

USANA HEALTH SCIENCES INC
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2013

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

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.)

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

(Address of principal executive offices, Zip Code)

(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
Non-accelerated filer

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

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

The number of shares outstanding of the registrant's common stock as of August 2, 2013 was 13,789,643.

Table of Contents

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 29, 2013

INDEX

| | Page | |
|---|--|-------|
| <u>PART I. FINANCIAL INFORMATION</u> | | |
| <u>Item 1</u> | <u>Financial Statements (unaudited)</u> | |
| | <u>Consolidated Balance Sheets</u> | 3 |
| | <u>Consolidated Statements of Comprehensive Income - Quarter Ended</u> | 4 |
| | <u>Consolidated Statements of Comprehensive Income - Six Months Ended</u> | 5 |
| | <u>Consolidated Statements of Stockholders' Equity</u> | 6 |
| | <u>Consolidated Statements of Cash Flows</u> | 7 |
| | <u>Notes to Consolidated Financial Statements</u> | 8 12 |
| <u>Item 2</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13 21 |
| <u>Item 3</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 22 |
| <u>Item 4</u> | <u>Controls and Procedures</u> | 22 |
| <u>PART II. OTHER INFORMATION</u> | | |
| <u>Item 5</u> | <u>Other Information</u> | 23 |
| <u>Item 6</u> | <u>Exhibits</u> | 23 24 |
| <u>Signatures</u> | | 25 |

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

(in thousands)

| | As of December 29, 2012 | As of June 29, 2013 |
|---|-------------------------------|---------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 70,839 | \$ 96,056 |
| Inventories | 36,481 | 41,712 |
| Prepaid expenses and other current assets | 25,225 | 28,252 |
| Total current assets | 132,545 | 166,020 |
| Property and equipment, net | 61,751 | 58,796 |
| Goodwill | 17,890 | 17,969 |
| Intangible assets, net | 42,085 | 41,812 |
| Deferred tax assets | 5,956 | 4,380 |
| Other assets | 7,128 | 9,947 |
| | \$ 267,355 | \$ 298,924 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 7,040 | \$ 7,285 |
| Other current liabilities | 63,804 | 67,328 |
| Total current liabilities | 70,844 | 74,613 |
| Deferred tax liabilities | 10,001 | 9,109 |
| Other long-term liabilities | 938 | 1,196 |
| Stockholders' equity | | |
| Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 13,821 as of December 29, 2012 and 13,591 as of June 29, 2013 | 14 | 14 |
| Additional paid-in capital | 43,822 | 45,777 |
| Retained earnings | 134,800 | 162,988 |
| Accumulated other comprehensive income | 6,936 | 5,227 |

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

| | | | | |
|----------------------------|----|---------|----|---------|
| Total stockholders' equity | | 185,572 | | 214,006 |
| | \$ | 267,355 | \$ | 298,924 |

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

| | Quarters Ended | |
|--|------------------|------------------|
| | June 30, 2012 | June 29, 2013 |
| Net sales | \$ 160,901 | \$ 189,136 |
| Cost of sales | 28,073 | 31,905 |
| Gross profit | 132,828 | 157,231 |
| Operating expenses: | | |
| Associate incentives | 70,901 | 77,801 |
| Selling, general and administrative | 36,776 | 42,978 |
| Total operating expenses | 107,677 | 120,779 |
| Earnings from operations | 25,151 | 36,452 |
| Other income (expense): | | |
| Interest income | 71 | 81 |
| Other, net | (293) | (164) |
| Other income (expense), net | (222) | (83) |
| Earnings before income taxes | 24,929 | 36,369 |
| Income taxes | 8,184 | 12,159 |
| Net earnings | \$ 16,745 | \$ 24,210 |
| Earnings per common share | | |
| Basic | \$ 1.14 | \$ 1.79 |
| Diluted | \$ 1.11 | \$ 1.72 |
| Weighted average common shares outstanding | | |
| Basic | 14,691 | 13,513 |
| Diluted | 15,090 | 14,099 |
| Comprehensive income: | | |
| Net earnings | \$ 16,745 | \$ 24,210 |

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

| | | | | |
|--|----|--------|----|---------|
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment | | (851) | | (2,472) |
| Tax benefit (expense) related to foreign currency translation adjustment | | 363 | | 798 |
| Other comprehensive income (loss), net of tax | | (488) | | (1,674) |
| Comprehensive income | \$ | 16,257 | \$ | 22,536 |

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

| | Six Months Ended | |
|--|------------------|------------------|
| | June 30, 2012 | June 29, 2013 |
| Net sales | \$ 315,021 | \$ 358,218 |
| Cost of sales | 55,290 | 62,166 |
| Gross profit | 259,731 | 296,052 |
| Operating expenses: | | |
| Associate incentives | 138,910 | 147,656 |
| Selling, general and administrative | 74,808 | 85,382 |
| Total operating expenses | 213,718 | 233,038 |
| Earnings from operations | 46,013 | 63,014 |
| Other income (expense): | | |
| Interest income | 109 | 159 |
| Other, net | (199) | (268) |
| Other income (expense), net | (90) | (109) |
| Earnings before income taxes | 45,923 | 62,905 |
| Income taxes | 15,427 | 20,916 |
| Net earnings | \$ 30,496 | \$ 41,989 |
| Earnings per common share | | |
| Basic | \$ 2.06 | \$ 3.09 |
| Diluted | \$ 2.01 | \$ 2.99 |
| Weighted average common shares outstanding | | |
| Basic | 14,827 | 13,578 |
| Diluted | 15,192 | 14,034 |
| Comprehensive income: | | |
| Net earnings | \$ 30,496 | \$ 41,989 |

