

September 2005

---

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

---

**FORM 10-Q**

---

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

For the quarterly period ended September 30, 2005.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 000-24657

---

**MANNATECH, INCORPORATED**

(Exact Name of Registrant as Specified in its Charter)

**Texas**  
(State or other Jurisdiction of  
Incorporation or Organization)

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

**600 S. Royal Lane, Suite 200**  
**Coppell, Texas 75019**  
(Address of Principal Executive Offices, including Zip Code)

**Registrant's Telephone Number, including Area Code: (972) 471-7400**

---

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

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 4, 2005, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share was 26,913,837.

---

**Mannatech, Incorporated**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b>Part I – <a href="#">FINANCIAL INFORMATION</a></b>	
Item 1. <a href="#">Financial Statements</a>	1
<a href="#">Consolidated Balance Sheets – Unaudited</a>	1
<a href="#">Consolidated Statements of Operations – Unaudited</a>	2
<a href="#">Consolidated Statements of Cash Flows – Unaudited</a>	3
<a href="#">Notes to Unaudited Consolidated Financial Statements</a>	4
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	15
<a href="#">Company Overview</a>	15
<a href="#">Critical Accounting Policies and Estimates</a>	16
<a href="#">Results of Operations</a>	18
<a href="#">Three and Nine Months Ended September 30, 2005 Compared with the Same Periods in 2004</a>	19
<a href="#">Liquidity and Capital Resources</a>	28
<a href="#">Recent Accounting Pronouncements</a>	31
<a href="#">Forward-Looking Statements</a>	31
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	32
Item 4. <a href="#">Controls and Procedures</a>	33
<b>Part II – <a href="#">OTHER INFORMATION</a></b>	
Item 1. <a href="#">Legal Proceedings</a>	34
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	35
Item 3. <a href="#">Defaults Upon Senior Securities</a>	35
Item 4. <a href="#">Submission of Matters to a Vote of Security Holders</a>	35
Item 5. <a href="#">Other Information</a>	36
Item 6. <a href="#">Exhibits</a>	36
<a href="#">Signatures</a>	37

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	December 31, 2004	September 30, 2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 44,198	\$ 49,015
Short-term investments	—	3,956
Restricted cash	393	293
Income tax receivable	4,161	—
Accounts receivable	392	1,021
Inventories, net	13,157	20,351
Prepaid expenses and other current assets	3,188	3,794
Deferred tax assets	1,850	1,476
Note receivable from affiliate	144	151
	<u>67,483</u>	<u>80,057</u>
<b>Total current assets</b>	<b>67,483</b>	<b>80,057</b>
Long-term investments	17,073	13,375
Property and equipment, net	6,469	11,325
Construction in progress	3,544	4,980
Restricted cash	1,571	3,790
Other assets	1,203	1,140
Deferred tax assets	1,003	94
	<u>98,346</u>	<u>114,761</u>
<b>Total assets</b>	<b>\$ 98,346</b>	<b>\$ 114,761</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 2,227	\$ 3,895
Accrued expenses	20,389	17,545
Commissions payable	12,718	13,449
Taxes payable	1,930	5,676
Deferred revenue	2,256	4,763
Accrued severance related to former executives	375	175
Current portion of capital leases	8	27
	<u>39,903</u>	<u>45,530</u>
<b>Total current liabilities</b>	<b>39,903</b>	<b>45,530</b>
Long-term royalties due to an affiliate	1,658	3,456
Long-term liabilities	530	523
Capital leases, excluding current portion	26	—
Deferred tax liabilities	4	200
	<u>42,121</u>	<u>49,709</u>
<b>Total liabilities</b>	<b>42,121</b>	<b>49,709</b>
Commitments and contingencies		
<b>Shareholders' equity:</b>		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.0001 par value, 99,000,000 shares authorized, 27,115,440 shares issued and 27,041,125 shares outstanding in 2004 and 27,352,963 shares issued and 26,913,837 shares outstanding in 2005	3	3
Additional paid-in capital	34,917	36,416
Retained earnings	21,672	35,212
Accumulated other comprehensive income (loss)	195	(788)
	<u>56,787</u>	<u>70,843</u>
Less treasury stock, at cost, 74,315 shares in 2004 and 459,126 shares in 2005	(562)	(5,791)
	<u>56,225</u>	<u>65,052</u>
<b>Total shareholders' equity</b>	<b>56,225</b>	<b>65,052</b>
	<u>98,346</u>	<u>114,761</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 98,346</b>	<b>\$ 114,761</b>

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2005	2004	2005
<b>Net sales</b>	<b>\$77,577</b>	<b>\$ 100,216</b>	<b>\$ 210,282</b>	<b>\$ 287,960</b>
Cost of sales	11,931	14,478	31,871	43,186
Commissions and incentives	34,702	44,403	94,707	129,326
	46,633	58,881	126,578	172,512
<b>Gross profit</b>	<b>30,944</b>	<b>41,335</b>	<b>83,704</b>	<b>115,448</b>
Operating expenses:				
Selling and administrative expenses	12,279	16,136	36,110	48,595
Other operating costs	9,588	12,415	24,915	36,587
Total operating expenses	21,867	28,551	61,025	85,182
<b>Income from operations</b>	<b>9,077</b>	<b>12,784</b>	<b>22,679</b>	<b>30,266</b>
Interest income	136	469	430	1,254
Interest expense	—	—	(16)	—
Other expense, net	(191)	(288)	(1,038)	(1,188)
<b>Income before income taxes</b>	<b>9,022</b>	<b>12,965</b>	<b>22,055</b>	<b>30,332</b>
Income taxes	(2,193)	(4,232)	(6,547)	(11,120)
<b>Net income</b>	<b>\$ 6,829</b>	<b>\$ 8,733</b>	<b>\$ 15,508</b>	<b>\$ 19,212</b>
<b>Earnings per common share:</b>				
Basic	\$ 0.26	\$ 0.32	\$ 0.59	\$ 0.71
Diluted	\$ 0.25	\$ 0.32	\$ 0.57	\$ 0.69
<b>Weighted-average common shares outstanding:</b>				
Basic	26,393	27,015	26,324	27,065
Diluted	27,460	27,738	27,407	27,899

*See accompanying notes to unaudited consolidated financial statements.*

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

	Nine months ended September 30,	
	2004	2005
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income	\$ 15,508	\$ 19,212
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	1,955	2,846
Loss on disposal of assets	171	43
Write-off of inventory	—	27
Accounting charge related to stock options and warrants granted	42	(95)
Tax benefit related to exercising stock options	718	807
Deferred income taxes	(1,581)	1,377
Accrue interest on note receivable	(7)	(7)
<i>Changes in operating assets and liabilities:</i>		
Increase in accounts receivable	(585)	(662)
Increase in inventories	(5,025)	(7,354)
Increase in prepaid expenses and other current assets	(1,594)	(629)
(Increase) decrease in other assets	(602)	4
Increase (decrease) in accounts payable	(995)	1,691
Increase in accrued expenses and taxes payable	4,034	7,125
Increase in commissions payable	5,024	914
Increase in deferred revenue	356	2,507
Decrease in accrued severance to former executives	(825)	(200)
<b>Net cash provided by operating activities</b>	<b>16,594</b>	<b>27,606</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Acquisition of property and equipment	(5,002)	(9,242)
Purchases of investments	(7,094)	(259)
Repayments by shareholders/related parties	55	—
Decrease in restricted cash	793	347
Increase in restricted cash	—	(2,467)
<b>Net cash used in investing activities</b>	<b>(11,248)</b>	<b>(11,621)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Payment of cash dividends	(5,263)	(5,672)
Proceeds from stock options exercised	446	556
Repurchase of common stock	—	(4,998)
Repayment of capital lease obligation	(13)	(7)
<b>Net cash used in financing activities</b>	<b>(4,830)</b>	<b>(10,121)</b>
Effect of exchange rate changes on cash and cash equivalents	(209)	(1,047)
<b>Net increase in cash and cash equivalents</b>	<b>307</b>	<b>4,817</b>
<b><u>CASH AND CASH EQUIVALENTS:</u></b>		
Beginning of the period	28,291	44,198
End of the period	\$ 28,598	\$ 49,015
<b><u>SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</u></b>		
Treasury shares tendered to exercise stock options	\$ 323	\$ 231
Declaration of dividends	\$ 5,263	\$ 1,885

*See accompanying notes to unaudited consolidated financial statements.*

**MANNATECH, INCORPORATED**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Mannatech, Incorporated (the "Company") was incorporated in the state of Texas on November 4, 1993 and is located in Coppell, Texas. The Company develops high-quality, proprietary nutritional supplements, topical products, and weight-management products and primarily sells its products through a network-marketing system operating in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, and Denmark. The Company opened operations in Taiwan in June 2005, began selling its products in Denmark in August 2005 and filed for registration of its products in Germany.

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, instructions for Form 10-Q, and Rule 10-01 of Regulation S-X. Accordingly, the consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, in the opinion of Company's management, the accompanying unaudited consolidated financial statements contain all adjustments, including normal recurring adjustments, considered necessary for a fair statement of the Company's consolidated financial information as of, and for, the periods presented. The consolidated results of operations for an interim period are not necessarily indicative of the consolidated results of operations to be expected for 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 year ended December 31, 2004.

**Principles of Consolidation**

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

**Reclassification**

Prior periods' construction in progress was separated from property & equipment and commissions payable and taxes payable were separated from accrued expenses on the Consolidated Balance Sheet and in the Statement of Cash Flows, as well as accrued interest related to the note receivable, which was reclassified from an investing activity to an operating activity on the Consolidated Statement of Cash Flows to conform to the Company's 2005 consolidated financial statement presentation.

## [Table of Contents](#)

### **Revenue Recognition**

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

The Company defers certain of its revenues and amortizes it over twelve months. Total deferred revenue at December 31, 2004 was \$2.3 million and at September 30, 2005 was \$4.8 million. Total deferred revenue consisted of i) revenue from customer pack and product sales that were shipped to customers by period end but not received, ii) revenue related to a one-year magazine subscription, and iii) revenue from pack sales when the pack sale price exceeded the estimated wholesale value of all individual components within the pack. At December 31, 2004 and September 30, 2005, deferred revenue related to undelivered shipments was approximately \$1.5 million and \$4.0 million, respectively. At December 31, 2004 and September 30, 2005, deferred revenue related to a one-year magazine subscription and certain revenues from pack sales was \$0.8 million for both periods.

### **Shipping and Handling Costs**

The Company records freight and shipping revenue collected from its customers as revenue. The Company records shipping and handling costs associated with shipping products to its customers as selling and administrative expenses. Total shipping and handling costs included in selling and administrative expenses was approximately \$3.3 million and \$4.7 million for the three months ended September 30, 2004 and 2005, respectively. Total shipping and handling costs included in selling and administrative expenses was approximately \$9.6 million and \$13.7 million for the nine months ended September 30, 2004 and 2005, respectively.

### **Accounting for Stock-Based Compensation**

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

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

For stock-based compensation issued to employees and board members, the Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations ("APB 25"). Under the recognition and measurement principles of APB 25, the Company does not recognize any compensation expense unless the market price of its common stock on the date of grant exceeds the exercise price on the date of grant. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R "Share-Based Payments" ("FAS 123R"), which is effective for the first annual reporting period beginning after June 15, 2005. Under FAS 123R and beginning on January 1, 2006, the Company will be required to measure and recognize compensation expense related to any unvested stock options previously granted and thereafter recognize compensation expense related to any new stock options granted to its employees and board members using a calculated fair-value based method of accounting. As of September 30, 2005, the Company had 254,036 unvested stock options with an estimated calculated fair-value of approximately \$0.7 million and has 435,704 unissued stock options available for grant in the future.

## [Table of Contents](#)

For disclosure purposes only, the Company is required to estimate the fair value for all of its stock options granted to employees and board members on the date of grant using a fair-value based option-pricing model and estimate the amount of expense that it would have recognized for each stock option granted over its vesting period if it had adopted FAS 123. The following table illustrates the effect on the Company's consolidated net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to all of its stock options granted to its employees and board members:

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2005	2004	2005
<i>(in thousands, except for per share information)</i>				
Consolidated net income as reported	\$ 6,829	\$ 8,733	\$ 15,508	\$ 19,212
Add (Subtract): Stock-based employee compensation (income) expense included in reported net income, net of related tax effect <sup>(1)</sup>	36	(59)	59	(59)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(133)	(178)	(399)	(441)
<b>Pro forma net income</b>	<b>\$ 6,732</b>	<b>\$ 8,496</b>	<b>\$ 15,168</b>	<b>\$ 18,712</b>
<b>Basic Earnings Per Share:</b>				
As reported	\$ 0.26	\$ 0.32	\$ 0.59	\$ 0.71
Pro forma	\$ 0.26	\$ 0.32	\$ 0.58	\$ 0.69
<b>Diluted Earnings Per Share:</b>				
As reported	\$ 0.25	\$ 0.32	\$ 0.57	\$ 0.69
Pro forma	\$ 0.25	\$ 0.31	\$ 0.55	\$ 0.67

(1) For the three months ended September 30, 2004 and 2005, the net tax effect was \$23 and \$37, respectively. For both the nine months ended September 30, 2004 and 2005 the net tax effect was \$37, respectively.

### **Earnings Per Share**

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

The following data shows the amounts used in computing the Company's EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the three months ended September 30, 2004 and 2005. At September 30, 2004, none of the Company's common stock options or warrants were excluded from the diluted EPS calculation. At September 30, 2005, 61,757 of the Company's common stock options were excluded from the diluted EPS calculation, as their exercise price was greater than the average market price of a share of the Company's common stock for the period, and as a result, their effect on earnings was antidilutive. The amounts are rounded to the nearest thousand, except for per share amounts.

	2004			2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic EPS:</b>						
Net income available to common shareholders	\$ 6,829	26,393	\$ 0.26	\$ 8,733	27,015	\$ 0.32
Effect of dilutive securities:						
Stock options	—	970	(0.01)	—	616	—
Warrants	—	97	—	—	107	—
<b>Diluted EPS:</b>						
Net income available to common shareholders plus assumed conversions	\$ 6,829	27,460	\$ 0.25	\$ 8,733	27,738	\$ 0.32



## [Table of Contents](#)

The following data shows the amounts used in computing the Company's EPS and their effect on the weighted-average number of common shares and dilutive common share equivalents for the nine months ended September 30, 2004 and 2005. At September 30, 2004, none of the Company's common stock options or warrants were excluded from the diluted EPS calculation. At September 30, 2005, 61,757 of the Company's common stock options were excluded from the diluted EPS calculation, as their exercise price was greater than the average market price of a share of the Company's common stock for the period and as a result their effect on earnings was antidilutive. The amounts are rounded to the nearest thousand, except for per share amounts.

	2004			2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic EPS:</b>						
Net income available to common shareholders	\$ 15,508	26,324	\$ 0.59	\$ 19,212	27,065	\$ 0.71
Effect of dilutive securities:						
Stock options	—	987	(0.02)	—	724	(0.02)
Warrants	—	96	—	—	110	—
<b>Diluted EPS:</b>						
Net income available to common shareholders plus assumed conversions	\$ 15,508	27,407	\$ 0.57	\$ 19,212	27,899	\$ 0.69

### **NOTE 2 REPURCHASE OF COMMON STOCK**

On June 30, 2004, the Company's Board of Directors authorized the Company to repurchase, in the open market, up to 1.3 million shares of its outstanding common stock to help manage any dilutive effects in the open market. As of September 30, 2005, the Company is authorized to purchase up to 719,501 of its common shares in the open market as the Company has repurchased the following number of its common shares in the open market:

<u>Date purchased</u>	<u>Number of common shares purchased in the open market</u>	<u>Approximate cost</u>
May 2005	190,850	\$ 3.0 million
September 2005	182,626	\$ 2.0 million
October 2005	207,023	\$ 2.0 million
<b>Total</b>	<b>580,499</b>	<b>\$ 7.0 million</b>

### **NOTE 3 TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES**

**MannaRelief.** The Company's Chairman and Chief Executive Officer, Samuel L. Caster, founded MannaRelief in 1999 and currently serves as its Chairman. Defined under the Internal Revenue Code, MannaRelief is a 501(c)(3) charitable organization providing services for children. Donald Herndon, who serves as the Company's Vice President of Field Services, also serves on MannaRelief's Board of Directors. Mr. Herndon is the brother-in-law to Mr. Caster and is also the brother-in-law to Terry L. Persinger, who serves as the Company's President, Chief Operating Officer, and is a member of the Company's Board of Directors.

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

## [Table of Contents](#)

For the 2005 year, the Company approved cash donations totaling \$0.4 million. During the three months ended September 30, 2004 and 2005, the Company sold products to MannaRelief at cost plus shipping and handling of approximately \$0.2 million and \$0.3 million, respectively, and made cash donations of approximately \$0.1 million, respectively, each year. For the nine months ended September 30, 2004 and 2005, the Company sold products to MannaRelief at cost plus shipping and handling of approximately \$0.3 million and \$1.0 million, respectively, and made cash donations of approximately \$0.3 million, respectively, each year. At December 31, 2004 and September 30, 2005, the Company had recorded a receivable due from MannaRelief for purchases of its products totaling \$0.2 million and \$0.3 million, respectively.

**Clinical Study.** In June 2004, the Company signed a cancelable three-year research agreement with St. Georges Hospital & Medical School, the employer of Dr. John Axford, who is a member of the Company's Board of Directors and Chairman of its Science Committee. Pursuant to this research agreement, the Company agreed to fund approximately \$0.7 million over three years for this research study. St. George's Hospital & Medical School is located in London, England where Dr. Axford is the Lead Investigator in the clinical study funded by the Company. This is the second clinical study funded by the Company for St. George's Hospital & Medical School. For the three and nine months ended September 30, 2004 and September 30, 2005, the Company paid \$0.2 million and \$0.4 million, respectively, toward this clinical study.

### NOTE 4 INVESTMENTS

The Company classifies its investments as available-for-sale. At September 30, 2005, the Company's investments consisted of the following:

	Amortized cost	Gross unrealized loss	Fair value
		(in thousands)	
Federal Home Loan Bank bonds	\$ 4,391	\$ (435)	\$ 3,956
State or federal agency backed obligations	13,375	—	13,375
<b>Total investments</b>	<b>\$ 17,766</b>	<b>\$ (435)</b>	<b>\$17,331</b>

The Company's fair values of investments by contractual maturity at December 31, 2004 and September 30, 2005 are as follows:

	December 31, 2004	September 30, 2005
	(in thousands)	
Due in one year or less	\$ 1,978 <sup>(1)</sup>	\$ 3,956
Due between one and five years	1,970	—
Due after ten years	13,125	13,375
	<b>\$ 17,073</b>	<b>\$ 17,331</b>

(1) At December 31, 2004, this investment would mature in one year with a fair market value of \$1,978. However, this investment was subsequently renewed in 2005 and was classified in the Consolidated Balance Sheet as a long-term investment at December 31, 2004.

[Table of Contents](#)

**NOTE 5 INVENTORIES**

At December 31, 2004 and September 30, 2005, inventories consisted of the following:

	December 31, 2004	September 30, 2005
	<i>(in thousands)</i>	
Raw materials	\$ 1,424	\$ 3,780
Finished goods, less inventory reserves for obsolescence of \$217 in 2004 and \$113 in 2005	11,733	16,571
	<b>\$ 13,157</b>	<b>\$ 20,351</b>

**NOTE 6 COMPREHENSIVE INCOME**

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company's comprehensive income consists of foreign currency translation adjustments from its Japan, Republic of Korea, and Taiwan operations, as well as unrealized gains/losses from its investments classified as available-for-sale, net of any related tax effect. Comprehensive income is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2005	2004	2005
	<i>(in thousands)</i>			
Net income	\$ 6,829	\$ 8,733	\$15,508	\$19,212
Foreign currency translation adjustments	(145)	(301)	(187)	(988)
Unrealized gain (loss) from investments classified as available-for-sale, net of related tax effect <sup>(1)</sup>	14	2	(20)	5
Comprehensive income	<b>\$ 6,698</b>	<b>\$ 8,434</b>	<b>\$15,301</b>	<b>\$18,229</b>

(1) The net tax effect for unrealized gain (loss) from investments for the three months ended September 30, 2004 and 2005 was (\$9) and \$3, respectively. The net tax effect for unrealized gain (loss) from investments for the nine months ended September 30, 2004 and 2005 was \$12 and \$5, respectively.

**NOTE 7 TAXES**

The components of the Company's income before income taxes are attributable to the following jurisdictions for the three and nine months ended September 30 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2005	2004	2005
United States	\$ 8,667	\$ 11,179	\$19,918	\$25,909
Foreign	355	1,786	2,137	4,423
	<b>\$ 9,022</b>	<b>\$ 12,965</b>	<b>\$22,055</b>	<b>\$30,332</b>

[Table of Contents](#)

The components of the Company's income tax provision are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2005	2004	2005
<b>Current provision:</b>				
Federal	\$ 2,586	\$ 1,822	\$ 6,459	\$ 6,745
State	248	193	640	641
Foreign	956	902	1,045	2,367
	<u>\$ 3,790</u>	<u>\$ 2,917</u>	<u>\$ 8,144</u>	<u>\$ 9,753</u>
<b>Deferred provision:</b>				
Federal	\$ 600	\$ 1,355	\$ 600	\$ 1,355
State	61	139	61	139
Foreign	(2,258)	(179)	(2,258)	(127)
	<u>(1,597)</u>	<u>1,315</u>	<u>(1,597)</u>	<u>1,367</u>
Income tax expense	<u>\$ 2,193</u>	<u>\$ 4,232</u>	<u>\$ 6,547</u>	<u>\$ 11,120</u>

The Company's United States federal statutory tax rate and its effective tax rate are summarized as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2005	2004	2005
Federal statutory income taxes	35.0%	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.3	2.0	2.3	2.0
Difference in foreign and United States tax on its foreign operations	10.9	(0.1)	2.2	0.3
Effect of changes in valuation allowance	(23.4)	0.0	(9.6)	0.7
Other	(0.5)	(4.3)	(0.2)	(1.3)
	<u>24.3%</u>	<u>32.6%</u>	<u>29.7%</u>	<u>36.7%</u>

At December 31, 2004, net deferred tax assets (liabilities) primarily consisted of deferred revenue, accrued royalties and expenses, and prepaid expenses, and the difference in depreciation recorded for book and tax purposes. At September 30, 2005, net deferred tax assets (liabilities) primarily consisted of deferred revenue, accrued royalties and expenses, and prepaid expenses, and the difference in depreciation recorded for book and tax purposes. As a result of significant temporary differences that would materially affect the financial statements, in the third quarter, between book and tax treatment of consulting and implementation costs associated with its internally-developed software projects, the Company adjusted its deferred tax assets (liabilities). Net deferred tax assets (liabilities) are classified in the accompanying consolidated financial statements as follows (in thousands):

	December 31, 2004	September 30, 2005
Current deferred tax assets	\$ 1,850	\$ 1,476
Noncurrent deferred tax assets, net of valuation allowance of \$0.1 million and \$0.3 million, respectively	1,003	94
Noncurrent deferred tax liabilities	(4)	(200)
Net deferred tax assets	<u>\$ 2,849</u>	<u>\$ 1,370</u>

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

**Royalty and Consulting Agreements**

On August 7, 2005, the two year employment agreement with Dr. Bill McAnalley, who served as the Company's Chief Science Officer, expired and following which the Company entered into a Release Agreement and a one-year Consulting Agreement, in which the Company is required to pay Dr. McAnalley a total of \$0.9 million. As of September 30, 2005 the Company had paid Dr. McAnalley \$0.2 million in connection with Dr. McAnalley's service provided under this Consulting Agreement.

