

UNITED STATES DISTRICT COURT
DISTRICT OF NEW MEXICO

RICHARD McMURRY, On Behalf of Himself) No.
and All Others Similarly Situated,)
)
Plaintiff,) COMPLAINT FOR VIOLATION OF THE
) FEDERAL SECURITIES LAWS
)
vs.)
)
MANNATECH, INC., SAMUEL L. CASTER,)
TERRY L. PERSINGER and STEPHEN D.)
FENSTERMACHER,,)
)
Defendants.)
)
_____) DEMAND FOR JURY TRIAL

BACKGROUND AND CASE OVERVIEW

1. This is a securities class action on behalf of all persons who purchased the common stock of Mannatech, Inc. (“Mannatech” or the “Company”) between August 10, 2004 and May 9, 2005 (the “Class Period”), against Mannatech and certain of its officers and directors for violation of the Securities Exchange Act of 1934 (the “1934 Act”).

2. Mannatech develops nutritional supplements, topical products, and weight-management products. Its products are designed to support cell-to-cell communication, the immune system, the endocrine system, skin, and health, as well as nutritional support during weight loss. The Company provides various nutritional supplements for overall health and wellness; wellness management products to support and maintain specific areas of the body; lifestyle solutions to further support specific physiological functions that need additional nutritional support; sports performance nutrition products that provide nutrition to support physical performance and maintain muscle mass; a body system that focuses on various aspects of nutrition and weight management; skin care solutions, which are designed to strengthen the skin’s own natural texture, softness, and elasticity, as well as to deliver vital antioxidants to the skin; and children’s growth essentials for their overall health and wellness. Mannatech also offers sales aids for its associates, which include enrollment and renewal packs, orientation and training programs, brochures, audio and videotapes, Web-based data management tools, and personalized Web site development. The Company primarily sells its products, as well as its starter and renewal packs, through a network-marketing system in the United States, Canada, Australia, the United Kingdom, Japan, New Zealand and the Republic of Korea.

3. During the Class Period, defendants caused Mannatech’s shares to trade at artificially inflated levels by issuing a series of materially false and misleading statements regarding the Company’s business and prospects and by concealing improprieties by sale associates, allowed and

encouraged by the Company. This caused the Company's stock to trade as high as \$26.04 per share during the Class Period. Defendants took advantage of this inflation, selling or otherwise disposing of 178,100 shares of their Mannatech stock then valued at more than \$3.7 million.

4. On May 9, 2005, *Barron's* published a story on Mannatech detailing CEO Caster's history and questioning the Company's sales associates' methods and their "seemingly irrepressible inclination . . . to make extraordinary therapeutic claims for the supplements," which had "irked some foreign regulators." The story also discussed a civil suit filed in Los Angeles County against Mannatech for "negligent misrepresentation" and "conspiracy to commit fraud" stemming from alleged misconduct by its sales associates.

5. On this news, Mannatech's stock fell to as low as \$11.64 per share on May 10, 2005 before closing at \$12.15 per share on volume of 2.2 million shares.

6. The true facts, which were known by each of the defendants but concealed from the investing public during the Class Period, were as follows:

(a) the Company was at least tacitly encouraging associates to make misleading claims about the Company's products;

(b) contrary to defendants' claims of fiscal 2005 growth and profitability, the Company would experience much worse results once its misleading practices were disclosed;

(c) the Company lacked the controls to prevent false statements by associates; and

(d) as a result of (a)-(c) above, the Company's earnings were based on misleading claims about the efficacy of its products.

7. As a result of defendants' false statements, Mannatech's stock traded at inflated prices of as high as \$26.04 per share during the Class Period, which allowed its top officers to reap \$3.7 million in insider trading proceeds. However, after the above revelations entered the market,

the Company's shares were hammered by massive sales of the Company's shares sending them down 53% from their Class Period high.

JURISDICTION AND VENUE

8. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

9. Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

THE PARTIES

10. Plaintiff Richard McMurry purchased Mannatech common stock as described in the attached certification and was damaged thereby.

11. Defendant Mannatech develops nutritional supplements, topical products, and weight-management products. Its products are designed to support cell-to-cell communication, the immune system, the endocrine system, skin, and health, as well as nutritional support during weight loss.

12. Defendant Samuel L. Caster ("Caster") is the Chief Executive Officer and Chairman of the Board of Directors of Mannatech.

13. Defendant Terry L. Persinger ("Persinger") is President, Chief Operating Officer and a director of Mannatech. During the Class Period, Persinger reaped \$3,747,209 in insider trading proceeds by selling 178,100 shares of his Mannatech stock at artificially inflated prices.

14. Defendant Stephen D. Fenstermacher ("Fenstermacher") is Chief Financial Officer, Principal Accounting Officer and Senior Vice President of Accounting of Mannatech.

15. Defendants Caster, Persinger and Fenstermacher (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of Mannatech's quarterly and annual reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were

provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions as President and COO, CEO and Chairman of the Board and Senior Vice President and CFO and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. Defendants are liable for the false statements pleaded herein at ¶¶23-28.

OVERVIEW OF THE SCHEME TO DEFRAUD

16. In addition to the above-described involvement, the Individual Defendants had knowledge of Mannatech's problems and were motivated to conceal such problems.

