

USANA HEALTH SCIENCES INC  
Form 10-Q  
November 12, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 3, 2015

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: 001-35024

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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   
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

The number of shares outstanding of the registrant's common stock as of November 10, 2015 was 12,769,551.

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Table of Contents

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended October 3, 2015

INDEX

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1</u>	
<u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u>	4
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7 15
<u>Item 2</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16 25
<u>Item 3</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4</u>	
<u>Controls and Procedures</u>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 6</u>	
<u>Exhibits</u>	26 27
<u>Signatures</u>	28

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

(in thousands, except par value)

(unaudited)

	As of January 3, 2015	As of October 3, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 111,126	\$ 174,195
Inventories	45,248	61,580
Prepaid expenses and other current assets	34,553	34,049
Total current assets	190,927	269,824
Property and equipment, net	71,164	78,525
Goodwill	17,941	17,675
Intangible assets, net	40,952	39,506
Deferred tax assets	5,933	8,352
Other assets	23,667	25,046
	\$ 350,584	\$ 438,928
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 7,779	\$ 9,498
Other current liabilities	100,926	104,967
Total current liabilities	108,705	114,465
Deferred tax liabilities	10,601	10,030
Other long-term liabilities	1,114	1,044
Stockholders' equity		
Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 12,633 as of January 3, 2015 and 12,886 as of October 3, 2015	13	13
Additional paid-in capital	61,613	78,152

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Retained earnings	166,406	237,111
Accumulated other comprehensive income	2,132	(1,887)
Total stockholders' equity	230,164	313,389
	\$ 350,584	\$ 438,928

The accompanying notes are an integral part of these statements.

Table of Contents

## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 27, 2014	October 3, 2015	September 27, 2014	October 3, 2015
Net sales	\$ 191,944	\$ 233,292	\$ 562,601	\$ 685,914
Cost of sales	34,585	41,048	103,278	119,501
Gross profit	157,359	192,244	459,323	566,413
Operating expenses:				
Associate incentives	82,605	101,521	242,577	304,751
Selling, general and administrative	45,499	52,757	133,282	155,137
Total operating expenses	128,104	154,278	375,859	459,888
Earnings from operations	29,255	37,966	83,464	106,525
Other income (expense):				
Interest income	8	367	435	753
Interest expense	(5)	(4)	(11)	(11)
Other, net	(300)	78	(299)	(219)
Other income (expense), net	(297)	441	125	523
Earnings before income taxes	28,958	38,407	83,589	107,048
Income taxes	9,460	12,798	28,253	36,343
Net earnings	\$ 19,498	\$ 25,609	\$ 55,336	\$ 70,705
Earnings per common share				
Basic	\$ 1.51	\$ 1.99	\$ 4.09	\$ 5.55
Diluted	\$ 1.47	\$ 1.92	\$ 3.96	\$ 5.35
Weighted average common shares outstanding				
Basic	12,873	12,852	13,520	12,747
Diluted	13,263	13,317	13,964	13,209
Comprehensive income:				
Net earnings	\$ 19,498	\$ 25,609	\$ 55,336	\$ 70,705

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Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(198)	(4,990)	(1,058)	(6,374)
Tax benefit (expense) related to foreign currency translation adjustment	57	1,831	447	2,355
Other comprehensive income (loss), net of tax	(141)	(3,159)	(611)	(4,019)
Comprehensive income	\$ 19,357	\$ 22,450	\$ 54,725	\$ 66,686

The accompanying notes are an integral part of these statements.



Table of Contents

## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Nine Months Ended October 3, 2015

(in thousands)

(unaudited)

	Common Stock Shares	Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 3, 2015	12,633	\$ 13	\$ 61,613	\$ 166,406	\$ 2,132	\$ 230,164
Net earnings				70,705		70,705
Other comprehensive income (loss), net of tax					(4,019)	(4,019)
Equity-based compensation expense			6,952			6,952
Common stock issued under equity award plans	253					
Tax benefit from equity award activity			9,587			9,587
Balance at October 3, 2015	12,886	\$ 13	\$ 78,152	\$ 237,111	\$ (1,887)	\$ 313,389

The accompanying notes are an integral part of these statements.