In August 2003, the Company entered into a Royalty Agreement with Dr. McAnalley. The Company agreed to pay Dr. McAnalley the greater of his annual royalties or an annual executive bonus while employed by the Company. Under this agreement, Dr. McAnalley was paid an annual royalty of three tenths of one percent (0.003) of the calculated incremental net products sold per year. This Royalty Agreement ended in August 2005, when Dr. McAnalley's employment agreement expired. For the nine months ended September 30, 2004, the Company accrued \$0.2 million, and for the nine months ended September 30, 2005, the Company accrued and paid Dr. McAnalley \$0.3 million related to this Royalty Agreement.

In August 2003, the Company also entered into a Long-Term Post-Employment Royalty Agreement with Dr. McAnalley, pursuant to which the Company is required to pay Dr. McAnalley or his heirs royalties for ten years, beginning September 2005 through September 2015. Quarterly payments related to this Long-Term Post-Employment Royalty Agreement are based on certain applicable annual global product sales, by the Company, in excess of \$105.4 million. At the time the Company entered into this Long-Term Royalty Agreement, it was considered a post-employment benefit and the Company was required to measure and accrue the present value of the estimated future royalty payments related to the post-employment royalty benefit, and recognize it over the life of Dr. McAnalley's employment agreement. As of December 31, 2004, the Company accrued a long-term liability related to this Royalty Agreement of \$1.7 million and as of September 30, 2005, the Company accrued \$4.2 million related to this Royalty Agreement, of which \$0.7 million is accrued in accrued expenses.

**Letter of Credit**

The Company offers an annual travel incentive for its independent associates who qualify for the Company's annual travel incentive. Part of the 2006 travel incentive is planned as a cruise on a Royal Caribbean Cruise ship for its US and Canada associates. Royal Caribbean requires its customers to obtain a letter of credit that is collateralized by cash. As a result, the Company obtained a letter of credit and restricted cash of \$2.5 million related to its 2006 annual travel incentive.

**Employment Agreements**

In September 2005, the Company entered into a two-year Employment Agreement with Dr. Robert Sinnott, its new Chief Science Officer and Vice President of Research & Development. Under the terms of the Employment Agreement, Dr. Sinnott will be paid an annual salary of \$260,000 and receive various benefits afforded to other executives and on August 31, 2005, Dr. Sinnott was granted 25,000 of the Company's stock options at an exercise price of \$12.44 per share, which will vest over 3 years.

**Purchase Commitment**

In September 2005, the Company entered into a one-time purchase commitment with a vendor to purchase 100,000 of its magazines in April 2006 for \$0.4 million. The Company intends to sell this magazine as a promotional item to its independent associates.

**Lease Commitments**

In September 2005, the Company renewed its United States corporate and distribution building leases. Under the ten year renewed lease agreements, which will begin January 2007, the Company will pay an estimated \$7.7 million.

**NOTE 9 LITIGATION**

On September 19, 2005, the Court dismissed the lawsuit filed in the Superior Court of California, County of Los Angeles by Ms. Chie Sasaki against the Company, its Chief Executive Officer, Mr. Samuel Caster, and Ms. Victoria Arcadi, an independent associate. The lawsuit alleged intentional and negligent infliction of emotional distress, intentional and negligent misrepresentation, invasion of privacy, and unfair competition based on the publication of photographs of Ms. Sasaki's son by one of the Company's independent associates. The Company paid \$750,000 as part of a confidential settlement and release and agreed to cease all references to the Sasaki child.

The Company has been sued in two securities class action lawsuits in the United States District Court for the District of New Mexico. The allegations in these class action lawsuits are substantively identical to those in the securities class action lawsuit filed by Mr. Jonathan Crowell on August 1, 2005, which was identified and described in the Company's Form 10-Q for the second quarter of 2005 filed with the SEC on August 9, 2005. First, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against the Company, Mr. Samuel L. Caster, its Chief Executive Officer, Mr. Terry L. Persinger, its President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, its Chief Financial Officer. Second, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against the Company, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

On October 17, 2005, a motion was filed in each class action lawsuit by the plaintiffs' counsel in the Crowell class action lawsuit to consolidate the three class action lawsuits and to appoint Mr. Austin Chang, Mr. Roger L. Sanford, Scalion Pty Ltd, and Mr. Michael D. Martin as lead plaintiffs. The motion also requests the appointment of the law firms Murry, Frank & Sailer, LLP and Glancy, Binkow & Goldberg, LLP as co-lead counsel, and Ron Bell & Associates as liaison counsel, for the putative class. On November 4, 2005, the court granted leave for this motion to be withdrawn.

On October 17, 2005, a motion was also filed in each class action lawsuit by plaintiffs' counsel in the McMurry lawsuit to appoint Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John C. Ogden, and Plumbers and Pipefitters Local 51 Pension Fund as lead plaintiffs. The motion also requests the appointment of the law firm Lerach, Coughlin, Stoa, Geller, Rudman & Robbins LLP as lead counsel, and Freedman, Boyd, Daniels, Hollander & Goldberg, P.A. as liaison counsel, for the putative class.

The Company has also learned that a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, the Company, Inc., v. Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division, on October 18, 2005. The shareholder derivative proceeding makes allegations similar to the allegations of the shareholder class action litigation described above. The Company has also received two additional letters from shareholders making similar allegations, which letters are a prelude to instituting derivative litigation. The Company's independent Directors have appointed a Special Litigation Committee to review these matters and determine the Company's response.

In response to these actions, the Company believes it has retained experienced securities litigation counsel to vigorously defend itself and its officers. The Company also believes that this type of litigation is inherently unpredictable; however, when faced with several class action complaints making similar allegations, the courts frequently consolidate such cases. It should also be noted that a court must certify a class before a case can proceed as a class action lawsuit and that determination has not been made in any of these cases. Plaintiffs in each of these actions are seeking an unspecified amount of compensatory damages, interest, and costs, including legal and expert fees. The Company believes these types of repetitive lawsuits (seeking class action status) are common in today's litigious society and many reputable companies have successfully defended themselves against such litigation. It is not possible at this time to predict whether the Company will incur any liability or to estimate the damages, or the range of damages, if any, that the Company might incur in connection with any of these above mentioned securities lawsuits.

On July 8, 2005, the Australian Therapeutic Goods Administration ("TGA") notified the Company regarding a new complaint made by an Australian independent associate related to certain therapeutic claims to promote the Company's products. In response to this complaint, the Company conducted an investigation and disciplined its independent associate, including plans for continuing education and compliance training and notified the TGA of its actions and is awaiting a response from the TGA.

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

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

**NOTE 10 RECENT ACCOUNTING PRONOUNCEMENTS**

**FAS 123R.** In December 2004, FASB issued FAS 123R, which replaces FAS 123 and supersedes APB 25. FAS 123R requires a company to recognize compensation cost related to share-based payment transactions in its financial statements. The compensation expense should be measured based on the estimated fair value of the equity or liability instruments issued. The provisions of APB 25 and FAS 123 remain in effect until the provisions of FAS 123R are adopted. FAS 123R is effective for the first annual reporting period beginning after June 15, 2005. The Company is still evaluating the impact of adopting FAS 123R on its consolidated financial position and results of operations, but believes the estimated impact on adopting FAS 123R on its consolidated financial position and results of operations for existing stock options outstanding will be approximately \$0.4 million in 2006, \$0.2 million in 2007, and \$0.1 million in 2008.

**Note 11 SEGMENT INFORMATION**

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

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

The Company has six active subsidiaries that operate in 6 physical locations and sells its products in 9 different countries around the world. The six physical locations include the United States, Australia, the United Kingdom, Japan, the Republic of Korea, and Taiwan. Each of the Company's physical locations service different geographical areas. The United States parent processes orders for Canada, but products and packs sold in Canada are shipped through a third party distribution facility located in Canada. The Company's Australian location processes orders for both Australia and New Zealand but the orders are shipped for Australia and New Zealand through a third party distribution facility located in Australia. The Company's United Kingdom location processes and ships orders for the United Kingdom and on August 1, 2005, began processing and shipping orders for Denmark.

## Table of Contents

All of Mannatech's eight subsidiaries are fully operating subsidiaries, except for Australia, and the United Kingdom. The Company's Australian, and the United Kingdom subsidiaries operate as limited-risk service providers, which are responsible for providing management, marketing and administrative services, processing and shipping orders, and paying the related cost of sales and commissions for its processed orders on behalf of its parent operating in the United States. For these services, the limited-risk service providers are paid a management fee from its United States parent, which is eliminated in its consolidated financial statements. In addition to the processing and shipping of orders in the United States and Canada, the United States parent collects and records all revenue from orders processed by its limited-risk service providers, records all cost of sales and commissions by its limited-risk service providers, and has title to all of the inventory located at its limited-risk service providers.

For geographical purposes, consolidated net sales by location along with pack and product information for the three and nine months ended September 30, 2004 and 2005, respectively, are as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2004		2005		2004		2005	
	<i>(in millions)</i>				<i>(in millions)</i>			
United States	\$51.3	66.1%	\$ 66.5	66.3%	\$137.6	65.4%	\$192.3	66.8%
Canada	5.6	7.2%	7.0	7.0%	16.1	7.7%	20.9	7.3%
Australia	8.0	10.3%	9.3	9.3%	21.8	10.4%	26.3	9.1%
United Kingdom	2.6	3.3%	2.1	2.1%	8.0	3.8%	6.9	2.4%
Japan	6.5	8.4%	9.1	9.1%	17.4	8.3%	25.9	9.0%
New Zealand	3.4	4.4%	3.7	3.7%	9.1	4.3%	11.3	3.9%
Republic of Korea	0.2	0.3%	1.5	1.5%	0.2	0.1%	2.9	1.0%
Taiwan*	—	— %	0.9	0.9%	—	— %	1.3	0.5%
Denmark**	—	— %	0.1	0.1%	—	— %	0.1	0.0%
<b>Totals</b>	<b>\$77.6</b>	<b>100%</b>	<b>\$100.2</b>	<b>100%</b>	<b>\$210.2</b>	<b>100%</b>	<b>\$287.9</b>	<b>100%</b>

\* Taiwan began its operations in June 2005.

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2005	2004	2005
	<i>(in millions)</i>		<i>(in millions)</i>	
Consolidated Product sales	\$ 53.3	\$ 72.5	\$ 148.1	\$ 208.2
Consolidated Pack sales	19.6	22.5	52.6	69.0
Consolidated Other, including freight	4.7	5.2	9.5	10.7
<b>Total</b>	<b>\$ 77.6</b>	<b>\$ 100.2</b>	<b>\$ 210.2</b>	<b>\$ 287.9</b>

Canada, New Zealand, and Denmark operate through offices in the United States, Australia, and the United Kingdom, respectively. Long-lived assets, defined as property and equipment and construction in progress, by geographical location are as follows:

Country	December 31,	September 30,
	2004	2005
	<i>(in millions)</i>	
Australia	\$ 0.3	\$ 0.2
Japan	0.6	0.4
Republic of Korea	0.7	0.6
Taiwan*	—	0.4
United Kingdom	0.4	0.4
United States	8.0	14.3
	<b>\$ 10.0</b>	<b>\$ 16.3</b>

\* Taiwan began operations in June 2005.



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

The following discussion is intended to assist in the understanding of Mannatech’s consolidated financial position and its results of operations for the three and nine months ended September 30, 2005 as compared to the same periods in 2004. Unless stated otherwise, all financial information presented below, throughout this report, and in the consolidated financial statements and related notes includes Mannatech and all of its subsidiaries on a consolidated basis.

**Company Overview**

Since November 1993, Mannatech has developed innovative, high-quality, proprietary nutritional supplements, topical and weight-management products that are sold by independent associates operating in a global network-marketing system throughout the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, and beginning in August 2005, Denmark. Mannatech has also filed for registration of its products in Germany. Denmark is serviced by Mannatech’s United Kingdom subsidiary, which also will service Germany. Mannatech’s New Zealand operation is serviced by Mannatech’s Australian subsidiary. As previously discussed in the consolidated financial statements footnotes, Mannatech’s Australian and United Kingdom subsidiaries operate as limited-risk service providers for its United States parent. As limited-risk service providers, its parent owns all of the limited-risk service provider’s sales and inventory, and is responsible for accruing all of the limited-risk service provider’s commissions and cost of sales, as well as paying its limited-risk service providers a management fee for processing and shipping orders in Australia, New Zealand, and the United Kingdom.

Mannatech operates as a single segment and primarily sells its products through a network of approximately 470,000 independent associates and members who have purchased Mannatech’s packs and products within the last 12 months, which are referred to herein as *current independent associates and members*. As of September 30, 2005, Mannatech sells its nutritional supplements through its network-marketing distribution channels operating in nine different countries. Mannatech’s management reviews and analyzes its net sales by geographical location and further analyzes its net sales by packs and products. Each of Mannatech’s subsidiaries sell the same type of products and possess similar economic characteristics, such as similar selling prices and gross margins.

Overall, for the nine months ended September 30, 2005, consolidated net sales increased \$77.7 million, or 37.0%, to \$287.9 million as compared to \$210.2 million for the same period in 2004. For the three months ended September 30, 2005, Mannatech’s foreign operations accounted for approximately 33.7% of its consolidated net sales, whereas for the same period in 2004, Mannatech’s foreign operations accounted for 33.9% of its consolidated net sales. For the nine months ended September 30, 2005, Mannatech’s foreign operations accounted for approximately 33.2% of its consolidated net sales, whereas for the same period in 2004, Mannatech’s foreign operations accounted for 34.6% of its consolidated net sales. Consolidated net sales, by geographical location, in dollars and as a percentage of consolidated net sales for the three and nine months ended September 30, 2004 and 2005, are as follows:

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

	Three months ended September 30,				Nine months ended September 30,			
	2004		2005		2004		2005	
	<i>(in millions)</i>				<i>(in millions)</i>			
United States	\$ 51.3	66.1%	\$ 66.5	66.3%	\$ 137.6	65.4%	\$ 192.3	66.8%
Canada	5.6	7.2%	7.0	7.0%	16.1	7.7%	20.9	7.3%
Australia	8.0	10.3%	9.3	9.3%	21.8	10.4%	26.3	9.1%
United Kingdom	2.6	3.3%	2.1	2.1%	8.0	3.8%	6.9	2.4%
Japan	6.5	8.4%	9.1	9.1%	17.4	8.3%	25.9	9.0%
New Zealand	3.4	4.4%	3.7	3.7%	9.1	4.3%	11.3	3.9%
Republic of Korea	0.2	0.3%	1.5	1.5%	0.2	0.1%	2.9	1.0%
Taiwan*	—	— %	0.9	0.9%	—	— %	1.3	0.5%
Denmark**	—	— %	0.1	0.1%	—	— %	0.1	0.0%
<b>Totals</b>	<b>\$ 77.6</b>	<b>100%</b>	<b>\$ 100.2</b>	<b>100%</b>	<b>\$ 210.2</b>	<b>100%</b>	<b>\$ 287.9</b>	<b>100%</b>

\* Taiwan began operations in June 2005.

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

## Table of Contents

Mannatech derives its revenues from sales of its products, sales of its starter and renewal packs, and from shipping fees collected from its customers. In August 2005, Mannatech increased its shipping fees charged to its customers due to an increase in shipping rates charged to Mannatech. Mannatech defers the recognition of its product and pack revenues until its customers receive their shipments. Substantially all of its product sales are sold either to independent associates at published wholesale prices or to members at discounted published retail prices. Mannatech has no involvement in its products after delivery to its customers other than usual and customary product returns.

Mannatech's net sales for the nine months ended September 30, 2005 increased by \$77.7 million, or 37.0%, as compared to the same period in 2004. The increase in net sales can be attributed to the following:

- increasing the number of current independent associates and members who purchased packs and products by 37.4%, or 128,000, to 470,000 as of September 30, 2005 as compared to 342,000 as of September 30, 2004;
- increasing net sales by \$1.4 million related to the expansion of its operations into Taiwan in June 2005 and into Denmark in August 2005;
- increasing net sales by \$0.2 million related to increasing some of its shipping fees charged to its customers beginning in August 2005;
- registering its product Ambrotose AO® in its international markets; and
- introducing three new products in the last 12 months including its Advanced Ambrotose™ in March 2005.

Mannatech believes its future success of increasing its net sales is dependent on the following:

- continuing to attract new and retain existing independent associates by introducing new incentives;
- continuing its product development strategy, which includes regularly enhancing its existing proprietary products to ensure the highest quality ingredients and state of the art formulas;
- planning new product launches; and
- continuing its plans for international expansion, including registration of its products in Germany.

Mannatech's cost of sales and commissions are primarily variable in nature and dependent on the volume of net sales. As a percentage of net sales, together, Mannatech's cost of sales and commissions have remained constant at approximately 60% of its consolidated net sales.

### **Critical Accounting Policies and Estimates**

In response to SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," Mannatech reviews its policies related to the portrayal of its consolidated financial condition and consolidated results of operations that require the application of significant judgment by Mannatech's management. Mannatech also analyzes the need for certain estimates, including the need for such items as inventory reserves, capitalization of software development, tax valuation allowances, revenue recognition, accounting for stock based compensation and warrants, and contingencies and litigation. Mannatech estimates are based on its historical experience, industry standards, and various other assumptions that management believes are applicable and reasonable under the circumstances. Mannatech cautions readers that actual results could differ from its estimates under different assumptions or conditions and if circumstances change relating to the various assumptions or conditions used in its estimates, Mannatech could experience an adverse effect on its consolidated financial condition, changes in its consolidated financial condition and/or consolidated results of operations. As a result, Mannatech has identified the following applicable critical accounting policies and estimates as of September 30, 2005:

***Inventory Reserves***

Mannatech reviews its inventory carrying value and compares it to the fair market value and any inventory value in excess of its estimated fair market value is written down. In addition, Mannatech reviews its inventory for obsolescence and any inventory identified as obsolete is reserved or written off. Mannatech's determination of obsolescence is based on assumptions about the demand for its products, product expiration dates, estimated future sales, and management's future plans. In the future, if actual sales or management plans are less favorable than those originally projected by management, additional inventory reserves or write-downs may be required. Mannatech's inventory value at September 30, 2005 was \$20.4 million, which includes an inventory reserve of approximately \$0.1 million.

***Software Capitalization***

During 2004, Mannatech began the development and/or configuration of several large-scaled information technology projects that are intended to increase functionality of its operations and expand its reporting capabilities, herein referred to as internally-developed software projects. Internally-developed software projects included the establishment of a comprehensive Japanese e-commerce system, translation and application development of its Republic of Korea computer application software, and configuration of its global re-architecture project that utilizes PeopleSoft® Enterprise One system, herein referred to as the Oracle/JD Edwards Enterprise One fully-integrated system.

Mannatech amortizes its capitalized internally-developed software 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 unamortized capitalized software or accelerate its amortization period. As of September 30, 2005, Mannatech had approximately \$8.6 million of unamortized capitalized software development costs included in property and equipment and construction in progress.

***Tax Valuation Allowances***

Mannatech evaluates the probability of realizing the future benefits of any of its deferred tax assets and records a valuation allowance when it believes a portion or all of its deferred tax assets may not be realized. If Mannatech is unable to realize the expected future benefits of its deferred tax assets, it is required to provide an additional valuation allowance. As of September 30, 2005, Mannatech's net deferred tax assets were approximately \$1.4 million, which includes a valuation allowance of approximately \$0.3 million related to deferred tax assets for both of its operations in Taiwan and the Republic of Korea.

***Revenue Recognition and Deferred Revenues***

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

## [Table of Contents](#)

### **Accounting for Stock-Based Compensation**

Currently, Mannatech follows APB 25 and its related interpretations to account for stock options granted to its employees and board members. Under the recognition and measurement principles of APB 25, Mannatech is not required to recognize any compensation expense unless the market price of the stock exceeds the exercise price on the date of grant or the terms of the grant are subsequently modified. In December 2004, the Financial Accounting Standards Board issued FAS 123R, which is effective for the first annual reporting period beginning after June 15, 2005. Under FAS 123R, Mannatech will be required to measure and recognize compensation expense related to any unvested stock options granted and for all new stock options granted to its employees and board members. After adopting FAS 123R, Mannatech will be required to calculate its compensation expense based on the number of options expected to vest and recognize the compensation expense in its consolidated results of operations over the stock options' vesting period, which could have a material effect on Mannatech's future consolidated results of operations. As of September 30, 2005, Mannatech had 254,036 unvested stock options outstanding with a fair value of approximately \$0.7 million. In addition, Mannatech has 435,704 stock options available to grant in the future. Mannatech is currently evaluating the impact of adopting FAS 123R on its consolidated financial condition and its consolidated results of operations but believes the estimated impact on its consolidated financial position and results of operations for existing stock options outstanding will be approximately \$0.4 million in 2006, \$0.2 million in 2007, and \$0.1 million in 2008.

### **Contingencies and Litigation**

Each quarter, Mannatech evaluates the need to accrue for legal claims or assessments. The accrual evaluation is based upon the estimated dollar amount of damages and the probability of losing any threatened legal claim. If circumstances change or if Mannatech experiences an adverse outcome of any legal action it would be required to increase the estimated amount accrued related to any potential legal action.

### **Results of Operations**

The following table summarizes Mannatech's consolidated operating results as a percentage of net sales for each of the three and nine months ended September 30, 2004 and 2005:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2005	2004	2005
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	15.4	14.4	15.2	15.0
Commissions and incentives	44.7	44.3	45.0	44.9
	<u>60.1</u>	<u>58.7</u>	<u>60.2</u>	<u>59.9</u>
<b>Gross profit</b>	<b>39.9</b>	<b>41.3</b>	<b>39.8</b>	<b>40.1</b>
<i>Operating expenses:</i>				
Selling and administrative expenses	15.8	16.1	17.2	16.9
Other operating costs	12.4	12.4	11.8	12.7
	<u>11.7</u>	<u>12.8</u>	<u>10.8</u>	<u>10.5</u>
<b>Income from operations</b>	<b>11.7</b>	<b>12.8</b>	<b>10.8</b>	<b>10.5</b>
Interest income	0.2	0.5	0.2	0.4
Other expense, net	(0.3)	(0.3)	(0.5)	(0.4)
	<u>11.6</u>	<u>13.0</u>	<u>10.5</u>	<u>10.5</u>
<b>Income before income taxes</b>	<b>11.6</b>	<b>13.0</b>	<b>10.5</b>	<b>10.5</b>
Income taxes	(2.8)	(4.3)	(3.1)	(3.8)
	<u>8.8%</u>	<u>8.7%</u>	<u>7.4%</u>	<u>6.7%</u>
<b>Net income</b>	<b>8.8%</b>	<b>8.7%</b>	<b>7.4%</b>	<b>6.7%</b>

[Table of Contents](#)

**Three and nine months ended September 30, 2005 compared with the same periods in 2004**

**Net Sales**

	For the three months ended September 30,		Percentage change	For the nine months ended September 30,		Percentage change
	2004	2005	2005 over 2004	2004	2005	2005 over 2004
	<i>(in millions)</i>			<i>(in millions)</i>		
Product sales	\$ 53.3	\$ 72.5	36.0%	\$ 148.1	\$ 208.2	40.6%
Pack sales	19.6	22.5	14.8%	52.6	69.0	31.2%
Other, including freight	4.7	5.2	10.6%	9.5	10.7	12.6%
<b>Total net sales</b>	<b>\$ 77.6</b>	<b>\$ 100.2</b>	<b>29.1%</b>	<b>\$ 210.2</b>	<b>\$ 287.9</b>	<b>37.0%</b>

The net sales dollar increase consisted of increases in both packs and products. Pack sales have a strong correlation to the number of new independent associates and members who will be purchasing Mannatech's products. Therefore, as Mannatech's pack sales increase, product sales usually increase; however, there is no direct correlation between the increase in the number of new independent associates and members, or the number of packs sold to the amount of the current or future increases in product sales because independent associates and members consume different products and have different consumption levels.

