.4%, or $11.1 million, to $46.5 million for the three months ended June 30, 2003 from $35.4 million for the comparable period in 2002. The increase in net sales consisted of the following:

	For the three months ended June 30,		Dollar change	Percentage change
	2002	2003		
	(in millions)			
Product sales	$26.1	$34.2	$ 8.1	31.0%
Pack sales	8.0	10.2	2.2	27.5
Other, including freight	1.3	2.1	0.8	61.5
Total net sales	$35.4	$46.5	$11.1	31.4%

The $8.1 million increase in product sales consisted of the following:

- a $1.9 million increase related to the 4% product price increase in September 2002;
- a $1.2 million increase from opening Mannatech's New Zealand operations in June 2002; and
- the remaining increase relates to an increase in the volume of products sold, related to the increase in the number of associates and members purchasing products.

The $2.2 million increase in pack sales consisted of the following:

- A $2.4 million increase related to 33,000 new associates and members who joined Mannatech during the three months ended June 30, 2003 as compared to 21,000 associates and members that joined Mannatech during the three months ended June 30, 2002. Of the $2.4 million increase, $0.4 million related to the opening of Mannatech's New Zealand operations. Mannatech believes the remaining $2.0 million increase was primarily the result of implementing its newly revamped global associates career and compensation plan and its travel and contests incentive programs.

- This increase was partially offset by a ($0.2 million) decrease in the number of renewal packs sold. The decrease in the number of renewal packs sold related to revamping Mannatech's global associate career and compensation plan in September 2002. The revamped plan allowed Mannatech's lower-level associates to automatically renew their associate status without having to actually purchase a renewal pack. However, Mannatech continues to require higher level associates to purchase a pack to renew their status. The pack includes certain promotional and educational materials.

Other sales primarily include freight revenue charged to associates and members. The $0.8 million increase in other sales primarily consisted of a $0.6 million increase in freight revenue, which directly relates to the increase in the volume of products/packs sold.

Cost of sales. Cost of sales increased 25.4% to $7.4 million for the three months ended June 30, 2003 from $5.9 million for the comparable period in 2002. The dollar increase was the result of an increase in volume of products/packs sold. As a percentage of net sales, cost of sales decreased to 15.9% for the three months ended June 30, 2003 from 16.8% for the comparable period in 2002. The percentage decrease in cost of sales as a percentage of net sales was primarily due to the favorable impact from implementing the 4% sales price increase on products sold and the change in product/pack mix sold as a result of the increase in the number of associates. For the quarter ended June 30, 2003, the product mix shifted toward a larger increase in product sales, which have a higher margin than pack sales.

Commissions and incentives. Commissions and incentives increased 26.5% to $19.6 million for the three months ended June 30, 2003 from $15.5 million for the comparable period in 2002. The dollar increase was the result of an increase in the volume and the change in mix of commissionable net sales, an increase in the number of associates, a $0.5 million increase in incentives related to the travel incentive program, and revamping the global associate career and compensation plan for associates. As a percentage of net sales, commissions decreased to 42.1% for the three months ended June 30, 2003, from 43.7% for the comparable period in 2002. The decrease as a percentage of net sales was the result of the change in mix of commissionable net sales and launching the revamped global associate career and compensation plan.

Gross profit. Gross profit increased 39.3% to $19.5 million for the three months ended June 30, 2003 from $14.0 million for the comparable period in 2002. The dollar increase was the result of an increase in the volume and the change in mix of net sales. As a percentage of net sales, gross profit increased to 42.0% for the three months ended June 30, 2003 from 39.5% for the comparable period in 2002. The percentage increase was primarily attributable to the decrease in cost of sales and commissions due to the change in product/pack mix sold. This increase was partially offset by the increase in additional incentives paid to associates, due to the travel incentive program.

Selling and administrative expenses. Selling and administrative expenses increased 10.7% to $9.3 million for the three months ended June 30, 2003 from $8.4 million for the comparable period in 2002. As a percentage of net sales, selling and administrative expenses decreased to 19.9% for the three months ended June 30, 2003 from 23.8% for the comparable period in 2002, primarily due to Mannatech's ability to hold fixed costs constant. The dollar increase was primarily due to the following:

- a $0.8 million increase in payroll and payroll related expenses related to hiring additional personnel and increasing the annual executive bonus, which directly correlates to Mannatech's profitability;
- a $0.5 million increase in out-bound freight related to the increase in net sales;
- a $0.6 million increase in variable marketing expenses related to the increase in net sales;
- which increase was partially offset by a ($1.0 million) decrease in marketing expenses related to the timing of hosting Mannafest, which was held in March of 2003 as compared to April of 2002.

Other operating costs. Other operating costs increased 33.3% to $7.2 million for the three months ended June 30, 2003 from $5.4 million for the comparable period in 2002. As a percentage of net sales, other operating costs increased to 15.4% for the three months ended June 30, 2003 from 15.3% for the comparable period in 2002. The dollar increase was primarily due to the following:

- a $0.2 million increase in international travel expenses related to personnel changes and revamping the global associate career and compensation plan;
- a $0.5 million increase in variable operating expenses, including offsite storage, credit card fees, utilities, postage, and royalties, all related to the increase in net sales;
- a one time non-cash charge of $0.6 million related to extending the term of the 266,667 stock options for Mr. Henry; and
- the remaining $0.5 million increase relates to the quarterly non-cash charge for the variable accounting treatment related to certain stock options and warrants discussed previously.

Severance expenses. In the second quarter of 2003, Mannatech accrued $1.4 million related to severance expenses for former employees. $1.3 million of the $1.4 million consists of compensation related to the cancellation of Mr. Henry's employment agreement, accrued vacation, health and life insurance, automobile, relocation and outplacement fees that will be paid through 2005. Mannatech also entered into two separation agreements with former vice presidents for a total of $100,000, which will be paid by September 2003.

Interest income. Interest income decreased (18.3%) to $58,000 for the three months ended June 30, 2003 from $71,000 for the comparable period in 2002. The dollar decrease was primarily related to a decline in interest rates.

Interest expense. Interest expense decreased (66.7%) to $2,000 for the three months ended June 30, 2003 from $6,000 for the comparable period in 2002. The dollar decrease was primarily related to the repayment of existing capital leases and notes payable.

Other income (expense), net. Other income (expense), net consists primarily of foreign currency translation adjustments related to Mannatech's foreign operations. Other income (expense), net increased to ($104,000) for the three months ended June 30, 2003 from $67,000 for the comparable period in 2002. The change in other income (expense), net primarily consisted of currency translation exchange gains and losses.

Income taxes. Income taxes increased to $467,000 for the three months ended June 30, 2003 from $40,000 for the comparable period in 2002 due to the increase in Mannatech's profitability. Mannatech's effective tax rate increased to 28.5% for the three months ended June 30, 2003 from 14.9% for the comparable period in 2002. Mannatech's effective tax rate increased as a result of the expected shift in income mix between its domestic and its foreign operations and the reversal of valuation allowances due to the use of net operating losses from its Japan subsidiary.

Net income. Net income increased 500.0% to $1.2 million for the three months ended June 30, 2003 from $0.2 million for the comparable period in 2002. Earnings per share for the three months ended June 30, 2003 increased 400.0% to $0.04 per diluted share as compared to $0.01 per diluted share for the comparable period in 2002. The dollar increase was primarily the result of the increase in net sales and Mannatech's ability to control expenses, which was partially offset by recording $1.0 million in additional incentives expected to be paid to associates and $2.5 million related to severance charges and non-cash stock option and warrant charges related to former executives. As a percentage of net sales, net income increased to 2.5% for the three months ended June 30, 2003 from 0.7% for the comparable period in 2002, primarily due to an increase in net sales.

Six months ended June 30, 2003 compared with the six months ended June 30, 2002

Net sales. Net sales increased 27.4%, or $18.7 million, to $87.0 million for the six months ended June 30, 2003 from $68.3 million for the comparable period in 2002. The increase in net sales consisted of the following:

	For the six months ended June 30,			
	2002	2003	Dollar change	Percentage change
	(in millions)			
Product sales	$50.9	$65.1	$14.2	27.9%
Pack sales	14.7	18.3	3.6	24.5
Other, including freight	2.7	3.6	0.9	33.3
Total net sales	$68.3	$87.0	$18.7	27.4%

The $14.2 million increase in product sales consisted of the following:

- a $2.9 million increase from the 4% product price increase in September 2002;
- a $2.2 million increase in product sales from opening Mannatech's New Zealand operations in June 2002; and
- the remaining increase relates to the increase in volume of products sold, some of which is attributable to the increase in the number of associates and members purchasing products.

The $3.6 million increase in pack sales consisted of the following:

- A $4.8 million increase related to the increase of 61,000 new associates and members who joined Mannatech during the six months ended June 30, 2003 as compared to 40,000 new associates and members that joined Mannatech during the six months ended June 30, 2002. Of the $4.8 million increase, $0.8 million related to the opening of our New Zealand operations in June 2002. Mannatech believes the remaining $4.0 million increase was primarily the result of implementing its newly revamped global associates career and compensation plan and its travel and contest incentive programs.
- This increase was partially offset by a ($1.2 million) decrease in the number of renewal packs sold, which is the result of revamping Mannatech's global associate career and compensation plan in September 2002. The revamped plan allowed the lower-level associates to automatically renew their associate status without having to actually purchase a renewal pack. However, Mannatech continues to require higher level associates to purchase a pack to renew their status. The pack includes certain promotional and educational materials.

