

MAY 30, 2005

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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THE WALL STREET TRANSCRIPT

COMPANY INTERVIEW

SAMUEL L. CASTER
Mannatech, Incorporated

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67 Wall Street, New York, NY 10005
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Mannatech, Incorporated (MTEX)



SAMUEL L. CASTER, Chairman and CEO of Mannatech, Incorporated, co-founded Mannatech and directly owns 21.8% of its common stock as of April 1, 2004. Mr. Caster served as Mannatech's President and as a Director on its Board of Directors from November 1993 until his resignation on March 31, 2000. From June 1, 2000 through March 4, 2002, Mr. Caster provided Mannatech with various consulting services related to its associates' needs and was instrumental in the development of

Mannatech's revamped global associate career and compensation plan. Mr. Caster was reappointed as a Class II Director to Mannatech's Board of Directors on August 2, 2000 and was elected to serve as a Class II Director by Mannatech's shareholders on June 2, 2003. From June 4, 2001 to March 4, 2002, Mr. Caster served as co-Chairman of Mannatech's Board of Directors and since March 5, 2002 has served as its Chairman of the Board. On April 15, 2003, Mr. Caster was elected Mannatech's Chief Executive Officer. Mr. Caster has over 24 years' experience with various network-marketing and direct selling companies. Mr. Caster also co-founded MannaRelief, a non-profit international ministry formed to help supply food supplements to at-risk children by working with other ministries, non-profit organizations and missionaries throughout the world. Mr. Caster is the brother-in-law of Mr. Donald Herndon, Mannatech's Vice President of Field Services. Mr. Herndon is the brother-in-law of Mr. Terry Persinger, who is Mannatech's President, Chief Operating Officer and a Board member.

SECTOR – FOOD

(ABV601) TWST: We would like to begin with a brief historical sketch of the company and a picture of the things you are doing at the present time.

Mr. Caster: Our company was founded in 1994 with the passage of the law called the Dietary Supplement Health and Education Act (DSHEA). My partners and I were in and around the health industry and pharmaceutical industry, and we recognized an opportunity in this quickly emerging market that is now referred to as wellness. This

market includes baby boomers who want to stay young, fueling the whole anti-aging movement, along with the people whose health is less than optimal, all looking for complementary ways to improve their quality of life. We knew there was a lot of science-based technology available for the marketplace, particularly from a new segment called carbohydrate technology. So we founded our company in 1994 and immediately started working on that front.

In 1996, we made the discovery of our core technology which is called Ambrotose. It is a blend

Corporate Profile

Mannatech, Incorporated

Ticker (exchange) MTEX (NASDAQ)
Price close 5/25/05 15.55
12 Months Price Range 8.75 - 26.10

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Terry L. Persinger
President and COO

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SVP and CFO

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SVP, General Counsel and
Corporate Secretary

John F. Crowley
President of International Operations

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SVP, Sales and Marketing

Bill H. McAnalley, PhD
SVP, Research and Product
Development and CSO

Jeffrey P. Bourgoyne
SVP of Supply Chain &
Associate Care

Cynthia L. Tysinger
SVP and Chief Information
Officer

Eileen M. Vennum
SVP Research and Development
Administration

Financial Highlights

(in thousands, except per share and independent Associate data)

| | YTD DEC 2002 | YTD DEC 2003 | YTD DEC 2004 |
|---------------------------------|-----------------|-----------------|-----------------|
| Net Sales | \$140,948 | \$191,019 | \$294,508 |
| Net Income | \$ 1,888 | \$ 8,790 | \$ 19,552 |
| Earnings Per Share (Diluted) | \$ 0.07 | \$ 0.34 | \$ 0.71 |
| Cash Flows from Operations | \$ 9,704 | \$ 20,205 | \$ 28,860 |
| Stockholders' Equity \$ | 18,050 | \$ 32,788 | \$ 56,225 |
| Total Assets | \$ 34,816 | \$ 60,023 | \$ 98,346 |
| Associates and Members | 200,000 | 264,000 | 369,000 |

OUR STRENGTHS

Mannatech has extremely loyal customers who value the benefits and quality of its products. Mannatech focuses on transitioning identified research and development into innovative science backed proprietary patentable products that target optimizing optimal health and wellness. Furthermore, Mannatech offers its independent Associates a host of opportunities to succeed in their financial pursuits through creative training aids, specialized seminars, and innovative technology. Mannatech believes the combination of its talented and committed workforce, coupled with its outstanding and loyal independent Associates, technological infrastructure, and its unique high-quality products is the right formula for Mannatech to focus on achieving its financial goals for all of its markets and increasing shareholder value.

