

USANA HEALTH SCIENCES INC  
Form 10-Q  
November 07, 2013  
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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 September 28, 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

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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

The number of shares outstanding of the registrant's common stock as of November 1, 2013 was 13,872,365.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended September 28, 2013

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(in thousands, except par value)

(unaudited)

|  | As of<br>December 29,<br>2012 | As of<br>September 28,<br>2013 |
|--|-------------------------------|--------------------------------|
| <b>ASSETS</b>  |                               |                                |
| Current assets   |                               |                                |
| Cash and cash equivalents  | \$ 70,839                     | \$ 115,349                     |
| Inventories  | 36,481                        | 45,671                         |
| Prepaid expenses and other current assets  | 25,225                        | 35,105                         |
| Total current assets   | 132,545                       | 196,125                        |
| Property and equipment, net  | 61,751                        | 60,432                         |
| Goodwill   | 17,890                        | 18,105                         |
| Intangible assets, net   | 42,085                        | 42,078                         |
| Deferred tax assets  | 5,956                         | 3,562                          |
| Other assets   | 7,128                         | 11,031                         |
|  | \$ 267,355                    | \$ 331,333                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                                |
| Current liabilities  |                               |                                |
| Accounts payable   | \$ 7,040                      | \$ 8,061                       |
| Other current liabilities  | 63,804                        | 74,474                         |
| Total current liabilities  | 70,844                        | 82,535                         |
| Deferred tax liabilities   | 10,001                        | 9,022                          |
| Other long-term liabilities  | 938                           | 1,127                          |
| Stockholders' equity   |                               |                                |
| Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 13,821 as of December 29, 2012 and 13,860 as of September 28, 2013 | 14                            | 14                             |

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|  |            |            |
|--|------------|------------|
| Additional paid-in capital             | 43,822     | 52,848     |
| Retained earnings                      | 134,800    | 179,741    |
| Accumulated other comprehensive income | 6,936      | 6,046      |
| Total stockholders' equity             | 185,572    | 238,649    |
|  | \$ 267,355 | \$ 331,333 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

|  | Quarters Ended        |                       |
|--|-----------------------|-----------------------|
|  | September 29,<br>2012 | September 28,<br>2013 |
| Net sales                                  | \$ 165,175            | \$ 173,691            |
| Cost of sales                              | 30,343                | 31,491                |
| Gross profit                               | 134,832               | 142,200               |
| Operating expenses:                        |                       |                       |
| Associate incentives                       | 70,406                | 76,361                |
| Selling, general and administrative        | 40,342                | 41,145                |
| Total operating expenses                   | 110,748               | 117,506               |
| Earnings from operations                   | 24,084                | 24,694                |
| Other income (expense):                    |                       |                       |
| Interest income                            | 64                    | 119                   |
| Other, net                                 | 203                   | (43)                  |
| Other income (expense), net                | 267                   | 76                    |
| Earnings before income taxes               | 24,351                | 24,770                |
| Income taxes                               | 6,861                 | 8,017                 |
| Net earnings                               | \$ 17,490             | \$ 16,753             |
| Earnings per common share                  |                       |                       |
| Basic                                      | \$ 1.22               | \$ 1.22               |
| Diluted                                    | \$ 1.18               | \$ 1.16               |
| Weighted average common shares outstanding |                       |                       |
| Basic                                      | 14,365                | 13,751                |
| Diluted                                    | 14,884                | 14,393                |
| Comprehensive income:                      |                       |                       |
| Net earnings                               | \$ 17,490             | \$ 16,753             |

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|  |    |        |    |        |
|--|----|--------|----|--------|
| Other comprehensive income (loss), net of tax:                           |    |        |    |        |
| Foreign currency translation adjustment                                  |    | 1,312  |    | 1,371  |
| Tax benefit (expense) related to foreign currency translation adjustment |    | (402)  |    | (552)  |
| Other comprehensive income (loss), net of tax                            |    | 910    |    | 819    |
| Comprehensive income   | \$ | 18,400 | \$ | 17,572 |

The accompanying notes are an integral part of these statements.