Other sales primarily include freight revenue from associates and members. The $0.9 million increase in other sales primarily consisted of a $1.0 million increase in freight revenue, which directly related to the increase in the volume of products/packs sold.

Cost of sales. Cost of sales increased 19.5% to $14.1 million for the six months ended June 30, 2003 from $11.8 million for the comparable period in 2002. The dollar increase was the result of an increase in volume of products/packs sold. As a percentage of net sales, cost of sales decreased to 16.2% for the six months ended June 30, 2003 from 17.3% for the comparable period in 2002. The percentage decrease in cost of sales as a percentage of net sales was primarily due to the favorable impact from implementing the 4% sales price increase on products sold and the change in product/pack mix sold as a result of the increase in the number of associates. For the six months ended June 30, 2003, the product/pack mix shifted toward a larger increase in product sales, which have a higher margin than pack sales.

Commissions and incentives. Commissions and incentives increased 22.5% to $35.9 million for the six months ended June 30, 2003 from $29.3 million for the comparable period in 2002. The dollar increase was the result of an increase in the volume and the change in mix of commissionable net sales, an increase in the number of associates, and a $1.0 million increase related to travel incentives, and revamping the associate global career and compensation plan for associates. As a percentage of net sales, commissions decreased to 41.3% for the six months ended June 30, 2003 from 42.9% for the comparable period in 2002. The decrease as a percentage of net sales was the result of the change in mix of commissionable net sales and launching the revamped global associate career and compensation plan.

Gross profit. Gross profit increased 36.0% to $37.0 million for the six months ended June 20, 2003 from $27.2 million for the comparable period in 2002. The dollar increase was the result of an increase in the volume and a change in mix of products/packs sold. As a percentage of net sales, gross profit increased to 42.5% for the six months ended June 30, 2003 from 39.8% for the comparable period in 2002. The percentage increase was primarily attributable to the decrease in cost of sales and commissions as a percentage of net sales primarily due to the change in product/pack mix sold. This increase was partially offset by the increase in travel incentives payable to associates.

Selling and administrative expenses. Selling and administrative expenses increased 20.1% to $19.1 million for the six months ended June 30, 2003 from $15.9 million for the comparable period in 2002. As a percentage of net sales, selling and administrative expenses decreased to 22.0% for the six months ended June 30, 2003 from 23.3% for the comparable period in 2002, primarily related to Mannatech's ability to hold fixed costs constant. The dollar increase was primarily due to the following:

- a $1.3 million increase in payroll and payroll related expenses related to hiring additional personnel and increasing the annual executive bonus, which directly correlates to Mannatech's profitability;
- a $1.1 million increase in out-bound freight related to the increase in net sales; and
- a $0.8 million increase in variable marketing expenses related to the increase in net sales.

Other operating costs. Other operating costs increased 29.0% to $12.9 million for the six months ended June 30, 2003 from $10.0 million for the comparable period in 2002. As a percentage of net sales, other operating costs increased to 14.8% for the six months ended June 30, 2003 from 14.6% for the comparable period in 2002. The dollar increase was primarily due to the following:

- a one time non-cash charge of $0.6 million related to extending the term of the 266,667 stock options for Mr. Henry's stock options, as set forth in his Separation Agreement;
- a $0.5 million increase related to the quarterly non-cash charge for the variable accounting charge of certain stock options and warrants previously discussed;
- a $0.7 million increase in traveling expenses related to an increase in international travel; and
- the remaining $1.1 million increase in variable operating expenses related to the increase in net sales.

Severance expenses. In the second quarter of 2003, Mannatech accrued $1.4 million related to severance expenses for former employees. $1.3 million of the $1.4 million consists of compensation related to the cancellation of Mr. Henry's employment agreement, accrued vacation, health and life insurance, automobile, relocation and outplacement fees that will be paid through 2005. Mannatech also entered into two separation agreements with former vice presidents for a total of $100,000, which will be paid by September 2003.

Interest income. Interest income decreased (7.6%) to $134,000 for the six months ended June 30, 2003 from $145,000 for the comparable period in 2002. The dollar increase was primarily related to a decline in interest rates.

Interest expense. Interest expense decreased (66.7%) to $4,000 for the six months ended June 30, 2003 from $12,000 for the comparable period in 2002. The dollar decrease was primarily related to the repayment of existing capital leases and notes payable.

Other income (expense), net. Other income (expense), net consists primarily of foreign currency translation adjustments related to Mannatech's foreign operations. Other income (expense), net decreased to $8,000 for the six months ended June 30, 2003 from $50,000 for the comparable period in 2002. The decrease in other income (expense), net primarily consisted of currency translation exchange gains and losses.

Income taxes. Income taxes increased to $1.1 million for the six months ended June 30, 2003 from $0.7 million for the comparable period in 2002 due to the increase in Mannatech's profitability. Mannatech's effective tax rate decreased to 30.0% for the six months ended June 30, 2003 from 44.5% for the comparable period in 2002. Mannatech's effective tax rate decreased as a result of the shift in the income mix between its domestic and its foreign operations and the reversal of valuation allowances due to the net operating losses from its Japan subsidiary.

Net income. Net income increased 225.0% to $2.6 million for the six months ended June 30, 2003 from $0.8 million for the comparable period in 2002. Earnings per share for the six months ended June 30, 2003, increased 233.3% to $0.10 per diluted share as compared to $0.03 per diluted share for the comparable period in 2002. The dollar increase was primarily the result of the increase in net sales and Mannatech's ability to control operating expenses. This increase was partially offset by recording $1.0 million in additional incentives for associates and $2.5 million related to severance charges and non-cash stock option and warrant charges related to former executives. As a percentage of net sales, net income increased to 3.0% for the six months ended June 30, 2003 from 1.2% for the comparable period in 2002, which primarily related to a 27.4% increase in net sales. This increase, as a percentage of net sales, was partially offset by an increase in expenses to former executives, which amounted to 2.9%, as a percentage of net sales.

Liquidity and Capital Resources

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

Cash and cash equivalents and investments. Mannatech's cash and cash equivalents decreased by $5.0 million to $12.7 million at June 30, 2003 from $17.7 million at December 31, 2002; however, Mannatech purchased investments of $12.0 million at June 30, 2003. Therefore at June 30, 2003, the overall increase in cash and cash equivalents and investments increased to $24.7 million compared to $17.7 million at June 30, 2002 due to the increase in operating profits, which was partially offset by restricting cash of $2.1 million as collateral for its line of credit.

Working Capital. Mannatech's working capital decreased to $5.4 million at June 30, 2003 from $9.5 million at December 31, 2002. The $4.1 million decrease in working capital was primarily attributable to purchasing $10.0 million in certain long-term investments and increasing accrued expenses related to the increase in net sales.

Mannatech's cash flows consist of the following:

Provided by (Used in):	For the six months ended June 30, 2002	For the six months ended June 30, 2003
	(in millions)	
Operating activities	$ 4.9	$ 9.1
Investing activities	$ (1.0)	$ (14.3)
Financing activities	$ (0.2)	$ 0.1

Operating activities. For the six months ended June 30, 2002, operating activities primarily consisted of $2.9 million in earnings before depreciation and amortization and a $3.5 million decrease in inventories and prepaids. These operating activities were partially offset by an increase of ($1.5 million) due in severance payments to former executives.

For the six months ended June 30, 2003, operating activities primarily consisted of $4.3 million in earnings before depreciation and amortization, a $3.8 million increase in accounts payable and accrued expenses related to the increase in net sales and $1.7 million in severance expenses for former executives. These operating activities were partially offset by a ($0.7 million) increase in inventory, prepaid expenses, and other assets related to the increase in net sales. Mannatech believes it has successfully minimized its inventory levels while keeping products on hand for anticipated sales and has kept costs relatively constant, which resulted in an improvement of its inventory turnover ratio to 4.9 for the six months ended June 30, 2003 from 3.46 for the comparable period in 2002.

Investing activities. For the six months ended June 30, 2002, investing activities primarily consisted of $0.7 million in capital asset additions primarily related to internally-developed computer software and restricting cash of $0.3 million as collateral related to its master operating lease.

For the six months ended June 30, 2003, investing activities primarily consisted of restricting cash of $2.1 million as collateral for its line of credit and acquiring $0.4 million of new computer hardware. Mannatech estimates it will purchase approximately $1.7 million in additional computer hardware and software during the remainder of 2003. Mannatech is also planning to architect changes for its new sales and commission database, which it estimates will cost between $2.0 and $3.0 million. Mannatech plans to complete this project in 2004.

At June 30, 2003, related party notes receivable, net of an allowance of $31,000, totaled $0.2 million. The notes receivable are composed of five separate notes due from former officers and shareholders. One of the five notes was due from Gary Watson, whose loan balance at August 8, 2003 was approximately $31,000. As of August 8, 2003, Mr. Watson had not made his annual scheduled payments for the last two years and has not made his third annual scheduled payment due February 17, 2003. In late 2002, Mannatech established a provision for doubtful accounts of approximately $31,000 related to this note.

Financing activities. For the six months ended June 30, 2002, financing activities consisted of the repayment of capital leases and notes payables. For the six months ended June 30, 2003, financing activities consisted of $0.2 million in cash proceeds from the exercise of 122,633 employee and directors stock options, which was partially offset by the repayment of capital leases and notes payable of ($0.1 million).