OUR OPPORTUNITY

Mannatech believes its global associate career and compensation plan is one of the most generous and financially rewarding in the industry. The plan is designed to help facilitate faster payouts and strengthen customer retention levels. Mannatech's global associate career and compensation plan provides a unique, multi-tiered compensation stream that is both globally-equitable and capable of boosting potential rewards at virtually every stage of business growth. In addition, Mannatech provides an innovative e-commerce platform based technology that provides its independent Associates with a vast array of reports and organizational sales volume tracking tools to help maximize their earnings potential.

OUR FUTURE

Mannatech continues to believe that network-marketing is the most cost effective way to quickly and efficiently introduce its products into the global marketplace. Network-marketing minimizes up-front costs as compared to conventional marketing methods and allows Mannatech to be more responsive to the ever-changing, overall market conditions of the marketplace. Mannatech continues to research new products and focus on controlled successful international expansion. For year end 2004, Mannatech reported nine quarters of increased net sales, a solid profit, continued cultivation of its seven global markets, and controlled operating expenses. Mannatech set a new annual net sales record of \$295 million at year-end 2004 which surpassed its previous record of \$191 million net sales set at year-end 2003.

Corporate Business Description

Mannatech is a wellness solution provider that over the last decade has effectively sold its products through a global network-marketing system located throughout the United States, Canada, Australia, the United Kingdom, Japan, New Zealand, and South Korea. Mannatech opened operations in South Korea in September 2004 and plans to open operations in Taiwan in mid 2005. Mannatech distinguishes itself by developing innovative, high-quality driven, proprietary, nutritional supplements, topical products, and weight-management products that are primarily centered around impacting optimal health and wellness. Mannatech products are based on the science of carbohydrate technology and phytochemistry. Mannatech's flagship patented ingredient — Ambrotose® — is included in the majority of its products and is based on the science that certain naturally occurring components of various plants are believed to effectively support optimal health and wellness, as well as address certain important aspects of the body's immune system.

Investment Summary

- In business since November 1993
- Currently building earnings power
- Vast management expertise
- Employs quality-driven people
- Strong balance sheet with no long-term debt
- Core products based on propriety raw material blend
- First class quality products targeted at optimal health and wellness
- Growth in product and geographic diversification
- Double-digit growth in its customer base

of plant-synthesized carbohydrates called glyconutrients, which are necessary for the proper structure and function of every human cell. In particular, they are essential for the proper functioning of the human immune system. Since we were the first to define the role of a dietary supply of these carbohydrates, we were able to file composition of matter patents worldwide on that discovery; again, this is the core carbohydrate technology of our product line. Since 1994, we have grown the business to where it is today. Last year we posted sales of \$294 million, a 50% increase over the previous year. We are very optimistic about where we're headed with our technology in the marketplace.

"In 1996, we made the discovery of our core technology which is called Ambrotose. It is a blend of plant-synthesized carbohydrates called glyconutrients, which are necessary for the proper structure and function of every human cell. In particular, they are essential for the proper functioning of the human immune system."

TWST: Can you tell us about the 1994 registration?

Mr. Caster: Essentially, the Dietary Supplement Health and Education Act is like the Magna Carta for the dietary supplement industry. Prior to 1994, you could make no reference to the benefit in health or benefit in disease conditions of any particular nutrient without it being considered a drug claim. In passing the law, Congress essentially stated in their preamble that there is a direct link between nutrition and disease and that consumers should have the right to credible scientific information so that they can make more informed decisions in terms of their health. This allowed

companies like ours to do research and development, to post that research in peer-reviewed journals, have it published and make it available to the public. It also allowed us to test our technology in disease conditions; show improvements in quality-of-life biomarkers, then publish that information for use by the public.

A lot of nutritional supplements sold today promote a lot of benefits, but not much of it is scientifically based. Essentially, with the passage of DSHEA, Congress recognized the role that nutrition plays in health and in recovery and prevention, and encouraged the industry to start manufacturing and developing products that are clearly science-based so that consumers could actually receive the benefit they believe they are purchasing.