Table of Contents

## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	September 27, 2014	October 3, 2015
Cash flows from operating activities		
Net earnings	\$ 55,336	\$ 70,705
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	6,685	7,284
(Gain) loss on sale of property and equipment	31	1
Equity-based compensation expense	5,929	6,952
Excess tax benefits from equity-based payment arrangements	(3,996)	(9,739)
Deferred income taxes	(849)	(1,993)
Changes in operating assets and liabilities:		
Inventories	4,956	(18,432)
Prepaid expenses and other assets	(524)	(565)
Income tax payable related to tax benefit from equity award activity	3,926	9,587
Accounts payable	(3,249)	1,868
Other liabilities	(850)	8,849
Net cash provided by (used in) operating activities	67,395	74,517
Cash flows from investing activities		
Additions to notes receivable	(3,159)	(1,579)
Purchases of investment securities held-to-maturity	(3,871)	
Maturities of investment securities	12,511	
Proceeds from sale of property and equipment	10	182
Purchases of property and equipment	(13,266)	(16,468)
Net cash provided by (used in) investing activities	(7,775)	(17,865)
Cash flows from financing activities		
Excess tax benefits from equity-based payment arrangements	3,996	9,739
Repurchase of common stock	(122,662)	
Borrowings on line of credit	10,000	
Net cash provided by (used in) financing activities	(108,666)	9,739
Effect of exchange rate changes on cash and cash equivalents	(559)	(3,322)
Net increase (decrease) in cash and cash equivalents	(49,605)	63,069

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Cash and cash equivalents, beginning of period		137,343		111,126
Cash and cash equivalents, end of period	\$	87,738	\$	174,195
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	\$	11	\$	11
Income taxes		11,716		18,918
Non-cash investing activities:				
Credits on notes receivable		600		466
Accrued purchases of property and equipment				1,906
Non-cash financing activities:				
Unsettled trades for repurchase of common stock		(2,990)		

The accompanying notes are an integral part of these statements.

Table of Contents

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

The condensed consolidated balance sheet as of January 3, 2015, derived from audited consolidated 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 ( U.S. GAAP ) have been condensed or omitted pursuant to such rules and regulations. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company s financial position as of October 3, 2015 and results of operations for the quarters and nine months ended September 27, 2014 and October 3, 2015.

The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company s Annual Report on Form 10-K for the year ended January 3, 2015. The results of operations for the quarter and nine months ended October 3, 2015, may not be indicative of the results that may be expected for the fiscal year 2015 ending January 2, 2016.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standard Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods

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or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. For entities that do not measure inventory using the last-in, first-out or retail inventory method, ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2015-11 will have on its consolidated financial statements.

Table of Contents

## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS) (Continued)

(in thousands, except per share data)

(unaudited)

**NOTE B FAIR VALUE MEASURES**

The Company measures at fair value certain of its financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

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

As of the dates indicated, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	January 3, 2015	Level 1	Fair Value Measurements Using Inputs	
			Level 2	Level 3
Money market funds included in cash equivalents	\$ 4,833	\$ 4,833	\$	\$

Fair Value Measurements Using  
Inputs

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	October 3, 2015	Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 20,462	\$ 20,462	\$	\$

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the periods indicated.

The majority of the Company's non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment charge is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At January 3, 2015 and October 3, 2015, there were no non-financial assets measured at fair value on a non-recurring basis.

The Company's financial instruments include cash equivalents, accounts receivable, restricted cash, notes receivable, and accounts payable. The recorded values of cash equivalents, accounts receivable, restricted cash, and accounts payable approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates.

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

Inventories consist of the following:

	<b>January 3, 2015</b>	<b>October 3, 2015</b>
Raw materials	\$ 15,127	\$ 19,722
Work in progress	7,545	8,785
Finished goods	22,576	33,073
	\$ 45,248	\$ 61,580

**NOTE D INTANGIBLE ASSETS**

The Company performed its annual goodwill impairment test during the third quarter of 2015. The Company performed a qualitative assessment of each reporting unit and determined that it was not more-likely-than-not that the fair value of each reporting unit was less than its carrying amount. As a result, the two-step goodwill impairment test was not required and no impairments of goodwill were recognized.