General liquidity and cash flows. For the three and six months ended June 30, 2003, Mannatech generated positive cash flows from its operations and believes that at June 30, 2003, its existing liquidity and cash flows from operations, including current cash-on-hand and investments totaling $24.7 million and its access to a $2.0 million unused line of credit should be adequate to fund its business operations, commitments and planned international expansion for the next twelve months. Mannatech believes most of its expenses are primarily variable in nature and, as a result, any reduction in its revenues should result in a reduction of its future cash flow needs. However, if Mannatech's existing capital resources or cash flows become insufficient to meet its current business plans and existing capital requirements, Mannatech would be required to raise additional funds, which may not be available on favorable terms, if at all.

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

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

- funding the remaining $0.4 million in payments related to the resignations of former executives in 2001 and funding $0.9 million of payments related to Robert Henry's resignation in April 2003;
- funding the non-compete payments to Dr. H. Reginald McDaniel, a former medical director, of $325,000, payable in monthly installments of $25,000 through June 2004;
- funding Mannatech's product and property insurance policies of up to $1.4 million;
- funding Mannatech's travel incentive program of $1.8 million for associates;

- purchasing capital assets of $1.7 million for the remainder of 2003; and
- funding various operating leases for building and equipment rentals of $4.0 million through 2007.

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

	For the six months ended December 31,	For the twelve months ended December 31,				
	2003	2004	2005	2006	2007	Total
	(in thousands)					
Severance payments to former executives	$ 226	$ 150	$ —	$ —	$ —	$ 376
Severance payment to Mr. Henry	209	410	341	—	—	960
Payment of insurance premiums	1,400	—	—	—	—	1,400
Non-compete payments to Dr. McDaniel	150	175	—	—	—	325
Payment of the travel incentive program for associates	1,800	—	—	—	—	1,800
Purchasing capital assets	1,700	—	—	—	—	1,700
Minimum rental commitment related to noncancelable operating leases	804	1,163	937	806	303	4,013
Totals contracted obligations and commitments	$ 6,289	$1,898	$1,278	$806	$303	$10,574

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

Mannatech has no present contractual obligations or commitments with respect to expanding its operations into South Korea and Taiwan by the second half of 2004; however, Mannatech estimates that it will have to purchase up to $2.4 million in capital assets and spend up to $2.0 million related to its planned expansion into these countries by the end of 2004.

Mannatech also has no contractual obligations or commitments with respect to its sales and commission database, but plans to re-architect such database, which it estimates will cost between $2.0 million and $3.0 million. Mannatech plans on completing this project by the end of 2004.

Off-balance sheet and other contractual arrangements. Mannatech does not utilize off-balance sheet financing arrangements and had no such arrangements as of June 30, 2003. Mannatech does finance the use of certain facilities and equipment under various operating lease agreements. As of June 30, 2003, the total future minimum lease payments under such arrangements totaled $4.0 million and are properly not reflected in our consolidated balance sheets.

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

Mannatech currently maintains a purchase commitment agreement with its supplier of Manapol®. The purchase commitment requires Mannatech's manufacturers to purchase a minimum of $0.3 million per month of Manapol® through August 31, 2003. Mannatech is currently negotiating with this suppler to renew this bi-lateral purchase commitment agreement with the same terms as the present agreement. Presently Mannatech's manufacturers' monthly purchases of Manapol® have met or exceeded the monthly required commitment of $0.3 million and are projected to continue to purchase at least the required minimum monthly purchase through August 2004.

Recent Accounting Pronouncements

SFAS 143. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143") "Accounting for Asset Retirement Obligations." SFAS 143 is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. In addition, SFAS 143 requires the related asset retirement costs to be capitalized as part of the carrying amount of the long-lived asset and to be amortized over the life of the lease. On January 1, 2003, Mannatech adopted SFAS 143, which resulted in an increase in its leasehold improvements and long-term liabilities of $253,000 for the estimated restoration costs of its Japanese leased facilities. Mannatech believes the cumulative effect of this adjustment was insignificant.

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

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

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

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

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Forward-Looking Statements

Certain disclosure and analysis included under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures about Market Risk,” “Other Information,” “Notes to Consolidated Financial Statements”, and elsewhere in this report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995, and are subject to various risks and uncertainties. Opinions, forecasts, projections, guidance, or other statements, other than statements of historical fact, are considered forward-looking statements and reflect the current view of Mannatech about future events and its financial performance. These forward-looking statements are subject to certain events, risks and uncertainties that may be outside Mannatech’s control. Some of these forward-looking statements include statements regarding:

- existing capital resources, cash flows, and the line of credit being adequate to fund Mannatech’s future cash needs;
- management’s plans and objectives for Mannatech’s future operations;
- the realization of deferred tax assets;
- the expected future cash flows of Mannatech’s assets exceeding the net book value of such assets;
- the impact of market changes due to Mannatech’s exposure to foreign currency translations;
- the future impact of Mannatech’s international operations accounting for an increasing percentage of its consolidated net sales;
- the opening of new operations in South Korea and Taiwan by the second half of 2004 and their effect on operations;
- the impact of Mannatech’s product development strategy;
- the introduction of a new antioxidant product in August 2003;
- Mannatech’s ability to offer innovative incentives in the future;
- changes to Mannatech’s global career and compensation plan;
- recent accounting pronouncements having any significant impact on Mannatech’s financial condition, changes in financial conditions, results of operations or cash flows;
- the outcome of present or future regulatory and litigation matters; and
- the establishment of certain policies, procedures, and internal processes to combat exposure to market risk.

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

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

- timely development and acceptance of new products or refinements of existing products;
- the markets for Mannatech's domestic and international operations, including expanding into other countries;
- the statutory tax rates remaining unchanged;
- the impact of new competition and competitive products and pricing;
- the political, social and economic climate in which Mannatech conducts its operations; and
- the risk factors described in other documents and reports filed with the Securities and Exchange Commission.

In some cases, forward-looking statements are identified by terminology such as "may," "will," "should," "could," "expects," "plans," "hopes," "intends," "anticipates," "believes," "estimates," "approximates," "predicts," "potential," "projects," "in the future," or "continue" or the negative of such terms and other comparable terminology. Readers are cautioned when considering these forward-looking statements to keep in mind these risks and uncertainties and any other cautionary statements in this report as all of the forward-looking statements contained herein speak only as of the date of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

Country/Currency	Low	High
Australia/Dollar	$0.55910	$0.66880
Canadian/Dollar	$0.63370	$0.75010
Japan/Yen	$0.00823	$0.00863
New Zealand/Dollar	$0.52290	$0.58690
United Kingdom/British Pound	$1.56290	$1.67980

Item 4. Controls and Procedures

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

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

There have been no other material changes in, or additions to, the legal proceedings previously reported in Mannatech's Annual Report on Form 10-K (File No. 000-24657) for 2002 as filed with the Securities and Exchange Commission on March 31, 2003.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

a. Mannatech held its 2003 Annual Shareholders' Meeting on June 2, 2003 and the two proposals were described in detail in Mannatech's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 23, 2003.

b. Marlin Ray Robbins and Gerald S. Gilbert were elected to serve as Class I directors until Mannatech's 2006 Annual Shareholders' Meeting.

c. The voting results for the two proposals voted on at Mannatech's 2003 Annual Shareholders' Meeting are as follows:

Proposal 1—Election of Class I Directors:

Director	For	Against or Withheld
Marlin Ray Robbins	21,563,652	31,927
Gerald S. Gilbert	21,561,387	34,192

Proposal 2—Ratification of Accountants:

The appointment of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 31, 2003 was ratified according to the following votes:

For	Against or Withheld	Abstentions
21,553,497	16,382	25,700

d. None.

Item 5. Other Information

On April 28, 2003, Mannatech promoted Jeffrey Bourgoyne from Vice President of Operations to Senior Vice President of Supply Chain and Associate Care. Mr. Bourgoyne will oversee the majority of Mannatech's day-to-day operations.

On May 6, 2003, Mannatech hired Steven Lemme as its new Senior Vice President of Sales. Mr. Lemme has experience in international sales, marketing and finance and earned a Bachelor of Arts degree in biology/chemistry from Lawrence University in Appleton, Wisconsin and a Master of Business Administration from Keller Graduate School of Management in Chicago, Illinois. Mr. Lemme has been an independent associate since 1996 and periodically speaks at Mannatech's corporate-sponsored events.

On August 7, 2003, Mannatech entered into a new two-year Employment Agreement and a separate ten-year Royalty Agreement with Dr. Bill H. McAnalley, its Chief Science Officer. Under the terms of the Employment Agreement, Mannatech agreed to pay Dr. McAnalley a specified annual salary and the greater of his annual royalty payments or an annual executive bonus. Either party may cancel the Employment Agreement; however, if Mannatech cancels the Employment Agreement without cause, Mannatech would be required to pay Dr. McAnalley's minimum salary for either the remaining duration of the Employment Agreement or for twelve months, whichever is longer. Under the Royalty Agreement, Mannatech will be required to pay Dr. McAnalley royalties through 2015, which are based on increased product sales volume from certain products sold.