**Pack Sales**

Mannatech sells starter packs to its independent associates. Depending on the type of pack purchased, a starter pack may include certain of Mannatech's products, certain promotional and educational information, policy and procedures, and entitles the independent associate to purchase Mannatech's products at wholesale prices. If the independent associate is considered a business-builder, the independent associate has purchased one of the business-building packs and is required to buy a renewal pack each year. Independent associates can also purchase upgrade packs, which entitles the independent associate to additional promotional materials and commission levels.

For the third quarter of 2005, Mannatech's quarterly pack sales increased due to the positive response to the launch of its annual travel incentive in March 2005, which fostered an increase of 56,000 new independent associates purchasing packs during the period July 1, 2005 to September 30, 2005 and added to the total increase of 219,000 new independent associates and members purchasing products and/or packs during the period from October 1, 2004 to September 30, 2005.

The total new independent associates purchasing packs during the period July 1, 2004 to September 30, 2004 was 46,000, which added to the increase of 162,000 of new independent associates and members purchasing products and/or packs during the period October 1, 2003 to September 30, 2004.

The number of new and continuing independent associates and members who purchased Mannatech's products and/or packs during the 12-months ended September 30, 2004 and 2005 are as follows:

Independent Associates and Members	For the twelve months ended September 30,			
	2004		2005	
New	162,000	47.3%	219,000	46.6%
Continuing	180,000	52.7%	251,000	53.4%
<b>Total</b>	<b>342,000</b>	<b>100.0%</b>	<b>470,000</b>	<b>100.0%</b>

## Table of Contents

Pack sales consist of pack sales to new independent associates and pack sales for renewals and upgrades sold to existing independent associates. For the three months ended September 30, 2005, pack sales increased by \$2.9 million, or 14.8%, to \$22.5 million as compared to \$19.6 million for the same period in 2004. For the nine months ended September 30, 2005, pack sales increased by \$16.4 million, or 31.2%, to \$69.0 million as compared to \$52.6 million for the same period in 2004. The increase in overall pack sales primarily related to an increase in the number of independent associates purchasing packs.

For the three months ended September 30, 2005, new independent associates purchasing packs increased total pack sales by \$1.6 million, or 11.3%, to \$15.7 million as compared to \$14.1 million in the same period in 2004. For the nine months ended September 30, 2005, new independent associates purchasing packs increased total pack sales by \$11.6 million, or 31.4%, to \$48.6 million as compared to \$37.0 million in the same period in 2004. Mannatech believes the increase in the number of new independent associates over the past few years resulted from expansion into new countries, the introduction of new products, and the introduction of new incentives and contests.

For the three months ended September 30, 2005, total pack sales for renewal and upgrade packs from associates purchasing business-building packs increased by \$1.3 million, or 23.6%, to \$6.8 million as compared to \$5.5 million for the same period in 2004. For the nine months ended September 30, 2005, total packs sales for renewal and upgrade packs from business-building independent associates increased by \$4.8 million, or 30.8%, to \$20.4 million as compared to \$15.6 million for the same period in 2004. Mannatech believes the increase in the number of renewal and upgrade packs sold to existing associates is the result of retaining more business-building independent associates by implementing changes to its global associate career and compensation plan in late 2002 and 2003, as well as offering contests and travel incentives, including its annual travel incentive, which usually runs from late winter through mid-summer.

### **Product Sales**

Overall, Mannatech's product sales continued to grow for both the three and the nine months ended September 30, 2005 as compared to the same periods in 2004. The primary reason for product sales growth is the increase in the number of independent associates and members purchasing Mannatech's products and the introduction of three new products.

For the three months ended September 30, 2005, new product sales accounted for \$16.7 million of the total \$19.2 million increase in product net sales. For the nine months ended September 30, 2005, new products sales were \$30.8 million of the total \$60.1 million increase in product net sales. New product sales were comprised of net sales of Mannatech's Advanced Ambrotose™, Advanced Plus, and its Wellness Water Bottle. For the remainder of 2005, Mannatech plans to introduce Advanced Ambrotose™ in a capsule form and continue its research in developing certain skin care products.

For the three months ended September 30, 2005, existing product sales increased by \$2.5 million, or 4.7%, to \$55.8 million as compared to \$53.3 million for the same period in 2004. For the nine months ended September 30, 2005, existing product sales increased by \$29.3 million, or 19.8%, to \$177.4 million as compared to \$148.1 million for the same period in 2004. The increase in Mannatech's existing product sales related to \$0.4 million of product sales recorded in the third quarter of 2005 associated with opening operations in Taiwan and selling products in Denmark, as well as the continued increase in the number of new and existing independent associates and members purchasing Mannatech's products as compared to prior periods.

### **Other Sales**

Other sales primarily consist of the following:

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

## [Table of Contents](#)

For the three months ended September 30, 2005, other sales increased by \$0.5 million to \$5.2 million from \$4.7 million for the same period in 2004. The increase in other sales primarily related to an increase of \$1.2 million in freight collected from customers, including \$0.3 million related to an increase in freight charged to its customers implemented in August 2005 related to an increase in cost to Mannatech. In addition, other sales increased by \$0.3 million related to the introduction of a training DVD. This increase was partially offset by a decrease of \$1.0 million related to the change in deferred revenue associated with the timing of when orders were shipped and received by Mannatech's customers.

For the nine months ended September 30, 2005, other sales increased by \$1.2 million to \$10.7 million from \$9.5 million for the same period in 2004. The increase in other sales primarily related to an increase of \$3.3 million in freight collected from customers, including \$0.3 million related to an increase in freight charged to its customers implemented in August 2005. The increase also includes an increase of \$0.3 million in promotional materials related to the introduction of a training DVD. These increases were partially offset by a decrease of \$2.4 million in deferred revenue related to the change in deferred revenue associated with the timing of when orders were shipped and received by Mannatech's customers.

### ***Cost of Sales***

Cost of sales consists of products purchased from third-party manufacturers, costs of promotional materials sold to Mannatech's independent associates, inbound freight, and provisions for slow-moving or obsolete inventories. Mannatech's cost of sales as a percentage of net sales is affected by the mix of products and packs sold because product sales have higher gross margins than its pack sales. Mannatech's sales mix can be influenced by any of the following:

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

For the three months ended September 30, 2005, cost of sales increased by \$2.6 million, or 21.8%, to \$14.5 million from \$11.9 million from the same period in 2004. For the nine months ended September 30, 2005, cost of sales increased by \$11.3 million, or 35.4%, to \$43.2 million from \$31.9 million for the same period in 2004. The increase primarily related to the increase in net sales and the mix of packs and products sold.

For the three months ended September 30, 2005, cost of sales as a percentage of net sales decreased to 14.4% as compared to 15.4% for the same period in 2004. For the nine months ended September 30, 2005, cost of sales as a percentage of net sales decreased to 15.0% as compared to 15.2% for the same period in 2004. The decreases primarily related to operational efficiencies achieved by using more economical product components.

### ***Commissions and Incentives***

Commissions and incentives are dependent on the sales mix and types of incentives offered. Mannatech believes it can continue to successfully operate with commissions and incentives in the range of 41% to 46% of its total consolidated net sales. Commissions and incentives are earned by Mannatech's independent associates in accordance with its global associate career and compensation plan and are calculated using commissionable net sales. Commissionable net sales consist of finished products and pack sales. Mannatech's commissions and incentives programs calculate commissions and incentives based on the following criteria:

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

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

Since 2002, Mannatech has offered various travel incentives and contests that are designed to stimulate both its pack and product sales. The costs of the incentives are accrued over the qualification time period, which was from mid-March 2005 to mid-July 2005. In March 2005, Mannatech announced its 2005 travel incentive contest and anticipates the cost of the trip incentive to be approximately \$3.9 million, which will include approximately 1,300 qualifiers. However, the 2005 travel incentive for its US and Canada independent associates has been postponed because the accommodations were heavily damaged by hurricane Wilma. In addition, Mannatech accrued \$0.6 million for its car bonus incentive program offered to some of its highest level associates based on certain qualifications and sales levels. Mannatech's 2004 travel incentive contest had approximately 1,200 associates qualify for its 5-day cruise for two in the Caribbean at a total cost of \$2.9 million.

Commissions and incentives include both commissions related to commissionable net sales and various incentives, including an annual travel incentive and a car bonus program. For the three months ended September 30, 2005, the combined expenses of commissions and incentives increased by \$9.7 million, or 28.0%, to \$44.4 million as compared to \$34.7 million for the same period in 2004. For the nine months ended September 30, 2005, combined expenses of commissions and incentives increased by \$34.6 million, or 36.5%, to \$129.3 million as compared to \$94.7 million for the same period in 2004. The increase in the combined expenses of commissions and incentives related to the increase in commissionable net sales and the increase in the overall expected costs of travel incentives.

For the three months ended September 30, 2005, combined expenses of commissions and incentives as a percentage of net sales decreased to 44.3% as compared to 44.7% for the same period in 2004. For the nine months ended September 30, 2005, combined expenses of commissions and incentives as a percentage of net sales decreased to 44.9% as compared to 45.0% for the same period in 2004. The combined expenses of commissions and incentives as a percentage of net sales decreased for both the three months and the nine months ended September 30, 2005 as compared to 2004 as a result of a change in the mix of commissionable net sales partially offset by the increase in incentive expense.

#### ***Commissions***

For the three months ended September 30, 2005, commissions increased by 31.0%, or \$10.4 million, to \$43.9 million as compared to \$33.5 million for the same period in 2004. For the nine months ended September 30, 2005, commissions increased by 37.3%, or \$33.9 million, to \$124.7 million as compared to \$90.8 million for the same period in 2004. Mannatech attributes these increases in commissions in response to its 2005 annual travel incentive and car bonus programs, an increase in the volume of commissionable net sales, and an increase in the number of new and continuing independent associates who qualify for commissions.



## [Table of Contents](#)

For the three months ended September 30, 2005, commissions as a percentage of net sales increased to 43.8% from 43.1% for the same period in 2004. For the nine months ended September 30, 2005, commissions as a percentage of net sales increased to 43.3% from 43.2% for the same period in 2004. Mannatech attributes the change in commissions as a percentage of net sales to the change in mix of commissionable net sales and the successful response to its incentive programs offered to its independent associates.

### **Incentives**

For the three months ended September 30, 2005, the cost of incentives decreased by 58.3%, or \$0.7 million, to \$0.5 million as compared to \$1.2 million for the same period in 2004. Mannatech accrues its incentive expenses over the qualification period. Therefore the decrease in incentive expenses for the third quarter of 2005 as compared to 2004 was the result of the timing of the incentive qualification period. In 2005, the incentive qualification period ended in mid-July as compared to 2004 when the incentive qualification period ended in mid-August.

For the nine months ended September 30, 2005, the cost of incentives increased by 17.9%, or \$0.7 million, to \$4.6 million as compared to \$3.9 million for the same period in 2004. The dollar increase in incentives related to the increase in accrued costs related to the projected number of independent associates expected to qualify for its 2005 travel incentive as compared to the number of independent associates who qualified for its 2004 travel incentive. In addition, during the nine months ended September 30, 2005, the costs of incentives increased by \$0.6 million related to the accrual of the car bonus incentive program for its highest business-building associates.

For the three months ended September 30, 2005, incentives as a percentage of net sales decreased to 0.5% as compared to 1.6% for the same period in 2004, which related to the timing of the qualification period. For the nine months ended September 30, 2005, incentives as a percentage of net sales decreased to 1.6% as compared to 1.8% for the same period in 2004, which related to increase in the volume of net sales.

### **Gross Profit**

Overall, the dollar increase in gross profit for both the three months ended September 30, 2005 and the nine months ended September 30, 2005 as compared to the same periods in 2004 was the result of an increase in net sales related to the introduction of new products, opening operations in Taiwan and selling its packs and products in Denmark, a shift in mix between packs and product sales, and the increase in the number of independent associates and members purchasing products and/or packs. Incentive costs increased as a result of an increase in the number of independent associates expected to qualify for the travel incentive and an accrual of \$0.6 million for a car bonus incentive program for its highest business-building associates.

Gross profit as a percentage of net sales for the three months ended September 30, 2005 increased to 41.3% as compared to 39.9% for the same period in 2004. Gross profit as a percentage of net sales for the nine months ended September 30, 2005 increased to 40.1% as compared to 39.8% for the same period in 2004. The increases in gross profit as a percentage of net sales was the result of gaining certain operational efficiencies in cost of sales achieved by using more economical product components.

### **Selling and Administrative Expenses**

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

## [Table of Contents](#)

For the three months ended September 30, 2005, selling and administrative expenses increased \$3.8 million, or 30.9%, to \$16.1 million as compared to \$12.3 million in 2004. As a percentage of net sales, selling and administrative expenses increased to 16.1% for the three months ended September 30, 2005 as compared to 15.8% for the same period in 2004. The dollar increase in selling and administrative expenses primarily consists of the following:

- an increase of \$1.9 million related to compensation-related costs to support recent sales growth. The \$1.9 million in compensation-related costs included a \$1.7 million increase in payroll and payroll related costs from adding additional employees, a \$0.5 million increase in temporary labor costs, and a \$0.5 million increase in contractor and training fees related to non-capitalizable costs related to its internal software projects including its Oracle/JD Edwards Enterprise One fully-integrated computer system. These increases were partially offset by a decrease of \$0.8 million in corporate bonuses;
- an increase of \$1.3 million related to an increase in freight out and third party warehouse costs related to an increase in fuel costs from transportation vendors, as well as an increase in net sales; and
- an increase of \$0.6 million in marketing expenses related to incurring pre-opening costs associated with opening operations in Taiwan and additional costs associated with increased attendance at Mannatech's corporate-sponsored events.

For the nine months ended September 30, 2005, selling and administrative expenses increased \$12.5 million, or 34.6%, to \$48.6 million as compared to \$36.1 million in 2004. For the nine months ended September 30, 2005, selling and administrative expenses as a percentage of net sales decreased to 16.9% as compared to 17.2% for the same period in 2004. The percentage of net sales decrease was the result of reducing certain compensation costs and capitalizing certain payroll and contracting fees associated with its internally-developed software projects. The dollar increase in selling and administrative expenses primarily consists of the following:

- an increase of \$6.7 million related to an increase in compensation related costs to support recent sales growth. The \$6.7 million in compensation-related costs included a \$6.1 million increase in payroll and payroll related costs from adding additional employees, a \$1.0 million increase in temporary labor costs to support recent sales growth, and a \$0.8 million increase in contractor and training fees related to certain non-capitalizable costs related to its Oracle/JD Edwards Enterprise One fully-integrated computer system. These increases were partially offset by a decrease of \$1.2 million in corporate bonuses;
- an increase of \$4.0 million related to freight out and third party warehouse costs, which was associated with an increase in net sales, as well as an increase in fuel costs from transportation vendors; and
- an increase of \$1.8 million in marketing expenses related to additional costs associated with an increase in attendance at its corporate-sponsored events and pre-opening costs associated with opening its operations in Taiwan.

### ***Other Operating Costs***

Other operating expenses include utilities, depreciation, travel, consulting fees, professional fees, office expenses, printing-related expenses, off-site storage fees, and other miscellaneous operating expenses.

For the three months ended September 30, 2005, other operating expenses increased by \$2.8 million, or 29.2%, to \$12.4 million as compared to \$9.6 million for the same period in 2004. For the three months ended September 30, 2005, other operating expenses as a percentage of net sales remained at 12.4% compared to the same period in 2004. For the nine months ended September 30, 2005, other operating expenses increased by \$11.7 million, or 47.0%, to \$36.6 million as compared to \$24.9 million for the same period in 2004. For the nine months ended September 30, 2005, other operating expenses as a percentage of net sales increased to 12.7% from 11.8% for the same period in 2004.

Specific changes in other operating expenses primarily consisted of changes in travel, accounting, consulting and legal fees, royalties, credit card processing fees, depreciation, and other operating costs described as follows:

## [Table of Contents](#)

### **Travel**

For the three months ended September 30, 2005, travel expenses increased by \$0.2 million to \$1.3 million as compared to \$1.1 million for the same period in 2004. For the nine months ended September 30, 2005, travel expenses increased by \$1.2 million to \$4.1 million as compared to \$2.9 million for the same period in 2004. The increase in travel expenses related to an increase in continued international development, as well as an increase in travel expense related to corporate-sponsored events.

### **Accounting, legal, and consulting fees**

For the three months ended September 30, 2005, accounting, legal, and consultant-related fees increased by \$1.2 million to \$3.3 million as compared to \$2.1 million for the same period in 2004. Accounting and consultant-related fees increased by \$0.7 million, which related to additional accounting fees and fees associated with testing of its internal controls related to the Sarbanes-Oxley Act of 2002. Legal fees increased by \$0.5 million, which related to accruing legal fees in connection with the defense of certain lawsuits, settlements, and registration costs for its new and existing products in foreign countries.

For the nine months ended September 30, 2005, accounting, legal, and consultant-related fees increased by \$3.8 million to \$8.7 million as compared to \$4.9 million for the same period in 2004. Accounting and consultant-related fees increased by \$1.7 million due to additional accounting fees and fees associated with testing of its internal controls related to the Sarbanes-Oxley Act of 2002. Consulting fees also increased by \$0.6 million related to incurring non-capitalizable fees related to Mannatech's internally-developed software projects including its Oracle/JD Edwards Enterprise One system and pre-opening costs related to opening Taiwan. Legal fees increased by \$1.5 million related to accruing legal fees in connection with the defense of certain lawsuits, settlements, and registration costs for its new and existing products in foreign countries.

### **Royalties**

For the three months ended September 30, 2005, royalty expense increased by \$0.1 million to \$0.8 million as compared to \$0.7 million for the same period in 2004. For the nine months ended September 30, 2005, royalty expense increased by \$1.9 million to \$3.2 million as compared to \$1.3 million for the same period in 2004. The increase in royalty expense related to the increase in net sales and the accrual for the long-term post-employment benefit associated with the Long-Term Royalty Agreement with Dr. Bill McAnalley, which was fully accrued as of July 2005.

### **Credit card processing fees**

For the three months ended September 30, 2005, credit card processing fees increased by \$0.4 million to \$1.8 million as compared to \$1.4 million for the same period in 2004. For the nine months ended September 30, 2005, credit card processing fees increased by \$1.5 million to \$5.9 million as compared to \$4.4 million for the same period in 2004. The increase in credit card processing fees directly related to the increase in net sales.

### **Depreciation**

For the three months ended September 30, 2005, Mannatech recorded an increase in depreciation expense of \$0.3 million to \$0.9 million as compared to \$0.6 million for the same period in 2004. For the nine months ended September 30, 2005, Mannatech recorded an increase in depreciation expense of \$0.9 million to \$2.8 million as compared to \$1.9 million for the same period in 2004. The increase in depreciation expense related to an increase in capital assets, some of which were associated with internally-developed software projects.

### **Other operating costs**

For the three months ended September 30, 2005, the remaining increase of \$0.6 million in other operating costs as compared to the same period in 2004 related to an increase in variable operating costs including telephone, insurance, postage, and offsite storage fees directly correlated to the increase in net sales. For the nine months ended September 30, 2005, the remaining increase of \$2.4 million in other operating costs as compared to the same period in 2004, related to an increase in variable operating costs including telephone, insurance, postage, rent, and offsite storage fees. The increase in variable operating costs directly correlated to the increase in net sales and opening operations in Taiwan.

**Interest Income**

Mannatech maintains interest bearing accounts for its cash equivalents, restricted cash, and investments. For the three months ended September 30, 2005, interest income increased by \$0.4 million to \$0.5 million as compared to \$0.1 million for the same period in 2004. For the nine months ended September 30, 2005, interest income increased by \$0.9 million to \$1.3 million as compared to \$0.4 million for the same period in 2004. The increase in interest income was primarily due to an increase in the average balance held in cash, cash equivalents, restricted cash, and investments. Cash and investments increased as a result of an increase in net sales and improving overall profits.

**Other Expense, Net**

Other expense, net consists primarily of foreign currency transaction gains and losses related to translating assets, liabilities, revenues, and expenses from its foreign operations to the United States dollar using current and weighted-average currency exchange rates. Mannatech records transaction gains and losses to other expense, net. For the three and nine months ended September 30, 2005 and 2004, other expense, net increased as compared to the same period in 2004. The increase related to Mannatech recording an increase in net transaction gains from its foreign operations for the period.

**Income Tax Expense**

Income taxes include both current and deferred income taxes for Mannatech's domestic and foreign operations. Mannatech's United States federal statutory income tax rate was 35% for all of 2005 and 2004. For the three and nine months ended September 30, 2005 and 2004, Mannatech's statutory tax rate in Australia was 30%, in the United Kingdom its statutory tax rate was 30%, in Japan its statutory tax rate was 42%, in the Republic of Korea its statutory tax rate was lowered from 27% to 25%, and in Taiwan its statutory tax rate is estimated to be 25%. During each period, 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 total amount of United States income taxes owed, Mannatech may not be able to fully utilize its foreign tax credits in the United States.

Mannatech uses Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). Under FAS 109, Mannatech is required to record a valuation allowance when it is "more likely than not" that all or a portion of its net deferred tax assets will not be realized. A review of all positive and negative evidence of realizability must be considered in determining the need for a valuation allowance for each tax jurisdiction. Furthermore, the weight given to the potential effect of such evidence should be commensurate with the extent to which it can be objectively verified.

At September 30, 2005 and 2004, Mannatech had a valuation allowance of \$0.3 million and \$0.1 million, respectively, which related to its net deferred tax assets in the Republic of Korea and in 2005 for Taiwan as Mannatech believes that the "more likely than not" criteria for recognition purposes cannot yet be realized.

For the three months ended September 30, 2005, Mannatech's effective tax rate increased to 32.6% from 24.3% for the same period in 2004. For the nine months ended September 30, 2005, Mannatech's effective tax rate increased to 36.7% from 29.7% for the same period in 2004. In 2005, Mannatech's effective tax rate increased primarily due to the reduction of \$0.2 million in estimated income tax reserves as a result of favorable outcome of its income tax audits, as well as a shift in income mix between its domestic and foreign operations, and the prior year elimination of the valuation allowance for Japan. Mannatech believes its effective tax rate should remain in the 36% to 40% range.

## [Table of Contents](#)

### **Net Income**

For the three months ended September 30, 2005, net income increased by \$1.9 million, or 27.9%, to \$8.7 million from \$6.8 million in the same period in 2004. The increase in net income related to an increase in net sales of \$22.6 million, or 29.1%, which was associated with an increase of \$10.4 million in gross profit, which was partially offset by the following:

- an increase of \$2.9 million in compensation and fringe benefit-related costs related to adding new employees and utilizing temporary and contract labor in the third quarter of 2005;
- an increase of \$1.2 million in accounting, legal, and consulting fees related to additional accounting fees, fees associated with testing its internal controls, as well as accruing legal fees directly related to the defense of certain lawsuits, accruing settlements and continuing to registering its products;
- an increase of \$0.3 million in depreciation expense related to the completion of certain internally-developed software projects and purchasing additional fixed assets; and
- the remaining increase of \$4.1 million in variable selling, general, administrative and operating costs directly related to the increase in net sales.

For the three months ended September 30, 2005, Mannatech's diluted earnings per share increased by 28% to \$0.32 per share from \$0.25 per share for the same period in 2004. The increase in diluted earnings per share in 2005 was the direct result of the continued increase in net sales offset by the increase in the costs described above.