The Company performed its annual indefinite-lived intangible asset impairment test during the third quarter of 2015. The Company performed a qualitative assessment of the indefinite-lived intangible asset and determined that it was not more-likely-than-not that the fair value of the indefinite-lived intangible asset was less than the carrying amount. As a result, the quantitative impairment test was not required and no impairment was recognized.

Historically, the indefinite-lived intangible assets included the BabyCare direct sales license and BabyCare product formulas. The Company evaluates the remaining useful life of the indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. During the third quarter of 2015, a process was initiated in China to approve additional USANA products, which will limit the life of certain of the acquired BabyCare product formulas. As a result, the product formulas intangible asset was determined to no longer have an indefinite life. Accordingly, the product formulas intangible asset of \$9,208 as of October 3, 2015 will be amortized prospectively on a straight-line basis over its estimated remaining useful life of 8 years. Upon determining that the product formulas intangible asset no longer has an indefinite life, it was tested for impairment and no impairment was noted.



**NOTE E OTHER ASSETS**

Other assets consists primarily of a secured loan to a third-party supplier of the Company's nutrition bars and land use rights related to a production facility under development in China.

The Company has extended non-revolving credit to its supplier of nutrition bars to allow them to acquire equipment that is necessary to manufacture the USANA nutrition bars. This relationship provides improved supply chain stability for USANA and creates a mutually beneficial relationship between the parties. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as of January 3, 2015, and October 3, 2015 were \$8,519 and \$8,735, respectively.

This third-party supplier is considered to be a variable interest entity; however, the Company is not the primary beneficiary due to the inability to direct the activities that most significantly affect the third-party supplier's economic performance. Additionally, the Company does not absorb a majority of the third-party supplier's expected losses or returns. Consequentially, the financial information of the third-party supplier is not consolidated. The maximum exposure to loss as a

Table of Contents

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS) (Continued)**

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

**(unaudited)**

**NOTE E OTHER ASSETS-CONTINUED**

result of the Company's involvement with the third-party supplier is limited to the carrying value of the note receivable due from the third-party supplier.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational in early 2016. As part of this project, land use rights totaling \$7,378, and \$7,208 as of January 3, 2015 and October 3, 2015, respectively, have been purchased and are being amortized over 50 years.

**NOTE F LINE OF CREDIT**

The Company has a \$75,000 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. Part of the credit agreement is that any existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$4,575, and \$4,279 reduction in the available borrowing limit as of January 3, 2015 and October 3, 2015, respectively, 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 January 3, 2015 or at October 3, 2015. 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 G CONTINGENCIES**

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company records a liability when a particular contingency is probable and estimable. The Company has not accrued for any contingency at October 3, 2015 as the Company does not consider any contingency to be probable nor estimable. The Company faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated. 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 the Company's financial condition, liquidity 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 H EQUITY BASED COMPENSATION**

The Company utilizes a share-based compensation plan, which is more fully described in Note K to the Consolidated Financial Statements in Form 10-K for the year ended January 3, 2015. The description provided applies to the Company's 2006 Plan (the "2006 Plan"), as well as its recently adopted 2015 Equity Incentive Award Plan (the "2015 Plan"). The Company adopted the 2015 Plan to replace the 2006 Plan, which is set to expire in April of 2016. The maximum number of shares of common stock available for issuance under the 2015 Plan is 5,000. The Company began issuing awards under the 2015 Plan in the third quarter of 2015.

Equity-based compensation expense for the quarters ended September 27, 2014, and October 3, 2015, was \$1,858, and \$2,564 respectively. The related tax benefit for these periods was \$613, and \$857, respectively. Expense for the nine months ended September 27, 2014 and October 3, 2015, was \$5,929 and \$6,952, respectively. The related tax benefit for these periods was \$1,973 and \$2,340 respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of October 3, 2015. This table does not include an estimate for future grants that may be issued.

2015	\$	4,223
2016		17,316
2017		16,187
2018		13,423
2019+		8,670
	\$	59,819

The cost above is expected to be recognized over a weighted-average period of 3.6 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value of stock-settled stock appreciation rights that were granted during the nine months ended September 27, 2014, and October 3, 2015, was \$17.92 and \$47.43, respectively. Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated.