17. The Individual Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Mannatech. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Mannatech's common stock was a success, as it: (i) deceived the investing public regarding Mannatech's prospects and business; (ii) artificially inflated the price of Mannatech common stock; and (iii) caused plaintiff and other members of the Class to purchase Mannatech common stock at inflated prices.

BACKGROUND

18. The Company develops nutritional supplements, topical products, and weight-management products. Its products are designed to support cell-to-cell communication, the immune system, the endocrine system, skin, and health, as well as nutritional support during weight loss. The Company provides various nutritional supplements for overall health and wellness; wellness management products to support and maintain specific areas of the body; lifestyle solutions to further support specific physiological functions that need additional nutritional support; sports

performance nutrition products that provide nutrition to support physical performance and maintain muscle mass; a body system that focuses on various aspects of nutrition and weight management; skin care solutions, which are designed to strengthen the skin's own natural texture, softness, and elasticity, as well as to deliver vital antioxidants to the skin; and children's growth essentials for their overall health and wellness. Mannatech sells its products and packs through a global network-marketing system throughout the United States, Canada, Australia, the United Kingdom, Japan and New Zealand. Mannatech operates as a single segment and primarily sells its products and starter and renewal packs through a network of hundreds of thousands of independent associates and members who have purchased Mannatech's products within the last twelve months. Mannatech also offers sales aids for its associates, which include enrollment and renewal packs, orientation and training programs, brochures, audio and videotapes, Web-based data management tools, and personalized Web site development.

19. In March 2004, Mannatech filed its Form 10-K for 2003 in which it emphasized the important role its associates play in marketing the Company's products:

Mannatech believes network-marketing is an effective communication channel for its business and products. Network-marketing allows Mannatech to effectively educate consumers about the unique potential benefits of its proprietary products, as well as the unique science of its products. Additionally, Mannatech believes network-marketing allows it to introduce products into the marketplace more quickly and at a lower cost than other more conventional marketing methods. Further, Mannatech believes network-marketing allows its independent associates to supplement their income and develop financial freedom by building their own businesses.

20. Thus, Mannatech's success as a business was dependent on the marketing of the associates and defendants closely monitored the sales claims made by the Company's associates to evaluate which marketing programs were most successful. Thus, the outlandish claims by associates were known to defendants and, at a minimum, tacitly encouraged.

21. Investors were assured that Mannatech adequately monitored its associates' advertising to make sure it was consistent with Company policies:

Mannatech takes an active role in the oversight of its associates. Mannatech tries to ensure that its associates' conduct complies with applicable laws and regulations governing the sale of its products and the promotion of its business opportunities by contractually binding associates to abide by Mannatech's associate policies and procedures. Mannatech provides each associate with a copy of its policies and procedures upon signing up as an associate and distributes changes to its policies and procedures that must be followed in order to remain compliant with respect to Mannatech's policies and procedures. In addition to publishing and distributing its policies and procedures, Mannatech also publishes the changes in its associate newsletter, posts the changes on its corporate website, and announces the changes at various educational meetings, seminars and webcasts. Furthermore, Mannatech's legal/compliance department periodically monitors its associates' websites for content. In an effort to decrease the number of independent websites owned by associates and to preserve and protect its trademarks, Mannatech offers Mannapages™, a standardized, personal, Internet website program created to help associates with their sales efforts, provide consistent standardized information and education, and assist Mannatech in monitoring its associates' websites.

Mannatech's legal/compliance program also depends on associate self-regulation. When a complaint is filed against an associate, the legal/compliance department conducts an investigation of the allegations by obtaining a written response from associate and witness statements, if applicable. Depending on the nature of the violation, Mannatech may suspend and/or terminate the non-compliant associates' rights and may impose various sanctions, including warnings, probation, termination of associate status, and withholding commissions until the complaint is rectified. Mannatech's legal/compliance department, in cooperation with other departments and associates, periodically evaluates the conduct of its associates and the need for the new and revised policies and procedures. Mannatech's compliance program assists in maintaining associate ethics and helps associates in their sales efforts. Mannatech also sponsors continuing education to ensure that its associates understand and abide by Mannatech's associate policies and procedures.

22. In fact, as would be shown later in the *Barron's* article, Mannatech failed consistently to stop the "extravagant" claims by associates.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

23. On August 10, 2004, the Company issued a press release entitled "Mannatech Announces Record Quarterly Sales, Net Income and E.P.S." The press release stated in part:

Mannatech, Incorporated today announced record sales and net income for its second quarter ended June 30, 2004. For the three months ended June 30, 2004, net sales reached \$74.3 million, which was an increase of 59.8% from \$46.5 million for the same period in 2003 and net income increased by 376.1% to \$5.6 million or \$0.20 earnings per share (diluted), as compared to \$1.2 million or \$0.04 earnings per share (diluted) for the same period in 2003. For the first six months of 2004, net sales increased by 52.5% to reach \$132.7 million and net income increased to \$8.7 million, or \$0.32 earnings per share (diluted), compared to sales of \$87.0 million and net income of \$2.6 million, or \$0.10 earnings per share (diluted) for the same period in 2003. Net sales by country for the three months ended June 30, 2004, in millions, and as a percentage of total net sales are as follows:

