

USANA HEALTH SCIENCES INC

Form 10-Q

August 08, 2012

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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 June 30, 2012

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 x No o

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 x No o

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 o

Accelerated filer x

Non-accelerated filer o

Smaller reporting company o

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

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The number of shares outstanding of the registrant's common stock as of August 2, 2012 was 14,450,595.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2012

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

|  | <b>As of<br/>December 31,<br/>2011</b> | <b>As of<br/>June 30,<br/>2012</b> |
|--|--|------------------------------------|
| <b>ASSETS</b>                              |  |                                    |
| Current assets                             |  |                                    |
| Cash and cash equivalents                  | \$ 50,353                              | \$ 65,538                          |
| Inventories                                | 36,968                                 | 33,805                             |
| Prepaid expenses and other current assets  | 18,738                                 | 24,163                             |
| Total current assets                       | 106,059                                | 123,506                            |
| Property and equipment, net                | 60,754                                 | 60,343                             |
| Goodwill                                   | 17,740                                 | 17,675                             |
| Intangible assets, net                     | 42,637                                 | 41,846                             |
| Deferred tax assets                        | 11,033                                 | 10,913                             |
| Other assets                               | 6,273                                  | 6,729                              |
|  | \$ 244,496                             | \$ 261,012                         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |  |                                    |
| Current liabilities                        |  |                                    |
| Accounts payable                           | \$ 7,952                               | \$ 6,408                           |
| Other current liabilities                  | 51,744                                 | 60,341                             |
| Total current liabilities                  | 59,696                                 | 66,749                             |
| Deferred tax liabilities                   | 9,948                                  | 9,638                              |
| Other long-term liabilities                | 942                                    | 998                                |
| Stockholders equity                        | 15                                     | 14                                 |

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Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 14,940  
as of December 31, 2011 and 14,350 as of June 30, 2012

|  |            |            |
|--|------------|------------|
| Additional paid-in capital             | 49,257     | 47,742     |
| Retained earnings                      | 118,799    | 130,120    |
| Accumulated other comprehensive income | 5,839      | 5,751      |
| Total stockholders' equity             | 173,910    | 183,627    |
|  | \$ 244,496 | \$ 261,012 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

|  | Quarters Ended  |                  |
|--|-----------------|------------------|
|  | July 2,<br>2011 | June 30,<br>2012 |
| Net sales                                  | \$ 148,925      | \$ 160,901       |
| Cost of sales                              | 26,208          | 28,073           |
| Gross profit                               | 122,717         | 132,828          |
| Operating expenses:                        |                 |                  |
| Associate incentives                       | 67,760          | 70,901           |
| Selling, general and administrative        | 33,803          | 36,776           |
| Total operating expenses                   | 101,563         | 107,677          |
| Earnings from operations                   | 21,154          | 25,151           |
| Other income (expense):                    |                 |                  |
| Interest income                            | 54              | 71               |
| Interest expense                           | (2)             |                  |
| Other, net                                 | (52)            | (293)            |
| Other income (expense), net                |                 | (222)            |
| Earnings before income taxes               | 21,154          | 24,929           |
| Income taxes                               | 7,298           | 8,184            |
| Net earnings                               | \$ 13,856       | \$ 16,745        |
| Earnings per common share                  |                 |                  |
| Basic                                      | \$ 0.89         | \$ 1.14          |
| Diluted                                    | \$ 0.88         | \$ 1.11          |
| Weighted average common shares outstanding |                 |                  |
| Basic                                      | 15,530          | 14,691           |
| Diluted                                    | 15,752          | 15,090           |
| Comprehensive income:                      |                 |                  |
| Net earnings                               | \$ 13,856       | \$ 16,745        |

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|  |       |        |           |
|--|-------|--------|-----------|
| Other comprehensive income (loss), net of tax:                           |       |        |           |
| Foreign currency translation adjustment                                  | 1,717 |        | (851)     |
| Tax (expense) benefit related to foreign currency translation adjustment | (352) |        | 363       |
| Other comprehensive income (loss), net of tax                            | 1,365 |        | (488)     |
| Comprehensive income   | \$    | 15,221 | \$ 16,257 |

The accompanying notes are an integral part of these statements.



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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

|  | Six Months Ended |                  |
|--|------------------|------------------|
|  | July 2,<br>2011  | June 30,<br>2012 |
| Net sales                                  | \$ 292,491       | \$ 315,021       |
| Cost of sales                              | 51,870           | 55,290           |
| Gross profit                               | 240,621          | 259,731          |
| Operating expenses:                        |                  |                  |
| Associate incentives                       | 132,567          | 138,910          |
| Selling, general and administrative        | 69,673           | 74,808           |
| Total operating expenses                   | 202,240          | 213,718          |
| Earnings from operations                   | 38,381           | 46,013           |
| Other income (expense):                    |                  |                  |
| Interest income                            | 104              | 109              |
| Interest expense                           | (8)              |                  |
| Other, net                                 | 5                | (199)            |
| Other income (expense), net                | 101              | (90)             |
| Earnings before income taxes               | 38,482           | 45,923           |
| Income taxes                               | 13,276           | 15,427           |
| Net earnings                               | \$ 25,206        | \$ 30,496        |
| Earnings per common share                  |                  |                  |
| Basic                                      | \$ 1.60          | \$ 2.06          |
| Diluted                                    | \$ 1.58          | \$ 2.01          |
| Weighted average common shares outstanding |                  |                  |
| Basic                                      | 15,720           | 14,827           |
| Diluted                                    | 15,964           | 15,192           |
| Comprehensive income:                      |                  |                  |
| Net earnings                               | \$ 25,206        | \$ 30,496        |