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

| | | | | |
|--|----|--------|----|---------|
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment | | (156) | | (2,441) |
| Tax benefit (expense) related to foreign currency translation adjustment | | 68 | | 732 |
| Other comprehensive income (loss), net of tax | | (88) | | (1,709) |
| Comprehensive income | \$ | 30,408 | \$ | 40,280 |

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Six Months Ended June 30, 2012; and June 29, 2013

(in thousands)

(unaudited)

| | Common Stock Shares | Common Stock Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|------------------------|-----------------------|----------------------------------|----------------------|--|------------|
| For the Six Months Ended June 30, 2012 | | | | | | |
| Balance at December 31, 2011 | 14,940 | \$ 15 | \$ 49,257 | \$ 118,799 | \$ 5,839 | \$ 173,910 |
| Net earnings | | | | 30,496 | | 30,496 |
| Other comprehensive income (loss), net of tax | | | | | (88) | (88) |
| Equity-based compensation expense | | | 5,618 | | | 5,618 |
| Common stock repurchased and retired | (677) | (1) | (7,387) | (19,175) | | (26,563) |
| Common stock issued under equity award plans, including tax benefit of \$336 | 87 | | 375 | | | 375 |
| Tax impact of canceled vested equity awards | | | (121) | | | (121) |
| Balance at June 30, 2012 | 14,350 | 14 | 47,742 | 130,120 | 5,751 | 183,627 |
| For the Six Months Ended June 29, 2013 | | | | | | |
| Balance at December 29, 2012 | 13,821 | \$ 14 | \$ 43,822 | \$ 134,800 | \$ 6,936 | \$ 185,572 |
| Net earnings | | | | 41,989 | | 41,989 |
| Other comprehensive income (loss), net of tax | | | | | (1,709) | (1,709) |
| Equity-based compensation expense | | | 4,427 | | | 4,427 |
| Common stock repurchased and retired | (414) | | (4,284) | (13,801) | | (18,085) |
| Common stock issued under equity award plans, including tax benefit of \$1,384 | 184 | | 1,838 | | | 1,838 |
| Tax impact of canceled vested equity awards | | | (26) | | | (26) |
| Balance at June 29, 2013 | 13,591 | \$ 14 | \$ 45,777 | \$ 162,988 | \$ 5,227 | \$ 214,006 |

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Six Months Ended | |
|--|------------------|------------------|
| | June 30, 2012 | June 29, 2013 |
| Cash flows from operating activities | | |
| Net earnings | \$ 30,496 | \$ 41,989 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation and amortization | 4,410 | 4,631 |
| (Gain) loss on sale of property and equipment | (108) | (6) |
| Equity-based compensation expense | 5,618 | 4,427 |
| Excess tax benefits from equity-based payment arrangements | (380) | (1,734) |
| Deferred income taxes | (4,673) | 843 |
| Changes in operating assets and liabilities: | | |
| Inventories, net | 3,466 | (6,123) |
| Prepaid expenses and other assets | (1,332) | (3,295) |
| Accounts payable | (1,565) | 155 |
| Other liabilities | 8,014 | 6,409 |
| Total adjustments | 13,450 | 5,307 |
| Net cash provided by operating activities | 43,946 | 47,296 |
| Cash flows from investing activities | | |
| Increase in notes receivable | | (2,232) |
| Proceeds from sale of property and equipment | 148 | 15 |
| Purchases of property and equipment | (3,447) | (2,961) |
| Net cash used in investing activities | (3,299) | (5,178) |
| Cash flows from financing activities | | |
| Proceeds from equity awards exercised | 39 | 454 |
| Excess tax benefits from equity-based payment arrangements | 380 | 1,734 |
| Repurchase of common stock | (26,563) | (18,085) |
| Borrowings on line of credit | 593 | |
| Net cash provided by (used in) financing activities | (25,551) | (15,897) |
| Effect of exchange rate changes on cash and cash equivalents | 89 | (1,004) |
| Net increase in cash and cash equivalents | 15,185 | 25,217 |

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

| | | | | |
|---|----|--------|----|--------|
| Cash and cash equivalents, beginning of period | | 50,353 | | 70,839 |
| Cash and cash equivalents, end of period | \$ | 65,538 | \$ | 96,056 |
| Supplemental disclosures of cash flow information | | | | |
| Cash paid during the period for: | | | | |
| Income taxes | \$ | 13,293 | \$ | 21,040 |
| Non-cash investing activities: | | | | |
| Receipts on notes receivable | | | | 6 |

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

NOTE A - 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 global 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/Europe and Asia Pacific, which is further divided into three sub-regions; Southeast Asia Pacific, Greater China, and North Asia. North America/Europe includes the United States, Canada, Mexico, the United Kingdom, France, Belgium, and the Netherlands. Southeast Asia Pacific includes Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand; Greater China includes Hong Kong, Taiwan and China; and North Asia includes Japan and South Korea. All significant intercompany accounts and transactions have been eliminated in this consolidation.

The condensed balance sheet as of December 29, 2012, 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 state fairly the Company's financial position as of June 29, 2013 and results of operations for quarters and six months ended June 30, 2012 and June 29, 2013. 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 December 29, 2012. The results of operations for the quarters and six months ended June 29, 2013, may not be indicative of the results that may be expected for the fiscal year 2013 ending December 28, 2013.

