

USANA HEALTH SCIENCES INC  
Form 10-Q  
November 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 1, 2011

OR

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

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

Commission file number: 0-21116

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## USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

**Utah**  
(State or other jurisdiction  
of incorporation or organization)

**87-0500306**  
(I.R.S. Employer  
Identification No.)

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**3838 West Parkway Blvd., Salt Lake City, Utah 84120**

(Address of principal executive offices, Zip Code)

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**(801) 954-7100**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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The number of shares outstanding of the registrant's common stock as of October 31, 2011 was 14,959,597.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended October 1, 2011

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands)****(unaudited)**

|   | <b>As of<br/>January 1,<br/>2011</b> | <b>As of<br/>October 1,<br/>2011</b> |
|---|--------------------------------------|--------------------------------------|
| <b>ASSETS</b>                               |                                      |                                      |
| Current assets                              |                                      |                                      |
| Cash and cash equivalents                   | \$ 24,222                            | \$ 36,317                            |
| Inventories                                 | 34,078                               | 36,199                               |
| Prepaid expenses and other current assets   | 23,377                               | 17,461                               |
| Total current assets                        | 81,677                               | 89,977                               |
| Property and equipment, net                 | 57,568                               | 59,756                               |
| Goodwill                                    | 17,267                               | 17,596                               |
| Intangible assets, net                      | 41,915                               | 42,370                               |
| Deferred tax assets                         | 12,383                               | 13,486                               |
| Other assets                                | 5,826                                | 6,108                                |
|   | \$ 216,636                           | \$ 229,293                           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                      |                                      |
| Current liabilities                         |                                      |                                      |
| Accounts payable                            | \$ 6,445                             | \$ 9,096                             |
| Other current liabilities                   | 52,584                               | 50,193                               |
| Total current liabilities                   | 59,029                               | 59,289                               |
| Deferred tax liabilities                    | 9,793                                | 9,896                                |
| Other long-term liabilities                 | 1,012                                | 969                                  |
| Stockholders' equity                        | 16                                   | 15                                   |

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Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 15,985  
as of January 1, 2011 and 14,954 as of October 1, 2011

|  |            |            |
|--|------------|------------|
| Additional paid-in capital             | 51,222     | 46,834     |
| Retained earnings                      | 90,207     | 106,170    |
| Accumulated other comprehensive income | 5,357      | 6,120      |
| Total stockholders' equity             | 146,802    | 159,139    |
|  | \$ 216,636 | \$ 229,293 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

|  | Quarter Ended      |                    |
|--|--------------------|--------------------|
|  | October 2,<br>2010 | October 1,<br>2011 |
| Net sales                                  | \$ 135,006         | \$ 143,501         |
| Cost of sales                              | 25,157             | 25,202             |
| Gross profit                               | 109,849            | 118,299            |
| Operating expenses:                        |                    |                    |
| Associate incentives                       | 60,560             | 66,158             |
| Selling, general and administrative        | 30,751             | 33,365             |
| Total operating expenses                   | 91,311             | 99,523             |
| Earnings from operations                   | 18,538             | 18,776             |
| Other income (expense):                    |                    |                    |
| Interest income                            | 36                 | 42                 |
| Interest expense                           | (42)               | (1)                |
| Other, net                                 | 557                | 92                 |
| Other income, net                          | 551                | 133                |
| Earnings before income taxes               | 19,089             | 18,909             |
| Income taxes                               | 6,240              | 6,524              |
| Net earnings                               | \$ 12,849          | \$ 12,385          |
| Earnings per common share                  |                    |                    |
| Basic                                      | \$ 0.83            | \$ 0.82            |
| Diluted                                    | \$ 0.79            | \$ 0.81            |
| Weighted average common shares outstanding |                    |                    |
| Basic                                      | 15,562             | 15,043             |
| Diluted                                    | 16,247             | 15,205             |

The accompanying notes are an integral part of these statements.



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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

|  | Nine Months Ended  |                    |
|--|--------------------|--------------------|
|  | October 2,<br>2010 | October 1,<br>2011 |
| Net sales                                  | \$ 380,104         | \$ 435,992         |
| Cost of sales                              | 70,912             | 77,072             |
| Gross profit                               | 309,192            | 358,920            |
| Operating expenses:                        |                    |                    |
| Associate incentives                       | 171,743            | 198,725            |
| Selling, general and administrative        | 87,358             | 103,038            |
| Total operating expenses                   | 259,101            | 301,763            |
| Earnings from operations                   | 50,091             | 57,157             |
| Other income (expense):                    |                    |                    |
| Interest income                            | 70                 | 146                |
| Interest expense                           | (68)               | (9)                |
| Other, net                                 | 301                | 97                 |
| Other income, net                          | 303                | 234                |
| Earnings before income taxes               | 50,394             | 57,391             |
| Income taxes                               | 17,134             | 19,800             |
| Net earnings                               | \$ 33,260          | \$ 37,591          |
| Earnings per common share                  |                    |                    |
| Basic                                      | \$ 2.16            | \$ 2.43            |
| Diluted                                    | \$ 2.11            | \$ 2.39            |
| Weighted average common shares outstanding |                    |                    |
| Basic                                      | 15,397             | 15,495             |
| Diluted                                    | 15,763             | 15,712             |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Nine Months Ended October 2, 2010 and October 1, 2011