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|  |    |        |    |        |
|--|----|--------|----|--------|
| Other comprehensive income (loss), net of tax:                           |    |        |    |        |
| Foreign currency translation adjustment                                  |    | 2,581  |    | (156)  |
| Tax (expense) benefit related to foreign currency translation adjustment |    | (560)  |    | 68     |
| Other comprehensive income (loss), net of tax                            |    | 2,021  |    | (88)   |
| Comprehensive income   | \$ | 27,227 | \$ | 30,408 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Six Months Ended July 2, 2011 and June 30, 2012

(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      |
|--|------------------------|-----------------------|----------------------------------|----------------------|--|------------|
| <b>For the Six Months Ended July 2, 2011</b>                                 |                        |                       |                                  |                      |  |            |
| Balance at January 1, 2011   | 15,985                 | \$ 16                 | \$ 51,222                        | \$ 90,207            | \$ 5,357   | \$ 146,802 |
| Net earnings   |                        |                       |                                  | 25,206               |  | 25,206     |
| Other comprehensive income, net of tax                                       |                        |                       |                                  |                      | 2,021  | 2,021      |
| Equity-based compensation expense  |                        |                       | 4,802                            |                      |  | 4,802      |
| Common stock repurchased and retired   | (827)                  | (1)                   | (8,725)                          | (16,613)             |  | (25,339)   |
| Common stock issued under equity award plans, including tax benefit of \$49  | 15                     |                       | 88                               |                      |  | 88         |
| Tax impact of canceled vested equity awards                                  |                        |                       | (509)                            |                      |  | (509)      |
| Balance at July 2, 2011  | 15,173                 | 15                    | 46,878                           | 98,800               | 7,378  | 153,071    |
| <b>For the Six Months Ended June 30, 2012</b>                                |                        |                       |                                  |                      |  |            |
| Balance at December 31, 2011   | 14,940                 | 15                    | 49,257                           | 118,799              | 5,839  | 173,910    |
| Net earnings   |                        |                       |                                  | 30,496               |  | 30,496     |
| Other comprehensive income, net of tax                                       |                        |                       |                                  |                      | (88)   | (88)       |
| Equity-based compensation expense  |                        |                       | 5,618                            |                      |  | 5,618      |
| Common stock repurchased and retired   | (677)                  | (1)                   | (7,387)                          | (19,175)             |  | (26,563)   |
| Common stock issued under equity award plans, including tax benefit of \$336 | 87                     |                       | 375                              |                      |  | 375        |
| Tax impact of canceled vested equity awards                                  |                        |                       | (121)                            |                      |  | (121)      |
| Balance at June 30, 2012   | 14,350                 | \$ 14                 | \$ 47,742                        | \$ 130,120           | \$ 5,751   | \$ 183,627 |

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|  | July 2,<br>2011 | Six Months Ended<br>June 30,<br>2012 |
|--|-----------------|--------------------------------------|
| Cash flows from operating activities   |                 |                                      |
| Net earnings   | \$ 25,206       | \$ 30,496                            |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                 |                                      |
| Depreciation and amortization  | 4,246           | 4,410                                |
| (Gain) loss on sale of property and equipment                                      | 9               | (108)                                |
| Equity-based compensation expense  | 4,802           | 5,618                                |
| Excess tax benefits from equity-based payment arrangements                         | (48)            | (380)                                |
| Deferred income taxes  | (1,981)         | (4,673)                              |
| Changes in operating assets and liabilities:                                       |                 |                                      |
| Inventories, net   | (561)           | 3,466                                |
| Prepaid expenses and other assets  | 4,109           | (1,332)                              |
| Accounts payable   | 1,914           | (1,565)                              |
| Other liabilities  | (6,295)         | 8,014                                |
| Total adjustments  | 6,195           | 13,450                               |
| Net cash provided by operating activities  | 31,401          | 43,946                               |
| Cash flows from investing activities   |                 |                                      |
| Proceeds from sale of property and equipment                                       | 1               | 148                                  |
| Purchases of property and equipment  | (5,794)         | (3,447)                              |
| Net cash used in investing activities  | (5,793)         | (3,299)                              |
| Cash flows from financing activities   |                 |                                      |
| Proceeds from equity awards exercised  | 39              | 39                                   |
| Excess tax benefits from equity-based payment arrangements                         | 48              | 380                                  |
| Repurchase of common stock   | (25,339)        | (26,563)                             |
| Borrowings on line of credit   |                 | 593                                  |
| Net cash used in financing activities  | (25,252)        | (25,551)                             |
| Effect of exchange rate changes on cash and cash equivalents                       | 366             | 89                                   |
| Net increase in cash and cash equivalents  | 722             | 15,185                               |
| Cash and cash equivalents, beginning of period                                     | 24,222          | 50,353                               |

