Sara Lee Corp
Form S-3ASR
April 09, 2009
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As Filed with the Securities and Exchange Commission on April 9, 2009

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SARA LEE CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND	**36-2089049**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3500 Lacey Road

Downers Grove, Illinois 60515-5424

(630) 598-6000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Margaret M. Foran, Esq.

Executive Vice President, General Counsel and Corporate Secretary

Sara Lee Corporation

3500 Lacey Road

Downers Grove, Illinois 60515-5424

(630) 598-6000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement as determined by market conditions and other factors.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered/ Proposed maximum offering price per unit/ Proposed maximum aggregate offering price/ Amount of registration fee**
Debt Securities	
Common Stock	
Preferred Stock	
Warrants	
Depositary Shares	
Stock Purchase Contracts	
Stock Purchase Units	(1) (2) (3)

(1) An indeterminate aggregate initial offering price or number of the securities of each identified class is being registered as may from time to time be issued at indeterminate prices. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities.

(2) In accordance with Rules 456(b) and 457(r), the registrant is deferring payment of all registration fees.

(3) Any securities registered hereunder may be sold separately or as units with other securities registered hereunder.

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Prospectus

Sara Lee Corporation

Debt Securities, Debt Warrants, Common Stock, Common Stock Warrants,

Preferred Stock, Currency Warrants, Stock Purchase Contracts

and Stock Purchase Units

Sara Lee Corporation intends to offer at one or more times the following securities:

- debt securities;
- warrants to purchase debt securities (debt warrants);
- shares of common stock;
- warrants to purchase shares of common stock (common stock warrants);
- shares of preferred stock;
- warrants to receive the cash value in U.S. dollars of the right to purchase or sell foreign currency or currency units to be designated at the time of the offering (currency warrants);
- stock purchase contracts; and
- stock purchase units.

All of the securities listed above may be sold separately, together or as units with other securities offered hereby.

This prospectus contains a general description of securities that we may offer for sale. We will describe all remaining material terms of these securities in supplements to this prospectus. In addition, if we offer securities as units, all material terms of the units will be described in the applicable prospectus supplement. You should read the prospectus and the supplements carefully before you invest.

Our common stock is listed on the New York Stock Exchange under the symbol SLE.

This prospectus may be used to offer and sell these securities only if accompanied by a prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 9, 2009

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. Under this shelf registration process, we may, from time to time, offer to sell any combination of the securities described in this prospectus in one or more offerings at an unspecified aggregate initial offering price. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities, we will provide a supplement to this prospectus. The prospectus supplement will describe the specific terms of that offering, including the specific amounts, prices and terms of the securities offered. The prospectus supplement may also add, update or change the information contained in this prospectus. Please carefully read this prospectus and the prospectus supplement, in addition to the information contained in the documents we refer you to under the headings Where You Can Find More Information . If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement.

Unless otherwise indicated or unless the context otherwise requires, all references in this prospectus to Sara Lee, Company, we, our and us r to Sara Lee Corporation and its consolidated subsidiaries.

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SARA LEE CORPORATION

Sara Lee Corporation is a global manufacturer and marketer of high-quality, brand-name products for consumers throughout the world. Sara Lee s business is focused on food, beverage, and household and body care products, and is organized around six business segments North American Retail, North American Fresh Bakery, North American Foodservice, International Beverage, International Bakery, and International Household and Body Care.

Our principal executive offices are located at 3500 Lacey Road, Downers Grove, Illinois 60515-5424, and our telephone number is (630) 598-6000.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the SEC. The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information regarding registrants, like us, that file reports with the SEC electronically. The address of the SEC s website is *http://www.sec.gov*. You also may read and copy any document that we file with the SEC at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of its public reference room. The information that we file with the SEC is also available on the Investors page on our website at *http://www.saralee.com.* However, the information on our website, except for the SEC filings referred to below, is not a part of, and shall not be deemed to be incorporated by reference into, this prospectus.