For the nine months ended September 30, 2005, net income increased by \$3.7 million, or 23.9%, to \$19.2 million from \$15.5 million for the same period in 2004. The increase in net income was related to an increase in net sales of \$77.7 million, or 37.0%, which was associated with an increase of \$31.7 million in gross profit, which was partially affected by the following:

- an increase in \$6.7 million in compensation and fringe benefit-related costs related to adding new employees and utilizing temporary and contract labor during 2005;
- an increase of \$3.8 million in accounting, legal, and consulting fees related to additional accounting fees and fees associated with testing its internal controls, as well as accruing legal fees directly related to the defense of certain lawsuits, accruing settlements and continuing to registering its products;
- an increase of \$1.9 million related to accruing the long-term post-employment benefit related to Dr. McAnalley's Long-Term Post Retirement Royalty Agreement;
- an increase of \$1.2 million in travel costs related to pre-opening costs associated with opening operations in Taiwan in June 2005 and an increase related to its corporate-sponsored events;
- an increase of \$0.9 million in depreciation expense related to the completion of certain internally-developed software projects and purchasing additional fixed assets; and
- the remaining increase of \$13.5 million in variable selling, general, administrative and operating costs directly related to the increase in net sales.

For the nine months ended September 30, 2005, Mannatech's diluted earnings per share increased by 21.0% to \$0.69 per share from \$0.57 per share for the same period in 2004. The increase in diluted earnings per share in 2005 was the direct result of the continued increase in net sales partially offset by the increase in the costs described above.

Mannatech declared and paid the following dividends:

<u>Date dividends declared</u>	<u>Date dividends paid</u>	<u>Total amount of dividends</u>	<u>Dividend paid per common share</u>
January 2004	March 2004	\$ 2.6 million	\$ 0.10
August 2004	October 2004	\$ 2.6 million	\$ 0.10
November 2004	January 2005	\$ 1.9 million	\$ 0.07
March 2005	April 2005	\$ 1.9 million	\$ 0.07
June 2005	July 2005	\$ 1.9 million	\$ 0.07
September 2005	October 2005	\$ 1.9 million	\$ 0.07

## [Table of Contents](#)

### ***Liquidity and Capital Resources***

Mannatech's principal use of cash is to pay for its on-going operations, including commissions and incentives, capital expenditures, inventory purchases, payment of quarterly dividends, and funding its plans for international expansion. Generally, Mannatech funds its business objectives, working capital, and operations through reliance on its cash flows from operations rather than incurring long-term debt and plans to continue to fund its business objectives, working capital, and operations primarily through its cash flows generated from operations. Mannatech intends to use its normal cash flows from operations and cash on hand to fund its anticipated cash requirements over the next twelve to twenty-four months, as well as any unanticipated short falls that may arise over such periods.

### ***Cash and Cash Equivalents and Investments***

For the nine months ended September 30, 2005, Mannatech continues to maintain a strong cash and investment position as its cash and cash equivalents and investments increased by 8.2%, or \$5.0 million, to \$66.3 million from \$61.3 million at December 31, 2004. These increases were directly attributable to an increase in its income from operations, partially offset by the funding of its large-scale, internally-developed software projects and quarterly cash dividend payments.

### ***Working Capital***

Mannatech's working capital increased by \$7.0 million to \$34.5 million at September 30, 2005 from \$27.6 million at December 31, 2004. Mannatech's increase in its working capital at September 30, 2005 primarily related to the following:

- increasing cash on hand and investments by \$8.8 million related to an increase in income from operations;
- increasing inventories on hand by \$7.2 million related to the expected sales growth;
- accruing an additional \$3.2 million in operating expenses and commissions related to the increase in net sales;
- applying the income tax receivable of \$4.0 million to 2005 income tax payments due;
- deferring an additional \$2.5 million in revenues related to the timing of customers receiving their sales orders; and
- increasing accounts receivable by \$0.7 million related to international operations and payments from Mannarelief.

Mannatech's cash flows consist of the following:

<b>Provided by (used in):</b>	<b>For the nine months ended September 30,</b>	
	<b>2004</b>	<b>2005</b>
Operating activities	\$ 16.6 million	\$ 27.6 million
Investing activities	\$(11.3 million)	\$(11.6 million)
Financing activities	\$ (4.8 million)	\$(10.1 million)

## [Table of Contents](#)

### ***Operating Activities***

For the nine months ended September 30, 2005, Mannatech's operating activities provided cash of \$27.6 million compared to cash of \$16.6 million in the same period in 2004. For the nine months ended September 30, 2005, net earnings adjusted for noncash activities provided cash of \$24.2 million as compared to \$16.8 million for the same period in 2004.

For the nine months ended September 30, 2005, Mannatech's working capital accounts, which include receivables, inventories, prepaid expenses, payables, deferred revenues, accrued commissions and expenses for operations, generated \$3.6 million in positive cash flow as compared to \$0.6 million for the same period in 2004. For the nine months ended September 30, 2005, Mannatech's working capital accounts increased primarily related to an increase of \$2.5 million in the amount of deferred revenue, an increase of \$8.5 million in accruing additional commissions and incentive payables, accrued expenses, and taxes; partially offset by an increase of \$7.4 million in inventories, which was associated with an increase in net sales. Mannatech expects that its operating cash flows for the remainder of 2005 will be sufficient to fund its current operations and its plans for international expansion.

For the nine months ended September 30, 2004, Mannatech's working capital accounts increased by \$0.6 million primarily increased related to an increase of \$8.0 million related to accrued expenses, and accrued commissions and taxes, an increase of \$0.4 million related to an increase in deferred revenues, partially offset by an increase in inventories of \$5.0 million, and an increase of \$2.8 million in accounts receivable and prepaids and other long-term assets, each of which were associated with an increase in net sales.

Operating activities also included paying accrued severance of \$0.2 million to a former executive for the nine months ended September 30, 2005 compared to paying \$0.8 million in accrued severance for the same period in 2004.

### ***Investing Activities***

For the nine months ended September 30, 2005, Mannatech's investing activities used \$11.6 million in cash compared to \$11.3 million for the same period in 2004. For the nine months ended September 30, 2005, Mannatech used \$0.3 million of its cash to purchase higher yielding investments and released \$0.4 million of its restricted cash into operations. This was partially offset by increasing restricted cash by \$2.5 million for a letter of credit for its 2006 annual travel incentive for its US and Canada independent associates. For the nine months ended September 30, 2004, Mannatech's investing activities used \$7.1 million of its cash to purchase higher yielding investments and released \$0.8 million of its restricted cash.

For the nine months ended September 30, 2004 and 2005, investing activities also consisted of capital asset purchases of \$5.0 million and \$9.2 million, respectively, primarily related to its costs associated with internally-developed software projects and the purchases of additional office furniture, computer software, and computer hardware.

In 2004, Mannatech substantially completed the development of certain internally-developed projects including its Republic of Korea computer application system, its Japanese e-commerce system, and the first phase of implementing its Oracle/JD Edwards Enterprise One fully-integrated system for a total cost of \$4.2 million of which \$3.4 million related to the Oracle/JD Edwards project. In 2005, Mannatech began configuring Phase II of its Oracle/JD Edwards Enterprise One fully-integrated system and has capitalized costs related to this Oracle/JE Edwards project of \$5.3 million. Mannatech has expanded its Oracle/JD Edwards project and increased its anticipated total capitalized costs to between \$23 million and \$26 million of which Mannatech has incurred \$8.7 million of the total costs as of September 30, 2005 and anticipates spending an additional \$2.2 to \$3.0 million for the fourth quarter of 2005 with the remaining expected capitalized costs of \$12.1 million to \$14.3 million to be incurred in the first nine months of 2006. In addition, for the nine months ended September 30, 2005, Mannatech has spent \$1.5 million on non-capitalizable costs associated with its Oracle/JD Edwards project and expects to incur an additional \$0.5 million in fourth quarter of 2005, as well as an additional \$2.3 million of non-capitalizable costs associated with its Oracle/JD Edwards projects in the first nine months of 2006.

**Financing Activities**

For the nine months ended September 30, 2005, Mannatech's financing activities used \$10.1 million in cash as compared to \$4.8 million for the same period in 2004. For the nine months ended September 30, 2005, Mannatech used \$5.7 million in cash to pay quarterly cash dividends to its shareholders and repurchased \$5.0 million of its common stock in the open market. These cash outlays were partially offset by receiving \$0.6 million in cash proceeds related to stock options exercised. For the nine months ended September 30, 2004, Mannatech used cash to pay cash dividends to its shareholders of \$5.3 million, which was partially offset by receiving \$0.4 million in cash proceeds related to stock options exercised.

**General Liquidity and Cash Flows**

Historically, Mannatech has generated positive cash flows from its operations and believes that its existing liquidity and cash flows from operations, including cash and investments totaling \$66.3 million should be adequate to fund expected business operations and its plans for international expansion and new Oracle/JD Edwards Enterprise One back-office system for the next 12 to 24 months. Mannatech believes its existing liquidity and cash flows will be adequate for its future as most of its operating expenses are variable in nature. However, if Mannatech's existing capital resources or cash flows are insufficient to meet its current business plans, projections, and existing capital requirements, Mannatech would be required to raise additional funds, which may not be available on favorable terms, if at all.

Mannatech is required to fund its future commitments and obligations, which as of September 30, 2005 are as follows:

- funding the 10-year renewal of its leased corporate office and distribution facilities totaling \$7.7 million through 2017;
- funding a 3-year supply agreement to purchase raw materials of \$7.3 million through 2007;
- funding various operating leases for building and equipment rental of \$6.0 million through 2009;
- funding an estimated \$4.2 million of the long-term post-employment royalty benefit related to the Supplemental Royalty Agreement related to future royalties payable to Dr. McAnalley;
- funding up to \$1.3 million of estimated unpaid costs related to its 2005 annual travel incentive;
- funding a 5-year supply agreement to purchase raw materials of \$1.3 million through 2009;
- funding \$0.7 million related to a one-year consulting agreement with Dr. McAnalley;
- funding \$0.4 million for a non-cancellable employment agreement with Mr. Persinger through December 2006;
- funding \$0.4 million purchase commitment with a vendor to purchase 100,000 specialized magazines in April 2006;
- funding \$0.3 million for a clinical study with St. George's Hospital through 2006;
- funding \$0.2 million for a non-cancellable employment agreement with Mr. Caster through December 2005, which is expected to be renewed; and
- funding a cash donation of \$0.1 million in 2005 to MannaRelief, a non-profit 501(c)(3) charity.



## [Table of Contents](#)

### **Recent Financial Accounting Standards Board Statements**

**FAS 123R.** In December 2004, FASB issued FAS 123R, which replaces FAS 123 and supersedes APB 25. FAS 123R requires a company to recognize compensation cost related to share-based payment transactions in its financial statements. The compensation costs should be measured based on the estimated fair value of the equity or liability instruments issued. The provisions of APB 25 and FAS 123 remain in effect until the provisions of FAS 123R are adopted. FAS 123R is effective for the first annual reporting period beginning after June 15, 2005. As of September 30, 2005, Mannatech had 254,036 unvested stock options outstanding with a fair value of approximately \$0.7 million. In addition, Mannatech has 435,704 stock options available to grant in the future. Mannatech is currently evaluating the impact of adopting FAS 123R on its consolidated financial condition and its consolidated results of operations but believes the estimated impact on its consolidated financial position and results of operations for existing stock options outstanding will be approximately \$0.4 million in 2006, \$0.2 million in 2007, and \$0.1 million in 2008.

### **Forward-Looking Statements**

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

- the adequacy of existing capital resources and cash flows to fund Mannatech's future cash needs;
- future plans related to Mannatech's budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;
- the realization of Mannatech's deferred tax assets;
- the expected future cash flows of Mannatech's assets exceeding the net book value of such assets;
- the impact of future market changes due to exposure to foreign currency translations on Mannatech's business;
- the impact of Mannatech's product development strategy;
- Mannatech's ability to offer innovative incentives in the future;
- the impact of recent accounting pronouncements on Mannatech's consolidated financial condition, results of operations, or cash flows;
- the outcome of regulatory and litigation matters;
- the effectiveness of certain policies, procedures, and internal processes in combating Mannatech's exposure to market risk; and
- other assumptions described in this report underlying such forward-looking statements.

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

- those described in the context of such forward-looking statements;
- changes in inventory costs;
- the future impact of any changes to Mannatech's global career and compensation plan or incentives;
- Mannatech's ability to attract and retain independent associates and members;
- timely development and acceptance of new products and refinements of existing products;
- changes in product mix;

## [Table of Contents](#)

- the overall market conditions for Mannatech’s domestic and international operations;
- changes in global statutory tax rates;
- the impact of new competition and competitive products and pricing;
- the political, social, and economic climate in which Mannatech conducts its operations; and
- the risk factors described in other documents and reports filed by Mannatech with the Securities and Exchange Commission.

Forward-looking statements generally can be identified by the use of or phrases or terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “hopes,” “intends,” “anticipates,” “believes,” “estimates,” “approximates,” “predicts,” “potential,” “projects,” “in the future,” or “continues” or other similar words or the negative of such terms and other comparable terminology. Similarly, descriptions of Mannatech’s objectives, plans, strategies, targets or beliefs contained herein are also considered forward-looking statements. If one or more of these risks or uncertainties materialize, or if any underlying assumption proves incorrect, actual results may vary materially from those anticipated, expected or projected. Such forward-looking statements reflect Mannatech’s current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to its operations, results of operations, growth strategy, and liquidity. All subsequent written and oral forward-looking statements attributable to Mannatech or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. A detailed discussion of risks is included, under the caption “Risk Factors” in Mannatech’s Form 10-K, filed on March 31, 2005. Mannatech does not undertake any obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise. Readers are also cautioned that the forward-looking statements contained in this Form 10-Q, including the risks and uncertainties and any other cautionary statements contained herein speak only as of the date of this report.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

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

Mannatech believes inflation has not had a material impact on its operations or profitability. Mannatech expanded into Canada in 1996, into Australia in 1998, into the United Kingdom in 1999, into Japan in 2000, into New Zealand in 2002, into the Republic of Korea in 2004, into Taiwan in June 2005, and into Denmark in August 2005. In addition, Mannatech has filed for registration of its products in Germany. Mannatech’s Canada operation is serviced through the United States, Mannatech’s New Zealand operation is serviced through its Australian operation and its United Kingdom operation services shipments to Denmark. Mannatech also plans on servicing sales in Germany through its United Kingdom operations. Revenues and expenses in foreign markets are currently translated using historical and weighted-average currency exchange rates.

## [Table of Contents](#)

Mannatech maintains policies, procedures, and internal processes that it believes help monitor any significant market risks. Mannatech currently does not use any financial instruments to manage its exposure to such risks. The sensitivity of earnings and cash flows to variability in currency exchange rates is assessed by applying an appropriate range of potential rate fluctuations to Mannatech's assets, obligations, and projected transactions denominated in foreign currencies. Mannatech cautions that it cannot predict with any certainty its future exposure to such currency exchange rate fluctuations or the impact, if any, such fluctuations may have on its future business, product pricing, operating expenses, and its consolidated financial condition, results of operations, or cash flows. However, to combat such risk, Mannatech closely monitors currency fluctuations for exposure to such market risk. The foreign currencies in which Mannatech currently has exposure to foreign currency exchange rate risk include the currencies of Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, and Germany. The current (spot) rate, weighted average currency exchange rates, as well as the low and high currency exchange rates as compared to the United States dollar, for each of these countries, as of and for the nine months ended September 30, 2005 are as follows:

<u>Country/Currency</u>	<u>Low</u>	<u>High</u>	<u>Weighted-Average</u>	<u>Spot Rate</u>
Australia/Dollar	\$ 0.74040	\$ 0.79790	\$ 0.76901	\$ 0.76030
Canada/Dollar	\$ 0.78780	\$ 0.85580	\$ 0.81740	\$ 0.85420
Denmark/Krone	\$ 0.15980	\$ 0.18250	\$ 0.16971	\$ 0.16140
Germany/Euro	\$ 1.19050	\$ 1.35690	\$ 1.26417	\$ 1.20480
Japan/Yen	\$ 0.00883	\$ 0.00981	\$ 0.00929	\$ 0.00885
New Zealand/Dollar	\$ 0.67270	\$ 0.74490	\$ 0.70835	\$ 0.69140
Republic of Korea/Won	\$ 0.00095	\$ 0.00101	\$ 0.00089	\$ 0.00097
Taiwan/Dollar	\$ 0.03007	\$ 0.03254	\$ 0.03159	\$ 0.03012
United Kingdom/British Pound	\$ 1.73640	\$ 1.92860	\$ 1.84476	\$ 1.76280

### **Item 4. Controls and Procedures**

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

During the three and nine months ended September 30, 2005, there were no changes in Mannatech's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, Mannatech's internal control over financial reporting other than in the first and second quarters of 2005, Mannatech substantially completed its implementation and conversion of its old financial systems in all of its operations to a new financial system. The implementation included converting its balances from one automated financial system, called Sage/Tetra CS/3 system, to another more sophisticated automated financial system, called Oracle/JD Edwards Enterprise One. This change in information system platform for its financial reporting was part of Mannatech's two-phase global re-architecture project, known as the Oracle/JD Edwards Enterprise One project. This project fully-integrated Mannatech's financial systems in each country and expanded the functionality of its financial systems. Phase II of this project will fully integrate Mannatech's operational systems with its financial system.

Mannatech believes the conversion and implementation of this fully-integrated financial system further strengthened its existing internal control over financial reporting, as well as automated a number of its administrative processes and activities, and enhanced certain materials management processes.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

On September 19, 2005, the Court dismissed the lawsuit filed in the Superior Court of California, County of Los Angeles by Ms. Chie Sasaki against Mannatech, its Chief Executive Officer, Mr. Samuel Caster, and Ms. Victoria Arcadi, an independent associate. The lawsuit alleged intentional and negligent infliction of emotional distress, intentional and negligent misrepresentation, invasion of privacy, and unfair competition based on the publication of photographs of Ms. Sasaki's son by one of Mannatech's independent associates. Mannatech paid \$750,000 as part of a confidential settlement and release and agreed to cease all references to the Sasaki child.

The Company has been sued in two securities class action lawsuits in the United States District Court for the District of New Mexico. The allegations in these class action lawsuits are substantively identical to those in the securities class action lawsuit filed by Mr. Jonathan Crowell on August 1, 2005, which was identified and described in Mannatech's Form 10-Q for the second quarter of 2005 filed with the SEC on August 9, 2005. First, on August 30, 2005, Mr. Richard McMurry filed a class action lawsuit against Mannatech, Mr. Samuel L. Caster, its Chief Executive Officer, Mr. Terry L. Persinger, its President and Chief Operating Officer, and Mr. Stephen D. Fenstermacher, its Chief Financial Officer. Second, on September 5, 2005, Mr. Michael Bruce Zeller filed a class action lawsuit against Mannatech, Mr. Caster, Mr. Persinger, and Mr. Fenstermacher.

On October 17, 2005, a motion was filed in each class action lawsuit by the plaintiffs' counsel in the Crowell class action lawsuit to consolidate the three class action lawsuits and to appoint Mr. Austin Chang, Mr. Roger L. Sanford, Scalion Pty Ltd, and Mr. Michael D. Martin as lead plaintiffs. The motion also requests the appointment of the law firms Murry, Frank & Sailer, LLP and Glancy, Binkow & Goldberg, LLP as co-lead counsel, and Ron Bell & Associates as liaison counsel, for the putative class. On November 4, 2005, the court granted leave for this motion to be withdrawn.

On October 17, 2005, a motion was also filed in each class action lawsuit by plaintiffs' counsel in the McMurry lawsuit to appoint Mr. Austin Chang, Ms. Naomi S. Miller, Mr. John C. Ogden, and Plumbers and Pipefitters Local 51 Pension Fund as lead plaintiffs. The motion also requests the appointment of the law firm Lerach, Coughlin, Stoia, Geller, Rudman & Robbins LLP as lead counsel, and Freedman, Boyd, Daniels, Hollander & Goldberg, P.A. as liaison counsel, for the putative class.

Mannatech has also learned that a shareholder derivative lawsuit was filed by Norma Middleton, Derivatively and on Behalf of Nominal Defendant, Mannatech, Inc., v. Samuel L. Caster, Terry L. Persinger, Donald A. Buchholz, J. Stanley Fredrick, Gerald E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, and Patricia A. Wier, in the United States District Court for the Northern District of Texas, Dallas Division, on October 18, 2005. The shareholder derivative proceeding makes allegations similar to the allegations of the shareholder class action litigation described above. Mannatech has also received two additional letters from shareholders making similar allegations, which letters are a prelude to instituting derivative litigation. Mannatech's independent Directors have appointed a Special Litigation Committee to review these matters and determine Mannatech's response.

Plaintiffs in each of the class action lawsuits are seeking an unspecified amount of compensatory damages, interest, and costs, including legal and expert fees.

In response to these actions, Mannatech believes it has retained experienced securities litigation counsel to vigorously defend itself and its officers. Mannatech also believes that this type of litigation is inherently unpredictable; however, when faced with several class action complaints making similar allegations, the courts frequently consolidate such cases. It should also be noted that a court must certify a class before a case can proceed as a class action lawsuit and that determination has not been made in any of these cases. Plaintiffs in each of these actions are seeking an unspecified amount of compensatory damages, interest, and costs, including legal and expert fees. Mannatech believes these types of repetitive lawsuits (seeking class action status) are common in today's litigious society and many reputable companies have successfully defended themselves against such litigation. It is not possible at this time to predict whether Mannatech will incur any liability or to estimate the damages, or the range of damages, if any, that Mannatech might incur in connection with any of these above mentioned securities lawsuits.

On July 8, 2005, the Australian Therapeutic Goods Administration ("TGA") notified Mannatech regarding a new complaint made by an Australian independent associate related to certain therapeutic claims to promote Mannatech's products. In response to this complaint, Mannatech conducted an investigation and disciplined its independent associate, including plans for continuing education and compliance training and notified the TGA of its actions and is awaiting a response from the TGA.

Mannatech maintains certain liability insurance, in amounts management believes are adequate. However, certain costs of defending lawsuits against Mannatech, such as those below the insurance deductible amount, are not covered by or only partially covered by Mannatech's insurance policies, and Mannatech's insurance carriers could refuse to cover certain of these claims in whole or in part.

[Table of Contents](#)

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

On June 30, 2004, the Company's Board of Directors authorized the Company to repurchase, in the open market, up to 1.3 million shares of its outstanding common stock to help manage any dilutive effects in the open market. As of September 30, 2005, the Company is authorized to purchase up to 719,501 of its common shares in the open market. The Company has repurchased the following number of its common shares in the open market:

<u>Date purchased</u>	<u>Number of common shares purchased in the open market</u>	<u>Approximate cost</u>
May 2005	190,850	\$ 3.0 million
September 2005	182,626	\$ 2.0 million
October 2005	207,023	\$ 2.0 million
Total	580,499	\$ 7.0 million

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

None.

## [Table of Contents](#)

### Item 5. Other Information

Effective August 28, 2005, Rob Sinnott M.N.S., Ph.D. was hired as Mannatech's new Chief Science Officer and Vice President of Research & Development. Dr. Sinnott succeeded Dr. McAnalley as Mannatech's Chief Science Officer. Dr. Robert Sinnott brings over twelve years of experience in biotechnology to Mannatech and was a founder of Larrea BioSciences Corporation (*OTC BB: LRRR DB*). From 1997 to 2003, Dr. Sinnott was a founding team member and Chairman of Biotechnology and Agribusiness for the Arizona Agribusiness and Equine Sciences Center at South Mountain Community College. From 1993 to 1996, Dr. Sinnott founded and served as Research Director of Gaiaventures, Ltd, a scientific consulting firm. Dr. Sinnott earned his Bachelor of Science, Master of Natural Science and Ph.D. degree from Arizona State University located in Tempe, Arizona. During graduate school, Dr. Sinnott's primary focus was plant medicinal chemistry and plant biotechnology, and his 1995 dissertation research focused on the aloe vera plant.