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|   |    |        |    |        |
|---|----|--------|----|--------|
| Cash and cash equivalents, end of period          | \$ | 24,944 | \$ | 65,538 |
| Supplemental disclosures of cash flow information |    |        |    |        |
| Cash paid during the period for:                  |    |        |    |        |
| Interest  | \$ | 9      | \$ |        |
| Income taxes                                      |    | 13,483 |    | 13,293 |

The accompanying notes are an integral part of these statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**(unaudited)**

**NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION**

USANA Health Sciences, Inc. develops and manufactures high-quality nutritional and personal care products that are sold internationally through a global network marketing system, which is a form of direct selling. The Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries (collectively, the Company or USANA ) in two geographic regions: North America/Europe and Asia Pacific, which is further divided into three sub-regions; Southeast Asia/Pacific, Greater China, and North Asia. North America/Europe includes the United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France, and Belgium. 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 31, 2011, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to present fairly the Company's financial position as of June 30, 2012 and results of operations for quarters and six months ended July 2, 2011 and June 30, 2012. 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 31, 2011. The results of operations for the quarter and six months ended June 30, 2012, may not be indicative of the results that may be expected for the fiscal year 2012 ending December 29, 2012.

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

(in thousands, except per share data)

(unaudited)

**NOTE B REVISIONS**

As disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2011, revisions have been made to the Company's previously issued financial statements to record the impact of currency translation on intangible assets acquired as a part of the 2010 purchase of BabyCare Holdings, Ltd. These revisions had no effect on our earnings from operations, net earnings or earnings per share.

The following tables illustrate the effects of the revision on the Company's consolidated financial statements for only those line items that were affected and have not been previously disclosed:

**Consolidated Statements of Comprehensive Income**

|                      | For the six months ended July 2, 2011 |            |            |
|----------------------|---------------------------------------|------------|------------|
|                      | As Previously Reported                | Adjustment | As Revised |
| Comprehensive income | \$ 26,211                             | \$ 1,016   | \$ 27,227  |

**Consolidated Statements of Stockholders' Equity**

|  | For the six months ended July 2, 2011 |            |            |
|--|---------------------------------------|------------|------------|
|  | As Previously Reported                | Adjustment | As Revised |
| Other comprehensive income, net of tax                                 | \$ 1,005                              | \$ 1,016   | \$ 2,021   |
| Accumulated Other Comprehensive Income (Loss), Balance at July 2, 2011 | 4,726                                 | 2,652      | 7,378      |
| Total Stockholders' Equity, Balance at July 2, 2011                    | 150,419                               | 2,652      | 153,071    |

**NOTE C INVENTORIES**



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Inventories consist of the following:

|                  | December 31,<br>2011 |        | June 30,<br>2012 |        |
|------------------|----------------------|--------|------------------|--------|
| Raw materials    | \$                   | 9,670  | \$               | 8,897  |
| Work in progress |                      | 6,917  |                  | 6,349  |
| Finished goods   |                      | 20,381 |                  | 18,559 |
|                  | \$                   | 36,968 | \$               | 33,805 |

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

(in thousands, except per share data)

(unaudited)

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

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

|  | July 2,<br>2011 | Quarters Ended<br>June 30,<br>2012 |
|--|-----------------|------------------------------------|
| Net earnings available to common shareholders                      | \$ 13,856       | \$ 16,745                          |
| <b>Basic EPS</b>   |                 |                                    |
| Shares   |                 |                                    |
| Common shares outstanding entire period                            | 15,985          | 14,940                             |
| Weighted average common shares:                                    |                 |                                    |
| Issued during period   | 13              | 68                                 |
| Repurchased and retired during period                              | (468)           | (317)                              |
| Weighted average common shares outstanding during period           | 15,530          | 14,691                             |
| Earnings per common share from net earnings - basic                | \$ 0.89         | \$ 1.14                            |
| <b>Diluted EPS</b>   |                 |                                    |
| Shares   |                 |                                    |
| Weighted average common shares outstanding during period - basic   | 15,530          | 14,691                             |
| Dilutive effect of in-the-money equity awards                      | 222             | 399                                |
| Weighted average common shares outstanding during period - diluted | 15,752          | 15,090                             |
| Earnings per common share from net earnings - diluted              | \$ 0.88         | \$ 1.11                            |

Equity awards for 2,782 and 1,906 shares of stock were not included in the computation of diluted EPS for the quarters ended July 2, 2011, and June 30, 2012, respectively, due to the fact that their effect would be anti-dilutive.