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and may supersede the information in this prospectus and information previously filed with the SEC. We incorporate by reference the documents listed below and any filings made by us with the SEC on or subsequent to the date of this prospectus under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, until all of the securities that may be offered by this prospectus are sold; provided, however, that, except as set forth below, we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K:

- Sara Lee s Annual Report on Form 10-K for the fiscal year ended June 28, 2008, which was filed with the SEC on August 27, 2008;
- Sara Lee s Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2008, which was filed with the SEC on November 5, 2008;
- Sara Lee s Quarterly Report on Form 10-Q for the quarterly period ended December 27, 2008, which was filed with the SEC on February 4, 2009; and
- Sara Lee s Current Reports on Form 8-K dated:
  - July 16, 2008, which was filed with the SEC on July 22, 2008;
  - August 25, 2008, which was filed with the SEC on August 28, 2008;
  - October 29, 2008, which was filed with the SEC on October 29, 2008;

November 10, 2008, which was filed with the SEC on November 10, 2008;

December 18, 2008, which was filed with the SEC on December 18, 2008;

March 30, 2009, which was filed with the SEC on March 30, 2009; and

March 26, 2009, which was filed with the SEC on April 1, 2009.

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All documents filed by Sara Lee with the SEC pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this prospectus and prior to the filing of a post-effective amendment to the registration statement of which this prospectus is a part which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference into this prospectus and to be a part hereof from the respective dates of filing of such documents.

We will provide you without charge, upon request, a copy of any of the documents incorporated by reference. Requests should be directed to Sara Lee Corporation, Attn: Investor Relations, 3500 Lacey Road, Downers Grove, Illinois 60515-5424. You also may contact Investor Relations by calling Sara Lee s general number at (800) SARALEE (800-727-2533) toll free within the United States, or calling Investor Relations directly at (630) 598-8100 from outside the United States.

USE OF PROCEEDS

Unless we indicate otherwise in the applicable prospectus supplement, we will use the net proceeds from the sale of the securities for general corporate purposes, including the repayment of existing indebtedness, future acquisitions, capital expenditures and additions to working capital.

RATIOS OF EARNINGS TO FIXED CHARGES

The ratios of our earnings to our fixed charges for each of the periods indicated are as follows:

	Fiscal Year Ended(1)					26 Weeks Ended December 27, 2008
	2004	2005	2006	2007	2008	
Ratios of Earnings to Fixed Charges	3.6	3.3	1.5	2.3	1.6	3.9

(1) Our fiscal year ends on the Saturday nearest June 30.

The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. Earnings includes income from continuing operations before income taxes adjusted for (i) minority interest of majority owned subsidiaries, (ii) amortization of capitalized interest, (iii) undistributed income or losses from minority owned companies, (iv) interest expense, and (v) a portion of interest expense we believe is representative of the interest factor. Fixed charges include interest expense (including interest capitalized during the period) plus the portion of rent expense we believe is representative of the interest factor.

We did not have any preferred stock outstanding for the periods presented. Therefore, the ratios of earnings to combined fixed charges and preferred stock dividends would be the same as the ratios of earnings to fixed charges presented above.

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DESCRIPTION OF DEBT SECURITIES

We will issue the debt securities under an Indenture dated as of October 2, 1990 between us and The Bank of New York Mellon Trust Company, N.A., as successor to Continental Bank, N.A., as trustee. We have summarized selected provisions of the indenture below. This summary is subject to, and qualified by reference to, all of the provisions of the indenture. If you would like more information on the provisions of the indenture, you should review the indenture, which we have incorporated by reference as an exhibit to the registration statement for the securities of which this prospectus is a part.

In the summary, we have included references to section numbers of the indenture so that you can easily locate these provisions. Capitalized terms used in the summary and not otherwise defined have the meanings specified in the indenture.

General

The debt securities:

- will be unsecured;
- will rank equally with all of our existing and future unsecured and unsubordinated indebtedness; and
- will be effectively junior to our secured indebtedness.

The debt securities will be our obligations exclusively, and not the obligation of any of our subsidiaries. Our rights and the rights of any holder of debt securities (or other of our creditors) to participate in the assets of any subsidiary upon that subsidiary s liquidation or recapitalization will be subject to the prior claims of the subsidiary s creditors, except to the extent that we may be a creditor with recognized claims against the subsidiary.

The indenture does not limit the amount of debt securities or other indebtedness that we may issue. The covenants contained in the indenture would not necessarily afford the holders of debt securities protection in the event of a highly leveraged transaction or other transaction involving us that may adversely affect holders of debt securities.