(in thousands)

(unaudited)

|   | Common Stock<br>Shares | Common Stock<br>Value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|---|------------------------|-----------------------|----------------------------------|----------------------|---|------------|
| <b>For the Nine Months Ended<br/>October 2, 2010</b>                              |                        |                       |                                  |                      |   |            |
| Balance at January 2, 2010  | 15,309                 | \$ 15                 | \$ 16,425                        | \$ 56,410            | \$ 1,523  | \$ 74,373  |
| Comprehensive income  |                        |                       |                                  |                      |   |            |
| Net earnings  |                        |                       |                                  | 33,260               |   | 33,260     |
| Foreign currency translation<br>adjustment, net of tax benefit of<br>\$614        |                        |                       |                                  |                      | 2,305   | 2,305      |
| Comprehensive income  |                        |                       |                                  |                      |   | 35,565     |
| Common stock repurchased and<br>retired   | (199)                  |                       | (2,232)                          | (6,398)              |   | (8,630)    |
| Common stock issued in connection<br>with acquisition                             | 400                    | 1                     | 17,715                           |                      |   | 17,716     |
| Equity-based compensation expense   |                        |                       | 7,107                            |                      |   | 7,107      |
| Common stock issued under equity<br>award plans, including tax benefit<br>of \$50 | 250                    |                       | 4,690                            |                      |   | 4,690      |
| Balance at October 2, 2010  | 15,760                 | \$ 16                 | \$ 43,705                        | \$ 83,272            | \$ 3,828  | \$ 130,821 |
| <b>For the Nine Months Ended<br/>October 1, 2011</b>                              |                        |                       |                                  |                      |   |            |
| Balance at January 1, 2011  | 15,985                 | \$ 16                 | \$ 51,222                        | \$ 90,207            | \$ 5,357  | \$ 146,802 |
| Comprehensive income  |                        |                       |                                  |                      |   |            |
| Net earnings  |                        |                       |                                  | 37,591               |   | 37,591     |
| Foreign currency translation<br>adjustment, net of tax benefit of<br>\$491        |                        |                       |                                  |                      | 763   | 763        |

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|  |         |    |     |          |        |          |         |    |                  |
|--|---------|----|-----|----------|--------|----------|---------|----|------------------|
| Comprehensive income   |         |    |     |          |        |          |         |    | 38,354           |
| Equity-based compensation expense  |         |    |     | 7,739    |        |          |         |    | 7,739            |
| Common stock repurchased and retired   | (1,095) |    | (1) | (11,072) |        | (21,628) |         |    | (32,701)         |
| Common stock issued under equity award plans, including tax expense of \$309 | 64      |    |     | (270)    |        |          |         |    | (270)            |
| Tax impact of canceled vested equity awards                                  |         |    |     | (785)    |        |          |         |    | (785)            |
| Balance at October 1, 2011   | 14,954  | \$ | 15  | \$       | 46,834 | \$       | 106,170 | \$ | 6,120 \$ 159,139 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|  | Nine Months Ended  |                    |
|--|--------------------|--------------------|
|  | October 2,<br>2010 | October 1,<br>2011 |
| <b>Cash flows from operating activities</b>  |                    |                    |
| Net earnings   | \$ 33,260          | \$ 37,591          |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                    |                    |
| Depreciation and amortization  | 5,641              | 6,361              |
| Loss on sale of property and equipment   | 87                 | 44                 |
| Equity-based compensation expense  | 7,107              | 7,739              |
| Excess tax benefits from equity-based payment arrangements                         | (792)              | (48)               |
| Deferred income taxes  | (1,221)            | (1,473)            |
| Inventory valuation  | 989                | 888                |
| Changes in operating assets and liabilities:                                       |                    |                    |
| Inventories  | (5,040)            | (3,552)            |
| Prepaid expenses and other assets  | 30                 | 6,063              |
| Accounts payable   | 41                 | 2,614              |
| Other liabilities  | 6,137              | (2,759)            |
| Total adjustments  | 12,979             | 15,877             |
| Net cash provided by operating activities  | 46,239             | 53,468             |
| <b>Cash flows from investing activities</b>  |                    |                    |
| Acquisitions, net of cash acquired   | \$ (42,694)        | \$                 |
| Proceeds from sale of property and equipment                                       | 32                 | 1                  |
| Purchases of property and equipment  | (3,676)            | (8,558)            |
| Net cash used in investing activities  | (46,338)           | (8,557)            |
| <b>Cash flows from financing activities</b>  |                    |                    |
| Proceeds from equity awards exercised  | \$ 4,640           | \$ 39              |
| Excess tax benefits from equity-based payment arrangements                         | 792                | 48                 |
| Repurchase of common stock   | (8,630)            | (32,701)           |
| Borrowings on line of credit   | 23,350             |                    |
| Payments on line of credit   | (11,350)           |                    |
| Net cash used in financing activities  | 8,802              | (32,614)           |
| Effect of exchange rate changes on cash and cash equivalents                       | 567                | (202)              |
| Net increase in cash and cash equivalents  | 9,270              | 12,095             |