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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 29,<br>2012 | September 28,<br>2013 |
| Net sales                                  | \$ 480,196            | \$ 531,909            |
| Cost of sales                              | 85,633                | 93,657                |
| Gross profit                               | 394,563               | 438,252               |
| Operating expenses:                        |                       |                       |
| Associate incentives                       | 209,316               | 224,017               |
| Selling, general and administrative        | 115,150               | 126,527               |
| Total operating expenses                   | 324,466               | 350,544               |
| Earnings from operations                   | 70,097                | 87,708                |
| Other income (expense):                    |                       |                       |
| Interest income                            | 173                   | 278                   |
| Other, net                                 | 4                     | (311)                 |
| Other income (expense), net                | 177                   | (33)                  |
| Earnings before income taxes               | 70,274                | 87,675                |
| Income taxes                               | 22,288                | 28,933                |
| Net earnings                               | \$ 47,986             | \$ 58,742             |
| Earnings per common share                  |                       |                       |
| Basic                                      | \$ 3.27               | \$ 4.31               |
| Diluted                                    | \$ 3.19               | \$ 4.16               |
| Weighted average common shares outstanding |                       |                       |
| Basic                                      | 14,673                | 13,636                |
| Diluted                                    | 15,064                | 14,132                |
| Comprehensive income:                      |                       |                       |
| Net earnings                               | \$ 47,986             | \$ 58,742             |

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|  |    |        |    |         |
|--|----|--------|----|---------|
| Other comprehensive income (loss), net of tax:                           |    |        |    |         |
| Foreign currency translation adjustment                                  |    | 1,156  |    | (1,070) |
| Tax benefit (expense) related to foreign currency translation adjustment |    | (334)  |    | 180     |
| Other comprehensive income (loss), net of tax                            |    | 822    |    | (890)   |
| Comprehensive income   | \$ | 48,808 | \$ | 57,852  |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Nine Months Ended September 28, 2013

(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 (Loss) | Total      |
|--|------------------------|-----------------------|----------------------------------|----------------------|--|------------|
| Balance at December 29, 2012   | 13,821                 | \$ 14                 | \$ 43,822                        | \$ 134,800           | \$ 6,936   | \$ 185,572 |
| Net earnings   |                        |                       |                                  | 58,742               |  | 58,742     |
| Other comprehensive income (loss), net of tax                                  |                        |                       |                                  |                      | (890)  | (890)      |
| Equity-based compensation expense  |                        |                       | 6,113                            |                      |  | 6,113      |
| Common stock repurchased and retired   | (414)                  |                       | (4,284)                          | (13,801)             |  | (18,085)   |
| Common stock issued under equity award plans, including tax benefit of \$6,769 | 453                    |                       | 7,223                            |                      |  | 7,223      |
| Tax impact of canceled vested equity awards                                    |                        |                       | (26)                             |                      |  | (26)       |
| Balance at September 28, 2013  | 13,860                 | \$ 14                 | \$ 52,848                        | \$ 179,741           | \$ 6,046   | \$ 238,649 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 29,<br>2012 | September 28,<br>2013 |
| Cash flows from operating activities   |                       |                       |
| Net earnings   | \$ 47,986             | \$ 58,742             |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                       |                       |
| Depreciation and amortization  | 6,608                 | 6,870                 |
| (Gain) loss on sale of property and equipment                                      | (106)                 | (23)                  |
| Equity-based compensation expense  | 8,184                 | 6,113                 |
| Excess tax benefits from equity-based payment arrangements                         | (2,779)               | (7,570)               |
| Common stock awarded to Associates   | 100                   |                       |
| Deferred income taxes  | 2,255                 | 1,196                 |
| Changes in operating assets and liabilities:                                       |                       |                       |
| Inventories, net   | 4,462                 | (9,999)               |
| Prepaid expenses and other assets  | (9,223)               | (9,153)               |
| Accounts payable   | (1,063)               | 1,048                 |
| Other liabilities  | 7,199                 | 17,369                |
| Net cash provided by operating activities  | 63,623                | 64,593                |
| Cash flows from investing activities   |                       |                       |
| Increase in notes receivable   |                       | (3,363)               |
| Proceeds from sale of property and equipment                                       | 148                   | 47                    |
| Purchases of property and equipment  | (6,811)               | (6,306)               |
| Net cash used in investing activities  | (6,663)               | (9,622)               |
| Cash flows from financing activities   |                       |                       |
| Proceeds from equity awards exercised  | 309                   | 454                   |
| Excess tax benefits from equity-based payment arrangements                         | 2,779                 | 7,570                 |
| Repurchase of common stock   | (35,501)              | (18,085)              |
| Borrowings on line of credit   | 1,842                 |                       |
| Payments on line of credit   | (599)                 |                       |
| Net cash used in financing activities  | (31,170)              | (10,061)              |
| Effect of exchange rate changes on cash and cash equivalents                       | 458                   | (400)                 |
| Net increase in cash and cash equivalents  | 26,248                | 44,510                |
| Cash and cash equivalents, beginning of period                                     | 50,353                | 70,839                |

