

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

| | | |
|-----------------------------------|---|-------------------------|
| NORMA MIDDLETON, Derivatively and |) | Case No. 3:05-CV-2059-K |
| on Behalf of Nominal Defendant, |) | |
| MANNATECH, INC., |) | |
| |) | |
| Plaintiff, |) | |
| |) | |
| vs. |) | |
| |) | |
| 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, |) | |
| |) | |
| Defendants, |) | |
| |) | |
| -and- |) | |
| |) | |
| MANNATECH, INCORPORATED, a Texas |) | |
| corporation, |) | |
| |) | |
| Nominal Defendant. |) | |
| |) | |

[Caption continued on following page]

**TO: ALL CURRENT OWNERS OF MANNATECH, INCORPORATED
("MANNATECH") COMMON STOCK**

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS MAY BE AFFECTED.

This notice has been sent to you pursuant to an Order of the United States District Court for the Northern District of Texas (the "Court"). The purpose of the notice is to advise you of the proposed settlement (the "Settlement"), as set forth in a Stipulation of Settlement dated as of September 22, 2008 (the "Stipulation"), of the shareholder derivative litigations pending before the Court (the "Federal Derivative Actions"), of the shareholder derivative litigations pending before the District Court of Dallas County, Texas (the "State Derivative Actions") (collectively with the Federal Derivative Actions, the "Derivative Actions") and of the Settlement Hearing. The Settlement will fully resolve the Derivative Actions on the terms set forth in the Stipulation and summarized in this notice, including the dismissal of the litigation with prejudice. For a more detailed statement of the matters involved in the derivative litigation, the Settlement and the terms discussed in this notice, the Stipulation may be inspected at the Office of the Clerk of the United States District Court for the Northern District of Texas located at 1100 Commerce St., Room 1625, Dallas, TX 75242, during business hours of each business day.

You may have the right to object to the Settlement, any award of attorney's fees and expenses to Derivative Plaintiffs' Counsel and the incentive fee award to Plaintiff Norma Middleton in the manner provided herein. If you fail to object in the manner provided herein at least fourteen (14) calendar days prior to the Settlement Hearing, you will be deemed to have waived your objections and will be bound by the judgment to be entered and the releases to be given, unless otherwise ordered by the Court.

This notice is not intended to be an expression of any opinion by the Court with respect to the merits of the claims made in the Derivative Actions, but is merely to advise you of the pendency and settlement of the Derivative Actions.

I. DEFINITIONS USED IN THIS NOTICE

1. "Current Mannatech Shareholders" means persons who owned Mannatech common stock as of August 10, 2004 and who continue to hold their Mannatech common stock as of the date of the final settlement approval hearing, excluding the Individual Defendants, the officers and directors of Mannatech, members of their immediate families and their legal representatives, heirs, successors, assigns, and any entity in which Individual Defendants have or had a controlling interest.

1. "Derivative Payment Account" means an interest-bearing escrow account into which Mannatech shall deposit or cause its insurers to deposit the Fees and Expenses Award, as defined below.

2. "Derivative Plaintiffs" means collectively, Norma Middleton, Frances Nystrom, Kelly Schrimpf and Duncan Gardner.

3. "Effective Date" means the first date by which all of the events and conditions specified in ¶¶5.1-5.3 of the Stipulation have been met and have occurred, as summarized in Section X of this notice.

4. "Fees and Expenses Award" means the agreed upon Fees and Expenses Award that Mannatech shall pay or cause its insurers to pay to Plaintiffs' Derivative Counsel, as defined below, for attorneys' fees and reimbursement of expenses in connection with the claims in the Derivative Actions.

5. "Individual Defendants" means collectively, Samuel L. Caster, Terry L. Persinger, Stephen D. Fenstermacher, Donald A. Buchholz, J. Stanley Fredrick, Gerald

E. Gilbert, Alan D. Kennedy, Marlin Ray Robbins, Patricia A. Wier, John Stuart Axford, Steven W. Lemme, Stephen Boyd, Bill H. McAnalley and Larry A. Jobe.

6. "Derivative Plaintiffs' Counsel" means: Paul T. Warner, 6363 Woodway Dr., Suite 910, Houston, TX 77057, The Law Office of Nicholas Koluncich III, 6501 Americas Parkway – Suite 620, Albuquerque, NM 87107, Johnson Bottini, LLP, 402 West Broadway, #2700, San Diego, CA 92101, Law Offices of Balon B. Bradley, 5473 Blair Road, Suite 100, Dallas, TX 75231, Robbins Umeda & Fink, LLP, 610 West Ash Street, Suite 1800, San Diego, CA 92101; and Federman & Sherwood, 10205 North Pennsylvania Avenue, Oklahoma City, OK 73120.