The indenture permits us to issue debt securities in one or more series. Each series of debt securities may have different terms. The terms of any series of debt securities will be set forth in a resolution of our board of directors or in a supplement to the indenture relating to that series, or determined in accordance with a board resolution and set forth in an officers certificate that we deliver to the trustee. (Section 2.4)

A supplement to this prospectus will describe all material terms relating to the debt securities being offered that are not described herein. These terms will include some or all of the following:

- the title of the series of debt securities;
- the total principal amount and authorized denominations;
- the date or dates on which principal is payable;
- the public offering price;

the interest rate or rates, if any (which may be fixed or floating), record and interest payment dates and/or the method by which such rate or rates or dates may be determined;

the currency or currencies in which payment of the offering price and/or principal and interest may be made;

the manner of payment of principal and interest and where the debt securities may be exchanged or transferred;

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- whether (and if so, when and on what terms) the debt securities can be redeemed by us or the holder;
- under what circumstances, if any, we will pay additional amounts on the debt securities to non-U.S. holders in respect of taxes;
- whether (and if so, when and on what terms) the debt securities may be convertible into or exchangeable for other securities;
- whether there will be a sinking fund; and
- any other terms of the series permitted by the indenture. (Section 2.4)

Each series of debt securities will be a new issue with no established trading market. Unless otherwise described in the applicable prospectus supplement, we will not list the debt securities on any securities exchange. We cannot assure you that there will be a liquid trading market for the debt securities.

We may purchase debt securities at any price in the open market or otherwise. Debt securities we purchase may, in our discretion, be held or resold, canceled or used to satisfy any sinking fund or redemption requirements.

Debt securities bearing no interest or interest at a rate which, at the time of issuance, is below the prevailing market rate will be sold at a discount below their stated principal amount. Special U.S. federal income tax considerations applicable to any of these discounted debt securities (or to certain other debt securities issued at par which are treated as having been issued at a discount for U.S. federal income tax purposes) will be described in a prospectus supplement.

We will also describe in the applicable prospectus supplement any material U.S. federal income tax considerations applicable to debt securities denominated in a foreign currency or currency unit or in respect of which we may pay principal, premium, if any, and interest in a foreign currency or currency unit.

Conversion Rights

We will describe in the applicable prospectus supplement the particular terms and conditions, if any, on which debt securities may be convertible into other securities. These terms will include the conversion price, the conversion period, provisions as to whether conversion will be at our option or the option of the holder, events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of the debt securities. If we issue convertible debt securities, we will need to supplement the indenture to add applicable provisions regarding conversion.

Form and Exchange of Debt Securities

Unless otherwise described in a prospectus supplement, all debt securities will be fully registered and will be in either book-entry form or in definitive form.

Debt securities issued in definitive certificated form will be transferable or exchangeable at the agency maintained for such purpose as we may designate from time to time. (Section 2.9 and Section 3.2) We may not impose any service charge, other than any required tax or governmental charge, on the transfer or exchange of any debt securities. (Section 2.9)

Debt securities issued in book-entry form will be issued in the form of one or more fully registered global securities. For purposes of this prospectus, Global Security refers to the global security or securities representing the entire issue of each series of debt securities. Each Global Security will be deposited with the trustee as custodian for The Depository Trust Company (DTC) and registered in the name of DTC or its nominee. A Global Security may be transferred, in whole and not in part, only to DTC or another nominee of DTC and their successors.

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We understand as follows with respect to the rules and operating procedures of DTC (the rules that apply to DTC are on file with the SEC):

DTC is a limited purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC was created to hold securities for its participants (Participants) and to facilitate the clearance and settlement of securities transactions, such as transfers and pledges, between Participants through electronic computerized book-entry changes in the accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. DTC is owned by a number of Participants and by The New York Stock Exchange, Inc., The American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Indirect access to the DTC system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (Indirect Participants).

Persons who are not Participants may beneficially own debt securities held by DTC only through Participants or Indirect Participants. Beneficial ownership of debt securities may be reflected:

- for investors who are Participants, in the records of DTC;
- for investors holding through a Participant, in the records of such Participant, whose aggregate interests on behalf of all investors holding through such Participant will be reflected in turn in the records of DTC; or
- for investors holding through an Indirect Participant, in the records of such Indirect Participant, whose aggregate interests on behalf of all investors holding through such Indirect Participant will be reflected in turn in the records of a Participant.

Accordingly, transfers of beneficial ownership in a Global Security can only be effected through DTC, a Participant or an Indirect Participant.