On July 23, 2013, the Company disclosed that the Securities and Exchange Commission is conducting a formal investigation, which appears to involve possible issues regarding trading in the Company's stock during late 2012 by certain of the Company's directors, including the Chairman. The Company, as well as certain of its directors and executives, have received subpoenas from the SEC to produce documents related to this matter. The Company and its directors are cooperating with the SEC in this matter. In the opinion of management, based upon advice of counsel, the likelihood of an adverse outcome against the Company in this matter is remote. As such, management believes that the ultimate outcome of the SEC investigation will not have a material impact on the Company's financial position or results of operations.

NOTE B INVENTORIES

Inventories consist of the following:

| | December 29, 2012 | June 29, 2013 |
|------------------|----------------------|------------------|
| Raw materials | \$ 9,228 | \$ 11,538 |
| Work in progress | 7,703 | 8,680 |
| Finished goods | 19,550 | 21,494 |
| | \$ 36,481 | \$ 41,712 |

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE C 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 | |
|--|------------------|------------------|
| | June 30, 2012 | June 29, 2013 |
| Net earnings available to common shareholders | \$ 16,745 | \$ 24,210 |
| Basic EPS | | |
| Shares | | |
| Common shares outstanding entire period | 14,940 | 13,821 |
| Weighted average common shares: | | |
| Issued during period | 68 | 106 |
| Canceled during period | (317) | (414) |
| Weighted average common shares outstanding during period | 14,691 | 13,513 |
| Earnings per common share from net earnings - basic | \$ 1.14 | \$ 1.79 |
| Diluted EPS | | |
| Shares | | |
| Weighted average common shares outstanding during period - basic | 14,691 | 13,513 |
| Dilutive effect of in-the-money equity awards | 399 | 586 |
| Weighted average common shares outstanding during period - diluted | 15,090 | 14,099 |
| Earnings per common share from net earnings - diluted | \$ 1.11 | \$ 1.72 |

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

Equity awards for 1,906 and 234 shares of stock were not included in the computation of diluted EPS for the quarters ended June 30, 2012, and June 29, 2013, respectively, due to the fact that their effect would be anti-dilutive.

NOTE C COMMON STOCK AND EARNINGS PER SHARE CONTINUED

| | Six Months Ended | |
|--|------------------|------------------|
| | June 30, 2012 | June 29, 2013 |
| Net earnings available to common shareholders | \$ 30,496 | \$ 41,989 |
| Basic EPS | | |
| Shares | | |
| Common shares outstanding entire period | 14,940 | 13,821 |
| Weighted average common shares: | | |
| Issued during period | 45 | 58 |
| Canceled during period | (158) | (301) |
| Weighted average common shares outstanding during period | 14,827 | 13,578 |
| Earnings per common share from net earnings - basic | \$ 2.06 | \$ 3.09 |
| Diluted EPS | | |
| Shares | | |
| Weighted average common shares outstanding during period - basic | 14,827 | 13,578 |
| Dilutive effect of in-the-money equity awards | 365 | 456 |
| Weighted average common shares outstanding during period - diluted | 15,192 | 14,034 |
| Earnings per common share from net earnings - diluted | \$ 2.01 | \$ 2.99 |

Equity awards for 1,934 and 560 shares of stock were not included in the computation of diluted EPS for the six months ended June 30, 2012, and June 29, 2013, respectively, due to the fact that their effect would be anti-dilutive.

Table of Contents**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data)****(unaudited)****NOTE D 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.

| | Quarter Ended | | Six Months Ended | |
|--------------------------|------------------|------------------|------------------|------------------|
| | June 30, 2012 | June 29, 2013 | June 30, 2012 | June 29, 2013 |
| USANA® Nutritionals | 79% | 81% | 79% | 80% |
| USANA Foods | 12% | 12% | 12% | 12% |
| Sensé beautiful science® | 7% | 6% | 7% | 6% |

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

- North America/Europe United States, Canada, Mexico, the United Kingdom, France (1), Belgium (1), and the Netherlands.
- Asia Pacific
- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand (1)
- Greater China Hong Kong, Taiwan and China(2)

- North Asia Japan and South Korea

(1) The Company commenced operations in Thailand, France, and Belgium at the end of the first quarter of 2012.

(2) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE D SEGMENT INFORMATION - CONTINUED

Selected Financial Information

Financial information by geographic region is presented for the periods indicated below:

| | Quarter Ended | | Six Months Ended | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | June 30, 2012 | June 29, 2013 | June 30, 2012 | June 29, 2013 |
| Net Sales to External Customers | | | | |
| North America/Europe | \$ 62,464 | \$ 66,769 | \$ 121,096 | \$ 130,921 |
| Asia Pacific | | | | |
| Southeast Asia Pacific | 34,271 | 37,475 | 66,523 | 72,784 |
| Greater China | 56,770 | 77,388 | 113,405 | 140,373 |
| North Asia | 7,396 | 7,504 | 13,997 | 14,140 |
| Asia Pacific Total | 98,437 | 122,367 | 193,925 | 227,297 |
| Consolidated Total | \$ 160,901 | \$ 189,136 | \$ 315,021 | \$ 358,218 |