Item 6. Exhibits and Reports on Form 8-K

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

3.1	Amended and Restated Articles of Incorporation of Mannatech dated May 19, 1998, incorporated herein by reference to Exhibit 3.1 in Mannatech's Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
3.2	Fourth Amended and Restated Bylaws of Mannatech dated August 8, 2001, incorporated herein by reference to Exhibit 99.1 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on August 22, 2001.
4.1	Specimen Certificate representing Mannatech's common stock, par value $0.0001 per share, incorporated herein by reference to Exhibit 4.1 in Mannatech's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
10.1	Separation Agreement dated April 15, 2003, entered into between Mannatech and Mr. Robert M. Henry, incorporated herein by reference to Exhibit 99.1 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on April 17, 2003.
10.2*	Description of the amendment to the Consulting Agreement dated June 2, 2003, entered into between Mannatech and J. Stanley Fredrick.
10.3*	Employment Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley.
10.4*	Royalty Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley.
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 herein.

(b) Reports on Form 8-K.

On April 15, 2003, Mannatech filed a Form 8-K (File No. 000-24657) with the United States Securities and Exchange Commission in connection with the resignation of Robert M Henry as its Chief Executive Officer and the appointment of Samuel L. Caster as Mannatech's new Chief Executive Officer.

On May 16, 2003, Mannatech filed a Form 8-K (File No. 000-24657) with the United States Securities and Exchange Commission in connection with announcing its first quarter 2003 earnings in a press release.

On June 3, 2003, Mannatech filed a Form 8-K (File No. 000-24657) with the United States Securities and Exchange Commission in connection with reporting its 2003 Annual Shareholders' Meeting results. In addition, it announced that Gerald S. Gilbert, an independent director, was appointed as a member of its audit, nominating and science committees.

SIGNATURES

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

MANNATECH, INCORPORATED

August 14, 2003	/s/ SAMUEL L. CASTER
	Samuel L. Caster Chief Executive Officer and Chairman of the Board (principal executive officer)
August 14, 2003	/s/ STEPHEN D. FENSTERMACHER
	Stephen D. Fenstermacher Senior Vice President and Chief Financial Officer (principal financial officer)

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INDEX TO EXHIBITS

3.1	Amended and Restated Articles of Incorporation of Mannatech dated May 19, 1998, incorporated herein by reference to Exhibit 3.1 in Mannatech's Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
3.2	Fourth Amended and Restated Bylaws of Mannatech dated August 8, 2001, incorporated herein by reference to Exhibit 99.1 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on August 22, 2001.
4.1	Specimen Certificate representing Mannatech's common stock, par value $0.0001 per share, incorporated herein by reference to Exhibit 4.1 in Mannatech's Amendment No. 1 to Form S-1 (File No. 333-63133) filed with the Commission on October 28, 1998.
10.1	Separation Agreement dated April 15, 2003, entered into between Mannatech and Mr. Robert M. Henry, incorporated herein by reference to Exhibit 99.1 in Mannatech's Form 8-K (File No. 000-24657) filed with the Commission on April 17, 2003.
10.2*	Description of the amendment to the Consulting Agreement dated June 2, 2003, between Mannatech and J. Stanley Fredrick.
10.3*	Employment Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley.
10.4*	Royalty Agreement dated August 7, 2003, between Mannatech and Dr. Bill H. McAnalley.
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 herein.

Exhibit 10.2

Description of an amendment to the Consulting Agreement

by and between J. Stanley Fredrick and Mannatech

On June 2, 2003, the Board of Directors of Mannatech approved an amendment to the Consulting Agreement with J. Stanley Fredrick dated October 1, 2001 (the "Consulting Agreement"), whereby the amount of the annual compensation paid to Mr. Fredrick was increased from $185,000 to $285,000 annually due to his increased contributions as a consultant to Mannatech. All other terms and conditions of the Consulting Agreement will remain the same. The Consulting Agreement was filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2001.

Exhibit 10.3

EMPLOYMENT AGREEMENT (Release Included)

This Employment Agreement (the "Agreement") is entered into by and between Mannatech Incorporated (the "Company") and Dr. Bill H. McAnalley (the "Employee"), and has an effective date of August 7, 2003 ("Effective Date"). The Company desires to employ the Employee, and the Employee desires to be employed by the Company. Therefore, in consideration of the mutual promises and agreements contained herein, the parties hereby agree as follows:

SECTION 1.
EMPLOYMENT

1.1 **Employment.** The Company hereby employs the Employee, and the Employee hereby accepts employment by the Company, for the period and upon the terms and conditions contained in this Agreement.

1.2 **Office and Duties.** The Employee shall serve as Chief Science Officer of the Company, with the authority, duties and responsibilities customarily incident to such office. The Employee shall report directly to the Chairman & CEO of the Company and shall perform such other services commensurate with his position as may from time to time be assigned to him.

1.3 **Performance.** During the term of employment under this Agreement, the Employee shall devote on a full-time basis all of his time, energy, skill and best efforts to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company. The Employee shall comply with the employee policies and written manuals of the Company that are applicable generally to the Company's employees.

1.4 **Place of Work.** The Employee shall perform services under this Agreement at the Company's principal office in Coppell, Texas, and at such other place or places as the Employee and the Company shall mutually agree. In addition, the Employee understands and agrees that he may be required to travel in connection with the performance of his duties.

1.5 **Directors' and Officers' Liability Insurance.** The Company will provide the Employee with officers' and directors' liability insurance covering acts or omissions by the Employee in the performance of his duties to the Company under this Agreement as an officer of the Company.

1.6 **Exclusive Employment.** The Company and Employee agree that, without the prior written consent of the Board of Directors of the Company:

a. Employee will not serve as a spokesman, representative, employee, consultant, agent, officer, or member of any board of directors for any for-profit business, other than the Company, except as agreed in Section 6.7;

b. Employee will not serve as a spokesman, representative, employee, owner, consultant, agent, officer, or member of any board of directors for any business which is a supplier to or competes with Mannatech directly or indirectly;

c. Employee will not own more than 5% of, or sit on the Board of, any public company which competes directly or indirectly with Mannatech; and

d. Employee will not promote or endorse at Company business functions any other organization(s) with which he may be affiliated.

SECTION 2.
TERM

2.1 **Term.** Employment will commence on August 7, 2003. The term of this Agreement, unless otherwise modified in writing, is for a term for two years, ending August 7, 2005. This Agreement supersedes the Employment Agreement executed by the parties on October 13, 1998.

SECTION 3.
COMPENSATION FOR EMPLOYMENT

3.1 **Base Salary.** The base annual compensation of the Employee for all of his employment services to the Company under this Agreement shall be $ 330,000, which the Company shall pay to the Employee in equal installments and in accordance with the normal payroll policies of the Company. The base annual compensation may be increased at the sole discretion of the Board of Directors of the Company.

3.2 **Annual Bonus and Royalty Payments.** During his employment, Employee is also eligible to receive the greater of:

a. annual royalty payment in accordance with the terms and conditions of the Supplemental Royalty Compensation Agreement (“Royalty Agreement”), which is attached hereto as Exhibit A and fully incorporated as set forth herein; **or,**

b. executive bonus compensation.

Executive bonus compensation is determined in accordance with any criteria established by the Board of Directors, and subject to the approval and consent of the Compensation Committee. The Employee acknowledges that any annual executive bonus compensation is discretionary, with the sole discretion as to payment and amount of any bonus resting with the Board of Directors of the Company and subject to the approval and consent of its Compensation Committee. Further, the

Employee must remain employed by the Company at the time the executive bonus is paid, in order to be eligible to receive the annual executive bonus.

During any one fiscal year, Employee shall only be entitled to receive either the royalty payments or the executive bonus compensation, but not both. Employee is not entitled to any executive bonus compensation if the amount paid under the Royalty Agreement is greater than the amount of the bonus. Likewise, the Employee is not eligible for payments under the Royalty Agreement if the amount paid as executive bonus compensation is greater than the Royalty payments. (Ex.—If the annual royalty payment under the Royalty Agreement is $5,000, and the annual bonus payment is $10,000, then Employee will be entitled to $10,000 as bonus compensation. If, however, the royalty payments exceed the bonus payment, then Employee is entitled only to the royalty payments and not the bonus payment). While Employee is eligible to receive royalty payments beyond the term of this Agreement pursuant to the Supplemental Royalty Agreement, he is not entitled to receive any executive bonus compensation after his employment terminates.

3.3 **Payment and Reimbursement of Work-Related Expenses.** During his employment, the Company shall pay or reimburse the Employee for all reasonable travel and other reasonable expenses incurred by the Employee in performing his obligations under this Agreement in accordance with the policies and procedures of the Company, provided that the Employee properly accounts for such expenses in accordance with the regular policies of the Company.

3.4 **Health Insurance/401(k).** During his employment, the Employee shall be entitled to participate in or receive benefits under any plan or arrangement made available by the Company to its employees (including any medical, dental, short-term and long-term disability, life insurance and 401(k) programs), subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. Any such plan or arrangement shall be revocable and subject to termination or amendment at any time.

3.5 **Executive Vehicle Program.** The Employee will also be eligible to receive a monthly vehicle allowance of $1,000 per month or, at his option, a leased vehicle which the Company will arrange pursuant to its Executive Lease Auto Program which includes routine maintenance, Insurance and repairs to such leased vehicles .

3.6 **Vacation.** During each year of his employment and in accordance with the regular policies of the Company, the Employee shall be entitled to twenty (20) days of vacation, during which his compensation hereunder shall be paid in full.

SECTION 4.
CONFIDENTIAL INFORMATION

4.1 **Access to Confidential Information.** The Company promises to provide the Employee with specialized information concerning the products and the business operations of the Company. Irrespective of the term of employment, and in consideration of the Employee's promises specified in Section 6 of this Agreement, the Company agrees to provide specialized training and instruction to the Employee for the job duties assigned to the Employee, and agrees to provide specialized training to the Employee for such additional job duties as the Company may direct in good faith, or as the interests, needs and business opportunities of the Company shall require or make advisable.