Interests in a Global Security will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its Participants. The laws of some states require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer beneficial interests in a Global Security to such persons may be limited.

So long as DTC or its nominee is the registered owner of a Global Security, DTC or its nominee, as the case may be, for all purposes will be considered the sole holder of the applicable series of debt securities under the indenture. Except as provided below, owners of beneficial interests in a Global Security will not be entitled to have debt securities registered in their names, will not receive or be entitled to receive physical delivery of debt securities in definitive form and will not be considered the holders thereof under the indenture. Accordingly, any person owning a beneficial interest in a Global Security must rely on the procedures of DTC and, if such person is not a Participant in DTC, on the procedures of the Participant through which such person, directly or indirectly, owns its interest, to exercise any rights of a holder of debt securities.

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of an owner of a beneficial interest in the debt securities to pledge such debt securities to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such debt securities, may be affected by the lack of a physical certificate for such debt securities.

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Payment of principal of and interest on the debt securities will be made to DTC s nominee, as the registered owner of each Global Security. Neither we nor the trustee will have any responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We understand that upon receipt of any payment of principal of or interest on a Global Security, it is the practice of DTC to credit the Participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Security as shown on the records of DTC. Payments by Participants to owners of beneficial interests in a Global Security held through such Participants will be the responsibility of such Participants, as is now the case with securities held for the accounts of customers registered in street name.

We have been advised that if any series of debt securities are redeemable by us, and if we redeem less than all of the debt securities of a series, it is DTC s practice to determine by lot the amount of interest of each participant in such series of debt securities to be redeemed.

We understand that under existing industry practices, if we request holders of debt securities to take action, or if an owner of a beneficial interest in a debt security desires to take any action which a holder is entitled to take under the indenture, then (1) DTC would authorize the Participants holding the relevant beneficial interests to take such action, and (2) such Participants would authorize the beneficial owners owning through such Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of debt securities among its Participants, it is under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by DTC or its Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

We will issue debt securities of any series then represented by Global Securities in definitive form in exchange for those Global Securities if:

- an Event of Default (as defined below) has occurred and is continuing and all principal and accrued interest in respect of the applicable series of the debt securities shall have become immediately due and payable;

- DTC is at any time unwilling, unable or ineligible to continue as depositary for any Global Security and a successor depositary is not appointed by us within 60 days; or

- we determine not to require all of the debt securities of a series to be represented by a Global Security.

In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery of individual certificated debt securities in definitive form equal in principal amount to such beneficial interest in such Global Security and to have all such certificated debt securities registered in its name. Individual certificated debt securities so issued in definitive form will be issued in denominations of $2,000 and integral multiples thereof and will be issued in registered form only, without coupons.

Certain Restrictions

The restrictions summarized in this section will apply to debt securities unless the applicable prospectus supplement indicates otherwise. Certain terms used in the following description of these restrictions are defined under the caption Certain Definitions at the end of this section. The following description is not complete. The full text of these restrictions is included in the indenture.

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Restrictions on Secured Debt

The debt securities will not be secured. If we or one of our Domestic Subsidiaries incur debt secured by an interest in any Principal Domestic Property or any shares of capital stock or debt of a Domestic Subsidiary and the total principal amount of our secured debt (with certain exceptions, including those listed in the next paragraph), together with our Attributable Debt in respect of sale and leaseback transactions involving Principal Domestic Properties, would exceed 10% of Consolidated Stockholders Equity, we are required to secure the then outstanding debt securities equally and ratably with (or prior to) our other secured debt.

The indenture permits us and our Domestic Subsidiaries to create certain liens without securing the debt securities. (Section 3.6) Among the permitted liens are:

- purchase money mortgages, including conditional sales and other title retention agreements;
- liens securing certain construction and improvement loans;
- existing liens on newly acquired property, including property acquired through merger or consolidation;
- liens in connection with U.S. government contracts;
- liens securing indebtedness of a Domestic Subsidiary outstanding at the time it became a Domestic Subsidiary;
- liens securing indebtedness of a Domestic Subsidiary to us or to another Domestic Subsidiary; and
- refinancings of certain permitted liens.