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

| | Quarter Ended | | Six Months Ended | |
|---------------|------------------|------------------|------------------|------------------|
| | June 30, 2012 | June 29, 2013 | June 30, 2012 | June 29, 2013 |
| Net sales: | | | | |
| Hong Kong | \$ 43,547 | \$ 45,938 | \$ 87,354 | \$ 87,535 |
| United States | 39,108 | 40,087 | 75,586 | 80,325 |
| China | N/A | 23,559 | N/A | 36,984 |
| Canada | 16,246 | N/A | 32,435 | N/A |

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

| | December 29, 2012 | As of | June 29, 2013 |
|--------------------|----------------------|-------|------------------|
| Long-lived Assets: | | | |
| China | \$ 59,130 | \$ | 58,822 |
| United States | 46,559 | | 47,969 |
| Australia | 15,121 | | 13,138 |

Table of Contents

NOTE E SUBSEQUENT EVENTS

On July 18, 2013, the Company entered into an Amendment to its Amended and Restated Credit Agreement, dated as of April 27, 2011, between the Company and Bank of America, N.A. The Amendment increases the revolving credit commitment under the Credit Agreement from \$60,000 up to \$75,000. The other material terms and provisions of the Credit Agreement were not amended or changed.

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 and Recent Developments
- 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 December 29, 2012, 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 is comprised of 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 June 29, 2013, we had approximately 254,000 active Associates and approximately 70,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale.

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

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

- North America/Europe United States, Canada, Mexico, the United Kingdom, France(1), Belgium(1), and the Netherlands
- Asia Pacific
- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand(1)
- Greater China Hong Kong, Taiwan, and China (2)
- North Asia Japan and South Korea

(1) We commenced operations in Thailand, France, and Belgium at the end of the first quarter of 2012.

(2) Our business in China is that of BabyCare, our wholly-owned subsidiary.

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:

Table of Contents

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:

| Product Line | Six Months Ended | |
|----------------------------|--------------------------|--------------------------|
| | June 30, 2012 | June 29, 2013 |
| USANA® Nutritionals | | |
| Essentials | 28% | 27% |
| Optimizers | 51% | 53% |
| USANA Foods | 12% | 12% |
| Sensé beautiful science® | 7% | 6% |
| All Other | 2% | 2% |
| Key Product | | |
| USANA® Essentials | 18% | 18% |
| Proflavanol® | 12% | 12% |

Other top-selling products include our BiOmega-3 , HealthPak 100 , and CoQuinone® 30.

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 formulated 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 for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings. For example, during the second quarter of 2012 we modified the Matching Bonus component of our Compensation Plan, changing it from a short-term incentive to a long-term incentive. We now refer to this bonus as our Lifetime Matching Bonus, which was fully phased in during the fourth quarter of 2012. We believe that the Lifetime Matching Bonus is a more attractive incentive to our Associates and will help facilitate long-term growth for both our Associates and the Company.

To further support our Associates in building their businesses, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in their business development and to provide a forum for interaction with our Associate leaders and members of our management team. We also provide low cost sales tools, including online sales, business management, and training tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. Although we provide training and sales tools, we ultimately rely on our Associates to sell our products, attract new customers to purchase our products, and educate and train new Associates.

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, net sales and gross profit are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Currency fluctuations, however, have the opposite effect on our Associate incentives and selling, general and administrative expenses. During the six months ended June 29, 2013, net sales outside of the United States represented approximately 78% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

Table of Contents**Customers**

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on our ability to attract new Associates and retain existing Associates to sell and consume our products. Notably, sales to Associates account for the majority of our product sales, representing 91% of product sales during the six months ended June 29, 2013. Additionally, it is important to attract and retain Preferred Customers as consumers of our products. Increases or decreases in product sales are typically the result of variations in product sales volumes relating to fluctuations in the number of active Associates and Preferred Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

The tables below summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated.

Active Associates By Region

| | As of June 30, 2012 | | As of June 29, 2013 | | Change from Prior Year | Percent Change |
|------------------------|------------------------|--------|------------------------|--------|---------------------------|-------------------|
| North America/Europe | 82,000 | 34.9% | 82,000 | 32.3% | | 0.0% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 58,000 | 24.7% | 60,000 | 23.6% | 2,000 | 3.4% |
| Greater China | 87,000 | 37.0% | 103,000 | 40.6% | 16,000 | 18.4% |
| North Asia | 8,000 | 3.4% | 9,000 | 3.5% | 1,000 | 12.5% |
| Asia Pacific Total | 153,000 | 65.1% | 172,000 | 67.7% | 19,000 | 12.4% |
| | 235,000 | 100.0% | 254,000 | 100.0% | 19,000 | 8.1% |

Active Preferred Customers By Region

| | As of June 30, 2012 | | As of June 29, 2013 | | Change from Prior Year | Percent Change |
|------------------------|------------------------|--------|------------------------|--------|---------------------------|-------------------|
| North America/Europe | 52,000 | 78.8% | 57,000 | 81.4% | 5,000 | 9.6% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 6,000 | 9.1% | 7,000 | 10.0% | 1,000 | 16.7% |
| Greater China | 7,000 | 10.6% | 4,000 | 5.7% | (3,000) | (42.9)% |
| North Asia | 1,000 | 1.5% | 2,000 | 2.9% | 1,000 | 100.0% |
| Asia Pacific Total | 14,000 | 21.2% | 13,000 | 18.6% | (1,000) | (7.1)% |
| | 66,000 | 100.0% | 70,000 | 100.0% | 4,000 | 6.1% |

Current Focus and Recent Developments

Our primary objective, both on a short- and long-term basis, is to strengthen and grow our active Associate counts throughout the world. To this end, we continue to execute our Personalization initiative and growth strategies in North America and Greater China, as well as introduce additional market-specific strategies in each of our regions.