During the course of the Employee's employment and training incident thereto, the Company promises to give the Employee access to the Company's ***CONFIDENTIAL INFORMATION***, including but not limited to the new ***CONFIDENTIAL INFORMATION*** attached to this Agreement as Exhibit B. The parties stipulate and agree that the Employee has never seen or had access to the ***CONFIDENTIAL INFORMATION*** attached as Exhibit B.

The Employee acknowledges that in the course of the Employee's employment with the Company, the Employee will gain a close, personal and special influence with the Company's customers, and will be acquainted with all of the Company's business, particularly the Company's ***CONFIDENTIAL INFORMATION***.

Irrespective of the term of employment under this Agreement, and in consideration of the promises specified in this Agreement, the Company agrees as follows:

a. to provide specialized training as specified herein; and,

b. to provide the Employee with access to the Company's software and files, records, marketing procedures, processes, computer programs, compilations of information, records, Associate and client requirements, pricing techniques, lists, formulae, lists identifying Associates, partners, potential investors, methods of doing business and other ***CONFIDENTIAL INFORMATION*** which is regularly used in the operation of the business of the Company.

4.2 **Definition of Confidential Information.** "***CONFIDENTIAL INFORMATION"*** includes but is not limited to: Company genealogies (being the information held by the Company related to its Associates, including without limitation its relationship with each of its Associates, the sponsoring of each Associate, the Associate's upline and downline, charts, data reports and other materials, historical purchasing information for each Associate); proprietary product information which may from time-to-time be made known to Employee; the names, buying habits, or practices of any of the Company's customers, prospects or Associates; the identity of specific contacts within the customer's organization; the names of the Company's vendors or suppliers; costs of materials; costs

of its Products generally; the prices the Company obtains or has obtained or at which it sells or has sold its Products or services; manufacturing and sales costs; lists or other written records used in the Company's business; compensation paid to its Associates and Employees and other terms of employment thereof; the Company's marketing methods and related data; corporate opportunities; manufacturing processes; formulas and formulations; clinical studies; scientific studies or analysis; scientific studies or analyses other than those published for use by the Company for the benefit of its Associates; the Company's financial performance or any other financial information or data; details of training methods; new products or new uses for old products; merchandising or sales techniques; contracts and licenses; business systems and computer programs; or any other confidential information or data of any kind that concerns the business of the Company or its existing or contemplated manner of operation.

4.3 **Protection of Confidential Information.** The Employee recognizes that the Employee's position with the Company is one of the highest trust and confidence by reason of the Employee's access to the ***CONFIDENTIAL INFORMATION***, and the Employee agrees to use the Employee's best efforts and utmost diligence to protect and safeguard the ***CONFIDENTIAL INFORMATION***. In this respect, the Employee agrees that fulfilling the obligations of the Agreement is part of the Employee's job responsibilities with the Company for which the Employee has been retained and for which the Employee has received consideration.

4.4 **Use of Confidential Information.** The Employee agrees to only use the ***CONFIDENTIAL INFORMATION*** for Company business and shall return copies of any such information to Company forthwith upon termination of employment for whatever reason. Except as may be required by the Company in connection with and during the Employee's employment with the Company, or with the express written permission of the Company, the Employee shall not, either during the Employee's work as an employee with the Company or at any time thereafter, directly or indirectly, download, print, copy, remove from the premises of the Company, use for the Employee's own benefit or for the benefit of another, or disclose to another, any ***CONFIDENTIAL INFORMATION***.

4.5 **Nondisclosure.** Employee specifically agrees that Employee will not, at any time during or after Employee's employment by the Company, in any manner, either directly or indirectly, use, divulge, disclose, or communicate to any person, firm, or corporation, any ***CONFIDENTIAL INFORMATION***. Company acknowledges that, in the ordinary course of his business, consistent with past practice, Employee may be required to discuss *CONFIDENTIAL INFORMATION* with vendors. However, Employee agrees to advise vendor of the confidential nature of the information.

The Parties agree that, as between them, all ***CONFIDENTIAL INFORMATION*** is important, material, highly sensitive and valuable to the Company's business and its goodwill, and is transmitted to the Employee in strictest confidence. The Company's legitimate business interests

require the non-disclosure thereof to anyone, including but not limited to the Company's competitors. ***CONFIDENTIAL INFORMATION*** would not be delivered or made available to Employee absent these provisions of Section 4 of this Agreement.

The Employee shall not, during the term of the Agreement or during any time he is receiving Royalty Payments as provided for under Exhibit "A," take or encourage any action which would circumvent, breach, interfere with or diminish the value or benefit of the Company's ***CONFIDENTIAL INFORMATION*** and, without prejudice to the generality of the foregoing, the Employee shall not directly or indirectly contact, solicit, entice, sponsor or accept any of the Company's Associates into, or in any way promote to any such Associates opportunities in marketing programs of any direct sales company other than the Company.

4.6 **Return of Information.** Employee agrees that all equipment, notebooks, documents, memoranda, reports, notes, files, sample books, correspondence, lists, other written and graphic records, and the like, affecting or relating to the business of the Company, which Employee shall prepare, use, construct, possess, control or otherwise come into the Employee's possession while employed by the Company concerning any process, apparatus or products manufactured, sold, used, developed, investigated or considered by the Company concerning ***CONFIDENTIAL INFORMATION*** or concerning any other business or activity of the Company, shall remain at all times the property of the Company and shall be delivered to the Company upon termination of employment with the Company for any reason or at any time upon request.

4.7 **Development of New Confidential Information.** From time-to-time during the term of this Agreement, additional ***CONFIDENTIAL INFORMATION*** may be developed, obtained and otherwise made known to Employee. Employee specifically agrees that all such additional ***CONFIDENTIAL INFORMATION*** shall be included within the terms of this Agreement.

4.8 **Irreparable Harm.** The Parties agree that the Company shall suffer irreparable harm in the event its ***CONFIDENTIAL INFORMATION*** is disseminated in any manner. The Company therefore reserves the right to seek injunctive relief or any other remedy available at law to protect its ***CONFIDENTIAL INFORMATION***.

4.9 **Disclosure Required by Law.** If any ***CONFIDENTIAL INFORMATION*** or other matter described in this Agreement is sought by legal process, Employee will promptly notify the Company and will cooperate with the Company in preserving the confidential nature of its ***CONFIDENTIAL INFORMATION***.

4.10 **Third Party Confidential Information.** As a result of Employee's employment by the Company, Employee may have access to, or knowledge of, confidential business information or trade secrets of third parties, such as the Company's customers, suppliers, partners, joint venturers, and other business partners. Employee also agrees to preserve and protect the confidentiality of such

third party confidential information and trade secrets to the same extent, and on the same basis, as the Company's ***CONFIDENTIAL INFORMATION***.

4.11 **Survival.** This Section shall survive the execution, performance and/or termination of this Agreement.

SECTION 5.
OWNERSHIP OF INFORMATION, INVENTIONS AND ORIGINAL WORK

5.1 **Ownership Of Information, Inventions And Original Work.** Employee agrees that any creative works, discoveries, designs, software, computer programs, inventions, improvements, modifications, enhancements, know-how, formulation, concept or idea which is conceived, created or developed by Employee, either alone or with others (collectively referred to as "Work Product") is the exclusive property of the Company if either:

a. it was conceived or developed in any part during his employment or on Company time;

b. any equipment, facilities, materials or Confidential Information of the Company was used in its conception or development; or

c. it either: (i) relates, at the time of conception or reduction to practice, to the Company's business or to an actual or demonstrably anticipated research or development project of the Company, or (ii) results from any work performed by Employee for the Company.

With respect to any such Work Product, Employee agrees as follows:

a. Employee shall promptly disclose the Work Product to the Company;

b. Employee agrees to assign, and hereby does assign, all proprietary rights to such Work Product to the Company without further compensation except for the compensation described in the Royalty Agreement dated August 7, 2003 attached hereto;

c. Employee agrees not to file any patent or copyright applications related to such Work Product except with the written consent of the Board;

d. Employee agrees to assist the Company in obtaining any patent or copyright on such Work Product, and to provide such documentation and assistance as is necessary to the Company to obtain such patent or copyright; and

e. Employee shall maintain adequate written records of such Work Product, in such a format as may be specified by the Company. Such records will be available to and remain the sole property of the Company at all times.

Any Work Product disclosed by Employee within one (1) year following the termination of employment from the Company shall be deemed to be owned by the Company under the terms of this Agreement, unless proved by the Employee to have been conceived after such termination.

SECTION 6.
NON-COMPETITION and NON-SOLICITATION

6.1 **Consideration.** The Company agrees to provide the Employee with ***CONFIDENTIAL INFORMATION***, specialized training, and/or other proprietary business information from the Company immediately upon commencement of this Agreement, including ***CONFIDENTIAL INFORMATION*** as identified in Section 4 above. Employee acknowledges that specialized training and the ***CONFIDENTIAL INFORMATION*** provided by the Company is valuable to the Company and, therefore, the Company's investment in the training and the protection and maintenance of the ***CONFIDENTIAL INFORMATION*** constitutes a legitimate interest to be protected by the Company by the covenant not to compete set forth in this Section.