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	Nine Months Ended	
	September 27, 2014	October 3, 2015
Expected volatility (1)	40.0%	43.6%
Risk-free interest rate (2)	1.2%	1.3%
Expected life (3)	3.55 yrs.	3.82 yrs.
Expected dividend yield (4)	0.0%	0.0%
Weighted-average exercise price (5)	\$ 58.04	\$ 135.97

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(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, one of two methods will be used to calculate expected life:

(i) a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period, or (ii) the simplified method.

(4) The Company historically has not paid and currently has no plan to pay dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

Table of Contents

## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS) (Continued)

(in thousands, except per share data)

(unaudited)

## NOTE H EQUITY BASED COMPENSATION - CONTINUED

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

	Shares	Weighted- average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value*
Outstanding at January 3, 2015	1,555	\$ 49.20	2.9	\$ 82,564
Granted	1,018	135.97		
Exercised	(353)	36.57		
Forfeited	(19)	43.83		
Expired				
Outstanding at October 3, 2015	2,201	\$ 91.39	3.4	\$ 101,795
Exercisable at October 3, 2015	130	\$ 40.26	1.4	\$ 12,380

\*Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at January 3, 2015, and October 3, 2015, was \$102.28 and \$135.38, respectively.

The total intrinsic value of stock-settled stock appreciation rights exercised during the nine months ended September 27, 2014, and October 3, 2015, was \$17,125 and \$33,764, respectively.

The total fair value of equity awards that vested during the nine months ended September 27, 2014, and October 3, 2015, was \$6,559 and \$5,662, respectively. This total fair value includes equity-based awards issued in the form of stock-settled stock appreciation rights.

Table of Contents

## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS) (Continued)

(in thousands, except per share data)

(unaudited)

**NOTE 1 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 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.

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		Nine Months Ended	
	September 27, 2014	October 3, 2015	September 27, 2014	October 3, 2015
Net earnings available to common shareholders	\$ 19,498	\$ 25,609	\$ 55,336	\$ 70,705
Weighted average common shares outstanding - basic	12,873	12,852	13,520	12,747
Dilutive effect of in-the-money equity awards	390	465	444	462
Weighted average common shares outstanding - diluted	13,263	13,317	13,964	13,209
Earnings per common share from net earnings - basic	\$ 1.51	\$ 1.99	\$ 4.09	\$ 5.55
Earnings per common share from net earnings - diluted	\$ 1.47	\$ 1.92	\$ 3.96	\$ 5.35

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

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Quarter Ended		Nine Months Ended	
September 27, 2014	October 3, 2015	September 27, 2014	October 3, 2015
414	361	357	196



Table of Contents**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS) (Continued)****(in thousands, except per share data)****(unaudited)****NOTE J 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 27, 2014	October 3, 2015	September 27, 2014	October 3, 2015
USANA® Nutritionals	78%	80%	79%	81%
USANA Foods	13%	12%	13%	12%
Sensé beautiful science®	7%	7%	7%	6%

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

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

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(1) 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS) (Continued)

(in thousands, except per share data)

(unaudited)

## NOTE J SEGMENT INFORMATION - CONTINUED

*Selected Financial Information*

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

	Quarter Ended		Nine Months Ended	
	September 27, 2014	October 3, 2015	September 27, 2014	October 3, 2015
Net Sales to External Customers				
Asia Pacific				
Greater China	\$ 77,206	\$ 112,323	\$ 222,144	\$ 325,942
Southeast Asia Pacific	44,488	45,936	127,625	137,308
North Asia	8,527	9,920	23,633	29,495
Asia Pacific Total	130,221	168,179	373,402	492,745
Americas and Europe	61,723	65,113	189,199	193,169
Consolidated Total	\$ 191,944	\$ 233,292	\$ 562,601	\$ 685,914

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 27, 2014	October 3, 2015	September 27, 2014	October 3, 2015
Net sales:				
China	\$ 50,385	\$ 95,147	\$ 140,368	\$ 273,433
United States	\$ 34,389	\$ 37,485	\$ 105,938	\$ 108,629
Hong Kong	N/A	N/A	\$ 57,686	N/A

	January 3, 2015	As of	October 3, 2015
Long-lived Assets:			
China	\$	81,704	\$ 85,269
United States	\$	53,322	\$ 58,328

**NOTE K SUBSEQUENT EVENTS**

Subsequent to October 3, 2015, and through November 10, 2015, the Company repurchased and retired 133 shares of common stock for a total investment of \$17,588, at an average market price of \$131.84 per share.