TWST: Was the DSHEA passed by a pretty good margin in both houses?

Mr. Caster: It was unanimous. I think everybody, regardless of party, recognized the importance of the changing conditions in health care and that something had to be done about it. I think that we're all looking for ways to improve our entire healthcare system, from prevention to treatment to cost.

TWST: Can you tell us about Ambrotose®?

Mr. Caster: A whole new science developed in the early 1990s called glycobiology. Prior to the 1990s, biochemistry taught that all carbohydrates (i.e., all sugars) were used by the body for only one function, the production of energy. There was simply no other known biological function of sugar molecules. In the late 1980s and early 1990s, sugar structures called glycoproteins — sugars connected by a protein stem — were discovered. It is now known that eight specific sugars are necessary for the cell to transfer biological data. Researchers used to think that all information was

transferred through proteins. Then they realized that there were not enough possible protein combinations to transfer that level of data. Once we looked more closely at the human cell, we saw that all these sugars connected to these proteins and we realized that this was how the final data was dispersed and interpreted — through sugar structures.

The eight sugars that are necessary for glycoprotein synthesis just happened to be in plants that have historically great medicinal value, like aloe vera for instance. Its primary sugar is mannose, and it is one of those eight sugars. So this is a kind of reverse engineering: We had the historical data regarding the health benefits of various plants, and now we are discovering the active ingredients in those plants and how they support the normal physiological functions of recovery and restoration.

“Since 1994, we have grown the business to where it is today. Last year we posted sales of \$294 million, a 50% increase over the previous year. We are very optimistic about where we’re headed with our technology in the marketplace.”

When we discovered the eight sugars, we realized two things. With the exception of glucose and galactose, which is a milk sugar, most of those sugars do not exist anymore in today’s typical diets. The body needs the sugars, so we had to find a dietary supply of those sugars. Again, we saw tremendous impact on the aging biomarkers and on quality-of-life. So this was just a new discovery in this field of necessary nutrients, very much like the discovery of vitamins and minerals, then amino acids and essential fatty acids. Now we know the role carbohydrates play in the biological function of glycoprotein synthesis.

TWST: What are the different ways that people take these? Is it also advisable to take vitamins?

Mr. Caster: Let me answer the second part of that first. In biochemistry, there is a whole chart listing the essential nutrients that the body must have. The most important nutrient is the one that is deficient in your body. So whether that is a glyconutrient sugar or vitamin A or calcium or an omega-3 fatty acid or arginine, which is an amino acid, they’re each necessary for proper structure and function. We just happened to discover this newly discovered category of nutrients. We were able to file the composition of matter patents because no one had ever considered their value as a dietary supplement. All of these are important. In fact, in our Optimal Health System which we recommend for everyone, we include all of those components that I just mentioned because they are all necessary for the body to function. If any one of them were missing, you could have a compromised immune system and compromised health.

In processing these glyconutrients we mainly freeze-dry their components so that they are stable and efficacious. Then we blend them together into a powder form. We can add that powder to, for instance, our vitamin and mineral product; or to our antioxidant product. We do this for a very good reason. Carbohydrates have been shown scientifically to help the absorption of minerals in particular. Blending these carbohydrates into the vitamin and mineral supplement is a good way of enhancing their bioavailability. We also sell our glyconutritional product Ambrotose by itself, either in capsules or in a bulk powder. People just take a scoop of this powder; sometimes they just eat it, sometimes they put it in a drink and stir it up, or sometimes they put it on their food. It really doesn’t matter

what they blend it with as long as they get a supply of it every day.

TWST: How do you market and distribute your products?

Mr. Caster: We chose a distribution model called network marketing because of two challenges. First, when our predecessors in the carbohydrate field, the people who discovered the first active sugar in aloe vera, tried to sell their technology through retail health food stores, it was hard to compete price-wise with other products with similar names; aloe vera is aloe vera to most people. But, stabilizing these sugars is very costly in contrast to un-stabilized aloe vera. So they found it very difficult to compete in the retail market.

A second challenge is that in a healthcare environment, when you start talking about a complex of sugars, you're starting behind the curve. In general, most people are not aware that they need a blend of sugars in their diet. If anything, they've heard that sugar is bad and that they should stay away from it, especially if they have health challenges like diabetes. Well, that is true in the case of sucrose but not these other sugars since they don't cause an insulin response in the body. Not only are these sugars safe, they are necessary.