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

(in thousands, except per share data)

(unaudited)

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

|  | Six Months Ended |                  |
|--|------------------|------------------|
|  | July 2,<br>2011  | June 30,<br>2012 |
| Net earnings available to common shareholders                      | \$ 25,206        | \$ 30,496        |
| <b>Basic EPS</b>   |                  |                  |
| Shares   |                  |                  |
| Common shares outstanding entire period                            | 15,985           | 14,940           |
| Weighted average common shares:                                    |                  |                  |
| Issued during period   | 8                | 45               |
| Repurchased and retired during period                              | (273)            | (158)            |
| Weighted average common shares outstanding during period           | 15,720           | 14,827           |
| Earnings per common share from net earnings - basic                | \$ 1.60          | \$ 2.06          |
| <b>Diluted EPS</b>   |                  |                  |
| Shares   |                  |                  |
| Weighted average common shares outstanding during period - basic   | 15,720           | 14,827           |
| Dilutive effect of in-the-money equity awards                      | 244              | 365              |
| Weighted average common shares outstanding during period - diluted | 15,964           | 15,192           |
| Earnings per common share from net earnings - diluted              | \$ 1.58          | \$ 2.01          |

Equity awards for 2,782 and 1,934 shares of stock were not included in the computation of diluted EPS for the six months ended July 2, 2011, and June 30, 2012, respectively, due to the fact that their effect would be anti-dilutive.

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

(in thousands, except per share data)

(unaudited)

**NOTE E SEGMENT INFORMATION**

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

|                          | Quarters Ended  |                  | Six Months Ended |                  |
|--------------------------|-----------------|------------------|------------------|------------------|
|                          | July 2,<br>2011 | June 30,<br>2012 | July 2,<br>2011  | June 30,<br>2012 |
| USANA® Nutritionals      | 78%             | 79%              | 78%              | 79%              |
| USANA Foods              | 12%             | 12%              | 12%              | 12%              |
| Sensé beautiful science® | 7%              | 7%               | 7%               | 7%               |

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

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

- North Asia Japan and South Korea

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

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

(in thousands, except per share data)

(unaudited)

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

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

|                                 | Quarters Ended  |                  | Six Months Ended |                  |
|---------------------------------|-----------------|------------------|------------------|------------------|
|                                 | July 2,<br>2011 | June 30,<br>2012 | July 2,<br>2011  | June 30,<br>2012 |
| Net Sales to External Customers |                 |                  |                  |                  |
| North America/Europe            | \$ 60,267       | \$ 62,464        | \$ 120,288       | \$ 121,096       |
| Asia Pacific                    |                 |                  |                  |                  |
| Southeast Asia/Pacific          | 27,225          | 34,271           | 51,919           | 66,523           |
| Greater China                   | 53,678          | 56,770           | 105,789          | 113,405          |
| North Asia                      | 7,755           | 7,396            | 14,495           | 13,997           |
| Asia Pacific Total              | 88,658          | 98,437           | 172,203          | 193,925          |
| Consolidated Total              | \$ 148,925      | \$ 160,901       | \$ 292,491       | \$ 315,021       |

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

|                                 | Quarters Ended  |                  | Six Months Ended |                  |
|---------------------------------|-----------------|------------------|------------------|------------------|
|                                 | July 2,<br>2011 | June 30,<br>2012 | July 2,<br>2011  | June 30,<br>2012 |
| Net Sales to External Customers |                 |                  |                  |                  |
| Hong Kong                       | \$ 41,785       | \$ 43,547        | \$ 81,988        | \$ 87,354        |
| United States                   | 37,121          | 39,108           | 74,157           | 75,586           |
| Canada                          | 17,462          | 16,246           | 34,789           | 32,435           |

As of  
December 31,  
2011                      June 30,  
2012

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| Long-lived Assets |    |        |    |        |
|-------------------|----|--------|----|--------|
| China             | \$ | 59,806 | \$ | 58,673 |
| United States     |    | 46,991 |    | 46,490 |
| Australia         |    | 15,280 |    | 15,142 |



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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 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 31, 2011, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission (SEC) through the date of this report.

**Overview**

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. Our customer base is comprised of two types of customers: Associates and Preferred Customers. Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of June 30, 2012, we had approximately 235,000 active Associates and approximately 66,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period, either for personal use or for resale.

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

- North America/Europe – United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France(1), and Belgium(1)

- Asia Pacific
- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand(1)
- Greater China Hong Kong, China, and Taiwan
- North Asia Japan and South Korea

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

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

| <b>Product Line</b>        | <b>Six Months Ended</b> |                          |
|----------------------------|-------------------------|--------------------------|
|                            | <b>July 2,<br/>2011</b> | <b>June 30,<br/>2012</b> |
| <b>USANA® Nutritionals</b> |                         |                          |
| Essentials                 | 29%                     | 28%                      |
| Optimizers                 | 49%                     | 51%                      |
| USANA Foods                | 12%                     | 12%                      |
| Sensé beautiful science®   | 7%                      | 7%                       |
| All Other                  | 3%                      | 2%                       |
| <b>Key Product</b>         |                         |                          |
| USANA® Essentials          | 18%                     | 18%                      |
| Proflavanol®               | 12%                     | 12%                      |
| HealthPak 100              | 9%                      | 8%                       |

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

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

To further support our Associates in building their businesses, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in their business development and to provide a forum for interaction with some of 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, net sales and gross profit are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Currency fluctuations, however, have

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the opposite effect on our Associate incentives and selling, general and administrative expenses. During the six months ended June 30, 2012, net sales outside of the United States represented approximately 76% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