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|   |    |        |    |        |
|---|----|--------|----|--------|
| Cash and cash equivalents, beginning of period      |    | 13,658 |    | 24,222 |
| Cash and cash equivalents, end of period            | \$ | 22,928 | \$ | 36,317 |
| Supplemental disclosures of cash flow information   |    |        |    |        |
| Cash paid during the period for:                    |    |        |    |        |
| Interest  | \$ | 62     | \$ | 10     |
| Income taxes  |    | 18,582 |    | 19,281 |
| Non-cash financing activities                       |    |        |    |        |
| Common stock issued in connection with acquisitions |    | 17,716 |    |        |

The accompanying notes are an integral part of these statements.

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**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**(unaudited)**

**Organization, Consolidation, and Basis of Presentation**

USANA Health Sciences, Inc. develops and manufactures high-quality nutritional and personal care products that are sold internationally through a network marketing system, which is a form of direct selling. The Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries (collectively, the Company or USANA ) in two geographic regions: North America and Asia Pacific, which is further divided into three sub-regions; Southeast Asia/Pacific, Greater China, and North Asia. North America includes the United States, Canada, Mexico, and direct sales from the United States to the United Kingdom and the Netherlands. Southeast Asia/Pacific includes Australia, New Zealand, Singapore, Malaysia, and the Philippines; Greater China includes Hong Kong, Taiwan and China; and North Asia includes Japan and South Korea. All significant inter-company accounts and transactions have been eliminated in this consolidation.

The condensed balance sheet as of January 1, 2011, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to present fairly the Company's financial position as of October 1, 2011 and results of operations for the quarters and nine months ended October 2, 2010 and October 1, 2011. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended January 1, 2011. The results of operations for the quarter and nine months ended October 1, 2011, may not be indicative of the results that may be expected for the fiscal year 2011 ending December 31, 2011.

*Revisions*

Revisions relating to deferred taxes and intangible assets have been made to the Company's financial statements to reflect adjustments made to correct the presentation of deferred taxes on a gross rather than net basis, and to record the impact of currency translation on intangible assets acquired as part of the 2010 purchase of BabyCare Holdings Ltd. These adjustments revise amounts reported for periods prior to January 2, 2011 in the financial statements and related notes, for deferred taxes, goodwill, intangible assets and accumulated other comprehensive income in the Consolidated Balance Sheet, and the foreign currency translation adjustment component of comprehensive income in the Consolidated Statement of Stockholders' Equity and Comprehensive Income. While the overall net deferred tax amount has not changed, certain deferred tax line items in the Consolidated Balance Sheet have been modified to reflect a gross presentation. Additionally, goodwill and intangible assets have been increased, along with a corresponding increase in accumulated other comprehensive income, to capture the changes on these assets related to foreign currency translation. These revisions had no effect on our earnings from operations, net earnings, or earnings per share.





Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

*Revisions continued*

The following tables illustrate the effects of the revision on the Company's consolidated financial statements for only those line items that were affected:

**Consolidated Balance Sheet Items**

(in thousands)

|  | As Previously<br>Reported | As of January 1, 2011 |            |
|--|---------------------------|-----------------------|------------|
|  |                           | Adjustment            | As Revised |
| Prepaid expenses and other current assets, including current deferred tax assets | \$ 21,972                 | \$ 1,405              | \$ 23,377  |
| Total current assets   | 80,272                    | 1,405                 | 81,677     |
| Goodwill   | 16,930                    | 337                   | 17,267     |
| Intangible assets, net   | 40,616                    | 1,299                 | 41,915     |
| Other assets, including long-term deferred tax assets                            | 8,416                     | 9,793                 | 18,209     |
| Total assets   | 203,802                   | 12,834                | 216,636    |
| Other current liabilities  | 51,179                    | 1,405                 | 52,584     |
| Total current liabilities  | 57,624                    | 1,405                 | 59,029     |
| Long-term deferred tax liabilities   |                           | 9,793                 | 9,793      |
| Accumulated other comprehensive income *   | 3,721                     | 1,636                 | 5,357      |
| Total stockholders' equity *   | 145,166                   | 1,636                 | 146,802    |
| Total liabilities and stockholders' equity                                       | 203,802                   | 12,834                | 216,636    |

\* Change also reflected in the beginning balance within the Consolidated Statement of Stockholders' Equity and Comprehensive Income.