We began the year with the implementation of a pricing initiative in several of our mature markets, which included price reductions in certain markets. This initiative was intended to make our products and business opportunity more equitable across all of our markets. As a follow-up to this pricing initiative, in the second quarter we implemented a worldwide policy, which focuses on cross-border purchasing by our customers. With the Internet allowing consumers to research and purchase products online, we have experienced cross-border purchasing by customers in various markets in an effort to get desired formulations, favorable pricing, and products that are not available in their home markets. We believe that it is in the best long-term interest of the Company, and our customers, to have customers focus on purchasing products that are approved and offered in their home market. We estimate that this

Table of Contents

announcement generated \$7.0 million in incremental sales during the quarter due to increased sales ahead of the implementation of this policy. We anticipate that this policy will negatively impact our financial results in certain of our markets going forward.

Towards the beginning of the year we also offered a promotion in the United States and Canada, which incented our Associates to use our True Health Assessment application to market and personalize our products to new customers. This promotion generated meaningful excitement in North America during the first quarter, which carried over into the second quarter.

During the second quarter, we have been preparing for our 2013 Annual International Convention, which will be held in Salt Lake City, Utah in August. We typically reserve our most significant announcements and events for this meeting. At this year's convention, we will announce several important initiatives, which are designed to (i) reward customers who loyally use our products, (ii) simplify the USANA opportunity for all Associates, and (iii) increase and accelerate the earnings potential for anyone involved with USANA. Although these initiatives will add pressure to our operating results during the second half of the year, we believe that the benefits offered by these initiatives will be a catalyst to long-term growth in both customers and sales.

Finally, during the first half of the year we also continued our international expansion efforts by preparing for entry into our newest market, Colombia, which we officially launched in early July 2013. We believe that Colombia will be a successful market for USANA as well as an excellent entry point into South America. For our Greater China region, we also announced our receipt of three additional direct selling licenses in Mainland China earlier in the year, which allow us to expand our direct selling business in China.

Results of Operations

Summary of Financial Results

Net sales for the second quarter of 2013 increased 17.5%, or \$28.2 million, compared with the second quarter of 2012. The increase in net sales for the quarter came, in significant part, from strong growth in Greater China, but also included meaningful growth in North America and Southeast Asia Pacific. In general, sales increases during the quarter were the combined result of a higher number of active Associates and Preferred Customers in many of our markets, as well as higher sales volume per Associate from an increased number of our Associate leaders who are actively selling our products and building sales organizations. As noted elsewhere in this report, our results for the quarter also benefitted from an estimated \$7.0 million in incremental sales ahead of a worldwide policy that the Company implemented during the quarter. Currency fluctuations and price changes did not have a meaningful impact on net sales for the quarter.

Net earnings for the second quarter of 2013 increased 44.6%, to \$24.2 million, compared with the second quarter of 2012. This increase was the result of higher net sales, lower relative Associate incentives, and improved gross profit margins.

Table of Contents**Quarters Ended June 30, 2012 and June 29, 2013***Net Sales*

The following table summarizes the changes in our net sales by geographic region for the quarters ended as of the dates indicated:

| | Net Sales by Region (in thousands) Quarter Ended | | | | Change from prior year | Percent change |
|------------------------|--|--------|---------------|--------|------------------------------|-------------------|
| | June 30, 2012 | | June 29, 2013 | | | |
| North America/Europe | \$ 62,464 | 38.8% | \$ 66,769 | 35.3% | \$ 4,305 | 6.9% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 34,271 | 21.3% | 37,475 | 19.8% | 3,204 | 9.3% |
| Greater China | 56,770 | 35.3% | 77,388 | 40.9% | 20,618 | 36.3% |
| North Asia | 7,396 | 4.6% | 7,504 | 4.0% | 108 | 1.5% |
| Asia Pacific Total | 98,437 | 61.2% | 122,367 | 64.7% | 23,930 | 24.3% |
| | \$ 160,901 | 100.0% | \$ 189,136 | 100.0% | \$ 28,235 | 17.5% |

North America/Europe: The increase in net sales in this region was due to sales growth in each market in this region. Sales growth in the United States and Canada was primarily due to increased sales volume per Associate from a growing number of Associate leaders who are actively selling our products and building sales organizations in these markets. Net sales in Canada increased year-over-year despite price decreases, which were implemented earlier this year and reduced sales during the second quarter by an estimated \$1.8 million. Net sales in Mexico increased nearly 37% due to an increase in the number of active Associates in this market.

Although our Associate count was flat in this region for the quarter, our Preferred Customer count increased 9.6%. The number of active Associates, however, did increase 7.7% in Mexico, and 4.3% in Canada. We were pleased to achieve this level of customer growth, particularly in light of a difficult year-over-year comparison. During the second quarter of 2012, we offered a promotion in connection with the launch of our Lifetime Matching Bonus Program, which resulted in strong Associate growth for that quarter.

Asia Pacific: The increase in net sales in this region was driven by strong growth in our Greater China and Southeast Asia Pacific regions. These increases were primarily the result of an increase in the number of active Associates and increased sales volume per Associate. Similar to North America, our results in this region are presented against a difficult year-over-year comparable, due to the promotion that was offered in connection with the launch of our Lifetime Matching Bonus Program during the second quarter of 2012, which we estimate contributed nearly \$4.0 million to net sales for that quarter.