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|   |        |         |
|---|--------|---------|
| Cash and cash equivalents, end of period          | 76,601 | 115,349 |
| Supplemental disclosures of cash flow information |        |         |
| Cash paid during the period for:                  |        |         |
| Interest  | \$ 11  | \$      |
| Income taxes                                      | 25,008 | 25,554  |

The accompanying notes are an integral part of these statements.

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

**NOTES TO CONDENSED 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: Americas and Europe and Asia Pacific, which is further divided into three sub-regions; Southeast Asia Pacific, Greater China, and North Asia. Americas and Europe includes the United States, Canada, Mexico, Colombia, 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 September 28, 2013 and results of operations for quarters and nine months ended September 29, 2012 and September 28, 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 nine months ended September 28, 2013, may not be indicative of the results that may be expected for the fiscal year 2013 ending December 28, 2013.

**NOTE B INTANGIBLE ASSETS**

Goodwill and indefinite-lived intangible assets 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.

During the third quarter of 2013, the annual test for impairment was performed. The result of this test indicated that there was not an impairment of the value of goodwill or indefinite-lived intangible assets for any reporting unit.

**NOTE C CONTINGENCIES**

The Company is involved in various lawsuits, claims, investigations and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, relationships with suppliers, distributors, relationships with competitors, employees and other matters. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

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.

Table of Contents**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data)****(unaudited)****NOTE D LONG-TERM DEBT AND LINE OF CREDIT**

The Company has a line of credit with Bank of America. Interest is computed at the bank's Prime Rate or LIBOR, adjusted by features specified in the Credit Agreement. The collateral for this line of credit is the pledge of the capital stock of certain subsidiaries of the Company, set forth in a separate pledge agreement with the bank. On July 18, 2013, the Company entered into an amended credit agreement, which increased the amount that it may borrow under the credit facility to \$75,000. The only other modification to the amended credit agreement was that any new or existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$3,400 reduction in the available borrowing limit in the third quarter of 2013 due to existing normal course of business guarantees in certain markets. The Credit Agreement contains restrictive covenants based on adjusted EBITDA and a debt coverage ratio.

There was no outstanding debt on this line of credit at December 29, 2012 or at September 28, 2013. The Company will be required to pay any balance on this line of credit in full at the time of maturity in April 2016 unless the line of credit is replaced or terms are renegotiated.

**NOTE E INVENTORIES**

Inventories consist of the following:

|                  | <b>December 29,<br/>2012</b> | <b>September 28,<br/>2013</b> |
|------------------|------------------------------|-------------------------------|
| Raw materials    | \$ 9,228                     | \$ 12,142                     |
| Work in progress | 7,703                        | 7,771                         |
| Finished goods   | 19,550                       | 25,758                        |
|                  | <b>\$ 36,481</b>             | <b>\$ 45,671</b>              |

**NOTE F 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



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outstanding for the calculation of basic earnings per share based on the time they were outstanding in any period. 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.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

## NOTE F COMMON STOCK AND EARNINGS PER SHARE CONTINUED

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

|  | Quarter Ended         |                       |
|--|-----------------------|-----------------------|
|  | September 29,<br>2012 | September 28,<br>2013 |
| Net earnings available to common shareholders                      | \$ 17,490             | \$ 16,753             |
| Basic EPS  |                       |                       |
| Shares   |                       |                       |
| Common shares outstanding entire period                            | 14,940                | 13,821                |
| Weighted average common shares:                                    |                       |                       |
| Issued during period   | 229                   | 344                   |
| Canceled during period   | (804)                 | (414)                 |
| Weighted average common shares outstanding during period           | 14,365                | 13,751                |
| Earnings per common share from net earnings - basic                | \$ 1.22               | \$ 1.22               |
| Diluted EPS  |                       |                       |
| Shares   |                       |                       |
| Weighted average common shares outstanding during period - basic   | 14,365                | 13,751                |
| Dilutive effect of in-the-money equity awards                      | 519                   | 642                   |
| Weighted average common shares outstanding during period - diluted | 14,884                | 14,393                |
| Earnings per common share from net earnings - diluted              | \$ 1.18               | \$ 1.16               |

Equity awards for 522 and 15 shares of stock were not included in the computation of diluted EPS for the quarters ended September 29, 2012, and September 28, 2013, respectively, due to the fact that their effect would be anti-dilutive.