Because we knew we could not effectively tell this story and educate consumers through the retail model, we started a networking company to allow individuals who are taking and benefiting from our product to share their stories and our science with other consumers who want to improve their own quality of life. It's a very effective way to get our technology into the marketplace.

TWST: You became active in a number of countries?

Mr. Caster: Yes. Though we went into Australia in 1997, we've been deliberately slow and methodical about entering the foreign mar-

kets. We are open in seven countries now, and in June, we will open operations in Taiwan, our eighth country.

"We have a patent pending in this country and we're patented in most of the other countries we are in. Since we have patents filed, issued or pending on our technology, it gives us a very proprietary product and a unique story in the dietary supplement market."

TWST: Have you grown faster than you thought you would?

Mr. Caster: I think we've grown faster than the industry would predict. The entire dietary supplement industry grew less than 5% last year, and we grew by over 50%. So those of us who understand our technology are very excited about our prospects of continued growth. Virtually everyone else is competing to sell basically the same types of products, whether it's a vitamin-mineral product or an antioxidant or an enzyme or a protein. We have a patent pending in this country and we're patented in most of the other countries we are in. Since we have patents filed, issued or pending on our technology, it gives us a very proprietary product and a unique story in the dietary supplement market. Compounded with that is the fact that these sugars are very efficacious in their impact on quality of life, and it sets up the perfect scenario for fast growth. We still have a long way to go in this country. Though we did over \$200 million last year in the United States, we know we can do much better because of our unique technology.

TWST: Have you received any letters from people who use these products, saying that they have done different things for them?

Mr. Caster: Yes, we receive letters of testimony all the time. At sales meetings, people con-

stantly share benefits that they've experienced while taking these products. We've actually surveyed product users to determine the impact our products are having on health conditions. This information enables us to gear our research initiatives where we can make the biggest impact.

"We see benefits in every kind of health situation that you could possibly name because our product is not a drug but rather a nutrient that is necessary for the basic functions of physiology and recovery. When we supply what is missing or deficient into the diets of people to help their immune systems work, we see an across-the-board improvement."

TWST: I would assume that you could always either improve or add to something with your product. What do you have in mind?

Mr. Caster: From a research standpoint, because biomarkers of optimal health are very critical, we look at things like bone density, lean-to-fat ratio, and biomarkers such as cholesterol and C-reactive proteins. Also, through the passage of DSHEA, the FDA was instructed to implement GMPs, or Good Manufacturing Practices, into our industry. They already have been implemented in countries like Canada and Australia, and will soon be initiated here. Much of our research and development is devoted to the validation of efficacy for GMP purposes.

For instance, if you claim that your product is an antioxidant, you will soon have to prove it; this is a great thing for consumers and a great thing for the industry. A lot of our current research and development focuses on developing chemical assays that measure the existence of the various sugars- the amounts, o the efficacy, antioxidant effect, what they do and how effective they are. Our primary initiative right now is to develop more assays that validate our GMPs.

TWST: Could you tell us more about the health benefits, more or less starting from the top down?

Mr. Caster: Let me answer that question by saying this: science has found that sugars are necessary for proper immune system function. When your immune system is compromised and does not function appropriately, any disease can manifest itself more aggressively. For example, everyone has cancer cells in their body. The reason I'm not diagnosed or you are not diagnosed with cancer is that our immune system functions at a level that recognizes those cells, kills them, and hopefully keeps us ahead of the curve. But just the environment we live in today launches a daily assault on the proper functioning of our immune system. Once your immune system is compromised, you are susceptible to the manifestation of every kind of disease function.

Once you have a disease, your recovery is totally dependent upon how functional your immune system is. Drugs don't repair the body; only the human body can repair itself. Drugs interfere with the physiological processes within the disease categories that help the body heal itself. When you find components that are necessary for proper cellular defense and proper immune function, and you introduce those into the diets of people with compromised health, you typically see — regardless of whether they are at pre-disease or post-disease conditions — an across-the-board improvement in their quality of life. Everyone needs good nutrition. Sick people just need more of it to support the systems of recovery.