Growth in Greater China was driven by strong sales and Associate growth in Mainland China, and also by sales growth in Hong Kong and Taiwan. We believe net sales growth in mainland China was due to (i) continued momentum from our Asia Pacific convention, which was held

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

in this region during the first quarter, and (ii) an increased number of Associates who are advancing through our business in Mainland China. In Hong Kong, the number of active Associates decreased 17.5%, while net sales for the quarter increased by \$2.4 million, or 5.5%. This increase in net sales in Hong Kong included incremental sales generated ahead of the worldwide policy that we implemented during the quarter. Without these incremental sales, net sales in Hong Kong would have declined year-over-year.

Growth in Southeast Asia Pacific was driven by the Philippines and Singapore. Sales growth in the Philippines was again driven by meaningful growth in the number of active Associates, although at a more modest rate than the past few years. Our results in Singapore benefited by approximately \$1.2 million from increased sales of our global MyHealthPak product. Sales of this customizable product throughout our Asia Pacific region are serviced through Singapore. Net sales in Australia and New Zealand decreased modestly, only as a result of the price decreases that were implemented in these markets earlier this year. Sales volume for the quarter in Australia and New Zealand increased noticeably due to a 6.3% increase in the number of active Associates and a 25% increase in the number of Preferred Customers. We believe that the price decreases in Australia and New Zealand are contributing to the growing momentum in these markets.

Table of Contents

Gross Profit

Gross profit increased to 83.1% of net sales for the second quarter of 2013 from 82.6% for the second quarter of 2012. This increase can be attributed to production efficiencies, partially offset by an unfavorable change in sales mix by market and product. We expect gross profit margins to decrease in the last half of the year due to less benefit from production efficiencies, the pricing initiative that we implemented during the first quarter of 2013, and from pressure on net sales relating to the initiatives that will be announced at our Annual International Convention held in August.

Associate Incentives

Associate incentives decreased 300 basis points to 41.1% of net sales for the second quarter of 2013 when compared with the second quarter of 2012. This decrease is primarily due to the lower payout under our new Lifetime Matching Bonus program, but also includes decreased spending on contests and promotions. It is our objective to reinvest the savings generated by the Lifetime Matching Bonus in our Associate sales force in ways that will promote the long-term growth of the Company. In this regard, we will announce several initiatives at our upcoming international convention that will cause our Associate incentives expense to increase beginning in the third quarter of 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expense as a percentage of net sales remained relatively flat in the second quarter of 2013 compared with the second quarter of 2012. In absolute terms, our selling, general and administrative expense increased \$6.2 million. This increase was related to higher overall spending to support growing sales, with the largest increase coming from a \$3.0 million increase in wages and benefits.

Income Taxes

Our effective income tax rate during the second quarter of 2013 was 33.4%, compared with 32.8% in the second quarter of 2012. This increase was due to one-time benefits recognized in the second quarter of 2012 related to restructuring of our Singapore and Hong Kong operations, as well as larger tax benefits from our manufacturing deduction in the second quarter of 2012.

Diluted Earnings Per Share

Diluted earnings per share increased by 55.0% from the second quarter of 2012 to the second quarter of 2013. This increase was due to higher net earnings and a lower number of diluted shares outstanding, which was the result of share repurchases over the last twelve months.

Table of Contents**Six Months Ended June 30, 2012 and June 29, 2013***Net Sales*

The following table summarizes the changes in our net sales by geographic region for the periods ended as of the dates indicated:

| | Net Sales by Region (in thousands) Six Months Ended | | June 29, 2013 | Change from prior year | Percent change |
|------------------------|---|--------|---------------|------------------------------|-------------------|
| | June 30, 2012 | | | | |
| North America/Europe | \$ 121,096 | 38.4% | \$ 130,921 | 36.5% | \$ 9,825 8.1% |
| Asia Pacific: | | | | | |
| Southeast Asia Pacific | 66,523 | 21.1% | 72,784 | 20.3% | 6,261 9.4% |
| Greater China | 113,405 | 36.0% | 140,373 | 39.2% | 26,968 23.8% |
| North Asia | 13,997 | 4.5% | 14,140 | 4.0% | 143 1.0% |
| Asia Pacific Total | 193,925 | 61.6% | 227,297 | 63.5% | 33,372 17.2% |
| | \$ 315,021 | 100.0% | \$ 358,218 | 100.0% | \$ 43,197 13.7% |

North America/Europe: The increase in net sales in this region during the first six months of 2013 was due to (i) increased sales volume per Associate, (ii) growth in the average number of active Associates in Mexico where net sales increased \$4.4 million, or 35.2%, and (iii) growth in the average number of active Preferred Customers.

Asia Pacific: The increase in net sales in this region during the first six months of 2013 was driven by growth in Greater China and Southeast Asia Pacific, which was primarily the result of an increase in the average number of active Associates in the first six months of 2013. This increase also included an estimated \$7.0 million in incremental sales generated ahead of the worldwide policy that we implemented during the second quarter as previously discussed.

These improvements were partially offset by two events that contributed to sales during the first six months of 2012 that did not occur in 2013, namely: (i) an estimated \$11.0 surge in sales ahead of price increases, and (ii) an estimate of nearly \$4.0 million from the short-term promotion that we offered in connection with the introduction of our Lifetime Matching Bonus.