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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

## NOTE F COMMON STOCK AND EARNINGS PER SHARE CONTINUED

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 29,<br>2012 | September 28,<br>2013 |
| Net earnings available to common shareholders                      | \$ 47,986             | \$ 58,742             |
| Basic EPS  |                       |                       |
| Shares   |                       |                       |
| Common shares outstanding entire period                            | 14,940                | 13,821                |
| Weighted average common shares:                                    |                       |                       |
| Issued during period   | 107                   | 154                   |
| Canceled during period   | (374)                 | (339)                 |
| Weighted average common shares outstanding during period           | 14,673                | 13,636                |
| Earnings per common share from net earnings - basic                | \$ 3.27               | \$ 4.31               |
| Diluted EPS  |                       |                       |
| Shares   |                       |                       |
| Weighted average common shares outstanding during period - basic   | 14,673                | 13,636                |
| Dilutive effect of in-the-money equity awards                      | 391                   | 496                   |
| Weighted average common shares outstanding during period - diluted | 15,064                | 14,132                |
| Earnings per common share from net earnings - diluted              | \$ 3.19               | \$ 4.16               |

Equity awards for 1,357 and 445 shares of stock were not included in the computation of diluted EPS for the nine months ended September 29, 2012, and September 28, 2013, respectively, due to the fact that their effect would be anti-dilutive.

The Company has a stock repurchase plan in place that has been authorized by the Board of Directors. During the first nine months of 2012, the Company repurchased and retired 877 shares of common stock for a total of \$35,501, at an average market price of \$40.48 per share. During the first nine months of 2013, the Company repurchased and retired 414 shares of common stock for a total investment of \$18,085, at an average market price of \$43.68 per share. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained

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earnings on a pro-rata basis. As of September 28, 2013, the remaining approved repurchase amount under the stock repurchase plan was \$13,622. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

## NOTE G SEGMENT INFORMATION

USANA operates 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 aggregates its operating segments into one reportable segment as management believes that the Company's segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. 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         |                       | Nine Months Ended     |                       |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                          | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 |
| USANA® Nutritionals      | 80%                   | 79%                   | 79%                   | 80%                   |
| USANA Foods              | 12%                   | 13%                   | 12%                   | 12%                   |
| Sensé beautiful science® | 6%                    | 6%                    | 7%                    | 6%                    |

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

- Americas and Europe United States, Canada, Mexico, Colombia(1), the United Kingdom, France (2), Belgium (2), and the Netherlands.
- Asia Pacific
- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand(2)
- Greater China Hong Kong, Taiwan and China(3)

- North Asia Japan and South Korea

- 
- (1) The Company commenced operations in Colombia at the beginning of the third quarter of 2013
  - (2) The Company commenced operations in Thailand, France, and Belgium at the end of the first quarter 2012.
  - (3) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

## NOTE G SEGMENT INFORMATION - CONTINUED

*Selected Financial Information*

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

|                                 | Quarter Ended         |                       | Nine Months Ended     |                       |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                 | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 |
| Net Sales to External Customers |                       |                       |                       |                       |
| Americas and Europe             | \$ 62,490             | \$ 66,294             | \$ 183,586            | \$ 197,215            |
| Asia Pacific                    |                       |                       |                       |                       |
| Southeast Asia Pacific          | 35,709                | 40,230                | 102,232               | 113,014               |
| Greater China                   | 59,722                | 59,768                | 173,127               | 200,141               |
| North Asia                      | 7,254                 | 7,399                 | 21,251                | 21,539                |
| Asia Pacific Total              | 102,685               | 107,397               | 296,610               | 334,694               |
| Consolidated Total              | \$ 165,175            | \$ 173,691            | \$ 480,196            | \$ 531,909            |

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

|               | Quarter Ended         |                       | Nine Months Ended     |                       |
|---------------|-----------------------|-----------------------|-----------------------|-----------------------|
|               | September 29,<br>2012 | September 28,<br>2013 | September 29,<br>2012 | September 28,<br>2013 |
| Net sales:    |                       |                       |                       |                       |
| Hong Kong     | \$ 44,944             | \$ 21,554             | \$ 132,298            | \$ 109,089            |
| United States | 39,991                | 39,282                | 115,577               | 118,329               |
| China         | N/A                   | 29,788                | N/A                   | 66,772                |

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|                    | December 29,<br>2012 | September 28,<br>2013 |
|--------------------|----------------------|-----------------------|
| Long-lived Assets: |                      |                       |
| China              | \$ 59,130            | \$ 60,827             |
| United States      | 46,559               | 48,969                |
| Australia          | 15,121               | 13,324                |

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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 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 Condensed 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 September 28, 2013, we had approximately 245,000 active Associates and approximately 71,000 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.