Table of Contents

**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 January 3, 2015, 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. We have chosen this distribution method as we believe it is more conducive to meeting our vision as a company, which is improving the overall health and nutrition of individuals and families around the world. Our customer base comprises two types of customers: Associates and Preferred Customers. Associates share in our company vision by acting as independent distributors of our products in addition to purchasing our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of October 3, 2015, we had approximately 405,000 active Associates and approximately 89,000 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.

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

- Asia Pacific

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

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(1) 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: 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 as indicated:

Table of Contents

	Nine months ended	
	September 27, 2014	October 3, 2015
<b><u>Product Line</u></b>		
USANA® Nutritionals		
Essentials	25%	22%
Optimizers	54%	59%
USANA Foods	13%	12%
Sensé beautiful science®	7%	6%
All Other	1%	1%
<b><u>Key Product</u></b>		
USANA® Essentials	16%	14%
Proflavanol®	13%	13%
BiOmega-3	9%	12%

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 which include: the general public's heightened awareness and understanding of the connection between diet and long-term health, 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 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 successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings.

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.

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, our operating results are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. During the nine months ended October 3, 2015, net sales outside of the United States represented 84.2% 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 sell our products exclusively to a customer base of independent Associates and Preferred Customers, to increase net sales we must either increase the number or the productivity of our Associates and Preferred Customers. Increasing the productivity of our Associates and

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Preferred Customers has not been our primary focus. Rather, we seek to increase the number of Associates and Preferred Customers who use our products. We believe this focus is more consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for the majority of our



Table of Contents

product sales, representing approximately 92% of product sales during the nine months ended October 3, 2015; the remainder of our sales are to Preferred Customers. Increases or decreases in product sales are typically the result of variations in the volume of product sold 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 September 27, 2014		As of October 3, 2015		Change from Prior Year	Percent Change
Asia Pacific:						
Greater China	129,000	44.3%	218,000	53.8%	89,000	69.0%
Southeast Asia Pacific	70,000	24.1%	85,000	21.0%	15,000	21.4%
North Asia	10,000	3.4%	13,000	3.2%	3,000	30.0%
Asia Pacific Total	209,000	71.8%	316,000	78.0%	107,000	51.2%
Americas and Europe	82,000	28.2%	89,000	22.0%	7,000	8.5%
	291,000	100.0%	405,000	100.0%	114,000	39.2%

Preferred Customers By Region						
	As of September 27, 2014		As of October 3, 2015		Change from Prior Year	Percent Change
Asia Pacific:						
Greater China	3,000	3.9%	4,000	4.5%	1,000	33.3%
Southeast Asia Pacific	11,000	14.3%	13,000	14.6%	2,000	18.2%
North Asia	6,000	7.8%	9,000	10.1%	3,000	50.0%
Asia Pacific Total	20,000	26.0%	26,000	29.2%	6,000	30.0%
Americas and Europe	57,000	74.0%	63,000	70.8%	6,000	10.5%
	77,000	100.0%	89,000	100.0%	12,000	15.6%

**Current Focus and Recent Developments**

Our primary objective is to increase the number of Associates and Preferred Customers (referred to together as customers) who use our products throughout the world. We have several strategies in place to support this objective, including:

- Our focus on personalizing our customer's overall experience with USANA, which includes personalizing our product offering, Associate Compensation Plan, and our online business environment;

- Our investment in increasing our brand recognition, which includes our relationship as a Trusted Partner and Sponsor of *The Dr. Oz Show*, our sponsorship of the U.S. Ski Team, and our partnership with the Women's Tennis Association; to make it easier for our Associates to talk about USANA with potential customers;
- Our development and offering of market-specific incentives and promotions for our Associates to incent sales and customer growth around the world; and
- Our continued focus on international expansion as we prepare to commence operations in Indonesia during the fourth quarter of 2015. Indonesia will be USANA's 20<sup>th</sup> market and we believe it offers a promising growth opportunity for us.