| | | | | |
|----------------|---------------|-------------|-------------|----------------|
| | United States | Canada | Australia | United Kingdom |
| 2004 | \$49.5 66.6% | \$5.8 7.8% | \$7.4 10.00 | \$2.6 3.5% |
| 2003 | \$31.7 68.2% | \$4.2 9.0% | \$3.4 7.3% | \$1.0 2.2% |
| % increase | | | | |
| 2004 over 2003 | 56.2% | 38.1% | 117.6% | 160.0% |
| | Japan | New Zealand | | Total |
| 2004 | \$5.9 7.9% | \$3.1 4.2% | | \$74.3 100% |
| 2003 | \$4.6 9.9% | \$1.6 3.4% | | \$46.5 100% |
| % increase | | | | |
| 2004 over 2003 | 28.3% | 93.8% | | 59.8% |

Commenting on the results, Mannatech Chairman and CEO Sam Caster said, “Our record performance, with sales growth of 59.8% and net income increasing 376.1%, is a testament to Mannatech’s products, our Associates and the future of the Company. Along with this tremendous growth in our current markets, we are excited about introducing Mannatech products to South Korea when we plan to open for business in September 2004. Another sign of our strong trend is our increase in pack sales, which increased by 101.8% in the second quarter of 2004 as compared to 2003. Pack sales, which are regarded as a leading indicator for Mannatech, include signups, renewals, and upgrades, and our higher priced pack choices include various product selections as well as sales materials. New Associates are joining our company at a record rate, and we look forward to adding South Korea to our family of markets.”

24. On November 9, 2004, the Company issued a press release announcing its record quarterly sales and earnings. The release stated in part:

Mannatech, Incorporated today announced record sales and earnings for its third quarter ended September 30, 2004 as compared to the same period in 2003. For the three month period ended September 30, 2004, sales reached \$77.6 million, a new quarterly sales record for Mannatech, which was an increase of \$27.8 million, or 56.1%, as compared to the prior year. Net income rose to \$6.8 million, which more than doubled versus the same period in 2003. Net income as a percentage of net sales increased to 8.8% of net sales as compared to 5.8% for the same period in 2003.

Earnings per share (diluted) for the third quarter of 2004 increased to \$0.25 per share, which was an increase of 127.3% as compared to the prior year.

Sales for the nine months ended September 30, 2004 were \$210.2 million, up 53.8% versus 2003. Net Income reached \$15.5 million, which was an increase of \$10.0 million or 183.4% over last year, while earnings per share (diluted) for the nine months ended September 30, 2004 was \$0.57, again of 171.4% as compared to the same period in 2003.

The third quarter results represented a new quarterly record and marks Mannatech's eighth consecutive quarter of successive sales increases, during which time sales have more than doubled. Net sales by country for the three months ended September 30, 2004, in millions, and as a percentage of total net sales, as well as the number of new and continuing Mannatech independent Associates and Members who purchased Mannatech's products within the last 12 months were as follows:

| | United States | Canada | Australia | United Kingdom |
|------|------------------|---------------|----------------|-------------------|
| 2004 | \$51.3 66.1% | \$5.6 7.2% | \$8.0 10.3% | \$2.6 3.3% |
| 2003 | \$33.4 67.2% | \$4.1 8.2% | \$4.2 8.5% | \$1.3 2.6% |
| | | * | * | * |

Sam Caster, Chairman and CEO of Mannatech, commented on the records [sic] setting results. "We have seen our business grow rapidly and successfully for the past eight quarters, through the tremendous labors of our Associates around the world in concert with the highly focused and motivated activities of our corporate staff. We have also seen our sales double since the string of successive quarterly increases began in the fourth quarter of 2002. This strong trend is rewarding to us, and yet we believe that we have just begun to realize the potential of the products Mannatech brings to the world. We intend to continue our growth into new markets around the globe, and we welcome into the Mannatech family the Associates in our newest market in South Korea, which opened in September, 2004."

25. On March 9, 2005, the Company issued a press release entitled "Mannatech Inc. Announces Another Record-Breaking Year of Annual Sales & Profit." The press release stated in part:

Mannatech, Incorporated today announced the achievement of new annual sales and profit records for 2004. Consolidated net sales reached a new high of \$294.5 million,

an increase of \$103.5 million, or 54.2%, as compared to 2003. Mannatech's net income of \$19.6 million more than doubled as compared to the prior year with an increase of \$10.8 million, or 122.4%, and earnings per share of \$0.71 (diluted) increased 108.8% as compared to 2003. Annual historical sales by market are shown in the table below.

| | 2002 | | 2003 | | 2004 | |
|----------------|---------|--------|---------|--------|---------|--------|
| United States | \$105.0 | 74.5% | \$127.8 | 67.0% | \$192.5 | 65.4% |
| Canada | \$16.4 | 11.6% | \$16.7 | 8.7% | \$22.2 | 7.5% |
| Australia | \$6.6 | 4.7% | \$15.6 | 8.2% | \$30.6 | 10.4% |
| United Kingdom | \$1.6 | 1.1% | \$5.0 | 2.6% | \$10.5 | 3.6% |
| Japan | \$9.0 | 6.4% | \$18.6 | 9.7% | \$24.5 | 8.3% |
| New Zealand | \$2.3 | 1.7% | \$7.3 | 3.8% | \$12.9 | 4.4% |
| South Korea | \$-- | --% | \$-- | --% | \$1.3 | 0.4% |
| Total | \$140.9 | 100.0% | \$191.0 | 100.0% | \$294.5 | 100.0% |