The Employee acknowledges that (i) these non-competition and non-solicitation covenants are ancillary to or a part of an otherwise enforceable agreement, such being the agreements concerning confidentiality and non-disclosure of CONFIDENTIAL INFORMATION, and (ii) that at the time that this non-competition covenant is made, the limitations as to time, geographic scope, and activity to be restrained, as defined herein, are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company.

6.2 **Non-Compete and Non-Solicitation.** In consideration of the mutual promises contained in this Agreement, including the specialized training, ***CONFIDENTIAL INFORMATION***, and other proprietary information, the sufficiency of which is acknowledged by the parties, Employee agrees that during his employment and for a period of twelve (12) calendar months thereafter, regardless of whether the Employee's termination from the Company is voluntary or involuntary, Employee will not, either as principal, agent, manager, employee, partner, shareholder, director, officer, consultant or otherwise, directly or indirectly:

a. Become associated or affiliated with, employed by, financially interested in, or be a spokesperson for any business operation which engages in the direct selling business generally, or which competes in the business currently engaged in by the Company or any of its subsidiaries or affiliates, including but not limited to, the type of activities in which the Company was engaged during Employee's tenure, such as the direct sale, network and/or multi-level marketing of dietary supplements; and,

b. Solicit or attempt to solicit the business or patronage of any Associate, person, firm, corporation, partnership, association, department of government or other entity with whom the Company has had any contract during this Agreement and for a period of twelve (12) calendar months preceding the date of this Agreement ("Customers"), or otherwise induce such Customers to reduce, terminate, restrict or otherwise alter business relationships with the Company in any fashion.

6.3 **Geographic Scope.** In recognition of the Company-wide scope of the Employee's responsibilities, and the broad geographic scope of the Company's business operations throughout the entire United States, and the ease of competing with the Company, the restrictions on competition set forth herein are intended to cover those cities and states in the United States of America and foreign countries in which the Company does business on the date of the execution of this Agreement.

6.4 **Unique Relationships with Customers and Associates.** Employee agrees that in the highly competitive business in which the Company is engaged, personal contact is of primary importance in securing new and retaining present Associates and customers. The Employee also agrees that the Company has a legitimate interest in maintaining its relationships with its Associates and customers and that it would be unfair for the Employee to solicit the business of the Company's Associates and customers, and exploit the personal relationships the Employee develops with the Company's Associates and customers by virtue of the Employee's access to the Company's customers as a result of the Employee's employment by the Company.

6.5 **Alternative Employment.** Employee represents and admits that in the event of termination of the Employee's employment for any reason whatsoever, the Employee's experiences and capabilities are such that the Employee can obtain employment in a business engaged in other lines and/or of a different nature, and that the enforcement of a remedy by way of injunction will not prevent the Employee from earning a livelihood.

6.6 **No Conflict.** Employee represents and warrants that the delivery and execution of this Agreement will not cause a breach in the terms of any existing agreement to which he is a party, nor interfere with any undertakings which he is bound to perform or refrain from under any such agreements.

6.7 **Company Policies.** Employee shall be bound by and abide by all employee and officer policies of the Company in effect during the term of his employment. Subject to Employee's full disclosure, annually, in accordance with the Company's Conflict of Interest Policy, and further subject to Board approval thereof, the Company agrees that Employee's ownership of White Caps, Harding Group, and Talking Stick Publishing does not, in and of itself present a conflict of interest. Any potential or future conflict of interest arising from the ownership in these ventures shall continue to be subject to the terms of this Agreement and the Company's Policies & Procedures including ALE01005 which is attached hereto as Exhibit C. Employee's disclosure as of the date of this Agreement is attached hereto as Exhibit D and incorporated by reference herein.

6.8 **Fiduciary Duty**. Employee acknowledges and agrees that he owes a fiduciary duty of loyalty, fidelity, and allegiance to act at all times in the best interests of Company. In keeping with these duties, Employee shall make full disclosure to the Company of all business opportunities pertaining to the Company's business, and shall not appropriate for Employee's own benefit, any business opportunities concerning the subject matter of the fiduciary relationship.

6.9 **Survival.** Section 6 shall survive the execution, performance and/or termination of this Agreement, subject to the time and scope limitations set forth therein.

SECTION 7.
REMEDIES

7.1 **Remedies.** In the event of a breach of this Agreement by Employee, the Company shall be entitled to all appropriate equitable and legal relief, including, but not limited to: (a) injunction to enforce this Agreement or prevent conduct in violation of this Agreement; (b) damages incurred by the Company as a result of the breach; and (c) attorneys' fees and costs incurred by the Company in enforcing the terms of this Agreement.

7.2 **Arbitration.** Arbitration shall be the exclusive remedy for any and all disputes, claims or controversies, whether statutory, contractual or otherwise, between the Company and the Employee concerning the Employee's employment or the termination thereof. In the event either party provides a Notice of Arbitration of Dispute to the other party, the Company and the Employee agree to submit such dispute or controversy, whether statutory or otherwise, to an arbitrator or arbitrators selected from a panel of arbitrators of the Judicial Arbitration & Mediation Services located in Dallas, Texas. The action will be governed by the JAMS Comprehensive Arbitration Rules and Procedures in effect at the time the action was commenced. In any arbitration proceeding conducted subject to these provisions, all statutes of limitations that would otherwise be applicable shall apply to any arbitration proceeding hereunder. In any arbitration proceeding conducted subject to these provisions, the arbitrator(s) is/are specifically empowered to decide any question pertaining to limitations, and may do so by documents or by a hearing, in his or her sole discretion. In this regard, the arbitrator may authorize the submission of pre-hearing motions similar to a motion to dismiss or for summary adjudication for the purposes of consideration this matter. The arbitrator's decision will be final and binding upon the parties. The parties further agree to abide by and perform any award rendered by the arbitrator. The prevailing party in such proceeding shall be entitled to record and have awarded its reasonable attorney's fees, in addition to any other relief to which it may be entitled. In rendering the award, the arbitrator shall state the reasons therefore, including any computations of actual damages or offsets, if applicable. Nothing in this paragraph should be construed as waiving, eliminating, or affecting the Company's right or ability to seek injunctive relief or any other emergency relief from any competent court at law that has jurisdiction over such matter.

SECTION 8.
TERMINATION AND NONRENEWAL

8.1 **Termination.**

a. This Agreement shall terminate and become null and void, and Employee is not entitled to any additional compensation, upon the following events, except as otherwise provided in the Supplemental Royalty Agreement of even date between Mannatech and Employee:

(i) death of the Employee;

(ii) Employee becoming incapacitated by accident, sickness, or other circumstances that renders Employee mentally or physically incapable of performing the essential duties and services required of Employee hereunder, with or without reasonable accommodation, for a period of at least 90 calendar days; or,

(iii) termination for Cause.

b. For all purposes of this Agreement, "Cause" shall mean the Employee's (1) conviction, plea of no contest, or deferred adjudication for any felony or misdemeanor that causes harm or embarrassment to the Company, in the reasonable judgment of the Board of Directors; (2) refusal without proper legal reason or failure to satisfactorily perform the duties and responsibilities required of the Employee hereunder; (3) substance abuse or use of illegal drugs that impairs the Employee's performance or that causes harm or embarrassment to the Company; (4) habitual absenteeism, tardiness or failure to meet attendance standards for job performance and results of operation; (5) commission of any act of fraud, dishonesty, illegality or theft; (6) participation individually or in concert with another in an act of moral turpitude, such that after investigation and in the Company's sole discretion, casts the Company in a false light, causes harm or embarrassment, or otherwise renders the Employee unfit for service as an officer of the Company; or (7) breach of Sections 1, 4, 5, 6, 8 or 9 of this Agreement or breach of any fiduciary duty owed by Employee to the Company; (8) breach this Agreement or any corporate policy or code of conduct established by the Company; (9) engagement in conduct that Employee knows or should know is injurious to the Company or any of its Affiliates); and, (10) disparagement of the Company, its management, or its products.

8.2 **Non-renewal.** In the event the Company gives notice to the Employee that it will terminate this Agreement at the expiration of the two-year term, and such notice is given on or before the one-year anniversary of this Agreement (August 7, 2004), then the Agreement will automatically terminate at the end of the two-year term with no severance pay of any kind, and paragraph 8.3 below is of no force or effect.

8.3 **Severance.**

a. Nothing contained in this Agreement shall be construed as impairing the right of the Company to terminate the Employee's employment with the Company.

b. If (a) the Employee's employment with the Company is terminated for any reason not specified in paragraph 8.1.a, **or** (b) the Company does not renew the Agreement and did not to give notice of nonrenewal on or before the one-year anniversary of the Agreement, then Employee shall continue to receive his base salary as set forth in Section 3, paragraph 3.1 until the later of:

(i) the expiration of the two-year term of this Agreement, or

(ii) the expiration of the twelve-month period following the Employee's last date of employment.

Any amount owed to Employee under this paragraph will be paid in regular installments on the usual and customary pay dates of the Company.

8.4 **Release.** As a condition to the receipt of any Severance payment under paragraph 8.3 of this Agreement, Employee shall be required to execute a release, in the form established by the Company, releasing Company and Company's shareholders, partners, officers, directors, employees, and agents from any and all claims and from any and all causes of action of any kind or character, including, but not limited to, all claims or causes of action arising out of the Employee's employment with the Company, the termination of such employment, or any actions or omissions occurring during such employment, and the performance of Employee's and Company's obligations hereunder.