**Consolidated Statement of Stockholders' Equity and Comprehensive Income Items**

(in thousands)

For the nine months ended October 2, 2010  
Adjustment                      As Revised

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|   | As Previously<br>Reported |        |          |
|---|---------------------------|--------|----------|
| Accumulated other comprehensive income (loss), foreign<br>currency translation adjustment | \$ 1,431                  | \$ 874 | \$ 2,305 |
| Accumulated other comprehensive income (loss), total<br>comprehensive income              | 34,691                    | 874    | 35,565   |
| Accumulated other comprehensive income (loss), balance at<br>October 2, 2010              | 2,954                     | 874    | 3,828    |
| Total stockholders' equity at October 2, 2010   | 129,947                   | 874    | 130,821  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**Recent accounting pronouncements**

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 updates existing guidance in Topic 820 to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). ASU 2011-04 is effective prospectively for fiscal years, and interim periods, beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect adoption of this standard to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate the convergence of U.S. GAAP and IFRS, ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under the amendments in this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of which option is chosen, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Also, the amendments do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of this standard to have a material impact on its consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08). ASU 2011-08 simplifies how entities test goodwill for impairment. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. An entity also has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. Additionally, an entity no longer is permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted by Topic 350.

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company has early adopted this standard, which did not have a material impact on its consolidated financial statements.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE A FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company reports term deposits in accordance with established authoritative guidance, which requires a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable and are used to measure fair value in situations where there is little, if any, market activity for the asset or liability at the measurement date.

The fair values of term deposits placed with banks are determined based on the pervasive interest rates in the market, which are also the interest rates as stated in the contracts with the banks. The Company classifies the valuation techniques that use the pervasive interest rates input as Level 2. The carrying values of these term deposits approximate their fair values due to their short-term maturities. As of October 1, 2011, the fair value of term deposits in the consolidated balance sheet totaled \$313, classified in cash and cash equivalents.

**NOTE B INVENTORIES**

Inventories consist of the following:

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|                  | January 1,<br>2011 |    | October 1,<br>2011 |
|------------------|--------------------|----|--------------------|
| Raw materials    | \$ 9,372           | \$ | 10,155             |
| Work in progress | 5,791              |    | 6,844              |
| Finished goods   | 18,915             |    | 19,200             |
|                  | \$ 34,078          | \$ | 36,199             |

**NOTE C PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

|                                 | January 1,<br>2011 |    | October 1,<br>2011 |
|---------------------------------|--------------------|----|--------------------|
| Prepaid insurance               | \$ 1,175           | \$ | 342                |
| Other prepaid expenses          | 2,583              |    | 2,249              |
| Federal income taxes receivable | 3,108              |    | 1,985              |
| Miscellaneous receivables, net  | 3,735              |    | 2,944              |
| Deferred commissions            | 4,867              |    | 3,864              |
| Term deposits                   | 3,034              |    |                    |
| Deferred tax assets             | 3,116              |    | 4,194              |
| Other current assets            | 1,759              |    | 1,883              |
|                                 | \$ 23,377          | \$ | 17,461             |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE D PROPERTY AND EQUIPMENT**

Cost of property and equipment and their estimated useful lives is as follows:

|  | Years | January 1,<br>2011 | October 1,<br>2011 |
|--|-------|--------------------|--------------------|
| Buildings                                      | 40    | \$ 38,732          | \$ 39,343          |
| Laboratory and production equipment            | 5-7   | 17,723             | 18,778             |
| Sound and video library                        | 5     | 600                | 600                |
| Computer equipment and software                | 3-5   | 27,788             | 29,790             |
| Furniture and fixtures                         | 3-5   | 4,953              | 5,024              |
| Automobiles                                    | 3-5   | 290                | 293                |
| Leasehold improvements                         | 3-5   | 5,404              | 5,344              |
| Land improvements                              | 15    | 2,051              | 2,040              |
|  |       | 97,541             | 101,212            |
| Less accumulated depreciation and amortization |       | 48,298             | 52,794             |
|  |       | 49,243             | 48,418             |
| Land   |       | 8,107              | 7,780              |
| Deposits and projects in process               |       | 218                | 3,558              |
|  |       | \$ 57,568          | \$ 59,756          |

**NOTE E INTANGIBLE ASSETS**

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate, and operating or cash flow losses related to such assets. Goodwill and indefinite lived intangible assets are not amortized. Definite lived intangibles are amortized over their related useful lives. No events have occurred subsequent to any of our acquisitions that have resulted in an impairment of the original goodwill or intangible asset amounts that were initially recorded from the transactions.