Fourth quarter results also included a new consolidated net sales record of \$84.2 million for Mannatech, which was an increase of \$29.9 million, or 55.1%, as compared to the same period in 2003. Fourth quarter net income was \$4.0 million, or \$0.15 earnings per share (diluted), which was an increase of 21.9 % over the fourth quarter of 2003. Net income for the fourth quarter included one-time non-cash charge, totaling \$3.0 million, or \$0.07 per diluted share, net of tax, related to Mr. Caster's sale of 180,000 shares of his common stock to a former employee, Dr. H. Reginald McDaniel. The sale was for a price that was below the fair market value of Mannatech's stock on the date of the sale. Quarterly sales volumes by market are shown in the table below.

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|----------------|---------------|--------|----------------|--------|---------------|--------|----------------|--------|
| United States | \$36.8 | 63.0% | \$49.5 | 66.6% | \$51.3 | 66.1% | \$54.8 | 65.2% |
| Canada | \$4.7 | 8.0% | \$5.8 | 7.8% | \$5.6 | 7.2% | \$6.1 | 7.2% |
| Australia | \$6.5 | 11.1% | \$7.4 | 10.0% | \$8.0 | 10.3% | \$8.8 | 10.4% |
| United Kingdom | \$2.8 | 4.8% | \$2.6 | 3.5% | \$2.6 | 3.3% | \$2.5 | 3.0% |
| Japan | \$5.0 | 8.6% | \$5.9 | 7.9% | \$6.5 | 8.4% | \$7.1 | 8.4% |
| New Zealand | \$2.6 | 4.5% | \$3.1 | 4.2% | \$3.4 | 4.4% | \$3.8 | 4.5% |
| South Korea | \$-- | --% | \$-- | --% | \$0.2 | 0.3% | \$1.1 | 1.3% |
| Total | \$58.4 | 100.0% | \$74.3 | 100.0% | \$77.6 | 100.0% | \$84.2 | 100.0% |

Mr. Caster commented on the new all time high record sales volumes for the periods, stating, "We are extremely pleased with the financial gains and continued strength shown throughout 2004, and also are delighted with the impressive sales momentum generated by our 369,000 current independent Associates and members around the world. Our groundbreaking glyconutritional technology continues to bring hope, health, and opportunity to people in record numbers and we believe that we are just scratching the surface of the potential of Mannatech."

26. On March 10, 2005, the Company issued an updated press release entitled “Mannatech Inc. Announces Another Record-Breaking Year of Annual Sales & Profit– Updated.”

The press release stated in part:

Mannatech, Incorporated today announced the achievement of new annual sales and profit records for 2004. Consolidated net sales reached a new high of \$294.5 million, an increase of \$103.5 million, or 54.2%, as compared to 2003. Mannatech’s net income of \$19.6 million more than doubled as compared to the prior year with an increase of \$10.8 million, or 122.4%, and earnings per share of \$0.71 (diluted) increased 108.8% as compared to 2003. Annual historical sales by market are shown in the table below.

| | 2002 | | 2003 | | 2004 | |
|----------------|---------|---------|---------|--------|---------|---------|
| United States | \$105.0 | 74.5% | \$127.8 | 67.0% | \$192.5 | \$65.4% |
| Canada | \$16.4 | \$11.6% | \$16.7 | \$8.7% | \$22.2 | 7.5% |
| Australia | \$6.6 | 4.7% | \$15.6 | 8.2% | \$30.6 | 10.4% |
| United Kingdom | \$1.6 | 1.1% | \$5.0 | 2.6% | \$10.5 | 3.6% |
| Japan | \$9.0 | 6.4% | \$18.6 | 9.7% | \$24.5 | 8.3% |
| New Zealand | \$2.3 | 1.7% | \$7.3 | 3.8% | \$12.9 | 4.4% |
| South Korea | \$-- | --% | \$-- | --% | \$1.3 | 0.4% |
| Total | \$140.9 | 100.0% | \$191.0 | 100.0% | \$294.5 | 100.0% |

Fourth quarter results also included a new consolidated net sales record of \$84.2 million for Mannatech, which was an increase of \$29.9 million, or 55.1%, as compared to the same period in 2003. Fourth quarter net income was \$4.0 million, or \$0.15 earnings per share (diluted), which was an increase of 21.9 % over the fourth quarter of 2003. Net income for the fourth quarter included one-time non-cash charge, totaling \$3.0 million, or \$0.07 per diluted share, net of tax, related to Mr. Caster’s sale of 180,000 shares of his common stock to a former employee, Dr. H. Reginald McDaniel. The sale was for a price that was below the fair market value of Mannatech’s stock on the date of the sale. Quarterly sales volumes by market are shown in the table below.