Table of Contents**Customers**

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on our ability to attract new Associates and retain existing Associates to sell and consume our products. Notably, sales to Associates account for the majority of our product sales, representing 90% of product sales during the six months ended June 30, 2012. 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>July 2, 2011 |        | As of<br>June 30, 2012 |        | Change from<br>Prior Year | Percent<br>Change |
| North America/Europe        | 83,000                | 37.4%  | 82,000                 | 34.9%  | (1,000)                   | (1.2)%            |
| Asia Pacific:               |                       |        |                        |        |                           |                   |
| Southeast Asia/Pacific      | 43,000                | 19.4%  | 58,000                 | 24.7%  | 15,000                    | 34.9%             |
| Greater China               | 87,000                | 39.2%  | 87,000                 | 37.0%  |                           | 0.0%              |
| North Asia                  | 9,000                 | 4.0%   | 8,000                  | 3.4%   | (1,000)                   | (11.1)%           |
| Asia Pacific Total          | 139,000               | 62.6%  | 153,000                | 65.1%  | 14,000                    | 10.1%             |
|                             | 222,000               | 100.0% | 235,000                | 100.0% | 13,000                    | 5.9%              |

| Active Preferred Customers By Region |                       |        |                        |        |                           |                   |
|--------------------------------------|-----------------------|--------|------------------------|--------|---------------------------|-------------------|
|                                      | As of<br>July 2, 2011 |        | As of<br>June 30, 2012 |        | Change from<br>Prior Year | Percent<br>Change |
| North America/Europe                 | 53,000                | 77.9%  | 52,000                 | 78.8%  | (1,000)                   | (1.9)%            |
| Asia Pacific:                        |                       |        |                        |        |                           |                   |
| Southeast Asia/Pacific               | 6,000                 | 8.8%   | 6,000                  | 9.1%   |                           | 0.0%              |
| Greater China                        | 8,000                 | 11.8%  | 7,000                  | 10.6%  | (1,000)                   | (12.5)%           |
| North Asia                           | 1,000                 | 1.5%   | 1,000                  | 1.5%   |                           | 0.0%              |
| Asia Pacific Total                   | 15,000                | 22.1%  | 14,000                 | 21.2%  | (1,000)                   | (6.7)%            |
|                                      | 68,000                | 100.0% | 66,000                 | 100.0% | (2,000)                   | (2.9)%            |

**Current Focus and Recent Developments**

We are currently focusing our efforts on: (i) growing our business in Greater China, (ii) the implementation of our strategy to stabilize and grow our North American markets, and (iii) international expansion.

Our development efforts in Greater China during the first six months of 2012 have included further educating our Associates on the USANA products that we introduced in China during 2011, and on our China compensation plan. Additionally, in the first quarter of 2012 we opened a new branch office in Shenzhen, which is a key city for our business in southern China.

In North America/Europe, we continued to execute our stabilization and growth strategy, which focuses on strengthening our partnership with Associates, introducing North America-specific incentives, and implementing our global marketing strategy. During the

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first six months of 2012, we made progress on each component of this strategy. For example, we have held an increased number of meetings and events where members of our management team have worked closely with our Associate Leaders to grow our business. The most significant event occurred in April 2012, in Los Angeles, California, where members of our management team launched our new Lifetime Matching Bonus in front of a sold-out venue of North American Associates. The Lifetime Matching Bonus has been very well received by our Associates in all of our markets. Finally, we offered a promotion specifically for our Associates in Mexico for a portion of the first and second quarters of 2012. We believe that this promotion has also contributed to the momentum we are experiencing in Mexico and North America in general.

In terms of international expansion, we commenced operations in Thailand, France and Belgium at the end of the first quarter of 2012. In the second quarter of 2012, these markets contributed \$1.2 million to net sales. Our initial experience with these markets is that they are heavily consumer focused. As such, we believe that it will take time for our existing Associate leaders in these markets to find and develop entrepreneurs to grow each respective market. Consequently, we believe that sales growth in each of these markets will occur at a slower rate than we initially anticipated.

**Results of Operations**

*Summary of Financial Results*

Net sales for the second quarter of 2012 increased 8.0%, to \$160.9 million, compared with the second quarter of 2011. This net sales increase was driven by sales growth in each of our regions with the exception of North Asia, and also included the addition of Thailand, France, and Belgium. Currency fluctuation during the quarter reduced net sales by approximately \$2.7 million.

As previously mentioned, during the quarter we launched our Lifetime Matching Bonus incentive. This new bonus was introduced to our Associates with a short-term promotion similar to promotions that we have offered with success in the past. We believe that this promotion contributed to our sales and Associate growth during the quarter. Specifically, we estimate that this promotion added approximately \$4.6 million to net sales, the majority of which was recognized in our Greater China and Southeast Asia Pacific regions. Further, price increases in certain markets contributed an estimated \$4.7 million to net sales during the quarter. These and other factors that contributed to our sales results during the second quarter of 2012 are discussed below under our regional results.

Net earnings for the second quarter of 2012 increased 20.9%, to \$16.7 million, compared with the second quarter of 2011. This increase was primarily the result of higher net sales, improved gross margins, lower relative Associate incentives, and a lower effective tax rate.