Effective September 1, 2005, John Price was hired to serve as President of International Operations, replacing Jack Crowley, who resigned as Mannatech's President of International Operations effective September 15, 2005. From 1997 to 2002, Mr. Price served as Senior Vice President of Worldwide Administration at Herbalife, International (*NYSE: HLF*). From 1978 to 1995, Mr. Price served in various positions, including Vice President of Human Resources at Eli Lilly and Company (*NYSE: LLY*). Mr. Price is a retired U.S. Navy Commander and earned his B.A. degree in Psychology and Naval Science from the University of Washington, located in Seattle, Washington and earned his M.B.A. degree in Marketing from the California Coast University, located in Santa Ana, California. On August 31, 2005, Mr. Price was granted 25,000 stock options, at an exercise price of \$12.44 per share, which will vest over 3 years.

### Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit (s)	Filing Date
3.1	Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998.	S-1	333-63133	3.1	October 28, 1998
3.2	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001.	8-K	000-24657	99.1	August 22, 2001
4.1	Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1*	Building lease for U.S. Distribution building facility, dated September 22, 2005.	*	*	*	*
10.2*	Building lease for U.S. Corporate facility, dated September 22, 2005.	*	*	*	*
10.3*	Employment Agreement with Dr. Robert Sinnott, dated, August 31, 2005.	*	*	*	*
10.4*	Purchase agreement with Success at Home, dated September 27, 2005.	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*

\* filed herewith.

**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**

**November 9, 2005**

/s/ SAMUEL L. CASTER

---

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

**November 9, 2005**

/s/ STEPHEN D. FENSTERMACHER

---

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

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit (s)</b>	<b>Filing Date</b>
3.1	Amended and Restated Articles of Incorporation of Mannatech, dated May 19, 1998.	S-1	333-63133	3.1	October 28, 1998
3.2	Fourth Amended and Restated Bylaws of Mannatech, dated August 8, 2001.	8-K	000-24657	99.1	August 22, 2001
4.1	Specimen Certificate representing Mannatech's common stock, par value \$0.0001 per share.	S-1	333-63133	4.1	October 28, 1998
10.1*	Building lease for U.S. Distribution building facility, dated September 22, 2005.	*	*	*	*
10.2*	Building lease for U.S. Corporate facility, dated September 22, 2005.	*	*	*	*
10.3*	Employment Agreement with Dr. Robert Sinnott, dated, August 31, 2005.	*	*	*	*
10.4*	Purchase agreement with Success at Home, dated September 27, 2005.	*	*	*	*
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer of Mannatech.	*	*	*	*
32.2*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer of Mannatech.	*	*	*	*

\* filed herewith.



**LEASE ABSTRACT**

LEASE AMENDMENT: Second Amendment  
 ABSTRACT PREPARED BY: Gallini and Lester  
 LANDLORD: TEXAS DUGAN LIMITED PARTNERSHIP  
 PROPERTY NAME: Freeport III  
 TENANT NAME: MANNATECH INCORPORATED  
 TENANT CONTACT: Rick Leonard  
 TENANT PHONE: 972-471-1561  
 ADDRESS: 445 South Royal Lane, Suite 800, Coppel, TX 75019  
 TENANT SQ.FT. 74,476  
 LEASE EXECUTION DATE:  
 TYPE OF LEASE: RENEWAL

LEASE TERM IN MONTHS: 122  
 COMMENCEMENT: 20-Jan-07  
 EXPIRATION: 19-Mar-17  
 RENEWAL OPTIONS: 2 five year options at market rate

**RENT:**

<u>Year</u>	<u>Dates:</u>	<u>Amount per month</u>	<u>Amount per year</u>	<u>Annual PSF</u>
0	01/20/2007-03/19/2007	\$0.00 per month		
1-3	03/20/2007-03/19/2010	\$23,273.75 per month	\$279,285.00	\$3.75
2-5	03/20/2010-03/19/2012	\$23,894.38 per month	\$286,732.56	\$3.85
6-10	03/20/2012-03/19/2017	\$25,135.65 per month	\$301,627.80	\$4.05

SECURITY DEPOSIT: \$24,825.33  
 EXPENSES: Tenant pays all expenses  
 TENANT IMPROVEMENT ALLOWANCE \$37,238.00

**OPTIONS:**

Expansion: To take adjacent space, if exercised in years 1-5 of term

<u>Year</u>	<u>Dates:</u>	<u>Annual PSF for less than 20% office finish</u>
1-3	01/20/2007-01/19/2010	\$3.75
2-5	01/20/2010-01/19/2012	\$3.85
6-10	03/20/2012 - 03/19/2017	\$4.05

  

<u>Year</u>	<u>Dates:</u>	<u>Annual PSF for over 20% office finish</u>
1-3	01/20/2007-01/19/2010	\$4.15
2-5	01/20/2010-01/19/2012	\$4.25
6-10	03/20/2012 - 03/19/2017	\$4.40

Expansion: To take adjacent space, if exercised in years 6-10 of term rate will be at market

Cancellation if Tenant has not exercised Expansion Option:

Tenant has right to cancel at 62nd month on 12 months notice.

Cancellation fee: \$105,290.45 plus unamortized tenant finish allowance of \$18,619.00

Cancellation if Tenant has exercised Expansion Option:

Tenant has right to cancel at 62nd month on 12 months notice.

Cancellation fee: \$86,761.45 plus unamortized tenant finish allowance of \$18,619.00

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE is made as of this day of g^WW'/- 2005, by and between TEXAS DUGAN LIMITED PARTNERSHIP, a Delaware limited partnership (hereinafter *referred* to as "Landlord") and' MANNATECH INCORPORATED (previously identified as Mannatech, Inc., as Tenant), a Texas corporation (hereinafter referred to as "Tenant").

WITNESSETH:

WHEREAS, MEPC Quorum Properties II Inc. and Tenant entered into that certain *Commercial Lease Agreement* dated May 29, 1997; as amended by that certain First Amendment to Lease Agreement dated November 6, 1997 (hereinafter collectively referred to as the "Lease") for the lease of approximately 74,476 square feet of space (hereinafter the "Leased Premises") in a building commonly known as Freeport HI (the "Building") located at 445 South Royal Lane, Suite 800, Coppell, Texas 75019, and within Freeport North Industrial Park (the "Park"), which space is more particularly described in the Lease; and

WHEREAS, Texas Dugan Limited Partnership succeeded to the interest of the landlord under the Lease and is the Landlord with respect to the Leased Premises; and

WHEREAS. Landlord and Tenant desire to enter into a second amendment to the Lease to extend the term of the Lease upon the terms and conditions set forth herein (the "Second Amendment to Lease").

NOW, THEREFORE, for and in consideration of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration paid by Landlord and Tenant to one another, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree to amend the Lease as follows:

1. Incorporation of Recitals. The above recitals are hereby incorporated into this Amendment as if fully set forth herein.

2. Premises/Lease Term. Effective as of January 20, 2007 (the "Effective Date") the term of the Lease is hereby extended through midnight on March 19, 2017 (the "Extension Term") with an option of early termination as set forth in Article 9 hereof.

3. Improvements To Be Constructed by Landlord. Section 2 of the Lease is deleted in its entirety and is replaced with the following:

"A. Landlord's Obligations. Tenant has personally inspected the Leased Premises and accepts the same "AS IS" without representation or warranty by Landlord of any kind and with the understanding that Landlord shall have no responsibility with respect thereto except to construct and install within the Leased Premises, in a good and workmanlike manner, hereinafter referred to as the "Tenant Improvements".

B. Construction Drawings, Cost Statement and Allowance.

(1) Promptly following the date hereof, Tenant will work with Landlord's space planner to develop a space plan for the Leased Premises that is reasonably acceptable to Landlord (the "Space Plan"). Tenant shall deliver the Space Plan to Landlord within ten (10) days after the date of this Lease. Within twenty (20) days after Landlord's receipt of the Space Plan, Landlord shall prepare and submit to Tenant (i) a set of construction drawings (the "CD's") covering all work to be performed by Landlord in constructing the Tenant Improvements in accordance with the Space Plan, and (ii) a statement of the cost to construct and install the Tenant Improvements (the "Cost Statement"). Tenant acknowledges and agrees that (A) the Cost Statement shall include design fees and a fee payable to the project's general contractor, and (B) such general contractor may be comprised of a subsidiary, affiliate or employees of Landlord. Tenant shall have five (5) days after receipt of the CD's and the Cost Statement in which to review both the CD's and the Cost Statement and to give Landlord written notice of Tenant's approval of the CD's or its requested changes thereto. Tenant shall have no right to request any changes to the CD's that would materially alter the exterior appearance or basic nature of the Building or the Building systems. If Tenant fails to approve or request changes to the CD's within ten (10) days after its receipt thereof, then Tenant shall be deemed to have approved the CD's and the Cost Statement and the same shall thereupon be final. If Tenant requests any changes to the CD's, Landlord shall make those changes which are reasonably requested by Tenant and shall within ten (10) days of its receipt of such request submit the revised portion of the CD's (and, to the extent applicable, the revised Cost Statement) to Tenant. Tenant shall have an additional five (5) business days to review the revised CD's (the "Revision Review Period") and shall not unreasonably disapprove the revised portions of the CD's unless Landlord has unreasonably failed to incorporate reasonable comments of Tenant and, subject to the foregoing, the CD's and the Cost Statement, as modified by said revisions, shall be deemed to be final upon the submission of said revisions to Tenant unless Tenant objects, in writing prior to the end of the Revision Review Period, Tenant shall at all times in its review of the CD's and the Cost Statement, and of any revisions thereto, act reasonably and in good faith. Without limiting the foregoing, Tenant agrees to confirm Tenant's consent to the CD's and acknowledge the Cost Statement in writing within three (3) days following Landlord's written request therefore.

(2) Tenant shall be responsible for the cost to construct and install the Tenant Improvements only to the extent that the Cost Statement, taking into account any increases or decreases resulting from any Change Orders (as hereinafter defined), exceeds Thirty Seven Thousand Two Hundred Thirty Eight and 00/100 Dollars (537,238.00) (the "Allowance"). If, following Tenant's approval (or deemed approval) of the CD's, the Cost Statement shows that the cost to construct and install the Tenant Improvements will exceed the Allowance, Tenant shall deliver to Landlord, within ten (10) days following Landlord's written request, an amount equal to one-half (1/2) of such excess. Following Substantial Completion (as hereinafter defined) of the Tenant Improvements and acceptance by Tenant, which shall not be unreasonably withheld. Tenant shall pay to Landlord the difference between the Cost Statement (taking into account any increases or decreases resulting from any Change Orders) and the Allowance within ten (10) days of Landlord's request therefor. Tenant's failure to deliver the payments required in this paragraph shall entitle Landlord to stop the construction and installation of the Tenant Improvements until such payment is received, and any resulting delay shall constitute a Tenant Delay (as hereinafter defined) hereunder. In addition, all delinquent payments shall accrue interest at 15% per annum. Upon Substantial Completion of the Tenant Improvements, a representative of Landlord and a representative of Tenant together shall inspect the Leased Premises and generate a punchlist of defective or uncompleted items relating to the completion of construction of the Tenant Improvements. Tenant may withhold one hundred fifty percent (150%) of the cost of the uncompleted items identified on the punchlist, without penalty or delinquency charge, pending satisfactory resolution of any outstanding items contained in the punchlist. If the Allowance exceeds the Cost Statement (taking into account any increases or decreases resulting from any Change Orders), such savings shall be the property of Landlord.

C. Completion. Landlord shall use commercially reasonable speed and diligence to complete the Tenant Improvements. On the Effective Date Tenant shall be deemed to have accepted the Leased Premises and that the condition of the Leased Premises and the Building was at the time satisfactory and in conformity with the provisions of this Lease in all respects, subject to any punchlist items. Tenant acknowledges that Landlord will be constructing the Tenant Improvements to the Leased Premises during normal business hours and agrees to cooperate with Landlord so as not to interfere with Landlord's completion of the Tenant Improvements. For purposes of this Amendment "Substantial Completion" (or any grammatical variation thereof) shall mean completion of construction of the Tenant Improvements, subject only to punchlist items to be identified by Landlord and Tenant in a joint inspection of the Leased Premises.

D. Change Orders. Tenant shall have the right to request changes to the CD's at any time following the date hereof by way of written change order (each, a "Change Order", and collectively, "Change Orders"). Provided such Change Order is reasonably acceptable to Landlord, Landlord shall prepare and submit promptly to Tenant a memorandum setting forth the impact on cost and schedule resulting from said Change Order (the "Change Order Memorandum of Agreement"). Tenant shall, within three (3) days following Tenant's receipt of the Change Order Memorandum of Agreement, either (a) execute and return the Change Order Memorandum of Agreement to Landlord, or (b) retract its request for the Change Order. At Landlord's option, Tenant shall pay to Landlord (or Landlord's designee), within ten (10) days following Landlord's request, any reasonable increase in the cost to construct the Tenant Improvements resulting from the Change Order, as set forth in the Change Order Memorandum of Agreement. Landlord shall not be obligated to commence any work set forth in a Change Order until such time as Tenant has delivered to Landlord the Change Order Memorandum of Agreement executed by Tenant and, if applicable, Tenant has paid Landlord in full for said Change Order."

4. Rent. Section 4 of the Lease is hereby amended as follows:

A. Base Monthly Rent. Section 4A of the Lease is hereby amended to provide that Tenant shall pay to Landlord the Base Monthly Rent, in advance, without deduction or offset, beginning on the Effective Date and on or before the first day of each and every calendar month thereafter during the Extension Term as set forth below:

01/20/2007-03/19/2007	\$0.00 per year	\$ 0.00 per month*
03/20/2007-03/19/2010	\$279,285.00 per year	\$23,273.75 per month
03/20/2010-03/19/2012	\$286,732.60 per year	\$23,894.38 per month
03/20/2012-03/19/2017	\$301,627.80 per year	\$25,135.65 per month

"Monthly Rental Installments shall be abated during Months ] through 2 of the Lease Term but Tenant shall be responsible for Tenant's Proportionate Share of Adjustments.

B. Additional Rent. The first sentence of Section 4(B) is deleted in its entirety and replaced with the following:

"Tenant agrees to reimburse Landlord for Tenant's Proportionate Share of (i) Real Property Taxes, (ii) Landlord's actual cost of obtaining and maintaining Landlord's Insurance, (iii) the actual cost of any maintenance performed by Landlord under Paragraph 12A(2) of the Lease or which, in Landlord's reasonable discretion, is for the benefit of the Project as a whole and not reasonably allocable to any specific tenant or tenants, and (iv) management fees (such management fees shall not exceed 3% of the total gross revenue of the Building) (collectively, the "Adjustments").

5. Indemnity. Section 6(F) of the Lease is hereby deleted and replaced with the following provision:

“Tenant hereby indemnifies and holds Landlord harmless from any claims, demands, actions, losses, and damages arising from activities of Tenant or any Tenant Party, or any of their invitees, in connection with any alterations, improvements or additions made or contracted by Tenant.

Landlord hereby indemnifies and holds Tenant harmless from any claims, demands, actions, losses and damages arising from work performed by its contractors and/or subcontractors, as the case may be, in connection with Section 2 of this Second Amendment to Lease, except to the extent that any work is performed at the request of the Tenant outside the scope of the Allowances.”

6. Notices. Section 32 of the Lease is hereby amended to reflect Landlord’s current addresses for notices and payments as follows:

Landlord:	Texas Dugan Limited Partnership c/o Duke Realty Corporation 5495 Belt Line Road, Suite 360 Dallas, Texas 75254 Attn: Senior Property Manager
With a copy to:	Duke Realty Corporation 3950 Shackleford Road, Suite 300 Duluth, Georgia 30096-8268 Attn: Legal Department - TX Market
With Payments to:	Texas Dugan Limited Partnership 75 Remittance Drive, Suite 1493 Chicago, IL 60675-1493
Tenant (following occupancy):	Mannatech Incorporated 445 South Royal Lane Suite 800 Coppell, Texas 75019 Attn: Jeff Bourgoyne, Senior Vice President
With a copy to:	Mannatech Incorporated 600 South Royal Lane Suite 400 Coppell, Texas 75019 Attn: General Counsel

7. Option to Renew. The Option to Renew as set forth in Section 34 of the Lease is hereby deleted in its entirety and is replaced with the following:

A. Grant and Exercise of Option. Provided that (i) no default has occurred and is then continuing; (ii) the credit worthiness of Tenant is then reasonably acceptable to Landlord using reasonably accepted business judgment and practices in determining such creditworthiness; and (iii) Tenant originally named herein remains in possession of and has been continuously operating in the entire Leased Premises throughout the term immediately preceding the Extension Term (as defined below); however, this requirement will be waived by Landlord if Landlord has approved a sublease of less than fifty percent (50%) of the Leased Premises as indicated in Paragraph 16 of the Lease, Tenant shall have the option to extend the Lease Term for two (2) additional periods of five (5) years each (the “Extension Term(s)”). Each Extension Term shall be upon the same terms and conditions contained in the Lease except (x) this provision giving two (2) extension options shall be amended to reflect the remaining options to extend, if any, and (y) any improvement allowances or other concessions applicable to the Leased Premises under the Lease shall not apply to the Extension Term, and (z) the Minimum Annual Rent shall be adjusted as set forth below (the “Rent Adjustment”). Tenant shall exercise each option by (i) delivering to Landlord, no later than six (6) months prior to the expiration of the preceding term, written notice of Tenant’s desire to extend the Lease Term, Tenant’s failure to timely exercise such option shall be deemed a waiver of such option and any succeeding option. Landlord shall notify Tenant of the amount of the Rent Adjustment no later than ninety (90) days prior to the commencement of the Extension Term. Tenant shall be deemed to have rejected the Rent Adjustment if it fails to deliver to Landlord a written objection thereto within ten (10) business days after receipt thereof. If Tenant properly exercises its option to extend. Landlord and Tenant shall execute an amendment to the Lease (or, at Landlord’s option, a new lease on the form then in use for the Building) reflecting the terms and conditions of the Extension Term within thirty (30) days after Tenant’s acceptance (or deemed acceptance) of the Rent Adjustment.

**B. Rent Adjustment.** The Minimum Annual Rent for the applicable Extension Term shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewal tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the vicinity; provided, however, that in no event shall the Minimum Annual Rent during any Extension Term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Monthly Rental Installments shall be an amount equal to one-twelfth (1/12) of the Minimum Annual Rent for the Extension Term and shall be paid at the same time and in the same manner as provided in the Lease.

**8. Right of First Refusal on Adjacent Space.** The Right of First Refusal as set forth in Section 35 of the Lease is deleted in its entirety and replaced with the following Right of First Offer:

“35. Right of First Offer.

A Provided that (i) no default has occurred and is then continuing, (ii) the creditworthiness of Tenant is then reasonably acceptable to Landlord, and (iii) Tenant originally named herein or its Permitted Transferee remains in possession of and has been continuously operating in the entire Leased Premises throughout the Lease Term, and subject to any rights of other tenants to the Offer Space (as defined herein) and Landlord’s right to renew or extend the lease term of any other tenant with respect to the portion of the Offer Space now or hereafter leased by such other tenant, Landlord shall, before entering into a lease with a third party for any space in the Building that becomes vacant (the “Offer Space”), notify Tenant in writing of the availability of the Offer Space for leasing and setting forth the terms and conditions upon which Landlord is willing to lease the Offer Space to Tenant (“Landlord’s Notice”). Tenant shall have five (5) business days from its receipt of Landlord’s Notice to deliver to Landlord a written notice agreeing to lease the Offer Space on the terms and conditions contained in Landlord’s Notice (“Tenant’s Acceptance”). In the event Tenant fails to deliver Tenant’s Acceptance to Landlord within said five (5)-business day period, such failure shall be conclusively deemed a rejection of the Offer Space and a waiver by Tenant of this right of first offer, whereupon, except as provided in (c) below, Tenant shall have no further rights with respect to the Offer Space and Landlord shall be free to lease the Offer Space to a third party.

B. The term for the Offer Space (the “Offer Space Term”) shall be coterminous with the term for the then existing Leased Premises (the “Existing Premises”); provided, however, that the minimum term for the Offer Space shall be five (5) years and the term for the Existing Premises shall be extended, if necessary, to be coterminous with the term for the Offer Space. If the Lease Term for the Existing Premises is extended as provided above, the Minimum Annual Rent for such extension term shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewing tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the vicinity; provided, however, that in no event shall the Minimum Annual Rent during such extension term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Minimum Annual Rent for the Offer Space shall be as set forth below:

(i) If Tenant exercises its right of first offer during years one (1) through five (5) of the Extended Term, the Minimum Annual Rent for the Offer Space shall be as follows:

(A) In the event the Offer Space contains less than twenty percent (20%) of office space, then during the Offer Space Term, the Minimum Annual Rent for the Offer Space shall be payable at the rates set forth below:

01/20/2007 - 01/19/2010	\$3.75, per rentable square foot of the Offer Space
01/20/2010-01/19/2012	\$3.85 per rentable square foot of the Offer Space
01/20/2012 - 01/19/2017	\$4.05 per rentable square foot of the Offer Space; or

(B) In the event the Offer Space contains twenty percent (20%) or more of office space, then the Minimum Annual Rent for the Offer Space shall be as follows:

01/20/2007 - 01/19/2010	\$4.15 per rentable square foot of the Offer Space
01/20/2010-01/19/2012	\$4.25 per rentable square foot of the Offer Space
01/20/2012 - 01/19/2017	\$4.40 per rentable square foot of the Offer Space

(ii) If Tenant exercises its right of first offer during years six (6) through ten (10) of the Extended Term, the Minimum Annual Rent for the Offer Space shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewing tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the Park; provided, however, that in no event shall the Minimum Annual Rent during this Extended Term be less than the highest Minimum Annual Rent payable during the immediately preceding term.

C. If Tenant properly exercises the right of first offer, Landlord and Tenant shall enter into an amendment to this Lease adding the Offer Space to the Premises upon the terms and conditions set forth herein and making such other modifications to this Lease as are appropriate under the circumstances. If Tenant shall fail to enter into such amendment within ten (10) days following Tenant's Acceptance, then Landlord may terminate this right of first offer by notifying Tenant in writing, in which event Tenant shall have no further rights with respect to the Offer Space and Landlord shall be free to lease the Offer Space to a third party. This right of first offer shall be an ongoing right of first offer, which shall mean that if Tenant waives its right of first offer pursuant to subsection (a) above and all of the Offer Space is subsequently leased to a third party ("New Tenant"), Landlord shall not lease the Offer Space to a third party (other than the New Tenant) without notifying Tenant of the availability of the Offer Space, in which case Tenant shall again have a right of first offer to lease the Offer Space in accordance with this Section 35."