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|----------------|---------------|--------|----------------|--------|---------------|--------|----------------|--------|
| United States | \$36.8 | 63.0% | \$49.5 | 66.6% | \$51.3 | 66.1% | \$54.8 | 65.2% |
| Canada | \$4.7 | 8.0% | \$5.8 | 7.8% | \$5.6 | 7.2% | \$6.1 | 7.2% |
| Australia | \$6.5 | 11.1% | \$7.4 | 10.0% | \$8.0 | 10.3% | \$8.8 | 10.4% |
| United Kingdom | \$2.8 | 4.8% | \$2.6 | 3.5% | \$2.6 | 3.3% | \$2.5 | 3.0% |
| Japan | \$5.0 | 8.6% | \$5.9 | 7.9% | \$6.5 | 8.4% | \$7.1 | 8.4% |
| New Zealand | \$2.6 | 4.5% | \$3.1 | 4.2% | \$3.4 | 4.4% | \$3.8 | 4.5% |
| South Korea | \$-- | --% | \$-- | --% | \$0.2 | 0.3% | \$1.1 | 1.3% |
| Total | \$58.4 | 100.0% | \$74.3 | 100.0% | \$77.6 | 100.0% | \$84.2 | 100.0% |

Mr. Caster commented on the new all time high record sales volumes for the periods, stating “We are extremely pleased with the financial gains and continued

strength shown throughout 2004, and also are delighted with the impressive sales momentum generated by our 369,000 current independent Associates and members around the world. Our groundbreaking glyconutritional technology continues to bring hope, health, and opportunity to people in record numbers and we believe that we are just scratching the surface of the potential of Mannatech.”

27. On March 31, 2005, Mannatech filed its Form 10-K for 2004 in which it referenced the important role its associates play in marketing the Company’s products:

All of Mannatech’s associates are independent contractors who are contractually bound to follow certain policies and procedures. These policies and procedures help Mannatech ensure the legality of its independent associates’ activities by requiring associates to comply with regulatory guidelines and act in a consistent, professional manner.

28. Investors were assured that Mannatech was taking an active role in monitoring its associates, making sure their conduct was consistent with Company policies:

Management of Independent Associates. Mannatech takes an active role in the oversight of its independent associates. Mannatech tries to ensure that its independent associates’ conduct complies with applicable laws and regulations governing the sale of its products and the promotion of its business opportunities by contractually binding its independent associates to abide by Mannatech’s policies and procedures for its independent associates and members. Mannatech provides each independent associate with a copy of its policies and procedures upon signing up as an independent associate and uses various media formats to distribute changes to its policies and procedures that must be followed in order to remain compliant with respect to Mannatech’s policies and procedures, including publishing the changes in a newsletter, posting the changes on its corporate website, and announcing the changes at various educational meetings, seminars, and webcasts. Furthermore, Mannatech’s legal/compliance department periodically monitors its independent associates’ websites for content. In an effort to decrease the number of independent websites owned by its independent associates and to preserve and protect its trademarks, Mannatech offers Mannapages™. Mannapages™ is a standardized personal Internet website program created to help its independent associates with their sales efforts, provide consistent standardized information and education, and assist Mannatech in monitoring websites of its independent associates.

29. On May 9, 2005, the Company issued a press release entitled “Mannatech, Inc. Announces New First Quarter Records: Sales Increase 46%, E.P.S. up 55% records.” The press release stated in part:

Mannatech, Inc. today announced record first quarter financial results. For the three months ended March 31, 2005, consolidated net sales increased 46% as compared to the prior year quarter to reach a new quarterly record of \$85.1 million. In addition current independent Associates and members totaled 401,000 and reached a new record level. Net sales by country for the three months ended March 31, in millions, and as a percentage of net sales are as follows:

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

| | | | | |
|---------------|---------------|-------------|-----------|----------------|
| | United | | | United |
| (in millions) | States | Canada | Australia | Kingdom |
| 2004 | \$36.8 | \$4.7 | \$6.5 | \$2.8 |
| 2005 | \$56.1 | \$6.7 | \$8.1 | \$2.4 |
| | | New | South(a) | |
| (in millions) | Japan | Zealand | Korea | Total |
| 2004 | \$5.0 | \$2.6 | \$-- | \$58.4 |
| 2005 | \$7.8 | \$3.6 | \$0.4 | \$85.1 |
| | United States | Canada | Australia | United Kingdom |
| 2004 | 63.0% | 8.0% | 11.1% | 4.8% |
| 2005 | 65.9% | 7.9% | 9.5% | 2.8% |
| | | New Zealand | South(a) | |
| | Japan | | Korea | Total |
| 2004 | 8.6% | 4.5% | -- | 100.0% |
| 2005 | 9.2% | 4.2% | 0.5% | 100.0% |

(a) South Korea began operations in September 2004.

The strong sales trend for the first quarter of 2005 resulted in record-setting sales and earnings as well as with net income of \$4.7 million up 50% from a year ago and diluted earnings per share of \$0.17, which increased by 55% as compared to \$0.11 per share for the first quarter of 2004.