Goodwill is as follows:

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|               | January 1,<br>2011 | Goodwill<br>acquired | Currency<br>translation<br>adjustments | Impairment<br>adjustments | October 1,<br>2011 |
|---------------|--------------------|----------------------|--|---------------------------|--------------------|
| North America | \$ 6,390           | \$                   | \$                                     | \$                        | \$ 6,390           |
| Asia Pacific  | 10,877             |                      | 329                                    |                           | 11,206             |
|               | \$ 17,267          | \$                   | \$ 329                                 | \$                        | \$ 17,596          |



Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE E INTANGIBLE ASSETS CONTINUED**

Intangible assets are as follows:

|   | Gross carrying<br>amount | As of October 1, 2011<br>Accumulated<br>amortization | Net carrying<br>amount | Weighted-average<br>amortization<br>period (years) |
|---|--------------------------|--|------------------------|--|
| <b>Amortized intangible assets</b>            |                          |  |                        |  |
| Trade Name and Trademarks                     | \$ 4,147                 | \$ (467)   | \$ 3,680               | 10   |
| Customer Relationships                        | 2,020                    | (758)  | 1,262                  | 3  |
|   | 6,167                    | (1,225)  | 4,942                  |  |
| <b>Unamortized intangible assets</b>          |                          |  |                        |  |
| Product Formulas                              | 9,145                    |  | 9,145                  |  |
| Direct Sales License                          | 28,283                   |  | 28,283                 |  |
|   | 37,428                   |  | 37,428                 |  |
|   | \$ 43,595                |  | \$ 42,370              |  |
| <b><u>Aggregate Amortization Expense:</u></b> |                          |  |                        |  |
| For the nine months ended October 1, 2011     | \$ 816                   |  |                        |  |
| <b><u>Estimated Amortization Expense:</u></b> |                          |  |                        |  |
| Remainder of 2011                             | 272                      |  |                        |  |
| 2012  | 1,088                    |  |                        |  |
| 2013  | 836                      |  |                        |  |
| 2014  | 415                      |  |                        |  |
| 2015  | 415                      |  |                        |  |
| Thereafter                                    | 1,916                    |  |                        |  |
|   | \$ 4,942                 |  |                        |  |

**NOTE F OTHER CURRENT LIABILITIES**

Other current liabilities consist of the following:

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|                                      | January 1,<br>2011 | October 1,<br>2011 |
|--------------------------------------|--------------------|--------------------|
| Associate incentives                 | \$ 11,379          | \$ 11,914          |
| Accrued employee compensation        | 14,395             | 11,703             |
| Income Taxes                         | 1,571              | 2,880              |
| Sales taxes                          | 4,671              | 4,090              |
| Deferred tax liabilities             | 1,405              | 1,501              |
| Associate promotions                 | 1,491              | 1,046              |
| Deferred revenue                     | 11,772             | 10,162             |
| Provision for returns and allowances | 929                | 963                |
| All other                            | 4,971              | 5,934              |
|                                      | \$ 52,584          | \$ 50,193          |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE G EQUITY BASED COMPENSATION**

Equity-based compensation expense for the quarters ended October 2, 2010, and October 1, 2011, was \$2,967 and \$2,937, respectively. The related tax benefit for these periods was \$1,180 and \$1,073, respectively. Expense for the nine months ended October 2, 2010, and October 1, 2011, was \$7,107 and \$7,739, respectively. The related tax benefit for these periods was \$2,693 and \$2,824, respectively.

During the nine months ended October 1, 2011, certain executives left the Company, which resulted in the cancellation of these executives' equity awards. The recapture of equity compensation expense related to the cancellation of unvested equity awards reduced equity-based compensation expense for the nine months ended October 1, 2011 by \$1,230. The related tax impact for these cancellations was \$424.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of equity awards that were outstanding as of October 1, 2011. This table does not include an estimate for future grants that may be issued.

|                   |    |        |
|-------------------|----|--------|
| Remainder of 2011 | \$ | 2,800  |
| 2012              |    | 10,027 |
| 2013              |    | 6,448  |
| 2014              |    | 4,475  |
| 2015 and beyond   |    | 2,828  |
|                   | \$ | 26,578 |

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

During the nine months ended October 1, 2011, the Company's shareholders approved a 5,000 increase in the number of new shares authorized for issuance under the Company's 2006 Equity Incentive Award Plan (the 2006 Plan). This increase brings the total shares authorized under the 2006 Plan to 10,000. The 2006 Plan is currently the only plan utilized by the Company for the issuance of equity awards. As of October 1, 2011, a total of 5,363 units had been issued under this plan, comprising 5,241 stock-settled stock appreciation rights, 114 deferred stock units, and 8 stock options. Also, as of October 1, 2011, 811 units had been canceled and added back to the number of units available for issuance under the 2006 Plan.