9. Option to Terminate. Provided that (a) no default has occurred and is then continuing, and (b) Tenant originally named herein remains in possession of and has been continuously operating in the entire Premises throughout the Lease Term, however, this requirement will be waived by Landlord if Landlord has approved a sublease of less than fifty percent (50%) of the Leased Premises as indicated in Paragraph 16 of the Lease, then Tenant shall have the following termination rights:

(a) If Tenant has not exercised its Right of First Offer as set forth above. Tenant shall have a one time right to terminate the Lease effective as of the end of the sixty-second (62<sup>nd</sup>) month from the Effective Date. In order to exercise such termination right, Tenant shall notify Landlord of such exercise in writing at least twelve (12) months prior to the effective date of such termination, and together with such notice, Tenant shall deliver to Landlord, as an agreed upon termination fee, an amount equal to One Hundred Five Thousand Two Hundred Ninety and 45/100 Dollars (\$105,290.45). Such payment is made in consideration for Landlord's grant of this option to terminate to compensate Landlord for rental and other concessions given to Tenant and for other good and valuable consideration. The termination fee does not constitute payment of rent to Landlord. If Tenant fails to notify Landlord by the deadline set forth above, Tenant shall have waived Tenant's termination right for the remainder of the term of the Lease and any extensions thereof. In the event Tenant exercises the Right of First Offer as set forth above, this option to terminate shall thereafter be void and of no further force or effect; or

(b) If Tenant has exercised its right of first offer as set forth above prior to the end of the 50<sup>th</sup> month of the Extension Term, Tenant shall have the right to terminate this Lease effective as of the end of the fifth (5<sup>th</sup>) anniversary of the commencement date of the Offer Space on the terms and conditions set forth below. In order to exercise such termination right, Tenant shall notify Landlord of such exercise in writing at least twelve (12) months prior to the effective date of such termination, and together with such notice, Tenant shall deliver to Landlord, as an agreed upon termination fee, an amount equal to Eighty-Six Thousand Seven Hundred Sixty-One and 45/100 Dollars (\$86,761.45) plus the unamortized portion of any tenant finish improvements. Such payment is made in consideration for Landlord's grant of this option to terminate to compensate Landlord for rental and other concessions given to Tenant and for other good and valuable consideration. The termination fee does not constitute payment of rent to Landlord. If Tenant fails to notify Landlord by the deadline set forth above, Tenant shall have waived Tenant's termination right for the remainder of the term of the Lease and any extensions thereof.

10. Brokers. Section 36L of the Lease is deleted in its entirety and is replaced with the following:

Except for Gallini & Lester Corporate Realty Services, whose commission shall be paid by Landlord, Landlord and Tenant each represent and warrant to the other that neither party has engaged or had any conversations or negotiations with any broker, finder or other third party concerning the matters set forth in this Amendment who would be entitled to any commission or fee based on the execution of this Amendment. Landlord and Tenant each hereby indemnifies the other against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, for any breach of the foregoing. The foregoing indemnification shall survive the termination of the Lease for any reason.

11. Except as expressly modified by this Second Amendment to Lease, all provisions, terms and conditions of the Lease shall remain in full force and effect.

12. This Second Amendment to Lease is ratified and confirmed by the parties as being in full force and effect. To the extent of any conflict between the terms of the Lease and this Second Amendment to Lease, this Second Amendment shall govern. All terms herein shall have the same meaning as set forth in the Lease unless otherwise noted herein.

13. This Second Amendment to Lease shall not be of any legal effect or consequence unless signed by Landlord and Tenant, and once signed by Landlord and Tenant it shall be binding upon and inure to the benefit of Landlord, Tenant, and their respective legal representatives, successors and assigns. This Second Amendment to Lease may be executed in counterparts, including facsimile counterparts, with the same force and effectiveness as if it were executed in one complete document.

14. This Second Amendment to Lease has been executed and shall be construed under the laws of the State of Texas.

**[Execution signatures contained on the following page]**

IN WITNESS WHEREOF, the undersigned have caused this Second Amendment To Lease to be executed under seal and delivered as of the day and year first above written.

**LANDLORD:**

TEXAS DUGAN LIMITED PARTNERSHIP,  
a Delaware limited partnership

By: DUGAN GENERAL PARTNER LLC,  
a Delaware limited liability company, its general partner

By: DUGAN TEXAS LLC,  
a Delaware limited liability company, its sole  
member

By: DUKE REALTY LIMITED PARTNERSHIP,  
an Indiana limited partnership, its Manager

By: DUKE REALTY CORPORATION,  
an Indiana corporation, its General Partner

TENANT:

MANNATECH, INC.,  
a Texas corporation

By: \_\_\_\_\_ /s/ **TERRY L. PERSINGER**

Name: **Terry L. Persinger**

Title: **President**

ATTEST:

By: \_\_\_\_\_ /s/ **BETTINA SIMON**

Name: **Bettina Simon**

Title: **Sr. VP & General Counsel**

[Corporate Seal]

END OF EXECUTION SIGNATURES

LEASE ABSTRACT

**LEASE AMENDMENT:** Third Amendment  
**ABSTRACT PREPARED BY:** Gallini and Lester  
**LANDLORD:** TEXAS DUGAN LIMITED PARTNERSHIP  
**PROPERTY NAME:** Freeport II  
**TENANT NAME:** MANNATECH INCORPORATED  
**TENANT CONTACT:** Rick Leonard  
**TENANT PHONE:** 972-471-1561  
**ADDRESS:** 600 South Royal Lane, Suite 200, Coppell, Texas 75019  
**TENANT SQ.FT. LEASE:** 110,157  
**EXECUTION DATE:**  
**TYPE OF LEASE:** RENEWAL

**LEASE TERM IN MONTHS:** 122  
**COMMENCEMENT:** 20-Jan-07  
**EXPIRATION:** 19-Mar-17  
**RENEWAL OPTIONS:** 2 five year options at market rate

**RENT:**

Year	Dates:	Amount per month	Amount per year	Annual PSF
0	01/20/2007 - 03/19/2007	\$0.00 per month		
1-3	03/20/2007-03/19/2010	\$38,095.96 per month	\$457,151.52	\$4.15
2-5	03/20/2010-03/19/2012	\$39,013.94 per month	\$468,167.28	\$4.25
6-10	03/20/2012-03/19/2017	\$40,390.90 per month	\$484,690.80	\$4.40

**SECURITY DEPOSIT:**

none

**EXPENSES:**

Tenant pays all expenses

**TENANT IMPROVEMENT ALLOWANCE**

\$55,078.50

**OPTIONS:**

**Expansion:** To take adjacent space, if exercised in years 1-5 of term

Year	Dates:	Annual PSF for less than 20% office finish
1-3	01/20/2007-01/19/2010	\$3.75
2-5	01/20/2010-01/19/2012	\$3.85
6-10	03/20/2012-03/19/2017	\$4.05

Year	Dates:	Annual PSF for over 20% office finish
1-3	01/20/2007-01/19/2010	\$14.15
2-5	01/20/2010-01/19/2012	\$4.25
6-10	03/20/2012 - 03/19/2017	\$4.40

**Expansion:** To take adjacent space, if exercised in years 6-10 of term rate will be at market

**Cancellation if Tenant has not exercised Expansion Option:**

Tenant has right to cancel at 62nd month on 12 months notice.

**Cancellation fee:** \$166,750.00 plus unamortized tenant finish allowance of \$27,539.25

**Cancellation if Tenant has exercised Expansion Option:**

Tenant has right to cancel at 62nd month on 12 months notice.

**Cancellation fee:** \$139,210.91 plus unamortized tenant finish allowance of \$27,539.25



THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE is made as of this 22<sup>nd</sup> day of September of 2005, by and between TEXAS DUGAN LIMITED PARTNERSHIP, a Delaware limited partnership (hereinafter referred to as "Landlord") and MANNATECH INCORPORATED (previously identified as Mannatech, Inc., as Tenant), a Texas corporation (hereinafter referred to as "Tenant").

WITNESSETH:

WHEREAS, MEPC Quorum Properties II Inc. and Tenant entered into that certain Commercial Lease Agreement dated November 7, 1997; as amended by that certain First Amendment to Lease Agreement dated May 29, 1997; and as further amended by that certain Second Amendment to Lease Agreement dated November 3, 1997 (hereinafter collectively referred to as the "Lease") for the lease of approximately 110,157 square feet of space (hereinafter the "Leased Premises") in a building commonly known as Freeport II (the "Building") located at 600 South Royal Lane, Suite 200, Coppell, Texas 75019, and within Freeport North Industrial Park (the "Park"), which space is more particularly described in the Lease; and

WHEREAS, Texas Dugan Limited Partnership succeeded to the interest of the landlord under the Lease and is the Landlord with respect to the Leased Premises; and

WHEREAS, Landlord and Tenant desire to enter into a third amendment to the Lease (the "Third Amendment to Lease") to extend the term of the Lease upon the terms and conditions set forth herein;

NOW, THEREFORE, for and in consideration of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration paid by Landlord and Tenant to one another, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree to amend the Lease as follows:

1. Incorporation of Recitals. The above recitals are hereby incorporated into this Amendment as if fully set forth herein.

2. Premises/Lease Term. Effective as of January 20, 2007 (the "Effective Date") the term of the Lease is hereby extended through midnight on March 19, 2017 (the "Extension Term") with an option for early termination as set forth in Article 9 hereof.

3. Conditions of the Premises. Section 2 of the Lease is deleted in its entirety and is replaced with the following:

A. Landlord's Obligations. Tenant has personally inspected the Leased Premises and accepts the same "AS IS" without representation or warranty by Landlord of any kind and with the understanding that Landlord shall have no responsibility with respect thereto except to construct and install within the Leased Premises, in a good and workmanlike manner, hereinafter referred to as the "Tenant Improvements".

B. Construction Drawings, Cost Statement and Allowance.

(1) Promptly following the date hereof, Tenant will work with Landlord's space planner to develop a space plan for the Leased Premises that is reasonably acceptable to Landlord (the "Space Plan"). Tenant shall deliver the Space Plan to Landlord within ten (10) days after the date of this Lease. Within twenty (20) days after Landlord's receipt of the Space Plan, Landlord shall prepare and submit to Tenant (i) a set of construction drawings (the "CD's") covering all work to be performed by Landlord in constructing the Tenant Improvements in accordance with the Space Plan, and (ii) a statement of the cost to construct and install the Tenant Improvements (the "Cost Statement"). Tenant acknowledges and agrees that (A) the Cost Statement shall include design fees and a fee payable to the project's general contractor, and (B) such general contractor may be comprised of a subsidiary, affiliate or employees of Landlord. Tenant shall have five (5) days after receipt of the CD's and the Cost Statement in which to review both the CD's and the Cost Statement and to give Landlord written notice of Tenant's approval of the CD's or its requested changes thereto. Tenant shall have no right to request any changes to the CD's that would materially alter the exterior appearance or basic nature of the Building or the Building systems. If Tenant fails to approve or request changes to the CD's within ten (10) days after its receipt thereof, then Tenant shall be deemed to have approved the CD's and the Cost Statement and the same shall thereupon be final. If Tenant requests any changes to the CD's, Landlord shall make those changes which are reasonably requested by Tenant and shall within ten (10) days of its receipt of such request submit the revised portion of the CD's (and, to the extent applicable, the revised Cost Statement) to Tenant. Tenant shall have an additional five (5) business days to review the revised CD's (the "Revision Review Period") and shall not unreasonably disapprove the revised portions of the CD's unless Landlord has unreasonably failed to incorporate reasonable comments of Tenant and, subject to the foregoing, the CD's and the Cost Statement, as modified by said revisions, shall be deemed to be final upon the submission of said revisions to Tenant unless Tenant objects, in writing prior to the end of the Revision Review Period, Tenant shall at all times in its review of the CD's and the Cost Statement, and of any revisions thereto, act reasonably and in good faith. Without limiting the foregoing, Tenant agrees to confirm Tenant's consent to the CD's and acknowledge the Cost Statement in writing within three (3) days following Landlord's written request therefore.

(2) Tenant shall be responsible for the cost to construct and install the Tenant Improvements only to the extent that the Cost Statement, taking into account any increases or decreases resulting from any Change Orders (as hereinafter defined), exceeds Fifty Five Thousand Seventy-Eight and 50/100 Dollars (\$55,078.50) (the "Allowance"). If, following Tenant's approval (or deemed approval) of the CD's, the Cost Statement shows that the cost to construct and install the Tenant Improvements will exceed the Allowance, Tenant shall deliver to Landlord, within ten (10) days following Landlord's written request, an amount equal to one-half (1/2) of such excess. Following Substantial Completion (as hereinafter defined) of the Tenant Improvements and acceptance by Tenant, which shall not be unreasonably withheld. Tenant shall pay to Landlord the difference between the Cost Statement (taking into account any increases or decreases resulting from any Change Orders) and the Allowance within ten (10) days of Landlord's request therefore. Tenant's failure to deliver the payments required in this paragraph shall entitle Landlord to stop the construction and installation of the Tenant Improvements until such payment is received, and any resulting delay shall constitute a Tenant Delay (as hereinafter defined) hereunder. In addition, all delinquent payments shall accrue interest at 15% per annum. Upon Substantial Completion of the Tenant Improvements, a representative of Landlord and a representative of Tenant together shall inspect the Leased Premises and generate a punchlist of defective or uncompleted items relating to the completion of construction of the Tenant Improvements. Tenant may withhold one hundred fifty percent (150%) of the cost of the uncompleted items identified on the punchlist, without penalty or delinquency charge, pending satisfactory resolution of any outstanding items contained in the punchlist. If the Allowance exceeds the Cost Statement (taking into account any increases or decreases resulting from any Change Orders), such savings shall be the property of Landlord.

C. Completion. Landlord shall use commercially reasonable speed and diligence to complete the Tenant Improvements. On the Effective Date Tenant shall be deemed to have accepted the Leased Premises and that the condition of the Leased Premises and the Building was at the time satisfactory and in conformity with the provisions of this Lease in all respects, subject to any punchlist items. Tenant acknowledges that Landlord will be constructing the Tenant Improvements to the Leased Premises during normal business hours and agrees to cooperate with Landlord so as not to interfere with Landlord's completion of the Tenant Improvements. For purposes of this Amendment "Substantial Completion" (or any grammatical variation thereof) shall mean completion of construction of the Tenant Improvements, subject only to punchlist items to be identified by landlord and Tenant in a joint inspection of the Leased Premises.

D. Change Orders. Tenant shall have the right to request changes to the CD's at any time following the date hereof by way of written change order (each, a "Change Order", and collectively, "Change Orders"). Provided such Change Order is reasonably acceptable to Landlord, Landlord shall prepare and submit promptly to Tenant a memorandum setting forth the impact on cost and schedule resulting from said Change Order (the "Change Order Memorandum of Agreement"). Tenant shall, within three (3) days following Tenant's receipt of the Change Order Memorandum of Agreement, either (a) execute and return the Change Order Memorandum of Agreement to Landlord, or (b) retract its request for the Change Order. At Landlord's option, Tenant shall pay to Landlord (or Landlord's designee), within ten (10) days following Landlord's request, any increase in the cost to construct the Tenant Improvements resulting from the Change Order, as set forth in the Change Order Memorandum of Agreement. Landlord shall not be obligated to commence any work set forth in a Change Order until such time as Tenant has delivered to Landlord the Change Order Memorandum of Agreement executed by Tenant and, if applicable, Tenant has paid Landlord in full for said Change Order.

4. Rent. Section 3 of the Lease is hereby amended as follows:

A. Base Monthly Rent. Article 3 A of the Lease is hereby amended to provide that Tenant shall pay to Landlord the Base Monthly Rent, in advance, without deduction or offset, beginning on the Effective Date and on or before the first day of each and every calendar month thereafter during the Extension Term as set forth below:

01/20/2007-03/19/2007	\$0.00 per year	\$ 0.00 per month*
03/20/2007 - 03/19/2010	\$457,151.55 per year	\$38,095.96 per month
03/20/2010 - 03/19/2012	\$468,167.25 per year	\$39,033.94 per month
03/20/2012-03/19/2017	\$484,690.80 per year	\$40,390.90 per month

“Monthly Rental Installments shall be abated during Months 1 through 2 of the Lease Term, but Tenant shall be responsible for Tenant's Proportionate Share of Adjustments.

B. Additional Rent. The first sentence of Section 4B is deleted in its entirety and replaced with the following:

“Tenant agrees to reimburse Landlord for Tenant's Proportionate Share (hereinafter defined) of (i) Real Property Taxes (hereinafter defined), (ii) Landlord's actual cost of obtaining and maintaining Landlord's Insurance (hereinafter defined), (iii) the actual cost of any maintenance performed by Landlord under Paragraph 12A(2) below or which, in Landlord's reasonable discretion, is for the benefit of the Project as a whole and not reasonably allocable to any specific tenant or tenants, and (iv) management fees (such management fees shall not exceed 3% of the total gross revenue of the Building) (collectively, the "Adjustments").”

5. Indemnity. Section 6(F) of the Lease is hereby deleted and replaced with the following provision:

“Tenant hereby indemnifies and holds Landlord harmless from any claims, demands, actions, losses, and damages arising from activities of Tenant or any Tenant Party, or any of their invitees, in connection with any alterations, improvements or additions made or contracted by Tenant.

Landlord hereby indemnifies and holds Tenant harmless from any claims, demands, actions, losses and damages arising from work performed by its contractors and/or subcontractors, as the case may be, in connection with Section 2 of this Third Amendment to Lease, except to the extent that any work is performed at the request of the Tenant outside the scope of the Allowances.”

6. Notices. Section 31 of the Lease is hereby amended to reflect Landlord’s current addresses for notices and payments as follows:

Landlord:	Texas Dugan Limited Partnership c/o Duke Realty Corporation 5495 Belt Line Road, Suite 360 Dallas, Texas 75254 Attn: Senior Property Manager
With a copy to:	Duke Realty Corporation 3950 Shackleford Road, Suite 300 Duluth, Georgia 30096-8268 Attn: Legal Department - TX Market
With Payments to:	Texas Dugan Limited Partnership 75 Remittance Drive, Suite 1493 Chicago, IL 60675-1493
Tenant (following occupancy):	Mannatech Incorporated 600 South Royal Lane Suite 400 Coppell, Texas 75019 Attn: Jeff Bourgoyne, Sr. Vice President
With a copy to:	Mannatech Incorporated 600 South Royal Lane Suite 400 Coppell, Texas 75019 Attn: General Counsel

7. Option to Renew. The Option to Renew as set forth in Section 33 of the Lease is hereby deleted in its entirety and is replaced with the following:

(a) Grant and Exercise of Option. Provided that (i) no default has occurred and is then continuing; (ii) the creditworthiness of Tenant is then reasonably acceptable to Landlord using reasonably accepted business judgment and practices in determining such credit-worthiness; and (iii) Tenant originally named herein remains in possession of and has been continuously operating in the entire Leased Premises throughout the term immediately preceding the Extension Term (as defined below); however, this requirement will be waived by Landlord if Landlord has approved a sublease of less than fifty percent (50%) of the Leased Premises as indicated in Paragraph 16 of the Lease, Tenant shall have the option to extend the Lease Term for two (2) additional periods of five (5) years each (the “Extension Term(s)”). Each Extension Term shall be upon the same terms and conditions contained in the Lease except (x) this provision giving two (2) extension options shall be amended to reflect the remaining options to extend, if any, and (y) any improvement allowances or other concessions applicable to the Leased Premises under the Lease shall not apply to the Extension Term, and (z) the Minimum Annual Rent shall be adjusted as set forth below (the “Rent Adjustment”). Tenant shall exercise each option by (i) delivering to Landlord, no later than six (6) months prior to the expiration of the preceding term, written notice of Tenant’s desire to extend the Lease Term. Tenant’s failure to timely exercise such option shall be deemed a waiver of such option and any succeeding option. Landlord shall notify Tenant of the amount of the Rent Adjustment no later than ninety (90) days prior to the commencement of the Extension Term. Tenant shall be deemed to have rejected the Rent Adjustment if it fails to deliver to Landlord a written objection thereto within ten (10) business days after receipt thereof. If Tenant properly exercises its option to extend, Landlord and Tenant shall execute an amendment to the Lease (or, at Landlord’s option, a new lease on title form then in use for the Building) reflecting the terms and conditions of the Extension Term within thirty (30) days after Tenant’s acceptance (or deemed acceptance) of the Rent Adjustment.

(b) Rent Adjustment. The Minimum Annual Rent for the applicable Extension Term shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewal tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the vicinity; provided, however, that in no event shall the Minimum Annual Rent during any Extension Term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Monthly Rental Installments shall be an amount equal to one-twelfth (1/12) of the Minimum Annual Rent for the Extension Term and shall be paid at the same time and in the same manner as provided in the Lease.

8. Incorporation of Section 35. Right of First Offer. The Lease is hereby amended by incorporating the following as Section 35 of the Lease:

“35. Right of First Offer.

(a) Provided that (i) no default has occurred and is then continuing, (ii) the creditworthiness of Tenant is then reasonably acceptable to Landlord, and (iii) Tenant originally named herein or its Permitted Transferee remains in possession of and has been continuously operating in the entire Leased Premises throughout the Lease Term, and subject to any rights of other tenants to the Offer Space (as defined herein) and Landlord’s right to renew or extend the lease term of any other tenant with respect to the portion of the Offer Space now or hereafter leased by such other tenant, Landlord shall, before entering into a lease with a third party for any space in the Building that becomes vacant (the “Offer Space”), notify Tenant in writing of the availability of the Offer Space for leasing and setting forth the terms and conditions upon which Landlord is willing to lease the Offer Space to Tenant (“Landlord’s Notice”). Tenant shall have five (5) business days from its receipt of Landlord’s Notice to deliver to Landlord a written notice agreeing to lease the Offer Space on the terms and conditions contained in Landlord’s Notice (“Tenant’s Acceptance”). In the event Tenant fails to deliver Tenant’s Acceptance to Landlord within said five (5)-business day period, such failure shall be conclusively deemed a rejection of the Offer Space and a waiver by Tenant of this right of first offer, whereupon, except as provided in (c) below, Tenant shall have no further rights with respect to the Offer Space and Landlord shall be free to lease the Offer Space to a third party.

(b) The term for the Offer Space (the “Offer Space Term”) shall be coterminous with the term for the then existing Leased Premises (the “Existing Premises”); provided, however, that the minimum term for the Offer Space shall be five (5) years and the term for the Existing Premises shall be extended, if necessary, to be coterminous with the term for the Offer Space. If the Lease Term for the Existing Premises is extended as provided above, the Minimum Annual Rent for such extension term shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewing tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the vicinity; provided, however, that in no event shall the Minimum Annual Rent during such extension term be less than the highest Minimum Annual Rent payable during the immediately preceding term. The Minimum Annual Rent for the Offer Space shall be as set forth below:

(i) If Tenant exercises its right of first offer during years one (1) through five (5) of the Extended Term, the Minimum Annual Rent for the Offer Space shall be as follows:

(A) In the event the Offer Space contains less than twenty percent (20%) of office space, then during the Offer Space Term, the Minimum Annual Rent for the Offer Space shall be payable at the rates set forth below:

01/20/2007-01/19/2010	\$3.75 per rentable square foot of the Offer Space
01/20/2010-01/19/2012	\$3.85 per rentable square foot of the Offer Space
01/20/2012-01/19/2017	\$4.05 per rentable square foot of the Offer Space; or

(B) In the event the Offer Space contains twenty percent (20%) or more of office space, then the Minimum Annual Rent for the Offer Space shall be as follows:

01/20/2007 - 01/19/2010	\$4.15 per rentable square foot of the Offer Space
01 /20/2010-01/19/2012	\$4.25 per rentable square foot of the Offer Space
01/20/2012-01/19/2017	\$4.40 per rentable square foot of the Offer Space

(ii) If Tenant exercises its right of first offer during years six (6) through ten (10) of the Extended Term, the Minimum Annual Rent for the Offer Space shall be an amount equal to the Minimum Annual Rent then being quoted by Landlord to prospective renewing tenants of the Building for space of comparable size and quality and with similar or equivalent improvements as are found in the Building, and if none, then in similar buildings in the Park; provided, however, that in no event shall the Minimum Annual Rent during this Extended Term be less than the highest Minimum Annual Rent payable during the immediately preceding term.

