

USANA HEALTH SCIENCES INC
Form 10-Q
May 07, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 0-21116

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation or organization)

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

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

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of May 5, 2014 was 13,922,660.

Table of Contents

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended March 29, 2014

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1</u>	
<u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income – Quarter Ended</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 14
<u>Item 2</u>	15 22
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3</u>	23
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4</u>	23
<u>Controls and Procedures</u>	
<u>PART II. OTHER INFORMATION</u>	
<u>Item 6</u>	24
<u>Exhibits</u>	
<u>Signatures</u>	26

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 December 28, 2013	As of March 29, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 137,343	\$ 142,733
Securities held-to-maturity, net	8,642	4,428
Inventories	47,242	46,890
Prepaid expenses and other current assets	35,818	32,308
Total current assets	229,045	226,359
Property and equipment, net	59,180	58,843
Goodwill	18,243	17,933
Intangible assets, net	42,329	41,210
Deferred tax assets	5,519	5,695
Other assets	14,154	21,426
	\$ 368,470	\$ 371,466
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,502	\$ 6,083
Other current liabilities	86,369	73,861
Total current liabilities	95,871	79,944
Deferred tax liabilities	10,866	10,577
Other long-term liabilities	1,211	1,204
Stockholders' equity		
Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 13,886 as of December 28, 2013 and 13,981 as of March 29, 2014	14	14

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

Additional paid-in capital	54,691	58,383
Retained earnings	200,023	216,560
Accumulated other comprehensive income	5,794	4,784
Total stockholders' equity	260,522	279,741
	\$ 368,470	\$ 371,466

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)

	Quarters Ended	
	March 30, 2013	March 29, 2014
Net sales	\$ 169,082	\$ 182,401
Cost of sales	30,261	33,828
Gross profit	138,821	148,573
Operating expenses:		
Associate incentives	69,855	78,874
Selling, general and administrative	42,404	44,577
Total operating expenses	112,259	123,451
Earnings from operations	26,562	25,122
Other income (expense):		
Interest income	78	212
Interest expense		(6)
Other, net	(104)	(81)
Other income (expense), net	(26)	125
Earnings before income taxes	26,536	25,247
Income taxes	8,757	8,710
Net earnings	\$ 17,779	\$ 16,537
Earnings per common share		
Basic	\$ 1.30	\$ 1.19
Diluted	\$ 1.28	\$ 1.15
Weighted average common shares outstanding		
Basic	13,643	13,919
Diluted	13,903	14,395
Comprehensive income:		
Net earnings	\$ 17,779	\$ 16,537

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

Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	31		(1,662)
Tax benefit (expense) related to foreign currency translation adjustment	(66)		652
Other comprehensive income (loss), net of tax	(35)		(1,010)
Comprehensive income	\$	17,744	\$ 15,527

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

Three Months Ended March 29, 2014

(in thousands)

(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 28, 2013	13,886	\$ 14	\$ 54,691	\$ 200,023	\$ 5,794	\$ 260,522
Net earnings				16,537		16,537
Other comprehensive income (loss), net of tax					(1,010)	(1,010)
Equity-based compensation expense			1,836			1,836
Common stock issued under equity award plans, including tax benefit of \$1,856	95		1,856			1,856
Balance at March 29, 2014	13,981	\$ 14	\$ 58,383	\$ 216,560	\$ 4,784	\$ 279,741

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)

	Three Months Ended	
	March 30, 2013	March 29, 2014
Cash flows from operating activities		
Net earnings	\$ 17,779	\$ 16,537
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	2,303	2,211
(Gain) loss on sale of property and equipment	(3)	4
Equity-based compensation expense	2,369	1,836
Excess tax benefits from equity-based payment arrangements	(185)	(1,856)
Deferred income taxes	(819)	(146)
Changes in operating assets and liabilities:		
Inventories	(6,522)	45
Prepaid expenses and other assets	6,136	(3,339)
Accounts payable	1,097	(3,704)
Other liabilities	(1,850)	(9,119)
Net cash provided by (used in) operating activities	20,305	2,469
Cash flows from investing activities		
Additions to notes receivable	(1,142)	(1,429)
Purchases of investment securities held-to-maturity		(1,488)
Maturities of investment securities		5,701
Proceeds from sale of property and equipment	3	6
Purchases of property and equipment	(872)	(979)
Net cash provided by (used in) investing activities	(2,011)	1,811
Cash flows from financing activities		
Excess tax benefits from equity-based payment arrangements	185	1,856
Repurchase of common stock	(18,085)	
Net cash provided by (used in) financing activities	(17,900)	1,856
Effect of exchange rate changes on cash and cash equivalents	(186)	(746)
Net increase in cash and cash equivalents	208	5,390
Cash and cash equivalents, beginning of period	70,839	137,343
Cash and cash equivalents, end of period	\$ 71,047	\$ 142,733

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

Supplemental disclosures of cash flow information

Cash paid during the period for:

Interest	\$		\$	6
Income taxes		1,101		787

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

The condensed balance sheet as of December 28, 2013, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to state fairly the Company's financial position as of March 29, 2014 and results of operations for the three months ended March 30, 2013 and March 29, 2014. 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 28, 2013. The results of operations for the three months ended March 29, 2014, may not be indicative of the results that may be expected for the fiscal year 2014 ending January 3, 2015.