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

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- Americas and Europe United States, Canada, Mexico, Colombia<sup>(1)</sup>, the United Kingdom, France<sup>(2)</sup>, Belgium<sup>(2)</sup>, and the Netherlands
- Asia Pacific
- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand<sup>(2)</sup>
- Greater China Hong Kong, Taiwan, and China<sup>(3)</sup>
- North Asia Japan and South Korea

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(1) We commenced operations in Colombia at the beginning of the third quarter of 2013.

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

(3) 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:

| Product Line               | Nine Months Ended     |                       |
|----------------------------|-----------------------|-----------------------|
|                            | September 29,<br>2012 | September 28,<br>2013 |
| <b>USANA® Nutritionals</b> |                       |                       |
| Essentials                 | 28%                   | 27%                   |
| Optimizers                 | 51%                   | 53%                   |
| USANA Foods                | 12%                   | 12%                   |
| Sensé beautiful science®   | 7%                    | 6%                    |
| All Other                  | 2%                    | 2%                    |
| <b>Key Product</b>         |                       |                       |
| 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 or 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. Further, during the third quarter of 2013 we made several enhancements to our Compensation Plan, which are designed to simplify the plan and make it more rewarding for both new and established Associates. These enhancements are discussed further under the Recent Developments section. We believe that the changes we have made to our Compensation Plan over the last two years 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.

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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

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fluctuations, however, have the opposite effect on our Associate incentives and selling, general and administrative expenses. During the nine months ended September 28, 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.

**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 nine months ended September 28, 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<br>September 29, 2012 |        | As of<br>September 28, 2013 |        | Change from<br>Prior Year | Percent<br>Change |
|------------------------|-----------------------------|--------|-----------------------------|--------|---------------------------|-------------------|
| Americas and Europe    | 79,000                      | 32.6%  | 82,000                      | 33.5%  | 3,000                     | 3.8%              |
| Asia Pacific:          |                             |        |                             |        |                           |                   |
| Southeast Asia Pacific | 58,000                      | 24.0%  | 60,000                      | 24.4%  | 2,000                     | 3.4%              |
| Greater China          | 97,000                      | 40.1%  | 94,000                      | 38.4%  | (3,000)                   | (3.1)%            |
| North Asia             | 8,000                       | 3.3%   | 9,000                       | 3.7%   | 1,000                     | 12.5%             |
| Asia Pacific Total     | 163,000                     | 67.4%  | 163,000                     | 66.5%  |                           | 0.0%              |
|                        | 242,000                     | 100.0% | 245,000                     | 100.0% | 3,000                     | 1.2%              |

**Preferred Customers By Region**

|                        | As of<br>September 29, 2012 |       | As of<br>September 28, 2013 |       | Change from<br>Prior Year | Percent<br>Change |
|------------------------|-----------------------------|-------|-----------------------------|-------|---------------------------|-------------------|
| Americas and Europe    | 52,000                      | 81.2% | 58,000                      | 81.7% | 6,000                     | 11.5%             |
| Asia Pacific:          |                             |       |                             |       |                           |                   |
| Southeast Asia Pacific | 6,000                       | 9.4%  | 8,000                       | 11.3% | 2,000                     | 33.3%             |
| Greater China          | 5,000                       | 7.8%  | 3,000                       | 4.2%  | (2,000)                   | (40.0)%           |
| North Asia             | 1,000                       | 1.6%  | 2,000                       | 2.8%  | 1,000                     | 100.0%            |

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|                    |        |        |        |        |       |       |
|--------------------|--------|--------|--------|--------|-------|-------|
| Asia Pacific Total | 12,000 | 18.8%  | 13,000 | 18.3%  | 1,000 | 8.3%  |
|                    | 64,000 | 100.0% | 71,000 | 100.0% | 7,000 | 10.9% |

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**Current Focus and Recent Developments**

Our primary objective, both on a short- and long-term basis, is to strengthen and grow our active customer 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 price reduction in several of our mature 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. As we anticipated, this policy negatively impacted our financial results by an estimated \$5.9 million during the third quarter, with our Greater China region being impacted the most by these changes. While we believe that these policy changes will add pressure to our results in the short-term, we believe that they are essential to the long-term success of our Associates and the Company.