A summary of the Company's stock option and stock-settled stock appreciation right activity for the nine months ended October 1, 2011 is as follows:

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|                                | Shares | Weighted-<br>average grant<br>price | Weighted-average<br>remaining<br>contractual term | Aggregate<br>intrinsic<br>value* |
|--------------------------------|--------|-------------------------------------|---|----------------------------------|
| Outstanding at January 1, 2011 | 4,047  | \$ 32.46                            | 3.5   | \$ 45,263                        |
| Granted                        | 417    | 28.83                               |   |                                  |
| Exercised                      | (57)   | 28.66                               |   |                                  |
| Canceled or expired            | (607)  | 32.29                               |   |                                  |
| Outstanding at October 1, 2011 | 3,800  | \$ 32.15                            | 3.1   | \$ 2,623                         |
| Exercisable at October 1, 2011 | 1,562  | \$ 32.50                            | 2.6   | \$ 1,273                         |

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\* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at January 1, 2011 and October 1, 2011, was \$43.45 and \$27.50, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE G EQUITY BASED COMPENSATION CONTINUED**

The weighted-average fair value of stock-settled stock appreciation rights that were granted during the nine-month periods ended October 2, 2010, and October 1, 2011 was \$17.07 and \$12.40, respectively. The total intrinsic value of awards that were exercised during the nine-month periods ended October 2, 2010, and October 1, 2011 was \$6,057 and \$555, respectively.

The following table includes weighted-average assumptions that the Company has used to calculate the fair value of equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date of grant and have been excluded from the table below:

|                              | Quarter Ended      |                    | Nine Months Ended  |                    |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
|                              | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 |
| Expected volatility          | 54.8%              | 56.0%              | 54.9%              | 56.0%              |
| Risk-free interest rate      | 1.4%               | 1.1%               | 1.7%               | 1.1%               |
| Expected life                | 4.2 yrs.           | 3.8 yrs.           | 4.2 yrs.           | 3.9 yrs.           |
| Expected dividend yield      |                    |                    |                    |                    |
| Weighted-average grant price | \$ 43.73           | \$ 28.16           | \$ 38.23           | \$ 28.83           |

A summary of the Company's deferred stock unit activity for the nine months ended October 1, 2011 is as follows:

|                              | Shares | Weighted-<br>average Fair<br>Value |
|------------------------------|--------|------------------------------------|
| Nonvested at January 1, 2011 | 100    | \$ 44.29                           |
| Granted                      |        |                                    |
| Vested                       | (49)   | 44.29                              |
| Canceled or expired          | (2)    | 44.29                              |
| Nonvested at October 1, 2011 | 49     | \$ 44.29                           |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE H COMMON STOCK AND EARNINGS PER SHARE**

Basic earnings per share are based on the weighted-average number of shares outstanding for each period. Shares that have been repurchased and retired during the periods specified below have been included in the calculation of the number of weighted-average shares that are outstanding for the calculation of basic earnings per share. Diluted earnings per common share are based on shares that are outstanding (computed under basic EPS) and on potentially dilutive shares. Shares that are included in the diluted earnings per share calculations under the treasury stock method include equity awards that are in-the-money but have not yet been exercised.

|  | Quarter Ended      |                    |
|--|--------------------|--------------------|
|  | October 2,<br>2010 | October 1,<br>2011 |
| Net earnings available to common shareholders                      | \$ 12,849          | \$ 12,385          |
| <b>Basic EPS</b>   |                    |                    |
| Shares   |                    |                    |
| Common shares outstanding entire period                            | 15,309             | 15,985             |
| Weighted average common shares:                                    |                    |                    |
| Issued during period   | 320                | 39                 |
| Canceled during period   | (67)               | (981)              |
| Weighted average common shares outstanding during period           | 15,562             | 15,043             |
| Earnings per common share from net earnings - basic                | \$ 0.83            | \$ 0.82            |
| <b>Diluted EPS</b>   |                    |                    |
| Shares   |                    |                    |
| Weighted average common shares outstanding during period - basic   | 15,562             | 15,043             |
| Dilutive effect of in-the-money equity awards                      | 685                | 162                |
| Weighted average common shares outstanding during period - diluted | 16,247             | 15,205             |
| Earnings per common share from net earnings - diluted              | \$ 0.79            | \$ 0.81            |