Gross Profit

Gross profit for the first six months of 2013 increased slightly to 82.6% of net sales compared with 82.4% in the prior year period. This increase can be attributed to production efficiencies, partially offset by a change in sales mix by market and product.

Associate Incentives

Associate incentives decreased 290 basis points to 41.2% of net sales for the first six months of 2013 when compared with the prior year period. This decrease was due to lower payout under our new Lifetime Matching Bonus program.

Selling, General and Administrative Expenses

Selling, general and administrative expense as a percentage of net sales remained relatively flat in the first six months of 2013 compared with the same period in 2012. In absolute terms, our selling, general and administrative expense increased \$10.6 million. This increase is related to higher overall spending to support growing sales, with the largest increase coming from a \$6.0 million increase in wages and benefits.

Diluted Earnings Per Share

Diluted earnings per share increased 48.8% during the first six months of 2013 when compared to the first six months of 2012. This increase was due to higher net earnings and a lower number of diluted shares outstanding, which was the result of share repurchases by the Company over the last twelve months.

Table of Contents

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing on our line of credit. Our principal source of liquidity is our operating cash flow. Although we are required to maintain cash deposits with banks in some of our markets, there are currently no material restrictions on our ability to transfer and remit available funds among our international markets. Repatriation of funds that are related to earnings considered permanently reinvested in certain of our markets would not result in a tax liability that would have a material impact on our liquidity at this time.

Operating cash flow

We typically generate positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$47.3 million in the first six months of 2013, compared with \$43.9 million in the first six months of 2012. This increase can primarily be attributed to higher net earnings and tax-related cash benefits associated with significant stock option exercises in the current year period. These increases were partially offset by increased inventory levels, which can be attributed to stock levels necessary to support growing sales in certain markets, incorporating longer lead times into our operating processes, as well as inventories for Colombia.

Line of credit

We have a long-standing relationship with Bank of America. For the last few years, we have maintained a \$60.0 million credit facility pursuant to a credit agreement with Bank of America, which expires in April 2016. On July 18, 2013, we entered into an amendment to this credit agreement, which increases the amount that we may borrow under the credit facility to \$75.0 million. This was the sole change to our credit facility. We did not draw on this line of credit at any time during the first six months of 2013, and, as of June 29, 2013 there was no outstanding balance on this line of credit.

The agreement for this credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of June 29, 2013, we were in compliance with these covenants. Management is not aware of any issues currently impacting Bank of America's ability to honor their commitment to extend credit under this facility.

Working capital

Cash and cash equivalents increased to \$96.1 million at June 29, 2013, from \$70.8 million at December 29, 2012. The net increase in cash and cash equivalents was due primarily to cash provided by operating activities, and was reduced by share repurchases as discussed below. Net working capital increased to \$91.4 million at June 29, 2013, from \$61.7 at December 29, 2012. This increase in net working capital was primarily generated by the increase in cash and cash equivalents, but was also affected by the increase in inventory discussed above. Partially offsetting these improvements was an increase in other current liabilities, which was due primarily to higher accruals associated with overall

growth of the Company's operations.

Of the \$96.1 million cash and cash equivalents held at June 29, 2013, \$53.9 million was held in the United States, and \$42.2 million was held by international subsidiaries. Of the \$70.8 million held at December 29, 2012, \$38.6 million was held in the United States, and \$32.2 million was held by international subsidiaries.

As previously reported, we plan to invest as much as \$25 million in capital expenditures during 2013, which is meaningfully higher than our typical annual capital investment. Planned investments in China and international development are the primary catalysts to expected capital spending in 2013.

Share repurchase

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. The objective of this plan is to return value to our shareholders. Our Board of Directors has periodically approved additional dollar amounts for share repurchases under the plan. Share repurchases are made from time-to-time, in the open market, through block trades or otherwise, and are based on market

Table of Contents

conditions, the level of our cash balances, general business opportunities, and other factors. During the first six months of 2013, we repurchased and retired 414 thousand shares of common stock for a total investment of \$18.1 million, at an average market price of \$43.64 per share. As of June 29, 2013, the remaining approved repurchase amount under the plan was \$13.6 million. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Summary

We believe that current cash balances, future cash provided by operations, and amounts available under our line of credit will be sufficient to cover our operating and capital needs in the ordinary course of business for the foreseeable future. If we experience an adverse operating environment or unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available or on favorable terms. We might also require or seek additional financing for the purpose of expanding into new markets, growing our existing markets, or for other reasons. Such financing may include the use of additional debt or the sale of additional equity securities. Any financing which involves the sale of equity securities or instruments that are convertible into equity securities could result in immediate and possibly significant dilution to our existing shareholders.