SECTION 9.
NON-DISPARAGEMENT

9.1 **Non-Disparagement.** Employee expressly acknowledges, agrees, and covenants that he will not make any statements, comments, or communications in any form, oral, written, or electronic, which would constitute libel, slander, or disparagement of the Company, or which may be considered to be derogatory or detrimental to the good name or business reputation of the Company. This non-disparagement agreement applies to any public or private statements, comments, or communications in any form, whether oral, written, or electronic. Employee further agrees that he will not in any way solicit any such statements, comments or communications.

SECTION 10.
REPRESENTATION BY EMPLOYEE

10.1 Employee hereby represents and warrants to the Company that the Employee's execution of this Agreement and Employee's performance of his duties hereunder will not conflict with, cause a default under, or give any party a right to damages under any other agreement to which Employee is a party or is bound.

SECTION 11.
GENERAL RELEASE AGREEMENT

11.1 **General Release.** Employee, for himself and on behalf of his attorneys, heirs, assigns, successors, executors, and administrators IRREVOCABLY AND UNCONDITIONALLY RELEASES, ACQUITS AND FOREVER DISCHARGES Mannatech and its current and former parent, subsidiary, affiliated, and related corporations, firms, associations, partnerships, and entities, their successors and assigns, and the current and former owners, shareholders, directors, officers, employees, agents, attorneys, representatives, and insurers of said corporations, firms, associations, partnerships, and entitles, and their guardians, successors, assigns, heirs, executors, and administrators (hereinafter "Releasees") from any and all claims, liabilities, obligations, agreements, damages, causes of action, costs, losses, damages, and attorneys' fees and expenses whatsoever, whether known or unknown or whether connected with Employee's employment by Mannatech or not, including, but not limited to, any dispute, claim, charge, or cause of action arising under the **Age Discrimination in Employment Act**, 29 U.S.C. § 621, *et. seq.,* **Title VII of the Civil Rights Act of 1964,** as amended, 42 U.S.C. § 2000e, *et seq*., the **Americans with Disabilities Act of 1990,** 42 U.S.C. § 12101, *et seq*., the **Texas Commission on Human Rights Act**, Tex. Labor Code § 21.001 *et seq*., the **Employee Retirement Income Security Act of 1974,** as amended 29 U.S.C. § 1001, *et seq*., and any other municipal, local, state, or federal law, common or statutory, which may have arisen, or which may arise, prior to, or at the time of, the execution of this Agreement.

11.2 **Covenant Not to Sue.** Employee also COVENANTS NOT TO SUE, OR OTHERWISE PARTICIPATE IN ANY ACTION OR CLASS ACTION against, any of the Releasees based upon any of the claims released in paragraph 1 of this Agreement.

11.3 **Consideration.** In exchange for Employee's release of all claims, Mannatech agrees to pay Employee Five Hundred Dollars ($500.00), the receipt of which is hereby acknowledged, agrees to continue Employee's employment along the terms and conditions set forth in the parties' Employment Agreement dated August 7, 2003, and agrees to enter into the Supplemental Royalty Agreement, each of which Employee hereby acknowledges as adequate and sufficient consideration for this release.

11.4 **Non-Admissions.** Employee acknowledges that by entering into this Agreement, Mannatech does not admit, and does specifically deny, any violation of any local, state, or federal

law.

11.5 **Revocation.** Employee may revoke this Agreement by notice to the Company, in writing, within seven (7) days of the date of its execution by Employee (the "Revocation Period"). Employee agrees that he will not receive the benefits provided by this Agreement if he revokes this Agreement. Employee also acknowledges and agrees that if Mannatech has not received from him notice of his revocation of this Agreement prior to the expiration of the Revocation Period, Employee will have forever waived his right to revoke this Agreement and this Agreement shall thereafter be enforceable and have full force and effect.

11.6 **Statement of Understanding.** By executing this Agreement, Employee acknowledges that (a) he has had at least twenty-one (21) days to consider the terms of this Agreement and has considered its terms for that period of time or has knowingly and voluntarily waived his right to do so; (b) he has been advised by Mannatech to consult with an attorney regarding the terms of this Agreement; (c) he has consulted with, or has had sufficient opportunity to consult with, an attorney of his own choosing regarding the terms of this Agreement; (d) he has read this Agreement and fully understands its terms and their import; (e) except as provided by this Agreement, he has no contractual right or claim to the benefits described herein; (f) the consideration provided for herein is good and valuable; and (g) **he is entering into this Agreement voluntarily, of his own free will, and without any coercion, undue influence, threat, or intimidation of any kind or type whatsoever.**

SECTION 12.
GENERAL

12.1 **Governing Law.** This Agreement shall be governed by and construed under the laws of the State of Texas or, at the Company's sole option, by the laws of the state or states where this Agreement may be at issue in any litigation involving the Company. Venue of any litigation arising from this Agreement shall be in a court of competent jurisdiction in Dallas County, Texas.

12.2 **Binding Effect.** All of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the respective heirs, representatives, successors (including any successor as a result of a merger or similar reorganization) and assigns of the parties hereto, except that the Employee's duties and responsibilities hereunder are of a personal nature and shall not be assignable in whole or in part by the Employee, and the Company may not assign its rights, duties, or responsibilities without the Employee's consent. This Agreement is subject to the approval of the Company's Board of Directors and its Compensation and Option Committees.

12.3 **Notices.** All notices required to be given under this Agreement shall be in writing and shall be deemed to have been given and received when personally delivered, mailed by

registered or certified mail, postage prepaid, return receipt requested, or sent by overnight delivery service, addressed as follows:

If to the Employee:	Dr. Bill H. McAnalley 4921 Carrier Parkway Grand Prairie, TX 75052
If to the Company:	General Counsel Mannatech Incorporated 600 S. Royal Lane, Suite 200 Coppell, TX 75019

Such addresses may be changed from time to time by written notice to the other party.

12.4 **Prior Agreement.** This Agreement supersedes all prior agreements between the parties of any and every nature whatsoever, including agreements for additional compensation or benefits. All such prior agreements are null and void. Notwithstanding the foregoing sentences in this paragraph, the Royalty Agreement and General Release Agreement executed simultaneous with this Agreement survive and are not superseded.

12.5 **Fitness for Duty Examination.** This Agreement is expressly subject to Employee obtaining an independent medical fitness for return to work examination by a physician selected by the Company.

12.6 **Duration.** Notwithstanding the termination of Employee's employment by the Company, this Agreement shall continue to bind the parties for so long as any obligations remain under the terms of this Agreement.

12.7 **Waiver.** No waiver of any breach of this Agreement shall be construed to be a waiver as to succeeding breaches.

12.8 **Enforcement & Severability.** The Parties intend all provisions of this Agreement to be enforced to the extent permitted by law. Accordingly, should a court of competent jurisdiction determine that the scope of any provision of this Agreement is too broad to be enforced as written, the Parties intend for the court to reform the provision to such narrower scope as it determines to be reasonable and enforceable. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable, the provision shall be severed and this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part of it and the remaining provisions shall remain in full force and effect.

12.9 **<u>Subsidiaries</u>.** Wherever the term "Company" is referred to in this Agreement, it shall include all subsidiaries of the Company as they may exist from time to time, even where the term *"subsidiaries"* is not explicitly stated in connection with such reference.

12.10 **<u>Assignment</u>.** This Agreement shall inure to the benefit of and be binding upon the Company and the Employee, and their respective successors and assigns. The Employee shall not be entitled to assign any rights or obligations hereunder.

12.11 **<u>Employee Acknowledgement</u>.** The Employee affirms and attests by signing this Agreement that Employee has read this Agreement before signing it and that Employee fully understands its purposes, terms, and provisions, which Employee hereby expressly acknowledges to be reasonable in all respects. The Employee further acknowledges receipt of one (1) copy of this Agreement.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have duly entered into this Agreement as of the Effective Date written above.

EMPLOYEE:

/s/ DR. BILL H. MCANALLEY

Dr. Bill H. McAnalley

Date: August 7, 2003

MANNATECH INCORPORATED

By: **/s/ SAMUEL L. CASTER**

Samuel L. Caster
Chairman of the Board

Date: August 7, 2003

Exhibit 10.4

Supplemental Royalty Compensation Agreement

This Supplemental Royalty Compensation Agreement ("**Agreement**"), made effective as of the 7th day of August, 2003 ("**Effective Date**"), is by and between Mannatech, Incorporated, a Texas corporation having a principal place of business in Coppell, Texas ("Mannatech") and Dr. Bill H. McAnalley ("McAnalley"), a Texas resident currently residing at 4921 Carrier Parkway, Grand Prairie, Texas 75052.

WHEREAS, Mannatech and McAnalley are entering into a comprehensive employment agreement ("**Employment Agreement**"), concurrently executed herewith, and having an effective date the same as the Effective Date; and

WHEREAS, the Employment Agreement provides, inter alia, that McAnalley is to receive a bonus from Mannatech ("**Royalty Bonus**") which will depend upon the volume of certain products actually sold by Mannatech, in accordance with the terms and conditions of this Agreement; and

WHEREAS, it is the intention of this Agreement to define the terms and conditions by which McAnalley will be entitled to receive such Royalty Bonus;

NOW, THEREFORE, for and in consideration of the premises, the amounts and benefits received and to be received pursuant to the Employment Agreement, and the mutual covenants and promises contained herein, the parties hereto have agreed and do hereby agree as follows:

ARTICLE I.
Royalty

A. Subject to the conditions hereinafter recited, Mannatech shall pay and deliver to McAnalley the Royalty Bonus in an amount of three tenths of one percent (.003) of the **Finished Product Sales** (as defined hereinafter) for **Royalty Bearing Products** (as defined hereinafter),

which exceed, for any fiscal year, an **Initial Sales Level** (as defined hereinafter).