7. "Related Parties" means each of an Individual Defendant's and Mannatech's past or present directors, officers, employees, partners, members, principals, agents, insurers, co-insurers, reinsurers, controlling shareholders, attorneys, accountants or auditors, personal or legal representatives, predecessors, successors, parents, subsidiaries, divisions, joint ventures, assigns, spouses, heirs and related or affiliated entities, and entity in which an Individual Defendant or Mannatech has a controlling interest, any members of any Individual Defendant's immediate family, or any trust of which any Individual Defendant or Mannatech is the settlor or which is for the benefit of Mannatech or any Individual Defendant and/or member(s) of any Individual Defendant's family.

8. "Released Claims" means any and all claims, causes of action, rights, actions, suits, obligations, debts, demands, judgments, agreements, promises, liabilities, damages, losses, controversies, costs, expenses or attorneys' fees, of every nature and description whatsoever that relate to any of the allegations, facts, transactions or claims set forth in the Derivative Actions and whether direct or indirect, now known or

unknown, suspected or unsuspected, accrued or unaccrued, in law or in equity whether having arisen or yet to arise, including, without limitation, any claims of violations of federal or state securities laws and any federal or state claims of fraud, intentional misrepresentation, negligent misrepresentation, negligence, gross negligence, breach of duty of care and/or breach of duty of loyalty, breach of fiduciary duty, or violations of any state or federal statutes, rules or regulations (including "Unknown Claims" as defined below), that have been or could have been alleged or asserted now or in the future against the Individual Defendants, or any of the Released Persons in the Derivative Actions, by Mannatech, the Derivative Plaintiffs, or any Current Mannatech Shareholder either individually or derivatively on behalf of Mannatech, in this or any other court action or before any administrative body, tribunal, arbitration panel, or other adjudicatory body, arising out of, relating to, or in connection with any of the allegations, facts, transactions or claims set forth in the Derivative Actions, or, any claims relating to the institution, prosecution, assertion, settlement, or resolution of the Derivative Actions. "Released Claims" do not include claims that were or could have been asserted in *Crowell v. Mannatech, Inc., et al.*, No. 3:07-CV-238-K, in the United States District Court for the Northern District of Texas.

9. "Released Persons" means each and all of the Individual Defendants, Mannatech and their Related Parties.

10. "Settling Parties" means, collectively, Mannatech, the Individual Defendants and the Derivative Plaintiffs on behalf of themselves and Current Mannatech Shareholders, and derivatively on behalf of Mannatech.

11. "Unknown Claims" means any Released Claim which any Plaintiff, Mannatech or Mannatech stockholders do not know or suspect to exist in his, her or its

favor at the time of the release of the Released Persons, including claims which, if known by him, her or it, might have affected his, her or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to this Settlement.

II. THE DERIVATIVE ACTIONS

In the Derivative Actions, the Derivative Plaintiffs bring suit against the Individual Defendants solely on behalf of Mannatech and solely for the benefit of Mannatech and not for any recovery for the direct benefit of any shareholders. The Derivative Plaintiffs generally allege, among other things, that the Individual Defendants breached their fiduciary duties by failing in their oversight responsibilities and by making and/or permitting material, false and misleading statements to be made concerning Mannatech's business prospects, financial condition and expected financial results in connection with Mannatech's sales, marketing and research activities. The Derivative Plaintiffs seek, among other things, damages, disgorgement by the Individual Defendants and corporate governance reforms by Mannatech.

III. INDIVIDUAL DEFENDANTS' AND MANNATECH'S DENIALS OF WRONGDOING

Each Individual Defendant, as well as nominal defendant Mannatech, has denied and continues to deny each and all of the claims and contentions alleged in the Derivative Actions against each of them. Each Individual Defendant, as well as Mannatech, has expressly denied and continues to deny all charges of wrongdoing or liability against each of them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Derivative Actions. The Individual Defendants and Mannatech also have denied and continue to deny, *inter alia*, the allegations that Mannatech, the Derivative Plaintiffs, or the Current Mannatech Shareholders, have suffered damages or were harmed by the conduct alleged in the Derivative Actions. Mannatech's Special Litigation Committee has reviewed the allegations of

the Derivative Actions and prior to the Settlement Hearing will make a determination as to whether the Settlement is in the best interests of Mannatech. This Stipulation shall not be deemed an admission of the validity or infirmity of any claim against any Individual Defendant or the liability or non-liability of any Individual Defendant, or an admission of insurance coverage under any policy, and may not be used in any proceeding for any purpose (except to enforce the terms of the Memorandum of Understanding or Stipulation).