Limitations on Sale and Leaseback Transactions

Neither we nor our Domestic Subsidiaries may sell or transfer any Principal Domestic Property with the intention of entering into a lease of such facility for a term of more than five years, unless:

- such property has not been in full operation for more than 120 days prior to such sale or transfer;
- the Attributable Debt in respect of all such sale and leaseback transactions involving Principal Domestic Properties, together with our secured debt, does not exceed 10% of Consolidated Stockholders Equity;
- within 120 days of such sale or transfer, we apply the net proceeds of the sale to the retirement of our funded debt (defined as indebtedness having a maturity of, or extendable or renewable for, a period of more than 12 months from the date of determination) in an amount not less than the greater of such net proceeds or the fair value of the Principal Domestic Property so leased; or

the sale and leaseback transaction is between us and a Domestic Subsidiary or between any of our Domestic Subsidiaries. (Section 3.7)

Consolidation, Merger or Sale of Assets

We may not consolidate or merge with or into any other corporation, or sell or transfer all or substantially all of our property and assets to any other corporation unless the surviving or successor corporation assumes our obligations under the indenture and is not in default under the indenture immediately after the consummation of the transaction. (Section 9.1)

If we sell or transfer substantially all of our assets and the purchaser assumes our obligations under the indenture, we will be discharged from all obligations under the indenture and the debt securities. (Section 9.2)

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Certain Definitions

The following terms (except Principal Domestic Property) are defined in Section 1.1 of the indenture.

Attributable Debt means, at the time of the determination, the present value (discounted at the applicable rate of interest compounded annually) of the lessee s obligation for rental payments during the remaining term of the lease (including any period the lease has been, or may, at the option of the lessor, be extended). The term applicable rate means the yield to maturity of the U. S. Treasury constant maturity which most closely approximates the weighted average of the remaining terms of all leases, plus 1.5%.

Consolidated Stockholders Equity means the common and preferred stockholders equity and minority interests of Sara Lee Corporation and its consolidated Subsidiaries, as shown on our consolidated balance sheet in our latest quarterly or annual report to stockholders.

Domestic Subsidiary means a Subsidiary of Sara Lee Corporation, other than a Subsidiary which neither transacts a substantial portion of its business nor regularly maintains a substantial portion of its fixed assets within the United States or a Subsidiary which engages primarily in financing our consolidated operations.

Principal Domestic Property means any facility (together with the land on which it is erected and the fixtures comprising a part thereof) used primarily for manufacturing, processing or distribution located within the United States, owned or leased by Sara Lee Corporation or any Subsidiary and having a gross book value (without deduction of depreciation reserves) in excess of $50,000,000, other than any such facility or portion of such facility that, in the opinion of our board of directors, is not of material importance to the business conducted by Sara Lee Corporation and its Subsidiaries, as an entirety.

Subsidiary means any corporation of which Sara Lee Corporation or one or more Subsidiaries (individually or collectively) directly or indirectly own a majority of the outstanding voting stock of said corporation.

Events of Default

Event of Default means, with respect to any series of debt securities, any of the following:

- failure to pay interest or any additional amounts that continues for a period of 30 days after payment is due;
- failure to make any principal payment when due (except when such failure results from mistake, oversight or transfer difficulties and does not continue for more than three business days);
- failure to make any sinking fund payment when due (except when such failure results from mistake, oversight or transfer difficulties and does not continue for more than three business days);
- failure to comply with any of our other agreements contained in the indenture or in the debt securities for 90 days after notice to us of such failure from the trustee (or to us and the trustee from the holders of at least 25% in principal amount of the outstanding debt securities affected by such failure); and
- certain events of bankruptcy, insolvency or reorganization of Sara Lee Corporation. (Section 5.1)

In general, the trustee is required to give notice of a default with respect to a series of debt securities to the holders of that series within 90 days after the occurrence of a default. The trustee may withhold notice of any default (except a default in payment of principal of or interest on any debt security) if the trustee in good faith determines it is in the interest of the holders of that series to do so. (Section 5.11)

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for other series of debt securities.