Sam Caster, Founder, Chairman, and Chief Executive Officer of Mannatech, commented on the quarterly results, saying, "We have now completed ten consecutive quarters of sales increases and during this period our quarterly volume has grown 245% to reach a new quarterly record of \$85.1 million. Our current independent Associate count as of March 31, 2005 grew 210% over the same ten quarters. Our recent new product introduction of Advanced Ambrotose(TM) has become one of our best-sellers, since its introduction in March 2005. Our earnings are growing at an accelerated rate, and we have a new market opening planned in June 2005 with Taiwan and plan to distribute our products in Germany and Denmark later in 2005. We believe, the future has never looked better for Mannatech, and we intend to continue to build further on the successes of the past ten quarters."

30. However, also on May 9, 2005, *Barron's* published a story on Mannatech which stated in part:

But for all the surface flash, eye-popping financials and grand plans, Mannatech's allure steadily dims the more intensely one scrutinizes its provenance and how it makes its living.

More specifically, our skepticism grew as we examined the company's multilevel marketing structure, reviewed some of the extravagant claims of its sales people both here and abroad, and perused the complaints of the Texas attorney general's office about an earlier venture of Mannatech's chief exec, Samuel Caster.

A lot of the concerns sparked by our research into the company and its affairs find dramatic expression in a civil suit, filed in Los Angeles Superior Court, charging Mannatech and Caster with, among other things, "negligent misrepresentation" and "conspiracy to commit fraud." The company, let us hasten to add, denies all the allegations in that case and avers it deals severely with any misconduct by its sales associates.

Mannatech went public in February 1999 at \$8. In the first days of trading, the stock ran wild, hitting an intraday high of \$44.50. From there on, however, it was virtually all downhill. By May '01, shares were trading under \$1, and for the next two years, they never got above \$4 and change.

From the get-go, Mannatech's strategy has been two-pronged: to develop a proprietary line of supplements and a multilevel marketing organization to sell them. The hallmark of its multilevel marketing is that salespeople, called "associates," earn money not only by selling supplements, but also by recruiting other associates to sell supplements, who, in turn, are encouraged to recruit still more salespeople. In this fashion, the original associate builds what is called a downline network and, importantly, gets a financial cut from not only his own sales, but the sales of his entire network.

* * *

An upbeat Texan with a bit of drawl, the 54-year-old Caster credits McAnalley and McDaniel with having "pioneered the science of glycomics."

"Glyco" is the Greek word for sugar, he explains, not the sweet kind, sucrose, but rather sugars that come from plants, like mannose from the aloe vera. With its "significant patents," Mannatech is on the forefront of a "brand new area of nutrition," Caster insists. But while Mannatech does have some foreign patents, in the U.S., according to the 10-K, it "continues to face the risk of its patent protection for Ambrotose complex being ultimately denied."

Unlike Carrington, which wanted to market its products as drugs and suffered devastating rebuffs by the Food and Drug Administration, Mannatech is selling

Ambrotose only as a food supplement and so needs no blessing from regulators. However, the company is strictly prohibited from claiming Ambrotose “treats” or “cures” anything. Moreover, the Federal Trade Commission requires Mannatech to have “adequate substantiation” for its claims, meaning they must be based on “competent and reliable scientific evidence.”

Associates receive clear guidelines about what they can claim, Caster asserts, and the company disciplines or dismisses those who break the rules.

Yet even the most cursory visit to the Websites of Mannatech associates reveals that these sites are replete with the most astonishing of claims. For example, one such Website, with no readily visible disclaimer, tells with graphic visuals and somewhat primitive prose the remarkable story of Jaclyn, a young woman suffering from multiple sclerosis. She is shown first sitting in a wheelchair and then, in a second photo, working out on a treadmill.

The text accompanying those starkly contrasting photos reads: “Shortly after being married, Jaclyn was faced with the greatest challenge of her life. The excitement of being a newlywed was soon drowned out by the confinement to a wheelchair. . . . A friend introduced her to glyconutrients. . . . To everyone’s amazement, Jaclyn became the fastest response to glyconutrients of anyone who has tried them with MS. The restoration of health usually takes several months with such a debilitating condition. For Jaclyn, within two weeks she was walking again.”

Or jump to another Website and learn about Rikkea, born with cerebral palsy. The pitch comes presumably from her parents: “Our six-year-old daughter Rikkea could not walk or speak at the age of two due to brain damage caused by cerebral palsy. . . . She was having seizures, constant drooling from the mouth. . . . We were introduced to and gave her two capsules of glyconutrients a day in December 1998. After only one week, she got up and walked around the house!! She soon began speaking clearly in sentences too!!”

Close inspection of this site turns up a disclaimer, in small print, to the effect that the statements made have not been evaluated by the FDA and that Mannatech products are dietary supplements not intended to treat disease. But perhaps worth noting, this demur comes after pages and pages of testimonials about the remarkable effects of glyconutrients on a vast array of diseases, including arthritis, hepatitis, brain cancer, diabetes, subglottic hemangioma, prostate cancer and toxic-shock syndrome.

Here, as on a good many other associates’ sites, people also can get info on the “amazing opportunity” to sell Mannatech’s supplements. Such sites do double duty, by both selling the products and also recruiting foot soldiers for Mannatech’s sales force.

The promotional spiel on this associate’s site begins: “Think about this. If there is a product that could benefit every person on earth, is scientifically validated,

is new, is essential like vitamins, is patented, and is only available from ONE company that has an upward business growth compared to that of Microsoft, that equates to a very significant opportunity.” Bill Gates, are you listening?