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.

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

- 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.

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 CONTINUED

As of December 28, 2013 and March 29, 2014, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	December 28, 2013	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 9,249	\$ 9,249	\$	\$
Term deposits included in cash equivalents	348		348	

	March 29, 2014	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 14,603	\$ 14,603	\$	\$
Term deposits included in cash equivalents	1,440		1,440	

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 is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 28, 2013 and March 29, 2014, there were no non-financial assets measured at fair value on a non-recurring basis.

At December 28, 2013 and March 29, 2014, the Company's financial instruments include cash equivalents, restricted cash, securities held-to-maturity, and notes receivable. The recorded values of cash equivalents and restricted cash 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. Securities held-to-maturity consist of certificates of deposits. The fair value of a certificate of deposit is determined based on the pervasive interest rates in the market, which is considered to be a Level 2 input. The carrying values of these certificates of deposit approximate their fair values due to their short-term maturities.

NOTE C INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of held-to-maturity securities by major security type and class of security were as follows:

	Amortized Cost	As of December 28, 2013		Estimated Fair Value
		Unrecognized Holding Gains	Unrecognized Holding Losses	
Certificates of Deposit	\$ 8,642	\$	\$	\$ 8,642
Total Held-to-Maturity Securities	\$ 8,642	\$	\$	\$ 8,642

	Amortized Cost	As of March 29, 2014		Estimated Fair Value
		Unrecognized Holding Gains	Unrecognized Holding Losses	
Certificates of Deposit	\$ 4,428	\$	\$	\$ 4,428
Total Held-to-Maturity Securities	\$ 4,428	\$	\$	\$ 4,428

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE D INVENTORIES

Inventories consist of the following:

	December 28, 2013		March 29, 2014
Raw materials	\$ 13,824	\$	12,975
Work in progress	8,147		8,585
Finished goods	25,271		25,330
	\$ 47,242	\$	46,890

NOTE E OTHER ASSETS

The Company has extended non-revolving credit to its supplier of nutrition bars of up to \$7,000 to allow this supplier to acquire the necessary equipment to manufacture the USANA nutrition bars. 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 December 28, 2013, and March 29, 2014 were \$4,942 and \$6,421, respectively.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the latter-half of 2015. As part of this project, land-use rights totaling \$7,158 have been purchased and will be amortized over 50 years. Land-use rights are classified in Other assets line item in the Company's consolidated balance sheets.

NOTE F 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. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that

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

any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

The Company has previously disclosed that the Securities and Exchange Commission is conducting a formal investigation, which involve possible issues regarding trading in the Company's stock during late 2012 by certain of the Company's directors, including the Chairman. In the opinion of management, based upon advice of counsel, the likelihood of an adverse outcome against the Company in this matter is remote. As such, management believes that the ultimate outcome of the SEC investigation will not have a material impact on the Company's financial position or results of operations.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE G 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 December 28, 2013.

Equity-based compensation expense for the fiscal quarters ended March 30, 2013, and March 29, 2014, was \$2,369 and \$1,836, respectively. The related tax benefit for these periods was \$812 and \$617, 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 March 29, 2014. This table does not include an estimate for future grants that may be issued.

2014	\$	6,784
2015		7,299
2016		5,420
2017		3,348
2018		541
	\$	23,392

The cost above is expected to be recognized over a weighted-average period of 2.2 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 three months ended March 30, 2013, and March 29, 2014, was \$13.34 and \$17.73, 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.

Three Months Ended	
March 30,	March 29,
2013	2014

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

Expected volatility (1)	43.7%	39.9%
Risk-free interest rate (2)	0.6%	1.2%
Expected life (3)	3.97 yrs	3.54 yrs
Expected dividend yield (4)	0.0%	0.0%
Weighted-average exercise price (5)	\$ 38.69	\$ 57.62

(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, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

(4) The Company historically has not paid 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 G 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 December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	669	57.62		
Exercised	(160)	28.83		
Forfeited	(20)	27.33		
Expired				
Outstanding at March 29, 2014	2,316	\$ 43.90	3.0	\$ 70,387
Exercisable at March 29, 2014	424	\$ 37.96	1.9	\$ 15,280

* 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 December 28, 2013, and March 29, 2014, was \$77.72 and \$74.02, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised during the three months ended March 30, 2013, and March 29, 2014, was \$1,150 and \$6,800, respectively.