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Equity awards for 434 and 2,002 shares of stock were not included in the computation of diluted EPS for the quarters ended October 2, 2010, and October 1, 2011, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE H COMMON STOCK AND EARNINGS PER SHARE CONTINUED**

|  | Nine Months Ended  |                    |
|--|--------------------|--------------------|
|  | October 2,<br>2010 | October 1,<br>2011 |
| Net earnings available to common shareholders                      | \$ 33,260          | \$ 37,591          |
| <b>Basic EPS</b>   |                    |                    |
| Shares   |                    |                    |
| Common shares outstanding entire period                            | 15,309             | 15,985             |
| Weighted average common shares:                                    |                    |                    |
| Issued during period   | 110                | 19                 |
| Canceled during period   | (22)               | (509)              |
| Weighted average common shares outstanding during period           | 15,397             | 15,495             |
| Earnings per common share from net earnings - basic                | \$ 2.16            | \$ 2.43            |
| <b>Diluted EPS</b>   |                    |                    |
| Shares   |                    |                    |
| Weighted average common shares outstanding during period - basic   | 15,397             | 15,495             |
| Dilutive effect of in-the-money equity awards                      | 366                | 217                |
| Weighted average common shares outstanding during period - diluted | 15,763             | 15,712             |
| Earnings per common share from net earnings - diluted              | \$ 2.11            | \$ 2.39            |

Equity awards for 1,627 and 1,571 shares of stock were not included in the computation of diluted EPS for the nine months ended October 2, 2010, and October 1, 2011, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

**NOTE I COMPREHENSIVE INCOME**



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Total comprehensive income consisted of the following:

|  | Quarter Ended      |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 |
| Net Earnings   | \$ 12,849          | \$ 12,385          | \$ 33,260          | \$ 37,591          |
| Foreign currency translation adjustment,<br>net of tax | 2,768              | (1,259)            | 2,305              | 763                |
| Comprehensive income                                   | \$ 15,617          | \$ 11,126          | \$ 35,565          | \$ 38,354          |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE J SEGMENT INFORMATION**

USANA operates in a single operating segment as a direct selling company that develops, manufactures, and distributes high-quality nutritional and personal care products that are sold through a global network marketing system of independent distributors ( Associates ). As such, management has determined that the Company operates in one reportable business segment. Performance for a region or market is primarily evaluated based on sales. The Company does not use profitability reports on a regional or market basis for making business decisions. No single Associate accounted for 10% or more of net sales for the periods presented. The table below summarizes the approximate percentage of total product revenue that has been contributed by the Company's nutritional and personal care products for the periods indicated.

| Product Line             | Quarter Ended      |                    | Nine Months Ended  |                    |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
|                          | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 |
| USANA® Nutritionals      | 78%                | 78%                | 77%                | 78%                |
| USANA Foods              | 12%                | 12%                | 12%                | 12%                |
| Sensé beautiful science® | 7%                 | 7%                 | 8%                 | 7%                 |

Selected financial information for the Company is presented for two geographic regions: North America and Asia Pacific, with three sub-regions under Asia Pacific. Individual markets are categorized into these regions as follows:

- North America
- United States (including direct sales from the United States to the United Kingdom and the Netherlands)
- Canada
- Mexico

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- Asia Pacific
- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, and the Philippines
- Greater China Hong Kong, Taiwan, and China\*
- North Asia Japan and South Korea

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\* Our business in China is that of BabyCare, our wholly-owned subsidiary.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE J SEGMENT INFORMATION CONTINUED***Selected Financial Information*

Selected financial information, presented by geographic region, is listed below for the periods ended as of the dates indicated:

|                                 | Quarter Ended      |                    | Nine Months Ended  |                    |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 |
| Net Sales to External Customers |                    |                    |                    |                    |
| North America                   |                    |                    |                    |                    |
| United States                   | \$ 38,228          | \$ 37,975          | \$ 113,826         | \$ 112,132         |
| Canada                          | 16,419             | 16,107             | 52,352             | 50,896             |
| Mexico                          | 5,314              | 4,946              | 16,416             | 16,288             |
| North America Total             | 59,961             | 59,028             | 182,594            | 179,316            |
| Asia Pacific                    |                    |                    |                    |                    |
| Southeast Asia/Pacific          | 25,730             | 30,117             | 74,231             | 82,036             |
| Greater China                   | 43,456             | 47,012             | 106,156            | 152,801            |
| North Asia                      | 5,859              | 7,344              | 17,123             | 21,839             |
| Asia Pacific Total              | 75,045             | 84,473             | 197,510            | 256,676            |
| Consolidated Total              | \$ 135,006         | \$ 143,501         | \$ 380,104         | \$ 435,992         |