So what do we see out there? We see benefits in every kind of health situation that you could possibly name because our product is not a drug but rather a nutrient that is necessary for the basic functions of physiology and recovery. When we

supply what is missing or deficient into the diets of people to help their immune systems work, we see an across-the-board improvement.

“There are two things that are playing a big role in our dynamic growth. First, the consumer market for dietary supplements is exploding worldwide. More and more people are looking for alternative or complementary approaches to healthcare challenges. Second, the baby boomers are focusing on anti-aging.”

TWST: How long does it usually take before the benefits begin to be noticed?

Mr. Caster: In many cases, people whose health is compromised notice changes almost immediately. Glyconutrients are also necessary for those people who feel well to keep their immune systems intact and all their defense systems functioning appropriately. Since they are “healthy,” they may not see a noticeable difference in their quality of life. Ultimately, how fast or noticeable the changes are depends on the level of your health when you start taking the products.

TWST: Looking out over the next two or three years, what are the key elements in your strategy at Mannatech?

Mr. Caster: Again, our core technology centers on glyconutrients. We were invited last year to share our technology at MIT’s second annual Emerging Technologies Conference. MIT had projected that the science of sugars, glycomics, is one of 10 technologies that will impact the world in the next decade. Our technology fits right into that category.

Our goals are many. We will continue improving the efficacy and quality of our products. We will continue to develop chemical assays in order to validate the efficacy of our product for

GMP purposes. We will continue conducting the research necessary to facilitate the healthcare community’s better understanding of the benefit of dietary supplementation. We will also continue spreading the message of the business model of networking, expanding into foreign countries and taking advantage of the trends toward wellness.

TWST: What about problems and challenges?

Mr. Caster: Fast growth brings its own unique set of challenges. And such challenges as making sure that we keep up the supply are good challenges to have if you’re in a fast-growth company. The laws regarding GMPs are changing in every country so that creates challenges. In some cases more science is required, in some cases, a change of formulation; in other cases, more data must be supplied to the particular governments. So meeting GMPs worldwide is a huge initiative, made more complex because as every country defines their own laws, in some cases their standards are congruent with United States standards, in some cases they are quite different, meaning that we have to develop more formulations to meet new criteria in those countries. Simply getting the word out to the general public regarding the value of such an abstract technology as that of sugars will constantly be one of our main challenges in every country. So we’re always looking for more effective ways to educate the public about glyconutrients.

TWST: What would you reasonably expect Mannatech to look like three years from now?

Mr. Caster: There are two things that are playing a big role in our dynamic growth. First, the consumer market for dietary supplements is exploding worldwide. More and more people are looking for alternative or complementary ap-

proaches to healthcare challenges. Second, the baby boomers are focusing on anti-aging. Be it physical exercise equipment, dietary supplements or reconstructive surgery, it is a premium with the baby boomer generation right now. So it is a very aggressive market right now. We feel, as our proprietary technology gains international prominence and as people experience the ongoing efficacy of our products, we don't anticipate a slowdown in our growth anywhere.

“Economically, the wellness industry is predicted to be a trillion-dollar business in the next 10 years. This is a huge industry evolving before our very eyes. This is driven by the baby boomer generation and the people who are looking for alternative health care.”

TWST: Could you tell us about your own background and expertise and the backgrounds of one or two other people in the company, including a scientist?

Mr. Caster: My background lies mainly in marketing. I have had extensive experience in building network marketing business models for the distribution of new technologies, so I brought that expertise to the table — an understanding of how to take abstract new technology, simplify the message, and get it to the consumers through this business model. I also brought an understanding of how to manage the dynamics of a network marketing company. Because it primarily involves working with a volunteer force of sales associates, you can't “manage”; rather, you have to inspire and motivate them. That's the expertise from the business standpoint that I bring to the table.

Our doctors on staff include Dr. Bill McAnalley, our Chief Science Officer. He is the scientist who actually made the discovery of the

active molecule in aloe vera. He discovered that it was a sugar, and he dealt with the pharmaceutical applications of that sugar for 15 years prior to joining Mannatech. Dr. Steven Boyd, Medical Director of Health Sciences, had been in charge of clinical studies at a pharmaceutical company that used carbohydrate technology; he came to Mannatech to help us organize and oversee our clinical studies and disseminate that kind of information into peer-reviewed journals. So we have some very good people on our scientific team.