**Quarters Ended July 2, 2011 and June 30, 2012**

*Net Sales*

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

|                        | <b>Net Sales by Region<br/>(in thousands)<br/>Quarter Ended</b> |        |                      |        | <b>Change<br/>from prior<br/>year</b> | <b>Percent<br/>change</b> |
|------------------------|---|--------|----------------------|--------|---------------------------------------|---------------------------|
|                        | <b>July 2, 2011</b>   |        | <b>June 30, 2012</b> |        |                                       |                           |
| North America/Europe   | \$ 60,267   | 40.5%  | \$ 62,464            | 38.8%  | \$ 2,197                              | 3.6%                      |
| <b>Asia Pacific:</b>   |   |        |                      |        |                                       |                           |
| Southeast Asia/Pacific | 27,225  | 18.3%  | 34,271               | 21.3%  | 7,046                                 | 25.9%                     |
| Greater China          | 53,678  | 36.0%  | 56,770               | 35.3%  | 3,092                                 | 5.8%                      |
| North Asia             | 7,755   | 5.2%   | 7,396                | 4.6%   | (359)                                 | (4.6)%                    |
| Asia Pacific Total     | 88,658  | 59.5%  | 98,437               | 61.2%  | 9,779                                 | 11.0%                     |
|                        | \$ 148,925  | 100.0% | \$ 160,901           | 100.0% | \$ 11,976                             | 8.0%                      |



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*North America/Europe:* The increase in net sales in this region was primarily due to increased sales per Associate, which we believe was due mostly to the momentum generated by the introduction of our Lifetime Matching Bonus and the related short-term promotion that we offered. We estimate that this short-term promotion added \$0.8 million to net sales in this region during the quarter. Net sales also benefited by \$0.5 million from the inclusion of France and Belgium during the quarter. These improvements were partially offset by the effects of fluctuations in foreign currency exchange rates, which reduced net sales in this region by \$1.7 million.

The number of active Associates in this region declined by 1.2% on a year-over-year basis, but increased 6.5% sequentially. Considering the historical customer declines we have experienced in this region for some time, we believe that both our sequential quarter and year-over-year results are meaningful improvements in this region. We believe that these improvements are primarily due to our new Lifetime Matching Bonus and the short-term promotion previously mentioned.

*Asia Pacific:* The increase in net sales in this region was driven by growth in Southeast Asia Pacific and Greater China, which was primarily the result of (i) an increase in the number of active Associates, (ii) price increases in certain markets, and (iii) the introduction of our Lifetime Matching Bonus program and the related short-term promotion. We estimate that price increases added \$4.7 million to net sales in this region for the quarter and that the short-term promotion added \$3.8 million. Net sales for the quarter also benefited by \$0.7 million from the inclusion of Thailand. While we experienced sales growth this quarter in nearly all of our markets in this region, the most significant growth continues to be in the Philippines, where net sales increased 124.4% year-over-year. The improvements in net sales in this region during the second quarter of 2012 were partially offset by: (i) an estimated \$4.0 million increase in sales ahead of certain strategic changes that were to be implemented in Hong Kong during the second quarter of 2011, and (ii) the effects of fluctuations in foreign currency exchange rates, which reduced net sales by \$1.0 million during the second quarter of 2012.

The number of active Associates in this region increased by 10.1% compared to the prior year quarter. This increase was primarily the result of excitement generated by the introduction of our Lifetime Matching Bonus program and the related short-term promotion. Again, of the markets in this region, the Philippines generated the most significant Associate growth, where the number of active Associates increased 100.0% on a year-over-year basis.

*Gross Profit*

Gross profit margins improved modestly to 82.6% of net sales for the second quarter of 2012 from 82.4% for the second quarter of 2011. Overall, this improvement can be attributed to price increases that took place in several of our international markets toward the end of the first quarter of 2012, which we estimate improved gross profit margins by approximately 60 basis points. To a lesser extent, lower net freight costs on shipments to our customers and leverage gained on fixed costs from increasing net sales also contributed to improved gross margins. Improvements to gross margin during the second quarter of 2012 were partially offset by increases in raw material costs, which we estimate reduced gross profit margins by approximately 40 basis points, and, to a lesser extent, the impact of a strengthening in the U.S. dollar.

*Associate Incentives*

Associate incentives decreased to 44.1% of net sales during the second quarter of 2012, compared with 45.5% for the second quarter of 2011. This decrease can be attributed to price increases that took place toward the end of the first quarter. Payout under our Matching Bonus program

benefited further from our continued efforts to efficiently manage this component of our Associate Compensation Plan.

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*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased modestly to 22.9% of net sales for the second quarter of 2012, compared with 22.7% for the second quarter of 2011.

In absolute terms, our selling, general and administrative expenses increased \$3.0 million for the second quarter of 2012, compared with the second quarter of 2011. The most significant components of this increase in absolute terms were as follows:

- An increase in equity compensation expense of approximately \$1.1 million, which was due mostly to a low comparable in the prior year quarter resulting from the recapture of previously recognized expense on canceled equity awards;
- New market costs of approximately \$1.1 million; and
- An increase in wage-related expenses of approximately \$0.6 million.

*Income Taxes*

Our effective income tax rate during the second quarter of 2012 was 32.8%, compared with 34.5% in the second quarter of 2011. This decrease resulted primarily from a restructuring of USANA's Hong Kong and Singapore operations implemented during the quarter, which included a one-time favorable adjustment to jurisdictional deferred tax assets and liabilities.