Table of Contents

During the quarter, we held our annual International Convention in Salt Lake City, where a record number of our Associates gathered to celebrate their success, engage with management and receive additional training. At our convention, we also introduced USANA's new MySmart™Foods line of products, which continues our philosophy and strategy of personalization. MySmart™Foods are science-based, healthy nutrition shakes, bars, boosters and flavor optimizers. The nutrition profile of these products includes: high-quality, complete protein; clean and pure ingredients; low-glycemic impact; a beneficial macronutrient balance; gluten free; non-GMO; no trans fats; and an excellent source of fiber. We made MySmart™Foods available to our Associates for a limited time at our convention only, as a pre-launch opportunity to purchase and try the products. We intend to officially launch MySmart™Foods during the first half of 2016.

**Results of Operations***Summary of Financial Results*

Net sales for the third quarter of 2015 increased 21.5% to \$233.3 million, an increase of \$41.3 million, compared with the third quarter of 2014. This increase was driven by higher product sales volume due in great part to strong customer growth in our Asia Pacific region and in many markets within our Americas and Europe region. Our utilization of market-specific promotions and incentives during 2015 has also helped generate growth across our regions. Unfavorable changes in currency exchange rates reduced net sales for the quarter by \$18.3 million.

Net earnings for the third quarter of 2015 increased 31.3% to \$25.6 million, an increase of \$6.1 million, compared with the third quarter of 2014. The increase in net earnings was driven by higher net sales, improved gross margins, and lower relative selling, general and administrative expense.

**Quarters Ended September 27, 2014 and October 3, 2015***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)		Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
	September 27, 2014	October 3, 2015				
Asia Pacific						
Greater China	\$ 77,206	\$ 112,323	\$ 35,117	45.5%	(2,638)	48.9%

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Southeast Asia Pacific	44,488	23.2%	45,936	19.7%	1,448	3.3%	(7,735)	20.6%
North Asia	8,527	4.4%	9,920	4.3%	1,393	16.3%	(1,444)	33.3%
Asia Pacific Total	130,221	67.8%	168,179	72.1%	37,958	29.1%	(11,817)	38.2%
Americas and Europe	61,723	32.2%	65,113	27.9%	3,390	5.5%	(6,483)	16.0%
	\$ 191,944	100.0%	\$ 233,292	100.0%	\$ 41,348	21.5%	\$ (18,300)	31.1%

*Asia Pacific:* The increase in net sales in Greater China continues to be driven by growth in Mainland China, where local currency net sales increased 93.1% and the number of active Associates increased 90.4%. The increase in local currency net sales in

Table of Contents

Southeast Asia Pacific was driven by double-digit growth in the number of active Associates purchasing our products in every market within the region. The increase in local currency net sales in North Asia continues to be driven by growth in South Korea, where local currency net sales increased 40.8%, and both Associates and Preferred Customers increased 50.0%.

*Americas and Europe:* The increase in net sales in this region was again driven by growth in Canada and Mexico, where local currency net sales increased 26.1% and 24.0%, respectively. The number of active Associates in Canada and Mexico increased 12.0% and 20.0%, while the number of Preferred Customers increased 20.0% and 33.3%, respectively. Sales in the United States increased modestly due to higher current year product sales at our International Convention held during the third quarter, modest price increases, and a modest increase in the number of customers purchasing our products.

*Gross Profit*

Gross profit increased 40 basis points to 82.4% of net sales for the third quarter of 2015, from 82.0% in the prior year. This improvement can be attributed to a favorable shift in sales mix by market and by modest product price adjustments that occurred during the first and second quarters of 2015. These improvements were partially offset by the negative impact from a strengthening of the U.S. dollar and higher scrap costs.