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If there is a continuing Event of Default, then the trustee or the holders of at least 25% in principal amount of each outstanding series of debt securities affected by the Event of Default (voting as separate classes) may require us to repay the principal and accrued interest on the affected series immediately. Subject to certain conditions, the requirement to pay with respect to a series of debt securities may be annulled, and past defaults may be waived (except a continuing default in payment of principal of, or premium, interest or additional amounts, if any, on debt securities), by the holders of a majority in principal amount of that series. If an Event of Default applies to all outstanding debt securities, then the holders of the debt securities will be treated as a single class without regard to whether there are several outstanding series. (Section 5.1 and Section 5.10)

Prior to an Event of Default, the trustee is required to perform only the specific duties stated in the indenture, and after an Event of Default which has not been cured or waived, the trustee must exercise the same degree of care as a prudent individual would exercise or use under the circumstances in the conduct of his or her own affairs. (Section 6.1)

The trustee may refuse to enforce the indenture or the debt securities unless it first receives satisfactory security or indemnity. Subject to certain limitations specified in the indenture, the holders of a majority in principal amount of the debt securities of an affected series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee. (Section 5.9)

Satisfaction and Discharge of Indenture

We will be discharged from certain of our obligations relating to the outstanding debt securities of a series if we deposit with the trustee money or the equivalent in securities of the government which issued the currency in which the debt securities are denominated sufficient for payment of all principal of and interest and additional amounts, if any, on those debt securities when due. (Section 10.1) In that event, holders of those debt securities will only be able to look to the trust fund for payment of the principal of and interest and additional amounts, if any, on their debt securities until maturity.

Modification of Indenture

Under the indenture, subject to certain exceptions, we may change our rights and obligations and the rights of the holders of a series of debt securities with the consent of the holders of at least 50% in aggregate principal amount of the outstanding debt securities of that series. However, we may not, among other things, change the terms of payment of principal or interest, reduce any amount payable upon redemption, reduce the amount of the principal of a discount security to be paid upon an acceleration of maturity upon an Event of Default or reduce the percentage required for changes to the indenture without the consent of the holder of each debt security affected by such change. (Section 8.2)

In certain circumstances, we may amend the indenture without the consent of the holders of outstanding debt securities to evidence a merger of Sara Lee Corporation, the replacement of the trustee or for other specified purposes. (Section 8.1)

Reports to Trustee

We are required to provide the trustee with an officers certificate each fiscal year stating whether, to the knowledge of the certifying officers in the course of performance of their duties as officers, we are in compliance with the requirements of the indenture and no default exists, and if a default has occurred, identifying the nature of the default of which the officers are aware. (Section 3.5)

Regarding the Trustee

We maintain ordinary banking relationships and credit facilities with a number of banks, including the trustee, The Bank of New York Mellon Trust Company N.A.

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DESCRIPTION OF DEBT WARRANTS

We may issue, separately or together with other securities, debt warrants to purchase debt securities. We will issue the debt warrants under debt warrant agreements to be entered into between us and a bank or trust company, as debt warrant agent, as set forth in the applicable prospectus supplement. We have summarized selected provisions of the form of debt warrant agreement below. This summary is subject to, and qualified by reference to, all of the provisions of the debt warrant agreement. If you would like more information on the provisions of a debt warrant agreement, you should review the form of debt warrant agreement, including the debt warrant certificate, which we have incorporated by reference as an exhibit to the registration statement for the securities of which this prospectus is a part.

General

A supplement to this prospectus will describe all material terms relating to the debt warrants being offered that are not described herein. These terms will include some or all of the following:

- the offering price of the debt warrants, if any;
- the title, total principal amount and authorized denominations of the series of debt securities purchasable upon exercise of the debt warrants;
- the manner in which debt warrants may be exercised;
- the amount of debt warrants then outstanding;
- the title and terms of any related debt securities with which the debt warrants are issued and the number of debt warrants issued with each debt security;
- the date, if any, on or after which the debt warrants may be transferred separately from the related debt security;
- the principal amount of debt securities purchasable upon exercise of each debt warrant and the exercise price;
- the date on which the right to exercise the debt warrants commences and the expiration date;
- whether we will issue the debt warrant certificates in registered or bearer form; and
- any other terms of the debt warrants.

Debt warrants may be exercisable for debt securities bearing no interest or interest at a rate which, at the time of issuance, is below the prevailing market rate. Material U.S. federal income tax considerations applicable to any of these discounted debt securities will be described in a prospectus supplement.

Prior to the exercise of their debt warrants, holders of debt warrants will not have any of the rights of holders of the debt securities purchasable upon such exercise and will not be entitled to payments of principal of, and premium and interest, if any, on those debt securities.