In spite of flagrant flouting of the rules by salespeople, Mannatech maintains that it complies with applicable laws and regulations. Caster makes a sharp distinction between the company and its associates, conceding that from time to time the latter may make improper claims. “We’re enforcing our policies,” he insists, “but there’s only so much we can do.”

The seemingly irrepressible inclination of some Mannatech associates to make extraordinary therapeutic claims for the supplements has irked some foreign regulators. In New Zealand, the Medical Devices Safety Authority notified Mannatech that its salespeople were making unwarranted claims after newspaper articles in early 2003 described how Stephen Nugent, a Mannatech employee with Ph.D.s in psychology and “naturopathic medicine,” had extolled the virtues of the supplements before packed crowds in several cities.

Speaking to some 500 people in an Auckland ballroom, Nugent is reported to have referred repeatedly to breast and child cancer, cited medical studies supporting the company’s theories and implied he could be more specific except for fear of running afoul of the government and its regulatory bodies.

In addition, the New Zealand Press Association reported that Mannatech associates were allegedly claiming the supplements could treat HIV, cancer, cystic fibrosis, arthritis and Down syndrome.

Mannatech addressed the complaints from the New Zealand Medical Devices Safety Authority through its in-house “disciplinary procedure” and, as of last June, according to the 10-K, had satisfied the regulators.

In Australia, the Therapeutic Goods Administration continues to monitor the company and has required Mannatech to provide “compliance training” for associates for the next three years.

Symptomatic of what may have prompted such oversight were some dubious practices by a Mannatech associate, whose medical license was cancelled for two years in 2000 by the Australian Health Practitioner’s Tribunal. According to the tribunal’s report of its disciplinary action, the doctor, Ian Raddatz, who together with his wife had a sideline business selling Mannatech products, had told patients that the supplements could treat infertility, brain damage and cancer; had urged patients to use Mannatech supplements instead of their prescribed medications, and had tried to recruit a cancer patient’s daughter as an associate, telling her: “These wonderful pills will . . . work wonders on your mother’s cancer.”

Even more egregious are the allegations at the heart of a lawsuit filed Nov. 1, 2004, in a Los Angeles Superior Court by Chie Sasaki, mother of a child with Tay-Sachs disease. She accuses a Mannatech associate, Caster and Mannatech itself of,

among other things, intentional infliction of emotional distress, negligent misrepresentation and conspiracy to commit fraud.

The charges stem from the alleged actions of a Mannatech associate and Sherman Oaks chiropractor, Victoria Arcadi, who treated Sasaki's son, Yasuhiro, after he was diagnosed with Tay-Sachs, a fatal ailment most common among Ashkenazi Jews. Arcadi has denied all the charges against her.

According to court papers, after an initial chiropractic exam in September 1996, Arcadi recommended that Sasaki's son, then three years and nine months old, be given Mannatech supplements. His mother added them to a complicated diet she was already feeding him based on a high-calorie soy-based formula. By being fed nine times a day, the boy managed to gain several pounds.

His mother subsequently gave Arcadi pictures of the boy to show his weight gain, solely for the purpose of his treatment and expecting them to be kept confidential. Yet without oral or written consent, the complaint continues, in May 1997 Arcadi showed photographs of a naked Yasuhiro to several hundred people at a Mannatech demonstration seminar.

A month later, when Yasuhiro's mother discovered her son's photos were being widely used at Mannatech sales meetings, she fired off a letter of protest directly to Samuel Caster, then Mannatech's president. According to the complaint, Mannatech and Caster denied responsibility.

In July 1997, the complaint continues, Yasuhiro's mother protested, on three separate occasions, to Arcadi, who, promised to protect Yasuhiro's privacy but did not return the photographs as requested.

A month later, Arcadi co-authored an article entitled "Case Study: Tay-Sachs Disease Improvement During Nutritional Supplementation" in the Journal of the American Nutraceutical Association, featuring Yasuhiro Sasaki and describing his dramatic improvement taking Mannatech supplements. Thanks apparently to the supplements, the authors reported, "the child is interacting with his environment and exhibiting physical and vocal communication."

Yet, according to the complaint, when the article was published in August 1997, Yasuhiro Sasaki was already dead.

After his death, his mother again demanded Mannatech, Caster and Arcadi stop using her son's likeness and story in marketing Mannatech products, and, according to the complaint, she was led to believe the objectionable distribution would stop.

But years later – in March 2004, to be precise – she received an e-mail from a woman in Mexico whose nephew was afflicted with Tay-Sachs. The woman had seen photographs depicting Yasuhiro's purported improvement using Mannatech

products on a current Website, “with the clear inference,” according to the complaint, “that Yasuhiro was alive and doing well some seven years after his actual death.”

Caster adamantly denies that he or Mannatech had anything to do with distributing Yasuhiro’s story or his photographs. “As a company, we never used the pictures,” he stresses. But he concedes that some associates might still be using Yasuhiro’s story and photos. “Once they get out there,” he observes, “it’s impossible to get them back.”

So far, anyway, neither regulatory disapproval abroad nor wildly hyperbolic claims by associates on their Websites here have dampened the ardor of Mannatech users and associates (who often overlap) or slowed the company’s vigorous growth.