*Diluted Earnings Per Share*

Diluted earnings per share increased 26.1% during the current year quarter when compared with the second quarter of 2011. This increase was due to higher net earnings and a lower number of diluted shares outstanding, which was the result of share repurchases over the last twelve months.

**Six Months Ended July 2, 2011 and June 30, 2012**

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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)<br>Six Months Ended |               | Change<br>from prior<br>year |        | Percent<br>change |        |
|------------------------|---|---------------|------------------------------|--------|-------------------|--------|
|                        | July 2, 2011  | June 30, 2012 |                              |        |                   |        |
| North America/Europe   | \$ 120,288  | 41.1%         | \$ 121,096                   | 38.4%  | \$ 808            | 0.7%   |
| <b>Asia Pacific:</b>   |   |               |                              |        |                   |        |
| Southeast Asia/Pacific | 51,919  | 17.7%         | 66,523                       | 21.1%  | 14,604            | 28.1%  |
| Greater China          | 105,789   | 36.2%         | 113,405                      | 36.0%  | 7,616             | 7.2%   |
| North Asia             | 14,495  | 5.0%          | 13,997                       | 4.5%   | (498)             | (3.4)% |
| Asia Pacific Total     | 172,203   | 58.9%         | 193,925                      | 61.6%  | 21,722            | 12.6%  |
|                        | \$ 292,491  | 100.0%        | \$ 315,021                   | 100.0% | \$ 22,530         | 7.7%   |

*North America/Europe:* The increase in net sales in this region during the first six months of 2012 when compared with the same period in 2011 was primarily due to increased sales per Associate and momentum generated, in large part, by the introduction of our Lifetime Matching Bonus program and the related short-term promotion that we offered in the second quarter. Net sales during the first six months of 2012 also benefited by \$0.5 million from the inclusion of France and Belgium. These improvements were partially offset by the effects of fluctuations in foreign currency exchange rates, which reduced net sales in this region by \$2.4 million during the first six months of 2012 when compared with the same period in 2011.

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*Asia Pacific:* The increase in net sales in this region during the first six months of 2012 was driven by growth in Southeast Asia Pacific and Greater China, which was primarily the result of: (i) an increase in the average number of active Associates throughout the first six months of 2012, (ii) a surge in sales ahead of price increases that took place in certain of these markets, (iii) the impact of these price increases, and (iv) the introduction of our Lifetime Matching Bonus program and the related short-term promotion that we offered. We estimate that the surge in sales ahead of price increases added \$11.0 million, that the price increases added \$7.1 million, and that the short-term promotion added \$3.8 million to net sales in this region during the first six months of 2012. Net sales also benefited by \$0.8 million from the inclusion of Thailand in the current year. These increases were partially offset by certain events that contributed to sales in this region during the first six months of 2011 that did not occur in 2012, namely: (i) an estimated \$4.0 million surge in sales ahead of certain strategic changes that were to be implemented in Hong Kong, and (ii) the recognition of approximately \$3.0 million of deferred revenue during the first quarter of 2011.

*Gross Profit*

Gross profit for the first six months of 2012 increased slightly to 82.4% of net sales compared with 82.3% in the prior year period, largely as a result of price increases in several of our international markets introduced toward the end of the first quarter of 2012. We also experienced benefits from leverage on increasing sales as well as an increasing percentage of sales from certain international markets where we have higher gross margins. Although currency fluctuation negatively impacted gross profit margins for the second quarter of 2012, we experienced an overall benefit to gross profit margins from currency fluctuation for the first six months of 2012. Improvements to gross margins during the first six months of 2012 were partially offset by increases in raw material costs.

*Associate Incentives*

Associate incentives decreased to 44.1% of net sales during the first six months of 2012, compared with 45.3% for the first six months of 2011. This decrease can be attributed to: (i) the temporary surge in sales we experienced during the first quarter of 2012 ahead of the price changes discussed above (when we experience a temporary surge or decline in sales our Associate incentives as a percent of net sales typically react in an inverse manner), and (ii) the impact of these price increases on the full second quarter of 2012. Payout under our Matching Bonus program benefited further from our continued efforts to efficiently manage this component of our Associate Compensation Plan.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased slightly to 23.7% of net sales for the first six months of 2012, compared with 23.8% for the same period in 2011. This slight change reflects leverage gained on increased sales outside the United States in markets where selling, general and administrative expenses are lower, partially offset by costs associated with opening our new markets and low initial sales in these markets.

In absolute terms, our selling, general and administrative expenses increased \$5.1 million for the first six months of 2012, compared with the same period in 2011. The most significant components of this increase in absolute terms were as follows:

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- New market costs of approximately \$1.8 million; and
- An increase in equity compensation expense of approximately \$0.8 million due mostly to a low comparable in the prior year period;
- An increase in wage-related expenses of approximately \$0.8 million;
- An increase in credit card and bank fees that vary with sales of approximately \$0.7 million; and
- An increase related to our corporate branding efforts of approximately \$0.7 million.