In August we held our 2013 Annual International Convention, where we announced and implemented several strategic changes to our business. These changes include (i) simplification of our pricing structure and Compensation Plan, (ii) a 10% price discount on products ordered through our monthly Auto Order program, (iii) a 10% reward from the amount of a customer's initial product order credited on the subsequent two Auto Orders, and (iv) increased payout under our Compensation Plan. We increased the payout under our Compensation Plan in several ways, including: (i) paying higher compensation to newer Associates, (ii) increased compensation for Associates who grow their business through our Auto Order program, (iii) simplifying the commission qualification requirements under the plan, resulting in more Associates earning compensation with us, (iv) simplifying our rank advancement system to make it easier for Associates to advance in our business, and (v) adding new recognition benefits for Associate leaders. Although we anticipate that these changes will, in the short-term, create pressure on our operating results, we believe that they will be a catalyst to drive long-term growth in both customers and sales.

Finally, during the third quarter we continued our international expansion efforts by commencing operations in our newest market, Colombia. We believe that Colombia will be a solid contributor to our Americas region as well as an ideal entrance into South America.

**Results of Operations**

*Summary of Financial Results*

Net sales for the third quarter of 2013 increased 5.2%, or \$8.5 million, compared with the third quarter of 2012. This increase in net sales for the quarter came from growth in both Southeast Asia Pacific and the Americas and Europe. In general, sales increases during the quarter were the combined result of a higher number of active Associates and Preferred Customers in several of our markets, and higher sales volume per Associate from an increased number of our Associate leaders who are actively selling our products and building sales organizations. Our newest market, Colombia, also contributed \$1.4 million to net sales during the quarter. These improvements were partially offset by (i) the world-wide policy changes we implemented in the second quarter, which we estimate reduced net sales by \$5.9 million, (ii) the 10% Auto Order discount



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discussed above, which reduced net sales by \$3.1 million, (iii) currency fluctuations, which reduced net sales by \$2.0 million, and (iv) price adjustments at our international convention and earlier this year, which reduced net sales by approximately \$1.5 million.

Net earnings for the third quarter of 2013 decreased 4.2%, to \$16.8 million, compared with the third quarter of 2012. This decrease was due primarily to higher Associate Incentives expense resulting from the enhancements that we made to our Compensation Plan in August, which included a one-time payment of approximately \$4.5 million in connection with one of the changes, and a discount on all Auto Orders.

Going forward, we anticipate that (i) the 10% Auto Order discount will reduce net sales by approximately 4% in the short term, and (ii) Associate Incentives expense will approximate 43.5% of net sales.

Table of Contents**Quarters Ended September 29, 2012 and September 28, 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<br>(in thousands)<br>Quarter Ended |        |                    |        | Change from<br>Prior Year | Percent<br>Change |
|------------------------|--|--------|--------------------|--------|---------------------------|-------------------|
|                        | September 29, 2012                                     |        | September 28, 2013 |        |                           |                   |
| Americas and Europe    | \$ 62,490  | 37.8%  | \$ 66,294          | 38.2%  | \$ 3,804                  | 6.1%              |
| <b>Asia Pacific:</b>   |  |        |                    |        |                           |                   |
| Southeast Asia Pacific | 35,709   | 21.6%  | 40,230             | 23.2%  | 4,521                     | 12.7%             |
| Greater China          | 59,722   | 36.2%  | 59,768             | 34.4%  | 46                        | 0.1%              |
| North Asia             | 7,254  | 4.4%   | 7,399              | 4.2%   | 145                       | 2.0%              |
| Asia Pacific Total     | 102,685  | 62.2%  | 107,397            | 61.8%  | 4,712                     | 4.6%              |
|                        | \$ 165,175   | 100.0% | \$ 173,691         | 100.0% | \$ 8,516                  | 5.2%              |

*Americas and Europe:* The net sales increase in this region was due to sales growth in every market, other than the United States where sales were essentially flat, and the addition of our newest market, Colombia. Net sales for the region were reduced by \$1.5 million from the Auto Order discount discussed earlier in this report. Net sales in Canada increased year-over-year despite the price decreases implemented earlier this year and a negative impact from changes in currency exchange rates. The increase in net sales in Canada was due primarily to a 4.5% increase in the number of active Associates, and a 7.7% increase in the number of Preferred Customers. Net sales in Mexico increased 23.1% due to a 16.7% increase in the number of active Associates and a 25% increase in the number of active Preferred Customers.