IV. CLAIMS OF THE PLAINTIFFS AND BENEFITS OF SETTLEMENT

Derivative Plaintiffs believe that the claims asserted in the Derivative Actions have merit. Derivative Plaintiffs' Counsel recognize and acknowledge, however, the significant risk, expense and length of continued proceedings necessary to prosecute the Derivative Actions against the Individual Defendants through trial and through possible appeals. Derivative Plaintiffs' Counsel also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as the Derivative Actions, as well as the difficulties and delays inherent in such litigation. Derivative Plaintiffs' Counsel also are mindful of the inherent problems of proof and possible defenses to the claims asserted in such actions. Based on a thorough investigation of the facts and analysis of applicable law, Derivative Plaintiffs' Counsel believe that the Settlement set forth in the Stipulation is fair, reasonable and adequate and in the best interests of Mannatech and its shareholders.

V. THE SETTLEMENT HEARING

The Settlement Hearing will be held before the Honorable Ed Kinkeade on January 13, 2009 at 10:00 a.m. at the United States District Court for the Northern District, Texas for the purpose of determining: (i) whether the settlement is fair, reasonable and adequate and should be finally approved by the Court; (ii) whether a judgment should be entered dismissing the Federal Derivative Actions with prejudice; (iii) whether the Fees and Expenses Award should be

approved; and (iv) whether the application by Plaintiff Norma Middleton for an incentive award should be approved. The Settlement Hearing may be continued by the Court at the Settlement Hearing or at any adjourned session thereof without further notice.

VI. THE SETTLEMENT

In connection with the Settlement, Mannatech implemented or will implement a number of corporate governance changes. Mannatech acknowledges that the Derivative Actions were a substantial contributing factor in causing Mannatech to make these corporate governance changes which include, among other things: (1) the engagement of a third party vendor who will monitor the internet website for violations of Mannatech's policies and procedures; (2) the establishment of a Compliance Committee of Mannatech's board of directors; (3) the disclosure of Mannatech's committee charters on its website; (4) the revision of Mannatech's policies and procedures to address issues with sales practices identified by Derivative Plaintiffs; (5) the resignation of John Stuart Axford from the Mannatech board of directors and his replacement with an independent director without prior affiliations with the Company; and (6) the hiring of additional legal compliance staff at Mannatech to facilitate compliance with its policies and procedures.

In addition, Mannatech will pay or cause its insurers to pay \$850,000 as the Fees and Expenses Award in connection with the claims in the Derivative Actions. Mannatech shall deposit or cause its insurers to deposit the Fees and Expenses Award into the Derivative Payment Account within ten (10) business days following the Court's preliminary approval of the Settlement.

If the Settlement is not approved for any reason, the Fees and Expenses Award, with interest and earnings, will be withdrawn from the Derivative Payment Account and returned to

Mannatech and/or its insurers within five (5) business days from receiving notice from Defendants' Counsel or from a court of appropriate jurisdiction.

VII. DISMISSAL AND RELEASES

In connection with the Court's approval of the Settlement, Derivative Plaintiffs will file a dismissal with prejudice of all claims asserted by Derivative Plaintiffs against the Individual Defendants in each of the Derivative Actions.

Upon the Effective Date, Mannatech and Derivative Plaintiffs (acting derivatively on behalf of Mannatech) shall be deemed to have, and by operation of the judgments shall have, fully, finally and forever released, relinquished and discharged the Released Claims against the Released Persons and any and all claims (including Unknown Claims) arising out of, or relating to, or in connection with the defense, settlement or resolution of the Derivative Actions against the Released Persons. Further, each of the Released Persons shall be deemed to have, and by operation of the judgments shall have fully, finally and forever released, relinquished and discharged each and all of the Derivative Plaintiffs and Derivative Plaintiffs' Counsel from all claims (including Unknown Claims), arising out of, relating to, or in connection with the institution, prosecution, assertion, settlement or resolution of the Derivative Actions or the Released Claims.