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*Income Taxes*

Our effective income tax rate during the first six months of 2012 was 33.6%, compared with 34.5% in the first six months of 2011. This decrease resulted primarily from a restructuring of USANA's Hong Kong and Singapore operations implemented during the second quarter, which included a one-time favorable adjustment to jurisdictional deferred tax assets and liabilities.

*Diluted Earnings Per Share*

Diluted earnings per share increased 27.2% during the first six months of 2012 when compared to the first six months of 2011. 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. There are currently no material restrictions on our ability to transfer and remit available funds among our international markets. Repatriation of funds that are related to earnings considered permanently reinvested in certain of our markets would not result in a tax liability that would have a material impact on our liquidity.

*Operating cash flow*

We typically generate positive cash flow due to our strong operating margins. During the first six months of 2012, we had a net cash flow from operating activities of \$43.9 million, compared with \$31.4 million in the same period of 2011. The most significant factors contributing to this increase include higher net earnings and benefits from changes in operating assets and liabilities.

*Line of credit*

We have a long-standing relationship with Bank of America. We currently maintain a \$60.0 million credit facility pursuant to a credit agreement with Bank of America, which expires in April 2016. We did not draw on this line of credit at any time during the first six months of 2012, and, as of June 30, 2012 there was no outstanding balance on this line of credit.

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The agreement for this credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization ( adjusted EBITDA ) equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of June 30, 2012, 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.

Additionally, from time to time we will enter into short-term foreign currency credit arrangements in our international markets for strategic purposes, primarily as a way to reduce our exposure to negative effects of changes in foreign currency exchange rates. As of June 30, 2012, we had a balance of \$0.6 million outstanding for this purpose and have classified this under other current liabilities. This credit arrangement has a maturity date of July 31, 2012.

### *Working capital*

Cash and cash equivalents increased to \$65.5 million at June 30, 2012, from \$50.4 million at December 31, 2011. Of the \$65.5 million held at June 30, 2012, \$44.1 million was held in the United States, and \$21.4 million was held by international subsidiaries. Of the \$50.4 million held at December 31, 2011, \$34.8 million was held in the United States, and \$15.6 million was held by international subsidiaries.

Net working capital increased to \$56.8 million at June 30, 2012, from \$46.4 million at December 31, 2011. This increase in net working capital was due mostly to net cash provided by operating activities, which was offset in large part by share repurchases discussed



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below and also by purchases of property and equipment. Some of the other items that partially offset the increase in net working capital included a decrease in inventories and an increase in other current liabilities. Property and equipment purchases during the first six months of 2012 included manufacturing and IT-related equipment as well as investments in infrastructure for our new markets. The increase in other current liabilities for the first six months of 2012 related mostly to increases in unearned revenue, accrued Associate incentives/promotions, and income taxes payable, which were partially offset by a decrease in accrued employee compensation.

*Share repurchase*

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. Our Board of Directors periodically approves additional dollar amounts for share repurchases under that plan. For example, during the second quarter of 2012, the Board authorized an additional \$21.8 million 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 six months of 2012, we repurchased and retired 0.7 million shares of common stock for a total of \$26.6 million, at an average market price of \$39.26 per share. As of June 30, 2012, the remaining approved repurchase amount under the plan was \$23.4 million. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

*Summary*

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

**Forward-Looking Statements and Certain Risks**

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

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

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- 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;

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

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to information presented from that presented for the year ended December 31, 2011.

**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

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disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a- 15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

## (c) Repurchases

The following table presents information with respect to purchases of USANA common stock made by the Company during the three months ended June 30, 2012:

**Issuer Purchases of Equity Securities**

(amounts in thousands, except per share data)

| <b>Period</b>                                      | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of Publicly<br/>Announced Plans<br/>or Programs</b> | <b>Approximate Dollar<br/>Value of Shares that<br/>May Yet Be<br/>Purchased Under<br/>the Plans or<br/>Programs *</b> |
|--|---|---|---|---|
| Fiscal April<br>(Apr. 1, 2012 through May 5, 2012) | 145   | \$ 39.61                                    | 145   | \$ 22,525   |

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|   |     |    |       |     |    |        |
|---|-----|----|-------|-----|----|--------|
| Fiscal May<br>(May 6, 2012 through Jun. 2, 2012)    | 394 | \$ | 38.75 | 394 | \$ | 29,003 |
| Fiscal June<br>(Jun. 3, 2012 through Jun. 30, 2012) | 138 | \$ | 40.34 | 138 | \$ | 23,437 |
|   | 677 | \$ | 39.26 | 677 |    |        |

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\* The Company's share repurchase plan has been ongoing since the fourth quarter of 2000, with the Company's Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. The Company began the second quarter with \$28,246 remaining under the plan. As announced in a publicly issued press release on May 9, 2012, the Board of Directors authorized an increase to the share repurchase plan of \$21,754. There currently is no expiration date on the approved repurchase amount.

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#### **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                  | 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)*               |
| 10.13                 | Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |



10.14 Form of Indemnification Agreement between the Company and its directors (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)\*

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|         |   |
|---------|---|
| 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)*               |
| 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: August 8, 2012

/s/ G. Douglas Hekking  
G. Douglas Hekking  
Chief Financial Officer  
(Principal Financial and Accounting Officer)