*Asia Pacific:* The net sales increase in this region was driven by growth in Southeast Asia Pacific and was reduced by \$1.6 million from Auto Order discounts. Net sales growth in Southeast Asia Pacific was driven by 110.1% growth in Singapore and 17.8% growth in Malaysia. Sales were nearly flat in Australia/New Zealand despite an estimated \$2.6 million reduction due to price decreases implemented earlier this year, and the negative impact from changes in currency exchange rates. These improvements were the result of increased sales volume per Associate, as well as a 13.3% increase in the number of active Associates in Australia/New Zealand and a 50.0% increase in Singapore. Further, the number of active Preferred Customers increased 25.0% in Australia/New Zealand, and 100% in Singapore. Our results in Singapore also benefited by approximately \$2.9 million from sales of our global MyHealthPak product as sales of this customizable product throughout our Asia Pacific region are serviced through Singapore. Sales in the Philippines were essentially flat and were negatively impacted by the typhoon and political unrest that occurred in this market during the quarter.

Sales in Greater China were essentially flat and included a 260% increase in China, and a 29.6% increase in Taiwan, both of which were offset by a large decrease in Hong Kong. These changes were reflective of changes in the number of active Associates in each of these markets. We believe that the world-wide policy changes that we introduced in the second quarter negatively impacted our results primarily in Hong Kong. While we believe that these policy changes will add pressure to our results in the short-term, we believe they are essential to the long-term success of our Associates and the Company.



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*Gross Profit*

Gross profit increased slightly to 81.9% of net sales for the third quarter of 2013 from 81.6% for the third quarter of 2012. This increase can primarily be attributed to production efficiencies related to higher production levels, favorable changes in product mix, and overall lower cost of raw materials. These benefits were partially offset by (i) the negative impact of changes in currency exchange rates, (ii) increased pressure on net sales related to price decreases at the beginning of the year and the Auto Order discount that was introduced in August, and (iii) higher freight costs.

*Associate Incentives*

Associate incentives increased 140 basis points to 44.0% of net sales for the third quarter of 2013 when compared with the third quarter of 2012. This increase was due to (i) the recent enhancements that we made to our Compensation Plan, which included a one-time payout of approximately \$4.5 million due to a change in how we calculate Associate commissions, and (ii) the Auto Order discount. This increase was partially offset by a lower payout under our new Lifetime Matching Bonus program and decreased spending on contests and promotions. As previously mentioned, we expect Associate incentives expense to approximate 43.5% of net sales going forward.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses as a percentage of net sales decreased 70 basis points due to leverage gained on higher net sales, a decrease in spending on our 2013 Annual International Convention compared with 2012 when we celebrated our 20th Anniversary, and improved credit card discount rates.

In absolute terms, our selling, general and administrative expense increased \$0.8 million due higher overall spending to support growing sales and spending associated with the launch of our Colombia operations.

*Income Taxes*

Our effective income tax rate during the third quarter of 2013 was 32.4%, compared with 28.2% in the third quarter of 2012. This increase was due to a one-time tax benefit from a prior-year tax return true-up recognized in the third quarter of 2012.

*Diluted Earnings Per Share*

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Diluted earnings per share decreased 1.7%, while net earnings decreased 4.2%. The impact of decreased net earnings on diluted earnings per share was partially offset by a lower number of diluted shares outstanding, which was the result of share repurchases over the last twelve months.