Terry Persinger, our President and Chief Operating Officer, has been an executive Vice President at Goodyear, a billion-dollar plus company. He understands the necessity of building systems and bringing strategic planning to handle the dynamic growth we're experiencing.

TWST: Do you see any need to improve the company's capital structure?

Mr. Caster: Not really. We are mainly a cash business. We have no long-term debt. We are growing extremely well in capital. We are paying dividends on our stock every quarter now. Actually, we feel very comfortable with our cash position.

TWST: Do you feel that you've been completely successful in communicating your message to the investment community?

Mr. Caster: No, I don't. I don't think we've been successful at all, really. We went through some management and ownership changes four or five years ago, causing sales losses in our company; at that time we really didn't want to tell anybody what we were doing because we had a lot of housecleaning to do. Once we got through that process and reestablished the management group that we wanted, re-created a new Board of Directors, and started doing the things that have enabled the business to experience three straight years of positive growth, now we feel it's time to get our story out.

TWST: What was that housecleaning all about?

Mr. Caster: I co-founded the company with two other men. After we went public, the other founders began to sell their stock as aggressively as possible just to cash out of the business. I felt that was damaging both to our image on Wall Street and also to our business atmosphere by showing a lack of faith in our future. So I actually resigned from the Board of Directors to force the issue that one of us needed to take control of the company. It didn't do much good for me to promote the long-term viability of this business and its exciting future when we had an ownership and a Board that supported the aggressive selling of their own stock. So I left the company for a while.

Once I got an agreement from the other founders to sell out and turn the management of the company back into my hands, I returned. We facilitated their desire to be bought out, released many of the people associated with that strategy and rebuilt a quality management team. We also built the best Board of any company in our industry. For example, we have four people on our Board of Directors who are in the Direct Selling Association's Hall of Fame because of the types of businesses they built over their careers.

Once we put all that together, we're now seeing the manifestation of what I originally thought our company was capable of doing. Once we removed all the distractions and got everybody back on track, our business immediately turned around and started growing at the level I expected.

TWST: What would be the three or four best reasons for an investor now to take a very good look at Mannatech?

Mr. Caster: Economically, the wellness industry is predicted to be a trillion-dollar business in the next 10 years. This is a huge industry evol-

ing before our very eyes. This is driven by the baby boomer generation and the people who are looking for alternative health care.

Secondly, we have established ourselves as one of the true, scientifically based developers of dietary supplements in this industry. You could probably count on two hands the number of companies that have significant patented discoveries in our industry, and I think we're the only one that has a patent on necessary nutrients in biochemistry.

Thirdly, I believe we have a proven business model and management team that can maintain the current level of growth and can lead us into truly becoming one of the leading companies in the industry, with the biggest market share of anybody in wellness.

TWST: Could you talk about how your distribution model differs from that of other companies in the wellness industry — Amway, for instance?

Mr. Caster: It's actually the same type of business model; it's just a different product line. Although there are a lot of retail outlets that do extremely well, network marketing is a wonderful form of distribution to get technology, particularly new technology or abstract technology, down to the lowest common denominator out in the marketplace. Take just a small family in a small town, for example. They don't have to open up a facility; there's no brick and mortar necessary, and they don't have the capitalization of expansion because all their expansion is done through word of mouth. So it's an incredible business model for expansion not only in this country but around the world. So we're the same as Amway in that respect.

TWST: Is there anything that you would like to add, particularly with regard to your strategy and your vision?

Mr. Caster: If you look at the trends in healthcare costs, and if you understand what unfunded Social Security looks like in the future, and that unfunded Medicare benefits are 5 times worse than Social Security, then you know that something has to change in our philosophy of health care. And that change is coming. It is mandatory that we find new wellness strategies that address people's health on the front end instead of always dealing with it on the back end when disease conditions occur. There's a lot of momentum behind wellness, and I think this government and governments all over the world are seeing that. Yes, the healthcare environment is a little slow to come around, but I believe it will.

If you study the future of health care and look for the best strategy to meet an unmanageable demand for healthcare costs, the only thing that

makes sense is prevention. That's where the industry is headed, and I think the people who recognize that trend now and line up with the companies that have the best opportunity to capture market share in that segment are going to be very pleased in the next five to 10 years.

TWST: Thank you. (MC)

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