B. The term "**Finished Product Sales**," as used herein, shall mean and refer to net finished product sales actually made, excluding shipping charges and governmental sales taxes and other miscellaneous charges, for which payment has been received by Mannatech, as reported in Mannatech's Product Analysis contained in its internal financial reports. The term "**Royalty Bearing Products**," as used herein, shall mean and refer to (i) all of the type of finished products sold by Mannatech during the fiscal year ending December 31, 2002, and (ii) all other type of finished products sold by Mannatech after December 31, 2002 for which McAnalley is (or while employed by Mannatech, was) the principal inventor or director; provided, however, that **Royalty Bearing Products** shall not, in any event, include pack sales and MPM materials, irrespective of whether McAnalley is or is not the principal inventor thereof. The term "**Initial Sales Level**," as used herein, shall mean and refer to the total sales of finished products by Mannatech during the fiscal year ending December 31, 2002, which sales the parties agree are to be deemed to be approximately at One Hundred Five Million Three Hundred Eighty-three Thousand Dollars ($105,383,000).

C. During McAnalley's employment, royalties provided for under this Agreement shall be payable annually, and shall be payable quarterly following termination of McAnalley's employment, subject to the following procedure. Commencing with the Effective Date of this Agreement and thereafter during the term of this Agreement, Mannatech shall, within thirty (30) days after filing of its Form 10Q with the SEC after the end of each quarterly period of its then current fiscal year, furnish to McAnalley written statements specifying (i) the total **Finished Product Sales** of **Royalty Bearing Products** for the preceding quarter, and (ii) the total **Finished Product Sales** of finished products sold by Mannatech during the corresponding

quarter during 2002.

D. At the end of the fiscal year, during his employment, and during the term of this Agreement, if McAnalley so elects under section 3.2 of the Employment Agreement, Mannatech will issue a check, if due, in payment of royalties hereunder in an amount equal to three-tenths of one percent (.003) of the **Finished Product Sales** for **Royalty Bearing Products** that exceed, for any fiscal year, the **Initial Sales Level.** Following the termination of McAnalley’s employment, and during the term of this Agreement, the royalty payments shall be paid quarterly based upon the increase over reported 2002 quarterly sales for the corresponding quarter. Adjustments shall be made quarterly and/or at the end of the fiscal year with respect to any quarterly sales less than the sales for the corresponding quarter of 2002.

E. Mannatech shall keep full, clear and accurate records with respect to products upon which royalty is to be paid hereunder, and McAnalley shall have the right through an accredited representative to examine and audit, upon reasonable notice and not more frequently than annually, all at McAnalley’s expense, all such records and accounts as may contain information bearing upon the amount of royalty payable to him under this Agreement. Should such audit reflect a deficiency of more than five percent (5%) of royalties actually due to McAnalley, Mannatech shall pay such deficiency as well as reimburse McAnalley for his reasonable accredited representative audit fee.

F. Notwithstanding anything contained herein, McAnalley shall not be entitled to any royalty compensation for any fiscal year he elects to receive the executive bonus provided in Section 3.2 of the Employment Agreement, for that year.

ARTICLE II.
Term

A. This Agreement, including Mannatech's obligation to pay royalties hereunder, shall commence on the Effective Date, continue during the time that McAnalley is employed full-time with Mannatech (or any wholly owned affiliate or subsidiary of Mannatech), and for ten (10) years thereafter, unless sooner terminated or expiring, in whole or part, in accordance with any of the following provisions:

(1) at the option of Mannatech, by giving McAnalley thirty (30) days advance written notice, in the event that McAnalley (i) engages in a Competitive Activity (as defined hereinafter), or (ii) is in violation of Section 6 of the Employment Agreement, or (iii) disparages Mannatech, its management, or its products; or

(2) at the option of Mannatech, by reason of the major breach by McAnalley of any of his obligations under this Agreement; provided, however, that such termination shall not be effective until the expiration of sixty (60) days of written notice from Mannatech to McAnalley of Mannatech's intent to so-terminate this Agreement, during which period McAnalley may remedy such breach and avoid such termination; or

(3) upon the mutual written agreement of Mannatech and McAnalley;

B. In the event of McAnalley's death during the ten (10) year term as contemplated hereby, royalties shall be payable to his surviving spouse or trust for any remaining part of the ten (10) year term.

C. The term "Competitive Activity", for purposes of this Agreement, shall mean and refer to any of the following:

(a) McAnalley becoming associated with, employed by, financially interested in, or a spokesman for any business operation which engages in any network marketing, direct selling or multi-level business or whose products compete with those of Mannatech; or

(b) McAnalley soliciting, attempting to solicit, or otherwise inducing any customer, Associate, individual, or entity ("Person") with whom he has had contact with during the term of the Agreement or the twelve months preceding the Agreement, to avoid, reduce or terminate such Person's business relationship with Mannatech.

Provided, however, that only after McAnalley's employment with Mannatech ceases, he may develop a competitive consumer-targeted prescription drug, that is to be sold only through methods other than by network marketing, as an exception to a Competitive Activity.

ARTICLE III.
Dispute Resolution

Should any dispute arise under this Agreement, including but not limited to the amount of royalties due and payable to McAnalley, the parties shall, in good faith, attempt to negotiate and resolve such dispute. In the event that the dispute cannot be resolved between the parties, the dispute shall then be submitted for mediation before a mediator to whom the parties may agree upon; or in the absence of such agreement, by a mediator chosen by Judicial Arbitration and Mediation Services (JAMS) located in Dallas, Texas. Should mediation not resolve the dispute, then arbitration, including the right to invoke injunctive relief and any emergency relief or measures provided for, shall be the exclusive remedy for any and all disputes, claims or controversies, whether statutory, contractual or otherwise, between Mannatech and McAnalley concerning any obligation or right under this Agreement. In the event either party provides a Notice of Arbitration of Dispute to the other party, the parties hereto agree to submit such dispute or controversy, whether statutory or otherwise, to an arbitrator or arbitrators selected from a panel of arbitrators of the Judicial Arbitration & Mediation Services located in Dallas, Texas. The action will be governed by the JAMS Comprehensive Arbitration Rules and

Procedures in effect at the time the action was commenced. In any arbitration proceeding conducted subject to these provisions, all statutes of limitations that would otherwise be applicable shall apply to any arbitration proceeding hereunder. In any arbitration proceeding conducted subject to these provisions, the arbitrator(s) is/are specifically empowered to decide any question pertaining to limitations, and may do so by documents or by a hearing, in his or her sole discretion. In this regard, the arbitrator may authorize the submission of pre-hearing motions similar to a motion to dismiss or for summary adjudication for the purposes of consideration this matter. The arbitrator's decision will be final and binding upon the parties. The parties further agree to abide by and perform any award rendered by the arbitrator. The prevailing party in such proceeding shall be entitled to record and have awarded its reasonable attorney's fees, in addition to any other relief to which it may be entitled. In rendering the award, the arbitrator shall state the reasons therefor, including any computations of actual damages or offsets, if applicable.

ARTICLE IV.
Miscellaneous

A. This Agreement, or any interest herein, is freely assignable and transferable by Mannatech. McAnalley has the right to assign and transfer his right to receive royalties hereunder; provided, however, that such right of assignment and transfer shall only be effective with respect to royalties which have accrued; and this Agreement shall not be otherwise signed or transferred by McAnalley without the written consent of Mannatech, which consent shall not be unreasonably withheld.

B. To the extent assignment and transfer is permitted hereunder, this Agreement and the terms and provisions thereof, shall be binding upon an inure to the benefit of the parties hereto, and their respective representatives and assigns.

C. This Agreement constitutes the entire Agreement between the parties hereto with respect to the subject matter hereof and replaces all prior understandings and agreements among the parties hereto relating to the subject matter hereof. Any modification of this Agreement will be effective only if it is in writing and signed by both parties. However, nothing contained herein shall be deemed to alter the Employment Agreement, but shall be considered an addition thereto.

MANNATECH INCORPORATED

Date: August 7, 2003

By: **/s/ SAMUEL L. CASTER**

Print Name:Samuel L. Caster

Title: Chief Executive Officer

Date: August 7, 2003

/s/ DR. BILL H. MCANALLEY

Dr. Bill H. McAnalley

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

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

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

Dated: August 14, 2003

/s/ Samuel L. Caster

Samuel L. Caster
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

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

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

Dated: August 14, 2003

/s/ Stephen D. Fenstermacher

Stephen D. Fenstermacher
Chief Financial Officer

Exhibit 32.1

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

I, Samuel L. Caster, Chairman and Chief Executive Officer of Mannatech, Incorporated ("the Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The quarterly report on Form 10-Q for the quarter ended June 30, 2003 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results as of operations of the Company.

Dated: August 14, 2003.

/s/ Samuel L. Caster

Name: Samuel L. Caster

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

/s/ Christina Meissner

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

My commission expires: March 19, 2006

Exhibit 32.2

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

I, Stephen D. Fenstermacher, Chief Financial Officer of Mannatech, Incorporated ("the Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The quarterly report on Form 10-Q for the quarter ended June 30, 2003 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results as of operations of the Company.

Dated: August 14, 2003.

/s/ Stephen D. Fenstermacher

Name: Stephen D. Fenstermacher

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

/s/ Christina Meissner

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

My commission expires: March 19, 2006