Table of Contents**Nine Months Ended September 29, 2012 and September 28, 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<br>(in thousands) |                   |            |                    | Change from<br>Prior Year | Percent<br>Change |
|------------------------|---------------------------------------|-------------------|------------|--------------------|---------------------------|-------------------|
|                        | September 29, 2012                    | Nine Months Ended |            | September 28, 2013 |                           |                   |
| Americas and Europe    | \$ 183,586                            | 38.2%             | \$ 197,215 | 37.1%              | \$ 13,629                 | 7.4%              |
| <b>Asia Pacific:</b>   |                                       |                   |            |                    |                           |                   |
| Southeast Asia Pacific | 102,232                               | 21.3%             | 113,014    | 21.2%              | 10,782                    | 10.5%             |
| Greater China          | 173,127                               | 36.1%             | 200,141    | 37.6%              | 27,014                    | 15.6%             |
| North Asia             | 21,251                                | 4.4%              | 21,539     | 4.1%               | 288                       | 1.4%              |
| Asia Pacific Total     | 296,610                               | 61.8%             | 334,694    | 62.9%              | 38,084                    | 12.8%             |
|                        | \$ 480,196                            | 100.0%            | \$ 531,909 | 100.0%             | \$ 51,713                 | 10.8%             |

*Americas and Europe:* The net sales increase in this region during the first nine months of 2013 included growth in most markets due to: (i) increased sales volume per Associate, (ii) growth in the average number of active Associates in Mexico where net sales increased \$6.0 million, or 30.9%, and (iii) growth in the average number of active Preferred Customers. Net sales in Canada were nearly flat despite an estimated \$4.6 million reduction due to price decreases implemented earlier this year.

*Asia Pacific:* The net sales increase in this region during the first nine 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 half of the year. The increase also included an estimated \$7.0 million in incremental sales generated ahead of the worldwide policy changes 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 nine months of 2012 that did not occur in 2013, namely: (i) an estimated \$11.0 million surge in sales ahead of price increases, and (ii) an estimated \$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 nine months of 2013 increased slightly to 82.4% of net sales compared with 82.2% in the prior year. This increase can be attributed to production efficiencies, partially offset by the negative impact of a change in sales mix by market and added pressure from price changes that have taken place during 2013.

*Associate Incentives*

Associate incentives expense decreased 150 basis points to 42.1% of net sales for the first nine months of 2013 when compared with the same period of the prior year. This decrease was due to lower payout under our new Lifetime Matching Bonus program and lower spending on contests and promotion, partially offset by increased spending from the enhancements we made to our Compensation Plan in August, which included a one-time payout of approximately \$4.5 million.

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*Selling, General and Administrative Expenses*

Selling, general and administrative expenses as a percentage of net sales remained relatively flat in the first nine months of 2013 compared with the same period in 2012. In absolute terms, our selling, general and administrative expense increased \$11.4 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.

*Income Taxes*

Our effective income tax rate was 33.0% for the first nine months of 2013, compared with 31.7% for the same period in 2012. This increase was due to a one-time tax benefit from a prior-year tax return true-up recognized in 2012.

*Diluted Earnings Per Share*

Diluted earnings per share increased 30.4% during the first nine months of 2013 when compared with the same period in the prior year. 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.

**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. The repatriation of \$7.7 million that relates to earnings considered indefinitely reinvested in certain of our markets would result in a tax liability to the Company.

*Operating cash flow*

We typically generate positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$64.6 million in the first nine months of 2013, compared with \$63.6 million in the same period of the prior year. Items affecting year-over-year changes in cash flow from operating activities include: (i) higher net earnings, and (ii) changes in other liabilities during 2013, which resulted from an increase in accrued expenses due to higher sales and net earnings. 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, and inventories to support 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 amended credit agreement, which increased the amount that we may borrow under the credit facility to \$75.0 million. The only other modification to the amended credit agreement was that any new or existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$3.4 million reduction in the available borrowing limit in the quarter due to existing normal course of business guarantees in certain markets. We did not otherwise draw on this line of credit at any time during the first nine months of 2013, and, as of September 28, 2013, there was no actual outstanding balance on our 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 no greater than 2.0 to 1.0, calculated on results at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of September 28, 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.

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*Working capital*

Cash and cash equivalents increased to \$115.3 million at September 28, 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 \$113.6 million at September 28, 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, as well as increased prepaid expenses and other current assets. 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 \$115.3 million cash and cash equivalents held at September 28, 2013, \$63.8 million was held in the United States, and \$51.5 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 had planned 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. Due to delayed timing on certain of these investments, much of this additional investment will occur in 2014.

*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 conditions, the level of our cash balances, general business opportunities, and other factors. During the first nine 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 \$43.68 per share. As of September 28, 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 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

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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;

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- 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;
- Intellectual property risks;

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- 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.

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**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 September 28, 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 September 28, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**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           | 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 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)*        |



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- 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)\*

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|         |   |
|---------|---|
| 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   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |

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\* Denotes a management contract or compensatory plan or arrangement.

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**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: November 7, 2013

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