(c) If Tenant properly exercises the right of first offer, Landlord and Tenant shall enter into an amendment to this Lease adding the Offer Space to the Leased Premises upon the terms and conditions set forth herein and making such other modifications to this Lease as are appropriate under the circumstances. If Tenant shall fail to enter into such amendment within ten (10) days following Tenant’s Acceptance, then Landlord may terminate this right of first offer by notifying Tenant in writing, in which event Tenant shall have no further rights with respect to the Offer Space and Landlord shall be free to lease the Offer Space to a third party. This right of first offer shall be an ongoing right of first offer, which shall mean that if Tenant waives its right of first offer pursuant to subsection (a) above and all of the Offer Space is subsequently leased to a third party (“New Tenant”), Landlord shall not lease the Offer Space to a third party (other than the New Tenant) without notifying Tenant of the availability of the Offer Space, in which case Tenant shall again have a right of first offer to lease the Offer Space in accordance with this Section 35.”

9. Option to Terminate. Provided that (a) no default has occurred and is then continuing, and (b) Tenant originally named herein remains in possession of and has been continuously operating in the entire Leased Premises throughout the Lease Term, however, this requirement will be waived by Landlord if Landlord has approved a sublease of less than fifty percent (50%) of the Leased Premises as indicated in Paragraph 16 of the Lease, then Tenant shall have the following termination rights:

(a) If Tenant has not exercised its Right of First Offer as set forth above, Tenant shall have a onetime right to terminate the Lease effective as of the end of the sixty-second (62<sup>nd</sup>) month from the Commencement Date. In order to exercise such termination right, Tenant shall notify Landlord of such exercise in writing at least twelve (12) months prior to the effective date of such termination, and together with such notice, Tenant shall deliver to Landlord, as an agreed upon termination fee, an amount equal to One Hundred-Sixty-Six Thousand Seven Hundred Fifty and 00/100 Dollars (\$166,750.00). Such payment is made in consideration for Landlord's grant of this option to terminate to compensate Landlord for rental and other concessions given to Tenant and for other good and valuable consideration. The termination fee does not constitute payment of rent to Landlord. If Tenant fails to notify Landlord by the deadline set forth above, Tenant shall have waived Tenant's termination right for the remainder of the term of the Lease and any extensions thereof. In the event Tenant exercises the Right of First Offer as set forth above, this option to terminate shall thereafter be void and of no further force or effect; or

(b) If Tenant has exercised its right of first offer as set forth above prior to the end of the 50<sup>th</sup> month of the Extension Term, Tenant shall have the right to terminate this Lease effective as of the end of the fifth (5<sup>th</sup>) anniversary of the commencement date of the Offer Space on the terms and conditions set forth below. In order to exercise such termination right, Tenant shall notify Landlord of such exercise in writing at least twelve (12) months prior to the effective date of such termination, and together with such notice, Tenant shall deliver to Landlord, as an agreed upon termination fee, an amount equal to One Hundred Thirty-Nine Thousand Two Hundred Ten and 91/100 Dollars (\$139,210.91) plus the unamortized portion of any tenant finish improvements. Such payment is made in consideration for Landlord's grant of this option to terminate to compensate Landlord for rental and other concessions given to Tenant and for other good and valuable consideration. The termination fee does not constitute payment of rent to Landlord. If Tenant fails to notify Landlord by the deadline set forth above, Tenant shall have waived Tenant's termination right for the remainder of the term of the Lease and any extensions thereof.

10. Brokers. Section 34K of the Lease is deleted in its entirety and is replaced with the following:

Except for Gallini & Lester Corporate Realty Services, whose commission shall be paid by Landlord, Landlord and Tenant each represent and warrant to the other that neither party has engaged or had any conversations or negotiations with any broker, finder or other third party concerning the matters set forth in this Amendment who would be entitled to any commission or fee based on the execution of this Amendment. Landlord and Tenant each hereby indemnifies the other against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, for any breach of the foregoing. The foregoing indemnification shall survive the termination of the Lease for any reason.

11. Except as expressly modified by this Third Amendment, all provisions, terms and conditions of the Lease shall remain in full force and effect.

12. This Third Amendment to Lease is ratified and confirmed by the parties as being in full force and effect. To the extent of any conflict between the terms of the Lease and this Third Amendment to Lease, this Third Amendment shall govern. All terms herein shall have the same meaning as set forth in the Lease unless otherwise noted herein.

13. This Third Amendment to Lease shall not be of any legal effect or consequence unless signed by Landlord and Tenant, and once signed by Landlord and Tenant it shall be binding upon and inure to the benefit of Landlord, Tenant, and their respective legal representatives, successors and assigns. This Third Amendment to Lease may be executed in counterparts, including facsimile counterparts, with the same force and effectiveness as if it were executed in one complete document.

14. This Third Amendment to Lease has been executed and shall be construed under the laws of the State of Texas."

[Execution signatures contained on the following page]

IN WITNESS WHEREOF, the undersigned have caused this First Amendment to be executed under seal and delivered as of the day and year first above written.

LANDLORD:

TEXAS DUGAN LIMITED PARTNERSHIP,  
a Delaware limited partnership

By: DUGAN GENERAL PARTNER LLC,  
a Delaware limited liability company,  
its general partner

By: DUGAN TEXAS LLC,  
a Delaware limited liability company,  
its sole member

By: DUKE REALTY LIMITED PARTNERSHIP,  
an Indiana limited partnership,  
its Manager

By: DUKE REALTY CORPORATION,  
an Indiana corporation,  
its General Partner

TENANT:

MANNATECH INCORPORATED.,  
a Texas corporation

By:                   /s/ **TERRY L. PERSINGER**  
Name: **Terry L. Persinger**  
Title: **President**

By:                   /s/ **BETTINA SIMON**  
Name: **Bettina Simon**  
Title: **Senior VP & General Counsel**

[Corporate Seal]

END OF EXECUTION SIGNATURES

**EMPLOYMENT AGREEMENT**

This Employment Agreement (this "Agreement") is entered into by and between Mannatech Incorporated (the "Company") and Rob Sinnott, Ph.D. (the "Employee"), and has an effective date of August 31, 2005 ("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 Company and the Employee (collectively, 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 other terms and conditions contained in this Agreement.

1.2 **Office and Duties.** The Employee shall serve as Chief Science Officer and Vice President of Research & Development of the Company, with the authority, duties and responsibilities described herein and those customarily incident to such office. The Employee shall report directly to the Chief Executive Officer of the Company (the "CEO") and shall perform such other services, duties and responsibilities commensurate with his position as may from time to time be assigned to him by the CEO or the Board of Directors of the Company (the "Board").

1.3 **Performance.** During his 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 may, however, engage in civic, charitable, and professional or trade activities so long as those activities do not interfere with the performance of his duties hereunder. 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 Coppel, Texas, and at such other place or places as the Employee's duties and responsibilities may require. 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.** To the extent that the Company maintains one or more policies of directors' and officers' liability insurance during the Employee's employment under this Agreement (the "D&O Policies"), then the Company will provide the Employee coverage under the D&O Policies for 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.** Without limiting Section 1.3 hereof, the Employee will not, without the prior written consent of the Board:

a. Serve as a spokesman, representative, employee, consultant, agent, officer, or member of any board of directors (or any similar governing body) for any for-profit business other than the Company;

b. Serve as a spokesman, representative, employee, owner, consultant, agent, officer, or member of any board of directors (or any similar governing body) for any business which is a supplier to the Company or which competes with the Company, in each case whether directly or indirectly;

c. Own any equity or economic interest in any company that competes directly or indirectly with the Company, except that this does not preclude ownership of less than 5% of the outstanding equity securities of any public reporting company; or

d. Promote or endorse at Company business functions any other organization(s) with which he may be associated or affiliated.

**SECTION 2.**  
**EMPLOYMENT TERM**

2.1 **Term.** The term of the Employee's employment under this Agreement commences on the Effective Date and shall continue through August 31, 2007, unless terminated earlier by either Party by its or his giving at least 30 days' prior written notice of termination, for any or no reason, to the other Party ("**Notice of Early Termination**") or unless terminated earlier in accordance with Section 8 hereof. If a Notice of Early Termination is given in accordance with the preceding sentence, then (a) the term of employment under this Agreement will continue until the expiration of the notice period specified in the Notice of Early Termination (but, in no event, later than August 31, 2007), and (b) the Company may instruct the Employee not to come into the Company's offices or to attend any of the Company's business functions through the last date of employment, and the Employee's following such instruction will not constitute Cause for termination or otherwise impair the Employee's rights hereunder. This Agreement supersedes the Consulting Agreement executed by the Parties on May 15, 2005, which is terminated and of no further force or effect.

**SECTION 3.**  
**COMPENSATION FOR EMPLOYMENT**

3.1 **Base Salary.** The base salary of the Employee for all of his services, duties and responsibilities to the Company and all of his agreements and covenants with or to the Company under this Agreement shall be at the annual rate of \$260,000, which the Company shall pay to the Employee in accordance with the normal payroll policies of the Company. The base salary may be increased at the sole discretion of the Board or the Compensation Committee of the Board (the "**Compensation Committee**"), and the Employee's performance and salary shall be reviewed by the Compensation Committee in January 2006 and annually thereafter.

3.2 **Annual Bonus.** During his employment under this Agreement, the Employee is also eligible to participate in the Company's annual executive bonus program (the "**Bonus Program**"). The opportunity to earn a bonus and the amount of any bonus compensation under the Bonus Program will be determined in accordance with criteria established by the Board or the Compensation Committee. The Employee acknowledges that any bonus compensation under the Bonus Program will be discretionary, with the sole discretion resting with the Board or the Compensation Committee. Further, unless otherwise determined by the Compensation Committee, the Employee must remain employed by the Company at the time the bonus is paid in order to be eligible to receive the bonus.

3.3 **Award of Options.** On the Effective Date, the Employee shall be awarded stock options under the Company's 1998 Stock Option Plan (the "**Plan**") for 25,000 shares of the Company's common stock, at an exercise price per share equal to the fair market value per share as of the Effective Date. Each award of a stock option under the Plan will have the terms set forth in, and be in substantially the form of, the standard form of stock option agreement approved for use under the Plan. During his employment under this Agreement, the Employee will also be eligible to receive other awards under the Plan, with any such award, however, being subject to the discretion of the Compensation Committee.



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

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

3.6 **Executive Vehicle Program.** During his employment under this Agreement, the Employee will also be eligible to participate in the Company's executive vehicle program, subject to all of its terms, regarding a vehicle with a lease cost to the Company no greater than \$1,000 per month, with auto liability insurance coverage (comprehensive, collision and liability) for the leased vehicle paid by the Company and all routine and necessary repairs to the leased vehicle paid for by the Company or reimbursed to the Employee, subject to approval by the Chief Financial Officer of the Company.

3.7 **Vacation.** During his employment under this Agreement, the Employee shall be entitled to 20 days of paid vacation annually, in accordance with the regular policies of the Company.

3.8 **Tax Withholding.** The Company may deduct from any compensation or other amount payable to the Employee under this Agreement social security (FICA) taxes and all federal, state, municipal, or other such taxes or governmental charges as may now be in effect or that may hereafter be enacted or required.

#### **SECTION 4.** **CONFIDENTIAL INFORMATION**

##### **4.1 Provision of Confidential Information and Specialized Training.**

a. **Confidential Information.** Irrespective of the term of employment, and in consideration of the Employee's promises in Section 4.3 of this Agreement, the Company promises to immediately provide the Employee with access to Confidential Information, including (but not limited to) the new Confidential Information that the Company is separately and concurrently providing to the Employee. The Parties stipulate and agree that Employee has never before seen or had access to the new Confidential Information referenced herein.

b. **Specialized Training.** Irrespective of the term of employment, and in consideration of the Employee's promises in Section 4.3 of this Agreement, the Company agrees to provide specialized training and instruction to the Employee for the job duties assigned to the Employee, and 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.

4.2 **Definition of "Confidential Information."** "Confidential Information" means material, data, ideas, inventions, formulae, patterns, compilations, programs, devices, methods, techniques, processes, know how, plans (marketing, business, strategic, technical or otherwise), arrangements, pricing and other and/or information of or relating to any Company Party (as well as their customers and/or vendors) that is confidential, proprietary, and/or a trade secret (a) by its nature, (b) based on how it is treated or designated by a Company Party, (c) such that its appropriation, use or disclosure would have a material adverse effect on the business or planned business of any of the Company Parties, and/or (d) as a matter of law. All Confidential Information is the property of the Company Parties, the appropriation, use and/or disclosure of which is governed and restricted by this Agreement.

a. **Exclusions.** “**Confidential Information**” does not include material, data, and/or information that (i) any of the Company Parties have voluntarily placed in the public domain; (ii) has been lawfully and independently developed and publicly disclosed by third parties; (iii) constitutes the general non-specialized knowledge and skills gained by Employee during the Employment Period; or (iv) otherwise enters the public domain through lawful means; provided, however, that the unauthorized appropriation, use, or disclosure of Confidential Information by Employee, directly or indirectly, shall not affect the protection and relief afforded by this Agreement regarding such information.

b. **Inclusions.** “**Confidential Information**” includes (without limitation) the following information (including, without limitation, compilations or collections of information) relating or belonging to any Company Party (as well as their customers and/or vendors) and created, prepared, accessed, used or reviewed by the Employee during or after the Employment Period: (i) **Company genealogy information**, such as the information held by the Company related to its independent sales consultants or associates (“**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, and historical purchasing information for each Associate; (ii) **proprietary product and manufacturing information**, such as new products or new uses for old products, materials and ingredients, combinations of materials and ingredients, and manufacturing processes; (iii) **scientific and technical information**, such as research and development, clinical studies, tests and test results, formulas and formulations, and scientific studies and analysis; (iv) **financial and cost information**, such as costs of materials, operating and production costs, costs of goods sold, costs of products, costs of supplies and manufacturing materials, non-public financial statements and reports, manufacturing and sales costs, profit and loss information, and margin information, and financial performance information; (v) **customer related information**, such as the names, buying habits, or practices of any of the Company’s customers, prospects and/or Associates, customer related contracts, engagement and scope of work letters, proposals and presentations, the identity of specific contacts within the customer’s organization, customer related contacts, lists, identities, and prospects, customer practices, plans, histories, requirements, and needs, customer related price information and formulae, and information obtained from customers concerning their products, businesses, or equipment specifications; (vi) **vendor and supplier related information**, such as the identities, practices, history or services of any vendors or suppliers, and vendor or supplier contacts; (vii) **sales, marketing, and price information**, such as marketing methods and related data, the prices the Company obtains or has obtained or at which it sells or has sold its products or services, merchandising or sales techniques, marketing and sales programs and related data, sales and marketing strategies and plans, sales and marketing procedures and processes, pricing methods, practices, and techniques, and pricing schedules and lists; (viii) **database, software, and other computer related information**, such as computer programs, data, compilations of information and records, business systems and computer programs, software and computer files, presentation software, and computer-stored or backed-up information, including (without limitation) e-mails, databases, word processed documents, spreadsheets, notes, schedules, task lists, images, and video; (ix) **employee and other Associate related information**, such as Associate and client requirements, compensation paid to Associates and employees, other employee and Associate terms, lists or directories identifying employees, representatives and contractors, and information regarding the competencies (knowledge, skill, experience), compensation and needs of employees, representatives, and contractors, and training methods; (x) **business and operation related information**, such as specialized training (as referenced in Section 4.1b. hereof), lists or other written records used in the Company’s business, operating methods, procedures, techniques, practices and processes, information about acquisition(s), corporate or business opportunities, information about partners and potential investors, strategies, projections and related documents, contracts and licenses, and business records, files, equipment, notebooks, documents, memoranda, reports, notes, sample books, correspondence, lists, and other written and graphic business records; (xi) **new information**, such as additional Confidential Information that is or may be developed, obtained and otherwise made known to the Employee from time-to-time during the Employment Period; and (xii) **third party information**, such as information from the Company’s customers, suppliers, partners, joint venturers, and other business partners.

#### **4.3 Protection of Confidential Information.**

a. **Acknowledgments.** The Employee acknowledges that: (i) 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 Associates, and will be acquainted with all of the Company's business, particularly the Company's Confidential Information; (ii) 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; (iii) 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; (iv) the Employee's fulfilling the obligations of this Agreement regarding Confidential Information is part of the Employee's job responsibilities with the Company for which the Employee has been retained and for which the Employee is receiving consideration; (v) Confidential Information would not be delivered or made available to Employee absent the provisions of this Section 4; and (vi) the Company's legitimate business interests require the non-disclosure of Confidential Information to the Company's competitors and others as prescribed herein.

b. **Protection.** Both during and after the Employment Period, the Employee shall not in any manner, directly or indirectly: (i) appropriate, download, print, copy, remove, use, disclose, divulge, or communicate Confidential Information to any Person, including (without limitation) originals or copies of any Confidential Information, in any media or format, except for the Company's benefit within the course and scope of the Employee's employment or with the prior written consent of the CEO; or (ii) take or encourage any action which would circumvent, interfere with or otherwise diminish the value or benefit of Confidential Information to the Company. The Employee agrees to use his best efforts and utmost diligence to protect and safeguard the Confidential Information as prescribed in this Section 4.

#### **4.4 Return and Review of Information.**

a. **Company Property.** All Confidential Information and other information and property affecting or relating to the business of the Company within the Employee's possession, custody or control, regardless of form or format, shall remain at all times the property of the Company.

b. **Upon Request.** At any time that the Company may request, during or after the Employment Period, the Employee shall deliver to the Company all Confidential Information and other information and property affecting or relating to the business of the Company within Employee's possession, custody or control, regardless of form or format. Both during and after the Employment Period, the Company shall have the right of reasonable access to review, inspect, copy, and/or confiscate any Confidential Information within the Employee's possession, custody or control.

c. **Upon Termination.** The Employee shall return to the Company all Confidential Information and other information and property affecting or relating to the business of the Company within the Employee's possession, custody or control, regardless of form or format, without the necessity of a request, forthwith upon cessation or termination of Employee's employment, regardless of whether the cessation or termination is voluntary, involuntary, for Cause or not for Cause.

**4.5 Response to Third Party Requests.** Upon receipt of any formal or informal request, by legal process or otherwise, seeking the Employee's direct or indirect disclosure or production of any Confidential Information to any Person, the Employee shall promptly and timely notify the Company and provide a description and, if applicable, hand deliver a copy of such request to the Company. The Employee irrevocably nominates and appoints the Company, as the Employee's true and lawful attorney-in-fact to act in the Employee's name, place and stead to perform any act that the Employee might perform to defend and protect against any disclosure of Confidential Information.

**SECTION 5.**  
**OWNERSHIP OF INFORMATION, INVENTIONS AND ORIGINAL WORK**

5.1 **Definition of Work Product.** As used in this Agreement, the term “Work Product” means all patents and patent applications, all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports, creative works, discoveries, software, computer programs, modifications, enhancements, know-how, product, formula or formulations, concepts and ideas, and all similar or related information (in each case whether or not patentable), all copyrights and copyrightable works, all trade secrets, confidential information, and all other intellectual property and intellectual property rights that (in any case above) are conceived, reduced to practice, created, developed or made by the Employee, either alone or with others, in the course of employment with the Company (including, without limitation, any such employment before the Effective Date).

5.2 **Ownership and Assignment of Work Product.** The Employee hereby agrees that all Work Product will be the exclusive property of the Company, and in consideration of this Agreement, without further compensation, hereby assigns, and (as necessary) agrees to assign, to the Company all right, title, and interest to all Work Product that: (a) relates to: (i) all or any aspect of the Company Parties’ actual or anticipated business, research, and development or existing or future products or services, or (ii) an actual or demonstrably anticipated research or development project of the Company; (b) is conceived, created, reduced to practice, developed, or made entirely or in any part: (i) during his employment or on Company time, or (ii) using any equipment, supplies, facilities, assets, materials, information (including, without limitation, Confidential Information) or resources of any of the Company Parties (including, without limitation, any intellectual property rights); or (c) results from any work performed by the Employee for the Company. Any creative works, discoveries, designs, software, computer programs, inventions, improvements, modifications, enhancements, know-how, product, formula or formulation, concept or idea that the Employee has within one year following the cessation or termination of employment with the Company shall be deemed to be Work Product owned by the Company under this Section 5, unless proved by the Employee to have been outside each of the criteria specified above in this Section 5.2.

5.3 **Disclosure and Cooperation.** The Employee shall promptly disclose Work Product to the CEO and perform all actions reasonably requested by the Company (whether during or after the Employment Period) to establish and confirm the ownership and proprietary interest of any of the Company Parties in any Work Product (including, without limitation, the execution of assignments, consents, powers of attorney, applications and other instruments). The Employee agrees to assist the Company in obtaining any patent for, copyright on or other intellectual-property protection for the Work Product, and to execute and deliver or otherwise provide such documentation and provide such other assistance as is necessary to or reasonably requested by the Company or its agents or counsel to obtain such patent, copyright, or other protection. The Employee shall maintain adequate written records of the Work Product, in such format as may be specified by the Company, and make such records available to, as the sole property of, the Company at all times. The Employee shall not file any patent or copyright applications related to any Work Product except with the written consent of the CEO.

**SECTION 6.**  
**NON-COMPETITION AND NON-SOLICITATION**

6.1 **Consideration.** In consideration of the Confidential Information and specialized training being provided to Employee as stated in Section 4 of this Agreement, and other valuable consideration as stated in this Agreement, including (without limitation) the business relationships, Company goodwill, customer and vendor relationships, and work experience that the Employee will have the opportunity to obtain, use and develop under this Agreement, the Employee agrees to the restrictive covenants stated in this Section 6.

## 6.2 **Acknowledgements.**

a. **Ancillary Agreement.** The Employee acknowledges and agrees that the restrictive covenants contained in this Section 6 are ancillary to and part of an otherwise enforceable agreement, such being the agreements concerning Confidential Information and other consideration as stated in this Agreement.

b. **Valuable Information.** The Employee acknowledges and agrees that the Confidential Information and specialized training provided by the Company is highly valuable to the Company and, therefore, that 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 restrictive covenants set forth in this Section 6.

c. **Unique Relationships with Customers and Associates.** The Employee acknowledges and agrees that (i) 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; (ii) the Company has a legitimate interest in maintaining its relationships with its Associates and customers; and (iii) it would be unfair for the Employee to solicit the business of the Company's Associates and customers, exploiting the personal relationships the Employee develops with the Company's Associates and customers by virtue of the Employee's employment by the Company.

d. **Reasonableness.** The Employee acknowledges and agrees that at the time that the restrictive covenants of this Section 6 are made, the limitations as to time, geographic scope, and activity to be restrained, as described herein, are reasonable and do not impose a greater restraint than necessary to protect the good will and other legitimate business interests of the Company, including (without limitation) Confidential Information (including, without limitation, trade secrets), customer and vendor relationships, and goodwill.

e. **Termination.** The Employee acknowledges and agrees that he has carefully read this Agreement and has given careful consideration to the restraints imposed upon him by this Agreement, and consents to the terms of the restrictive covenants in this Section 6 in conjunction with the provisions in this Agreement for the termination of his employment, with no expectation or promise of employment for a substantial period of time.

f. **Post-Termination Enforcement.** The Employee acknowledges and agrees that, based on the benefits to him and new consideration as recited herein, the restrictive covenants of this Section 6, as applicable according to their terms, shall remain in full force and effect even in the event of the cessation or termination of his employment under this Agreement for any reason, whether voluntary or involuntary or with or without Cause.

g. **Other Employment.** The Employee acknowledges and agrees that (i) in the event of the cessation or termination of his employment under this Agreement, his experiences and capabilities are such that he can obtain gainful employment without violating this Agreement, in a business engaged in other lines and/or of a different nature, without his incurring undue hardship; and (ii) the enforcement of a remedy under this Section 6 by way of injunction will not prevent the him from earning a livelihood.