VIII. APPLICATION FOR ATTORNEYS' FEES AND EXPENSES

At the Settlement Hearing, Derivative Plaintiffs' Counsel will request the Court to award the Fees and Expenses Award in the aggregate amount of eight hundred fifty thousand dollars (\$850,000.00). The allocation of this Fees and Expenses Award was pre-determined by the Honorable Daniel Weinstein (ret.). To date, Derivative Plaintiffs' Counsel have neither received any payment for their services in conducting the Derivative Actions, nor have counsel been reimbursed for their out-of-pocket expenses incurred. Derivative Plaintiffs' Counsel believe that the Fees and Expenses Award requested is within the range of fees and expenses awarded to Derivative Plaintiffs' Counsel under similar circumstances in litigation of this type.

In connection with any application for fees and expenses submitted by Derivative Plaintiffs' Counsel, the Individual Defendants and Mannatech have agreed not to object to the Fees and Expenses Award to Derivative Plaintiffs' Counsel up to eight hundred fifty thousand dollars (\$850,000.00), plus applicable interest actually earned on the amount awarded as attorneys' fees and expenses. Current Mannatech Shareholders are not personally liable for any such fees or expenses.

In addition, Plaintiff Norma Middleton will apply to the Court for an incentive fee award not to exceed the aggregate amount of three thousand dollars (\$3,000.00), to be paid from the portion of the Fees and Expenses Award received by Plaintiff Norma Middleton's counsel, Federman & Sherwood.

IX. THE RIGHT TO BE HEARD AT THE HEARING

Any Current Mannatech Shareholder may appear and show cause, if he, she or it has any concern, why the Settlement of the Derivative Actions should not be approved as fair, reasonable and adequate, or why a judgment should not be entered thereon, or why the Fees and Expenses Award should not be awarded to Derivative Plaintiffs' Counsel or an incentive award granted to Plaintiff Norma Middleton; provided, however, unless otherwise ordered by the Court, no Current Mannatech Shareholder shall be heard or entitled to contest the approval of the terms and conditions of the Settlement, or, if approved, the judgment to be entered thereon approving the same, or the attorneys' fees and expenses to be awarded to Derivative Plaintiffs' Counsel unless that shareholder has, *at least fourteen (14) calendar days prior to the Settlement Hearing*, filed with the Clerk of the Court and served on each of the following counsel (delivered by hand or sent by first class mail) appropriate proof of continuous stock ownership through the date of the final Settlement Hearing including number of shares held, along with written objections, including the basis therefore, the identifies of any witness that such shareholder plans to call at the Settlement Hearing and copies of any papers and briefs in support thereof:

Clerk of the Court
U.S. District Court, Northern District of Texas
1100 Commerce St., Room 1625
Dallas, TX 75242

Balon B. Bradley
LAW OFFICES OF BALON B. BRADLEY
5473 Blair Road, Suite 100
Dallas, TX 75231
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Any Current Mannatech Shareholder who does not make his, her or its objection in the manner provided herein shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness, reasonableness or adequacy of the

Settlement as incorporated in the Stipulation and to the Fees and Expenses Award to Derivative Plaintiffs' Counsel, as well as the incentive award to Plaintiff Norma Middleton, unless otherwise ordered by the Court, but shall otherwise be bound by the judgment to be entered and the releases to be given.

X. CONDITIONS FOR SETTLEMENT

The Settlement is conditioned upon the occurrence of certain events described in the Stipulation. Those events include the occurrence of the Effective Date, which requires, among other things: (1) entry of the requested judgment by the Court, and a judgment dismissing the State Derivative Actions, as provided for in the Stipulation; and (2) expiration of the time to appeal from or alter or amend the judgments. If, for any reason, any one of the conditions described in the Stipulation is not met and the Effective Date does not occur, the Stipulation might be terminated and, if terminated, will become null and void, and the parties to the Stipulation will be restored to their respective positions as of June 11, 2008.

XI. EXAMINATION OF PAPERS AND INQUIRIES

This notice contains only a summary of the terms of the Settlement. For a more detailed statement of the matters involved in the Derivative Actions, reference is made to the Stipulation which may be inspected at the Office of the Clerk, United States District Court for the Northern District of Texas located at 1100 Commerce St., Room 1625, Dallas, TX 75242, during business hours of each business day.

Any other inquiries regarding the Settlement or the Derivative Actions should be addressed in writing to one of the following:

Clerk of the Court
U.S. District Court, Northern District of Texas
1100 Commerce St., Room 1625
Dallas, TX 75242

Balon B. Bradley

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**PLEASE DO NOT TELEPHONE THE COURT OR MANNATECH REGARDING THIS
NOTICE.**

October 22, 2008



BY ORDER OF THE COURT
ED KINKEADE
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT FOR
THE NORTHERN DISTRICT OF TEXAS