And shareholders, as noted, have little reason to be displeased. Especially those shareholders who happen to be insiders. In the past 12 months, seven Mannatech insiders have sold more than 900,000 shares worth \$18 million.

Two of the biggest sellers were Eileen Vennum and Bill McAnalley. Specifically, in just the past six months, Vennum sold over 85,000 shares worth more than \$1.8 million; McAnalley sold 259,000 shares worth a cool \$5.5 million.

Vennum is senior vice president of R&D at Mannatech. McAnalley is chief science officer, the company’s R&D honcho. They are, pure and simple, Mannatech’s top scientists, both named as inventors on a U.S. patent that is pending for Ambrotose Complex.

Nothing amiss in their selling stock, of course. But to a cynical eye, that they have sold in such quantity could easily be taken as hedging their bets.

31. On this news, Mannatech’s stock fell to as low as \$11.64 per share on May 10, 2005 before closing at \$12.15 per share on volume of 22 million shares.

32. The true facts, which were known by each of the defendants but concealed from the investing public during the Class Period, were as follows:

(a) the Company was at least tacitly encouraging associates to make misleading claims about the Company’s products;

(b) contrary to defendants’ claims of fiscal 2005 growth and profitability, the Company would experience much worse results once its misleading practices were disclosed;

(c) the Company lacked the controls to prevent false statements by associates; and

(d) as a result of (a)-(c) above, the Company's earnings were based on misleading claims about the efficacy of its products.

LOSS CAUSATION/ECONOMIC LOSS

33. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated Mannatech's stock price and operated as a fraud or deceit on Class Period purchasers of Mannatech stock by misrepresenting the Company's business success and future business prospects. Later, however, when defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, Mannatech stock fell precipitously as the prior artificial inflation came out of Mannatech's stock price. As a result of their purchases of Mannatech stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

34. By misrepresenting the success of the Company's business and concealing its associates' improprieties, the defendants presented a misleading picture of Mannatech's business and prospects. These claims of future profitability caused and maintained the artificial inflation in Mannatech's stock price throughout the Class Period and until the truth was revealed to the market.

35. Defendants' false and misleading statements had the intended effect and caused Mannatech stock to trade at artificially inflated levels throughout the Class Period, reaching as high as \$26.04 per share.

36. On May 9, 2005, *Barron's* published a story on Mannatech disclosing various improprieties by Mannatech associates which had fueled the Company's growth. As investors and the market became aware of Mannatech's prior misstatements and concealments and that Mannatech's actual business prospects were, in fact, poor, the prior artificial inflation came out of Mannatech's stock price, damaging investors.

37. As a direct result of the public revelations regarding the truth about Mannatech's associates' conduct and its actual business prospects going forward, Mannatech's stock price plummeted 26%, falling from \$20.43 per share on Friday, May 6, 2005 to \$15.11 per share on Monday, May 9, 2005, a one-day drop of \$5.32 per share. The stock dropped to as low as \$11.64 per share briefly on May 10, 2005. The volume on May 9th and May 10th was 2.5 million shares and 2.2 million shares, respectively – more than 10 times the volume on earlier days. This drop removed the inflation from Mannatech's stock price, causing real economic loss to investors who had purchased the stock during the Class Period. In sum, as the truth about Mannatech's business prospects was revealed, the Company's stock price plummeted, the artificial inflation came out of the stock and plaintiff and other members of the Class were damaged, suffering economic losses of up to \$5.32 per share.

38. The decline in Mannatech's stock price at the end of the Class Period was a direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market. The timing and magnitude of Mannatech's stock price declines negate any inference that the loss suffered by plaintiff and other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the defendants' fraudulent conduct. During the same period in which Mannatech's stock price fell 26% from \$20.43 per share as a result of defendants' fraud being revealed, the Standard & Poor's 500 securities index was flat. The economic loss, *i.e.*, damages, suffered by plaintiff and other members of the Class was a direct result of defendants' fraudulent scheme to artificially inflate Mannatech's stock price and the subsequent significant decline in the value of Mannatech's stock when defendants' prior misrepresentations and other fraudulent conduct was revealed.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

39. Plaintiff incorporates ¶¶1-38 by reference.

40. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

41. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Mannatech common stock during the Class Period.

42. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Mannatech common stock. Plaintiff and the Class would not have purchased Mannatech common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

43. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Mannatech common stock during the Class Period.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

44. Plaintiff incorporates ¶¶1-43 by reference.

45. The Individual Defendants acted as a controlling persons of Mannatech within the meaning of §20(a) of the 1934 Act. By reason of their positions as officers and/or directors of Mannatech, and their ownership of Mannatech stock, the Individual Defendants had the power and authority to cause Mannatech to engage in the wrongful conduct complained of herein. Mannatech controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

46. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Mannatech common stock on the open market during the Class Period (the “Class”). Excluded from the Class are defendants.

47. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Mannatech has more than 27 million shares of stock outstanding, owned by hundreds if not thousands of persons.

48. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) whether the 1934 Act was violated by defendants;
- (b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of Mannatech's common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

49. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

50. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

51. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
- B. Awarding plaintiff and the members of the Class damages, interest and costs;
- C. Awarding plaintiff's reasonable costs, including attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: August ____, 2005

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