## 6.3 **Non-Competition and Non-Solicitation.**

a. **Non-Competition During Employment.** During the Employment Period, the Employee shall not engage in any other business or employment which may detract from his full performance of his duties hereunder or which competes in any manner with the Company, and the Employee shall not directly or indirectly render any services of a business, commercial or professional nature, to any other Person without the Company's prior written consent. Further, during employment, the Employee shall not directly or indirectly contact, solicit, entice, sponsor or accept any of the Associates into, or in any way promote to any such Associates opportunities in marketing programs of any direct sales company or organization other than the Company.

b. Non-Competition Post-Employment. During the Restricted Period, the Employee shall not directly or indirectly, on his own behalf or on the behalf of any other Person, engage in a Competing Business within the Geographic Area, including, without limitation, owning, taking a financial interest in, managing, operating, controlling, being employed by, being associated or affiliated with, being a spokesperson for, providing services as a consultant or independent contractor to, or participating in the ownership, management, operation or control of, any Competing Business; provided, however, that this Section 6.3b. does not preclude ownership of less than 5% of the outstanding equity securities of any public reporting company.

c. Customer Non-Solicitation. During the Restricted Period, the Employee shall not in any manner, directly or indirectly, on his own behalf or on the behalf of any other Person, induce, solicit or attempt to induce or solicit any Customer, (i) to do business with a Competing Business, or (ii) to reduce, cease, restrict, terminate or otherwise adversely alter business or business relationships with the Company for the benefit of a Competing Business, regardless of whether the Employee initiates contact for that purpose.

d. Employee Non-Solicitation and No-Hire. During the Restricted Period, the Employee shall not directly or indirectly, on his own behalf or on behalf of any other Person, (i) solicit, recruit, persuade, influence, or induce, or attempt to solicit, recruit, persuade, influence, or induce any Person employed or otherwise retained by any of the Company Parties (including, without limitation, any independent contractor or consultant), to cease or leave their employment or contractual or consulting relationship with any Company Party, regardless of whether the Employee initiates contact for such purposes, or (ii) hire, employ or otherwise attempt to establish, for any Person, any employment, agency, consulting, independent contractor or other business relationship with any Person who is or was employed or otherwise retained by any of the Company Parties (including any independent contractor or consultant), for the benefit of a Competing Business.

6.4 Definitions. The following definitions are for the purposes of this Agreement, including (without limitation) this Section 6. The scope of these definitions is in recognition of the Company-wide scope of the Employee's responsibilities, the broad geographic scope of the Company's business operations throughout the entire United States of America and in certain foreign countries, and the potential ease of competing with the Company in the absence of the provisions of this Section 6.

a. "Competing Business" means any business operation which engages in the business of providing products and services that are the same or substantially similar to those that any of the Company Parties manufactured, produced, provided, sold, and/or marketed during the Employee's tenure with the Company, such as the direct selling business, including (without limitation) the direct sale, network and/or multi-level marketing of dietary supplements.

b. "Customer" means (i) any Associate or other Person with whom or which the Company has had any contract any time during this Agreement or any time during the one year period immediately preceding the Effective Date, and/or (ii) any customer, vendor, supplier, licensor or other Person in a business relationship with any Company Party, for which the Employee or employees working under the Employee's supervision had any direct or indirect responsibility during the Employment Period.

c. "Geographic Area" means (i) those cities and states in the United States of America and foreign countries in which the Company does business during the Employment Period; and/or (ii) the geographic area of Employee's responsibilities during the Employment Period.

d. "Restricted Period" means the Employment Period and the one year period commencing on the Termination Date, regardless of whether the Employee's termination from the Company is voluntary or involuntary, for Cause or not for Cause. This time period shall be extended by one day for each day that Employee is determined to be in violation of Sections 4, 5 and/or 6 of this Agreement, as determined by a court or arbitrator of competent jurisdiction.

6.5 **Fiduciary Duty.** The 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 the Company. In keeping with these duties, the Employee shall make full disclosure to the Company of all business opportunities pertaining to the Company's business, and shall not appropriate for his own benefit, any business opportunities concerning the subject matter of the fiduciary relationship.

6.6 **Survival.** This Section 6 shall survive the cessation or termination of the Employee's employment under this Agreement, subject to the time and scope limitations set forth in this Section 6.

6.7 **Substitution/Revision.** If, at the time of enforcement of the restrictive covenants in this Section 6, a court holds that the restrictions stated in this Section 6 are unreasonable under circumstances then existing, then the maximum duration, scope or geographical area reasonable under such circumstances shall automatically be substituted for the stated duration, scope or geographic area and the court shall be allowed and is hereby requested to revise the restrictions contained herein to cover the maximum duration, scope and geographic area permitted by law. The covenants contained in Sections 6.3a., 6.3b., 6.3c., and 6.3d. hereof are independent of and severable from one another.

## **SECTION 7. REMEDIES**

7.1 **Remedies.** In the event of a breach of this Agreement by the Employee, the Company shall be entitled to all appropriate equitable and legal relief, including, but not limited to: (a) an 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.** SUBJECT TO THE RIGHTS UNDER SECTION 7.2e. HEREOF TO SEEK INJUNCTIVE OR OTHER EQUITABLE RELIEF, BINDING ARBITRATION SHALL BE THE EXCLUSIVE REMEDY FOR ANY AND ALL DISPUTES, CLAIMS, OR CONTROVERSIES BETWEEN THE PARTIES HERETO, WHETHER STATUTORY, CONTRACTUAL OR OTHERWISE, ARISING UNDER OR RELATING TO THIS AGREEMENT OR THE EMPLOYEE'S EMPLOYMENT BY OR TERMINATION FROM THE COMPANY (INCLUDING, BUT NOT LIMITED TO, THE AMOUNT OF DAMAGES, OR THE CALCULATION OF ANY BONUS OR OTHER AMOUNT OR BENEFIT DUE) (COLLECTIVELY, "DISPUTES"). THE PARTIES WAIVE THE RIGHT TO A JURY TRIAL AND WAIVE THE RIGHT TO ADJUDICATE THEIR DISPUTES UNDER THIS AGREEMENT OUTSIDE THE ARBITRATION FORUM PROVIDED FOR IN THIS AGREEMENT, EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT. In the event either Party provides a notice of arbitration of any dispute to the other Party, the Parties agree to submit that dispute to a single arbitrator selected from a panel of arbitrators of JAMS located in Dallas County, Texas. The arbitration will be governed by the JAMS Comprehensive Arbitration Rules and Procedures in effect at the time the arbitration is commenced. If for any reason JAMS cannot serve as the arbitration administrator, the Company may select an alternative arbitration administrator, such as the American Arbitration Association, to serve under the terms of this Agreement.

a. **VENUE.** THE PARTIES STIPULATE AND AGREE THAT THE EXCLUSIVE VENUE OF ANY ARBITRATION PROCEEDING AND OF ANY OTHER PROCEEDING, INCLUDING (WITHOUT LIMITATION) ANY COURT PROCEEDING, UNDER THIS AGREEMENT SHALL BE DALLAS COUNTY, TEXAS (THE "AGREED VENUE").

b. Authority and Decision. The arbitrator shall have the authority to award the same damages and other relief that a court could award. The arbitrator shall issue a reasoned award explaining the decision and any damages awarded. The arbitrator's decision will be final and binding upon the parties and enforceable by a court of competent jurisdiction. The Parties will abide by and perform any award rendered by the arbitrator. In rendering the award, the arbitrator shall state the reasons therefore, including (without limitation) any computations of actual damages or offsets, if applicable.

c. Fees and Costs. In the event of arbitration under the terms of this Agreement, the fees charged by JAMS or other arbitration administrator and the arbitrator shall be borne by the Parties as determined by the arbitrator, except for any initial registration fee, which the Parties shall bear equally. Otherwise, the Parties shall each bear their own costs, expenses and attorneys' fees incurred in arbitration; provided, however, that the prevailing Party shall be entitled to recover and have awarded its attorneys' fees, court costs, arbitration expenses, and its portion of the fees and costs charged by JAMS or other arbitration administrator, regardless of which Party initiated the proceedings, in addition to any other relief to which it may be entitled.

d. Limited Scope. The following are excluded from binding arbitration under this Agreement: claims for workers' compensation benefits or unemployment benefits; replevin; and claims for which a binding arbitration agreement is invalid as a matter of law.

e. Statutes of Limitations. All statutes of limitations that would otherwise be applicable (as well as other laws and statutes of applicability to any Dispute in issue) shall apply to any arbitration proceeding hereunder, and the arbitrator is specifically empowered to decide any question pertaining to limitations.

f. Injunctive Relief. The parties hereto may seek injunctive relief in arbitration; provided, however, that as an exception to the arbitration agreement set forth this Section 7.2, the Parties, in addition to all other available remedies, shall each have the right to initiate an action in any court of competent jurisdiction in order to request injunctive or other equitable relief regarding the terms of this Agreement. The exclusive venue of any such proceeding shall be in the Agreed Venue. The Parties agree (i) to submit to the jurisdiction of any competent court in the Agreed Venue, (ii) to waive any and all defenses the Executive may have on the grounds of lack of jurisdiction of such court and (iii) that neither Party shall be required to post any bond, undertaking or other financial deposit or guarantee in seeking or obtaining such equitable relief. Evidence adduced in any such proceeding for an injunction may be used in arbitration as well. The existence of this right shall not preclude or otherwise limit the applicability or exercise of any other rights and remedies that a Party may have at law or in equity.

## **SECTION 8.** **TERMINATION OF EMPLOYMENT**

8.1 Events of Termination. In addition to termination of employment in accordance with Section 2 hereof, the Employee's employment by the Company under this Agreement (1) shall terminate upon the death of the Employee and (2) may be terminated by the Company, immediately upon written notice of termination to the Employee, upon the Employee's Disability or for Cause. **[Note: With the 30-day-notice-termination provision in Section 2, these provisions are, and the Disability provision particularly is, of only limited application.]** In this Agreement:

a. "Disability" means the Employee's becoming incapacitated by accident, sickness, or other circumstances that, in the reasonable judgment of the Board **[or the CEO?]**, renders or is expected to render the Employee mentally or physically incapable of performing the essential duties and services required of him hereunder, with or without reasonable accommodation, for a period of at least 90 consecutive calendar days.



b. "Cause" means any of the following:

- i. the Company's determination that the Employee has neglected, failed, or refused to render the services or perform any other of his duties or obligations in or under this Agreement (including, without limitation, because of any alcohol or drug abuse);
- ii. the Employee's violation of any provision of or obligation under this Agreement;
- iii. the Employee's indictment for, or entry of a plea of no contest with respect to, any crime that adversely affects or (in the Board's reasonable judgment) may adversely affect the Company or the utility of the Employee's services to the Company; or
- iv. any other act or omission of the Employee involving fraud, theft, dishonesty, disloyalty, or illegality with respect to, or that harms or embarrasses or (in the Board's reasonable judgment) may harm or embarrass, the Company or any of its subsidiaries, affiliates, customers, dealers or suppliers.

**8.2 Effects of Termination.** Upon any cessation or termination of employment under this Agreement, all further rights of the Employee to employment and compensation and benefits from the Company under this Agreement will cease, except that the Company shall pay the Employee the following:

a. Any amount of base salary earned by, but not yet paid to, the Employee through the last date of the Employment Period (the "Termination Date");

b. Any annual bonus, or portion thereof, that the Compensation Committee may deem to be earned by, but not yet paid to, the Employee through the Termination Date;

c. All reimbursable expenses due, or but not paid, to the Employee as of the Termination Date in accordance with Section 3.4 hereof;

d. All benefits (or an amount equivalent thereto) that have been earned by or vested in, and are payable to, the Employee under, and subject to the terms of, the employee-benefit plans or arrangements of the Company in which the Employee participated through the Termination Date in accordance with Section 3.5 hereof; and

e. An amount equal to all accrued and unused vacation, calculated in accordance with the Company's vacation policies, practices, and procedures, through the Termination Date in accordance with Section 3.7 hereof.

Any amount due under clause b. above in this Section 8.2 shall be paid in the same manner and on the same date as would have occurred if the Employee's employment under this Agreement had not ceased. Any amount due under clause d. above in this Section 8.2 shall be paid in accordance with the terms of the employee-benefit plans or arrangements under which such amounts are due to the Employee. The amounts due under clause c. and clause e. of this Section 8.2 shall be paid in accordance with the terms of the Company's policies, practices, and procedures regarding reimbursable expenses and vacation, respectively. Except for the payment of such amounts when due, the Company shall have no further obligation or liability under this Agreement for any other compensation, payment, or benefit to the Employee. The stock option agreements between the Parties and the Plan shall govern the Employee's outstanding stock options upon or after cessation or termination of employment. Also upon cessation or termination of employment hereunder (unless the Employee continues otherwise to be employed by the Company), the Employee (1) shall return to the Company the leased vehicle provided for the Employee's use in accordance with Section 3.6 hereof, and (2) shall resign or shall be deemed to have resigned from any position as an officer or director, or both, of any subsidiary or affiliate of the Company.

8.3 **Post-employment Cooperation.** Upon and after the Termination Date, the Employee will cooperate fully with the Company in connection with (a) any matter related to the Company's business and activities by being available, at mutually agreeable times in person or by telephone, and without any unreasonable interference with his other activities, to provide such information as may from time to time be requested by the Company regarding various matters in which he was involved during his employment with the Company, and (b) any and all pending or future litigation or administrative claims, investigations, or proceedings involving the Company, including (without limitation) his meeting with the Company's counsel and advisors at reasonable times upon their request and providing testimony (in court or arbitration hearing or at depositions) that is truthful, and complete in accordance with information known to him.

#### **SECTION 9.**

##### **NON-DISPARAGEMENT AND MEDIA NON-DISCLOSURE**

9.1 **Non-Disparagement.** The Employee agrees that, during the Employment Period or at any time thereafter, the Employee will not make any statements, comments or communications in any form, oral, written or electronic, to any Media or any customer, client or supplier of the Company or any of its or any of its directors, officers, shareholders, or affiliates, which (a) would constitute libel, slander or disparagement of the Company or any of its directors, officers, shareholders, or affiliates, including, without limitation, any such statements, comments or communications that criticize, ridicule or are derogatory to the Company or any of its directors, officers, shareholders, or affiliates; or (b) may be considered to be derogatory or detrimental to the good name or business reputation of the Company, or any of its directors, officers, shareholders, or affiliates; provided however, that the terms of this Section 9.1 shall not apply to communications between the Employee and, as applicable, the Employee's attorneys or other Persons with whom or which communications would be subject to a claim of privilege existing under common law, statute or rule of procedure. The Employee further agrees that he will not in any way solicit any such statements, comments or communications from others.

9.2 **Media Nondisclosure.** The Employee agrees that, both during and after the Employment Period, except as may be authorized in writing by the Company, the Employee will not directly or indirectly disclose or release to the Media any information concerning or relating to any aspect of the Employee's employment or cessation or termination of his employment with the Company and/or any aspect of any Dispute that is the subject of this Agreement. For the purposes of this Agreement, "Media" includes, without limitation, any news organization, station, publication, show, website, web log (blog), bulletin board, chat room and/or program (past, present and/or future), whether published through the means of print, radio, television and/or the Internet or otherwise, and any member, representative, agent and/or employee of the same.

#### **SECTION 10.**

##### **REPRESENTATION BY EMPLOYEE**

10.1 **No Conflict.** The Employee hereby represents and warrants to the Company that his execution of this Agreement and his performance of his duties and obligations hereunder will not conflict with, cause a default under, or give any party a right to damages under any other agreement or obligation to which the Employee is a party or is bound.

**SECTION 11.**  
**GENERAL**

11.1 **Governing Law.** This Agreement shall be governed by, and enforced and construed under, the laws of the State of Texas.

11.2 **Settlement of Existing Rights.** In exchange for the other terms of this Agreement, Employee acknowledges and agrees that: (a) except as otherwise provided herein, this Agreement will replace any existing employment agreement between the parties and thereby act as a novation, if applicable, (b) the Employee is being provided with access to proprietary information, trade secrets and other Confidential Information to which he has not previously had access; (c) all Company inventions and intellectual property developed by the Employee during any past employment with the Company and all goodwill developed with the Company's clients, customers and other business contacts by the Employee during any past employment with Company, as applicable, is the exclusive property of the Company, and (d) all Company information and/or specialized training accessed, created, received, or utilized by Employee during any past employment with the Company, as applicable, will be subject to the restrictions on Confidential Information described in this Agreement, as applicable, whether previously so agreed or not.

11.3 **Binding Effect; Assignment.** 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, without limitation, any successor as a result of a merger or similar reorganization) and assigns of the Parties, except that the Employee's rights, benefits, duties and responsibilities hereunder are of a personal nature and shall not be assignable in whole or in part by the Employee.

11.4 **Notices.** All notices required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given and received (a) when personally delivered or delivered by same-day courier, (b) on the third business day after mailing by registered or certified mail, postage prepaid, return receipt requested, or (c) upon delivery when sent by prepaid overnight delivery service, in any case addressed as follows:

If to the Employee:	Rob Sinnott, PhD <hr/> <hr/>
If to the Company:	General Counsel Mannatech Incorporated 600 S. Royal Lane, Suite 200 Coppell, TX 75019

A Party's address may be changed from time to time by written notice to the other Party in accordance with this Section 11.4.

11.5 **Prior Agreements Superseded.** This Agreement supersedes all prior agreements between the Parties of any and every nature whatsoever, including (without limitation) agreements for additional compensation or benefits. All such prior agreements are null and void.

11.6 **Duration.** Notwithstanding the cessation or termination of Employee's employment under this Agreement, this Agreement shall continue to bind the Parties for so long as any obligations remain under the terms of this Agreement.

11.7 **Amendment; Waiver.** No amendment to or modification of this Agreement, or waiver of any term, provision, or condition of this Agreement, will be binding upon a Party unless the amendment, modification, or waiver is in writing and signed by the Party to be bound. Any waiver by a Party of a breach or violation of any provision of this Agreement by the other Party shall not be deemed a waiver of any other provision or of any subsequent breach or violation.

11.8 **Enforcement and Severability.** The Parties intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. Accordingly, should an arbitrator or 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 arbitrator or 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, 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.

11.9 **Subsidiaries Included.** Wherever the “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.

11.10 **Certain Defined Terms; Headings.** As used in this Agreement:

a. “business day” means any Monday through Friday other than any such weekday on which the executive offices of the Company are closed.

b. “Company Parties” means, as applicable, the Company, and its direct and indirect parents, subsidiaries, and affiliates, and their successors in interest.

c. “Employment Period” means the term of Employee’s employment under this Agreement, from the Effective Date through the last date of Employee’s work for the Company under this Agreement, regardless of whether the termination is voluntary, involuntary, for Cause, or not for Cause.

d. “herein,” “hereof,” “hereunder,” and similar terms are references to this Agreement as a whole and not to any particular provision of this Agreement.

e. “Person” means an individual, an independent contractor, a sole proprietor, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, a governmental entity, court, department, agency or political subdivision, or other individual, business, or governmental entity, as applicable.

In addition, the use herein of “annual” or “monthly” (or similar terms) to indicate a measurement period shall not itself be deemed to grant rights to Employee for employment or compensation for such period. The Section and other descriptive headings in this Agreement are only for convenience of reference and are not to be used to construe or interpret this Agreement or any of its provisions.

11.11 **Employee Acknowledgment.** The Employee affirms and attests, by signing this Agreement, that the Employee has read this Agreement before signing it and that the Employee fully understands its purposes, terms, and provisions, which the Employee hereby expressly acknowledges to be reasonable in all respects. The Employee further acknowledges receipt of one copy of this Agreement.

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

**EMPLOYEE:**

By:

/s/ Rob Sinnott, PhD

Rob Sinnott, PhD

Date: September 12, 2005

**COMPANY:**

**MANNATECH INCORPORATED**

By:

/s/ Terry L. Persinger, President

Terry L. Persinger, President

Date: September 12, 2005

September 27, 2005

Sam Caster  
Mannatech, Inc.  
600 South Royal Lane  
Suite 200  
Coppell, TX 75019

Dear Sam,

This letter is to signify the intent for VideoPlus to feature Mannatech, Inc. in the April 2006 issue of *Success from Home* magazine.

Terms:

- This magazine will appear in bookstores nationwide (including Barnes & Noble, Borders, Books-a-Million, B. Dalton and Hastings) from April 1<sup>st</sup> 2006 until April 30<sup>th</sup> 2006.
- Mannatech agrees to purchase a minimum of 100,000 copies at \$3.50 each.
- Each copy of the magazine will include a DVD which will be duplicated by VideoPlus at VideoPlus expense.
- VideoPlus will bear all reasonable production costs for the Magazine only.
- Mannatech will work with VideoPlus to develop a Table of Contents for the magazine and provide access to resource material, interview subjects and photography where possible.
- Mannatech will be able to review content and participate in content development relating to Mannatech prior to publication date (this includes everything except for the personal development and third party content for that specific issue – although Mannatech may participate in selecting contributors and subjects for this content).
- Mannatech will select distributors profiled and interviewed for the magazine.

This Agreement is being emailed and a hard copy mailed to your office in Coppell, TX. Please print two (2) copies of this Agreement, sign and return one (1) copy both by FAX (940-497-9914) and by mail to me at the following address:

Stuart Johnson  
President  
VideoPlus, Inc.  
200 Swisher Road  
Lake Dallas, TX 75065

We look forward to working with Mannatech on this project.

Sincerely,

/s/ Stuart Johnson  
Stuart Johnson  
President and CEO  
VideoPlus

/s/ Sam Caster  
Sam Caster  
Mannatech, Inc.  
Date: 9-27-05

cc  
Steve Lemme – by email  
Deborah Heisz – by email

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

This certification is provided pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q for the quarter ended September 30, 2005 of Mannatech, Incorporated.

I, Samuel L. Caster, the Chief Executive Officer of the registrant, certify that:

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

Dated: November 9, 2005

*/s/ Samuel L. Caster*

---

Samuel L. Caster  
Chief Executive Officer

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

This certification is provided pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q for the quarter ended September 30, 2005 of Mannatech, Incorporated.

I, Stephen D. Fenstermacher, the Chief Financial Officer of the registrant, certify that:

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

Dated: November 9, 2005

*/s/ Stephen D. Fenstermacher*

---

Stephen D. Fenstermacher  
Chief Financial Officer



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

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q (the "**Form 10-Q**") for the quarter ended September 30, 2005 of Mannatech, Incorporated (the "**Issuer**").

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

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

Dated: November 9, 2005

*/s/ Samuel L. Caster*

---

Samuel L. Caster  
Chief Executive Officer

Subscribed and sworn to before me  
This 9<sup>th</sup> day of November, 2005

*/s/ Christina Dutton*

---

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

My commission expires: March 19, 2006

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

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

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the quarterly report on Form 10-Q (the "**Form 10-Q**") for the quarter ended September 30, 2005 of Mannatech, Incorporated (the "**Issuer**").

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

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

Dated: November 9, 2005

*/s/ Stephen D. Fenstermacher*

---

Stephen D. Fenstermacher  
Chief Financial Officer

Subscribed and sworn to before me  
This 9<sup>th</sup> day of November, 2005

*/s/ Christina Dutton*

---

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

My commission expires: March 19, 2006

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