|                        | As of              |                    |
|------------------------|--------------------|--------------------|
|                        | October 2,<br>2010 | October 1,<br>2011 |
| Total Assets           |                    |                    |
| North America          |                    |                    |
| United States          | \$ 94,452          | \$ 98,067          |
| Canada                 | 3,853              | 3,072              |
| Mexico                 | 3,170              | 2,580              |
| North America Total    | 101,475            | 103,719            |
| Asia Pacific           |                    |                    |
| Southeast Asia/Pacific | 26,591             | 25,730             |
| Greater China          | 78,445             | 92,964             |
| North Asia             | 6,851              | 6,880              |
| Asia Pacific Total     | 111,887            | 125,574            |
| Consolidated Total     | \$ 213,362         | \$ 229,293         |



Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE J SEGMENT INFORMATION CONTINUED**

The following table provides further information on markets representing ten percent or more of consolidated net sales and long-lived assets, respectively:

|                           | Quarters Ended     |                    | Nine Months Ended  |                    |
|---------------------------|--------------------|--------------------|--------------------|--------------------|
|                           | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 |
| <b>Net sales:</b>         |                    |                    |                    |                    |
| United States             | \$ 38,228          | \$ 37,975          | \$ 113,826         | \$ 112,132         |
| Hong Kong                 | 34,518             | 34,826             | 85,385             | 116,814            |
| Canada                    | 16,419             | 16,107             | 52,352             | 50,896             |
| <br>                      |                    |                    |                    |                    |
|                           |                    |                    | As of              |                    |
|                           |                    |                    | January 1,<br>2011 | October 1,<br>2011 |
| <b>Long-lived Assets:</b> |                    |                    |                    |                    |
| United States             |                    |                    | \$ 44,017          | \$ 46,981          |
| Australia                 |                    |                    | 15,779             | 14,572             |
| China                     |                    |                    | 57,818             | 59,365             |

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of USANA's financial condition and results of operations is presented in six sections:

- Overview
- Customers
- Current Focus
- Results of Operations
- Liquidity and Capital Resources
- Forward-Looking Statements and Certain Risks

This discussion and analysis should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes thereto that are contained in this quarterly report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations that are included in our Annual Report on Form 10-K for the year ended January 1, 2011, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission ( "SEC" ) through the date of this report.

**Overview**

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. Our customer base comprises two types of customers: Associates and Preferred Customers. Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of October 1, 2011, we had approximately 214,000 active Associates and approximately 66,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period, either for personal use or for resale.

We have ongoing operations in the following markets, which are grouped and presented as follows:

- North America

- United States
  
- Canada
  
- Mexico
  
- Asia Pacific
  
- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, and the Philippines
  
- Greater China Hong Kong, Taiwan, and China\*
  
- North Asia Japan and South Korea

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\* Our business in China is that of BabyCare, our wholly-owned subsidiary.



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Our primary product lines consist of USANA® Nutritionals, USANA Foods, and Sensé beautiful science® (Sensé), which is our line of personal care products. The USANA Nutritionals product line is further categorized into two separate classifications: Essentials and Optimizers. The following tables summarize the approximate percentage of total product revenue that has been contributed by our major product lines and our top-selling products for the current and prior-year periods indicated:

| <b>Product Line</b>        | <b>Nine Months Ended</b>   |                            |
|----------------------------|----------------------------|----------------------------|
|                            | <b>October 2,<br/>2010</b> | <b>October 1,<br/>2011</b> |
| <b>USANA® Nutritionals</b> |                            |                            |
| Essentials                 | 30%                        | 29%                        |
| Optimizers                 | 47%                        | 49%                        |
| USANA Foods                | 12%                        | 12%                        |
| Sensé beautiful science®   | 8%                         | 7%                         |
| All Other                  | 3%                         | 3%                         |
| <b>Key Product</b>         |                            |                            |
| USANA® Essentials          | 18%                        | 18%                        |
| Proflavanol®               | 11%                        | 12%                        |
| HealthPak 100              | 10%                        | 9%                         |

We believe that our ability to attract and retain Associates and Preferred Customers to sell and consume our products is positively influenced by a number of factors. Some of these factors include: the general public's heightened awareness and understanding of the connection between diet and long-term health, the aging of the worldwide population as older people generally tend to consume more nutritional supplements, and the growing desire for a secondary source of income and small business ownership.

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates. We strive to ensure that our products are up-to-date with the latest science in nutrition research and to keep our product lines relatively compact, which we believe simplifies the selling and buying process for our Associates and Preferred Customers. We also periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding in the industry, to encourage behavior that we believe leads to a more successful business.