*Associate Incentives*

Associate incentives were 43.5% of net sales for the third quarter of 2015, compared with 43.0% in the third quarter of 2014. This increase can be attributed to a higher relative payout under one of our Associate bonus programs and higher spending on contests and promotions. These increases were slightly offset by our annual price adjustment.

*Selling, General and Administrative Expenses*

Selling, general and administrative expense relative to net sales decreased to 22.6% during the third quarter of 2015, compared with 23.7% in the third quarter of 2014. This decrease can be primarily attributed to leverage gained from higher net sales.

*Income Taxes*

Income taxes were 33.3% of earnings in the third quarter of 2015 compared with 32.7% of earnings in the third quarter of 2014. This increase was due to a more favorable tax return true-up adjustment recognized in 2014 compared to 2015.

*Diluted Earnings Per Share*

Diluted earnings per share increased 30.6% in the third quarter of 2015 when compared with the prior year quarter. This increase was the result of higher net earnings as discussed above.

Table of Contents**Nine Months Ended September 27, 2014 and October 3, 2015***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)			Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
	September 27, 2014		October 3, 2015				
<i>Asia Pacific</i>							
Greater China	\$ 222,144	39.5%	\$ 325,942	47.5%	\$ 103,798	46.7%	48.7%
Southeast Asia Pacific	127,625	22.7%	137,308	20.0%	9,683	7.6%	19.6%
North Asia	23,633	4.2%	29,495	4.3%	5,862	24.8%	36.1%
Asia Pacific Total	373,402	66.4%	492,745	71.8%	119,343	32.0%	37.9%
<i>Americas and Europe</i>							
	189,199	33.6%	193,169	28.2%	3,970	2.1%	9.9%
	\$ 562,601	100.0%	\$ 685,914	100.0%	\$ 123,313	21.9%	28.5%

*Asia Pacific:* The increase in net sales in Greater China included a 97.2% increase in local currency net sales in Mainland China. Net sales and Associate growth in China during the first nine months of 2015 benefited from: (i) momentum created from a short-term incentive that we offered during the first half of the year, (ii) a more favorable operating environment for the Company during the first quarter of 2015 when compared with the previous year, and (iii) higher-than-anticipated incremental sales of approximately \$17.0 million that occurred following the announcement of our 2015 price adjustments in this market. Net sales growth in Greater China was partially offset by a continued year-over-year decline in Hong Kong sales and Associates, which we anticipate to continue through the remainder of 2015.

The increase in local currency net sales in Southeast Asia Pacific was driven by double-digit local currency sales growth from nearly every market during the first nine months of 2015. This sales increase was reflective of growth in the number of active Associates and Preferred Customers purchasing our products during the first nine months of the year.

The increase in local currency net sales in North Asia continues to be driven by growth in South Korea, where local currency net sales increased 46.0%.

*Americas and Europe:* The increase in local currency net sales in this region was primarily driven by growth in Canada and Mexico, where local currency net sales increased 21.0% and 21.6%, respectively. Sales in this region also

benefited from sales growth in our newest markets, Colombia and France.

*Gross Profit*

Gross profit increased to 82.6% of net sales for the first nine months of 2015, from 81.6% in the comparable prior year period. This improvement can be attributed to a favorable shift in sales mix by market and by modest price adjustments that we



Table of Contents

implemented during the first half of the year. These improvements were partially offset by the negative impact from a strengthening of the U.S. dollar.

*Associate Incentives*

Associate incentives were 44.4% of net sales for the first nine months of 2015, compared with 43.1% in the comparable prior year period. This increase can primarily be attributed to increased spending on contests and promotions, and to a higher payout under one of our Associate bonus programs. We continue to expect that Associate incentives relative to net sales will range between 44.0% and 44.5% for fiscal 2015.

*Selling, General and Administrative Expenses*

Selling, general and administrative expense relative to net sales decreased to 22.6% during the first nine months of 2015, compared with 23.7% in the comparable prior year period. This decrease can be primarily attributed to leverage gained from higher net sales.

*Income Taxes*

Our effective income tax rate for the first nine months of 2015 was 34.0%, compared with 33.8% in the prior year. This increase was due to a slightly more favorable tax return true-up adjustment recognized in 2014 compared to 2015.