The total fair value of equity awards that vested during the three months ended March 30, 2013, and March 29, 2014, was \$270 and \$496, respectively. This total fair value includes equity-based awards issued in the form of stock options and 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 H COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares outstanding for each period. Shares that have been repurchased and retired during the periods specified below have been included in the calculation of the number of weighted-average shares that are outstanding for the calculation of basic earnings per share 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	
	March 30, 2013	March 29, 2014
Net earnings available to common shareholders	\$ 17,779	\$ 16,537
Basic EPS		
Shares		
Common shares outstanding entire period	13,821	13,886
Weighted average common shares:		
Issued during period	10	33
Canceled during period	(188)	
Weighted average common shares outstanding during period	13,643	13,919
Earnings per common share from net earnings - basic	\$ 1.30	\$ 1.19
Diluted EPS		
Shares		
Weighted average common shares outstanding during period - basic	13,643	13,919
Dilutive effect of in-the-money equity awards	260	476
Weighted average common shares outstanding during period - diluted	13,903	14,395

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

Earnings per common share from net earnings - diluted	\$	1.28	\$	1.15
---	----	------	----	------

Equity awards for 1,085 and 273 shares of stock were not included in the computation of diluted EPS for the quarters ended March 30, 2013, and March 29, 2014, respectively, due to the fact that their effect would be anti-dilutive.

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

	Three Months Ended	
	March 30, 2013	March 29, 2014
USANA® Nutritionals	80%	79%
USANA Foods	12%	13%
Sensé beautiful science®	6%	6%

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

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

- North Asia Japan and South Korea

-
- (1) The Company commenced operations in Colombia in the third quarter of 2013.
 - (2) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE I SEGMENT INFORMATION - CONTINUED

Selected Financial Information

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

	Three Months Ended	
	March 30, 2013	March 29, 2014
Net Sales to External Customers		
Americas and Europe	\$ 64,152	\$ 63,815
Asia Pacific		
Southeast Asia Pacific	35,309	40,448
Greater China	62,985	70,847
North Asia	6,636	7,291
Asia Pacific Total	104,930	118,586
Consolidated Total	\$ 169,082	\$ 182,401

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

	Three Months Ended	
	March 30, 2013	March 29, 2014
Net sales:		
United States	\$ 40,238	\$ 37,613
China	N/A	38,760
Hong Kong	41,597	23,524

As of
December 28, March 29,

	2013		2014
Long-lived Assets:			
China	\$	61,716	\$ 66,587
United States		51,260	51,652

NOTE J SUBSEQUENT EVENTS

On April 28, 2014, the Company's Board of Directors authorized an increase in the amount available under its share repurchase plan to a total of \$200,000. Subsequent to March 29, 2014, and through May 5, 2014, the Company repurchased and retired 58 shares of common stock for a total investment of \$4,047, at an average market price of \$69.51 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 December 28, 2013, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission (SEC) through the date of this report.

Overview

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. Our customer base comprises two types of customers: Associates and Preferred Customers. Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of March 29, 2014, we had approximately 265,000 active Associates and approximately 78,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale.

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

- Americas and Europe United States, Canada, Mexico, Colombia(1), the United Kingdom, France, Belgium, and the Netherlands

- Asia Pacific

- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand

- Greater China Hong Kong, Taiwan, and China (2)

- North Asia Japan and South Korea

-
- (1) We commenced operations in Colombia in the third quarter of 2013.
 - (2) Our business in China is that of BabyCare, our wholly-owned subsidiary.

Our primary product lines consist of USANA® Nutritionals, USANA Foods, and Sensé beautiful science® (Sensé), which is our line of personal care products. The USANA Nutritionals product line is further categorized into two separate classifications: 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:

Table of Contents

Product Line	Quarter Ended	
	March 30, 2013	March 29, 2014
USANA® Nutritionals		
Essentials	27%	25%
Optimizers	53%	54%
USANA Foods	12%	13%
Sensé beautiful science®	6%	6%
All Other	2%	2%
Key Product		
USANA® Essentials	18%	16%
Proflavanol®	12%	13%

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 strive to ensure that our products are formulated with the latest science in nutrition research and to keep our product lines relatively compact, which we believe simplifies the selling and buying process for our Associates and Preferred Customers. We also periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding in the industry, to encourage behavior that we believe leads to a 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, 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. Associate incentives and selling, general and administrative expenses, however, are affected negatively by a weakening of the U.S. dollar and positively by a strengthening of the U.S. dollar. During the quarter ended March 29, 2014, net sales outside of the United States represented 79.4% 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

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

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 approximately 90% of product sales during the quarter ended March 29, 2014. 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.

Table of Contents

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 March 30, 2013		As of March 29, 2014		Change from Prior Year	Percent Change
Americas and Europe	78,000	34.1%	82,000	30.9%	4,000	5.1%
Asia Pacific:						
Southeast Asia Pacific	56,000	24.4%	64,000	24.2%	8,000	14.3%
Greater China	87,000	38.0%	110,000	41.5%	23,000	26.4%
North Asia	8,000	3.5%	9,000	3.4%	1,000	12.5%
Asia Pacific Total	151,000	65.9%	183,000	69.1%	32,000	21.2%
	229,000	100.0%	265,000	100.0%	36,000	15.7%

Preferred Customers By Region						
	As of March 30, 2013		As of March 29, 2014		Change from Prior Year	Percent Change
Americas and Europe	55,000	82.1%	61,000	78.2%	6,000	10.9%