Forward-Looking Statements and Certain Risks

The statements contained in this report that are not purely historical are considered to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as believes, expects, anticipates, should, plans, estimates, and potential, among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund our future operations and capital spending needs. Readers are cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in these forward-looking statements for the reasons that are detailed in our most recent Annual Report on Form 10-K. The fact that some of these risk factors may be the same or similar to those in our past SEC reports means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in the industry in which we operate and will likely be present in all periods reported. The fact that certain risks are common in the industry does not lessen their significance. The forward-looking statements contained in this report are made as of the date of this report, and we assume no obligation to update them or to update the reasons why our actual results could differ from those that we have projected. Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include:

- Our ability to attract and maintain a sufficient number of Associates;
- Our dependence upon a network marketing system to distribute our products and the activities of our independent Associates;
- The integration of BabyCare's operations and expansion of our business in China through BabyCare;

- Unanticipated effects of changes to our Compensation Plan;
- Our planned expansion into international markets, including delays in commencement of sales or product offerings in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- General economic conditions, both domestically and internationally;
- Potential political events, natural disasters, or other events that may negatively affect economic conditions;
- Potential effects of adverse publicity regarding the Company, nutritional supplements, or the network marketing industry;
- Reliance on key management personnel;
- Extensive government regulation of the Company's products, manufacturing, and network marketing system;

Table of Contents

- Potential inability to sustain or manage growth, including the failure to continue to develop new products;
- An increase in the amount of Associate incentives;
- Our reliance on the use of information technology;
- The effects of competition from new and established network and direct selling organizations in our key markets;
- The adverse effect of the loss of a high-level sponsoring Associate, together with a group of leading Associates, in that person's downline;
- The loss of product market share or Associates to competitors;
- Potential adverse effects of customs, duties, taxation, and transfer pricing regulations, including regulations governing distinctions between and Company responsibilities to employees and independent contractors;
- The fluctuation in the value of foreign currencies against the U.S. dollar;
- Our reliance on outside suppliers for raw materials and certain manufactured items;
- Shortages of raw materials that we use in certain of our products;
- Significant price increases of our key raw materials;
- Product liability claims and other risks that may arise with our manufacturing activity;

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

- Intellectual property risks;
- Liability claims that may arise with our Athlete Guarantee program;
- Continued compliance with debt covenants;
- Disruptions to shipping channels that are used to distribute our products to international warehouses;
- The introduction of new laws or changes to existing laws, both domestically and internationally; or
- The outcome of regulatory and litigation matters.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to information presented from that presented for the year ended December 29, 2012.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information that is required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods that are specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 29, 2013.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 29, 2013

Table of Contents

that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 5. OTHER INFORMATION

On July 23, 2013, the Company disclosed that the Securities and Exchange Commission (SEC) is conducting a formal investigation, which appears to involve possible issues regarding trading in the Company's stock during late 2012 by certain of the Company's directors, including the Chairman. The Company, and certain of its directors and executives, have received subpoenas from the SEC to produce documents related to this matter. The Company, and its directors, are fully cooperating with the SEC in connection with this matter. The Company believes that the outcome of this matter will not have a material adverse effect on the Company's financial condition or results of operations.

Item 6. EXHIBITS

| Exhibit Number | Description |
|-------------------|--|
| 3.1 | Amended and Restated Articles of Incorporation (Incorporated by reference to Report on Form 8-K, filed April 25, 2006) |
| 3.2 | Bylaws (Incorporated by reference to Report on Form 8-K, filed April 25, 2006) |
| 4.1 | Specimen Stock Certificate for Common Stock, no par value (Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993) |
| 10.1 | 2002 USANA Health Sciences, Inc. Stock Option Plan (Incorporated by reference to Registration Statement on Form S-8, filed July 18, 2002)* |
| 10.2 | Form of employee or director non-statutory stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)* |
| 10.3 | Form of employee incentive stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)* |
| 10.4 | Credit Agreement, dated June 16, 2004, by and between Bank of America, N.A. and USANA Health Sciences, Inc. (Incorporated by reference to Report on Form 10-Q for the period ended July 3, 2004) |
| 10.5 | Amendment dated May 17, 2006 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended September 30, 2006) |
| 10.6 | Amendment dated April 24, 2007 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended March 31, 2007) |
| 10.7 | |

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)*

- 10.8 Form of Stock Option Agreement for award of non-statutory stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
- 10.9 Form of Stock Option Agreement for award of non-statutory stock options to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
- 10.10 Form of Incentive Stock Option Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity

Edgar Filing: USANA HEALTH SCIENCES INC - Form 10-Q

Table of Contents

| | |
|---------|---|
| | Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.11 | Form of Stock-Settled Stock Appreciation Rights Award Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.12 | Form of Stock-Settled Stock Appreciation Rights Award Agreement for directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.13 | Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.14 | Form of Indemnification Agreement between the Company and its directors (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)* |
| 10.15 | Form of Indemnification Agreement between the Company and certain of its officers (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)* |
| 10.16 | Share Purchase Agreement, dated as of August 16, 2010, among USANA Health Sciences, Inc., Petlane, Inc., Yaolan Ltd., and BabyCare Holdings Ltd. (Incorporated by Reference to Report on Form 8-K, filed August 16, 2010) |
| 10.17 | Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011) |
| 10.18 | Form of Executive Confidentiality, Non-Disclosure and Non-Solicitation Agreement (Incorporated by reference to Quarterly Report on Form 10-Q for the period ended October 1, 2011, filed November 9, 2011)* |
| 10.19 | Separation and Release of Claims Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)* |
| 10.20 | Amendment to Confidentiality, Non-Disclosure and Non-Solicitation Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)* |
| 10.21 | Amendment to Amended and Restated Credit Agreement, dated as of July 18, 2013 (Incorporated by reference to Report on Form 8-K, filed July 23, 2013) |
| 31.1 | Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 32.2 | Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |

Table of Contents

* Denotes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USANA HEALTH SCIENCES, INC.

Date: August 8, 2013

/s/ Paul A. Jones
Paul A. Jones
Chief Financial Officer
(Principal Financial and Accounting Officer)