*Diluted Earnings Per Share*

Diluted earnings per share increased 35.1% in the first nine months of 2015 when compared with the prior year period. This increase was the result of higher net earnings as discussed above, combined with a 5.4% reduction in diluted shares outstanding.

**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 from 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 certain of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. The hypothetical repatriation of \$12.3 million that relates to earnings considered indefinitely reinvested in certain of our markets at October 3, 2015, would result in a tax liability to the Company of approximately \$1.5 million.

We have historically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$74.5 million in the first nine months of 2015, compared with \$67.4 million in the prior year period. Items positively affecting cash flow from operations on a year-over-year basis include: (i) an increase in net earnings, (ii) an increase in accrued incentives and deferred revenue resulting from higher sales, and (iii) an increase in accounts payable in the current year, compared with a decrease in the prior year, due to timing of invoices and payments. These improvements were partially offset by an increase in inventory in the current year due to higher inventory demands in China, where sales have increased significantly and where we are preparing to transition to our new manufacturing and production facility.

Cash and cash equivalents increased to \$174.2 million at October 3, 2015, from \$111.1 million at January 3, 2015. Of the \$174.2 million held at October 3, 2015, \$69.5 million was held in the United States and \$104.7 million was held by international subsidiaries. Of the \$111.1 million in cash and cash equivalents held at January 3, 2015, \$37.8 million was held in the United States and \$73.3 million was held by international subsidiaries. Net working capital increased to \$155.4 million at October 3, 2015, from \$82.2 million at January 3, 2015.

Table of Contents

We continue to expect that our new state-of-the-art manufacturing and production facility in China will become operational in early 2016. Of the anticipated \$40 million investment for this project, we have incurred \$22.3 million through the end of the third quarter of 2015, \$4.1 million of which was incurred during the first nine months of 2015.

We have extended non-revolving credit to the supplier of our nutrition bars to allow this supplier to modify its facility and acquire the necessary equipment to manufacture our bars. Notes receivable from this supplier as of October 3, 2015 and January 3, 2015, were \$8.7 million and \$8.5 million, respectively, and are included as non-current other assets on the balance sheet.

*Line of credit*

We have a long-standing relationship with Bank of America. We currently maintain a \$75.0 million credit facility pursuant to a credit agreement with the bank, which expires in April 2016. Bank guarantees are considered a reduction of the overall availability of credit. As of October 3, 2015, such normal course of business bank guarantees reduced our available borrowing limit by \$4.3 million. We did not otherwise draw on this line of credit at any time during the first nine months of 2015, and, as of October 3, 2015, 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 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 October 3, 2015, 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.

*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 that 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. We did not repurchase any shares of common stock during the nine months ended October 3, 2015. Subsequent to October 3, 2015, and through November 10, 2015, we repurchased and retired 133,400 shares of common stock for a total investment of \$17.6 million, at an average market price of \$131.84 per share. As of November 10, 2015, the remaining approved repurchase amount under the plan was \$43.6 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 unanticipated and unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available at all 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 (the Exchange Act ). 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,

Table of Contents

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 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;
- 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;

Table of Contents

- 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; and
- 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 January 3, 2015.

**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 Principal Executive Officer and Principal 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 Principal Executive Officer and Principal 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 Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of October 3, 2015.



**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended October 3, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
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	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)
10.2	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)
10.3	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)
10.4	USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)*
10.5	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)*
10.6	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)*
10.7	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)*
10.8	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)*
10.9	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)*
10.10	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)*
10.11	Form of Indemnification Agreement between the Company and its directors (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)*
10.12	

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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)\*

10.13 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)

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### Table of Contents

10.14	Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011)
10.15	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)*
10.16	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)*
10.17	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)*
10.18	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)
10.19	USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.20	Form of Stock-Settled Stock Appreciation Rights Award Agreement for employees under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.21	Form of Stock-Settled Stock Appreciation Rights Award Agreement for non-employee directors under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.22	Form of Restricted Stock Unit Award Agreement for employees under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.23	Form of Restricted Stock Unit Award Agreement for non-employee directors under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.24	Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to non-employee director under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
31.1	Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Principal 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.

Table of Contents

**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 12, 2015

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