Exercise of Debt Warrants

Each debt warrant will entitle its holder to purchase for cash the principal amount of debt securities at the exercise price set forth in the applicable prospectus supplement. Commencing on the date the debt warrants become exercisable, holders may exercise their debt warrants at any time up to the close of business on the expiration date, after which time any unexercised debt warrants will become void.

Upon receipt of the exercise price and the debt warrant certificate properly completed and executed, we will forward to the holder, as soon as practicable, the debt securities purchased upon such exercise. If less than all the debt warrants represented by a certificate are exercised, we will issue a new debt warrant certificate for the remaining amount of debt warrants.

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DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK

We may issue, separately or together with or upon the conversion of or exchange for other securities, shares of our common stock and preferred stock. We have summarized certain rights of holders of our capital stock below. This summary is subject to, and qualified by reference to, all of the provisions contained in:

- Maryland General Corporation Law;
- our charter;
- our bylaws; and
- in the case of preferred stock, our Articles Supplementary relating to such series of preferred stock.

If you would like more information on our common stock and preferred stock, you should review the documents described above, each of which we have filed or incorporated by reference as an exhibit to the registration statement for the securities of which this prospectus is a part.

Our authorized capital stock consists of:

- 1,200,000,000 shares of common stock, of which, as of December 27, 2008, 695,543,690 shares were outstanding; and
- 13,500,000 shares of preferred stock, of which, as of December 27, 2008, 6,000,000 shares were designated as Series A Junior Participating Preferred Stock, of which no shares were outstanding, 2,672,414 shares were undesignated preferred stock, of which no shares were outstanding, and 4,827,586 shares were designated as Series A ESOP Convertible Preferred Stock, of which no shares were outstanding.

Common Stock

General

Holders of our common stock are entitled to receive dividends on their shares when, as and if authorized by our board of directors out of assets legally available for distribution, subject to any preferential dividend rights of any outstanding preferred stock. In the event we liquidate, dissolve or wind up our affairs, holders of common stock are also entitled to receive ratably all of our net assets remaining after payment of all debts and other liabilities, subject to the prior rights of any outstanding preferred stock.

Each share of common stock entitles its holder to one vote in the election of directors and on any other matter submitted to a vote of stockholders. Voting rights are not cumulative, with the result that holders of shares of capital stock representing more than 50% of the voting rights are entitled to elect all of our directors. Holders of common stock, solely by virtue of their holdings, do not have preemptive rights to subscribe for or purchase any shares of our capital stock which we may issue in the future.

All of our outstanding shares of common stock have been fully paid and are nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of holders of any series of preferred stock which we may designate and issue in the future.

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Preferred Stock

General

Our charter authorizes our board of directors to classify and issue from time to time any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series of preferred stock. The applicable prospectus supplement will describe all material terms of a particular series of preferred stock as set forth in the Articles Supplementary to our charter establishing such series. These terms will include some or all of the following:

- title and stated value of the series;
- whether and in what circumstances the holder is entitled to receive dividends and other distributions;
- whether (and if so, when and on what terms) the series can be redeemed by us or the holder or converted by the holder;
- whether the preferred stock will rank senior or junior to or on a parity with any other class or series of preferred stock; and
- voting and other rights, if any.

Holders of preferred stock, solely by virtue of their holdings, do not have preemptive rights to subscribe for or purchase any shares of our capital stock which we may issue in the future.

Liquidation Preference

Unless otherwise described in the applicable prospectus supplement, in the event we liquidate, dissolve or wind up our affairs, the holders of any series of preferred stock will have preference over the holders of common stock and any other capital stock ranking junior to such series for payment out of our assets in the amount specified in the applicable Articles Supplementary. A sale of all or substantially all of our assets or a consolidation or merger with one or more corporations will not be deemed a liquidation, dissolution or winding up for this purpose.

Ranking

Unless otherwise described in the applicable prospectus supplement, any series of preferred stock we issue using this prospectus will rank senior to the Series A Junior Participating Preferred Stock.

DESCRIPTION OF COMMON STOCK WARRANTS

We may issue, separately or together with other securities, common stock warrants to purchase shares of our common stock. We will issue the common stock warrants under stock warrant agreements to be entered into between us and a bank or trust company, as stock warrant agent, as set forth in the applicable prospectus supplement. We have summarized selected provisions of the form of stock warrant agreement below. This summary is subject to, and qualified by reference to, all the provisions of the stock warrant agreement. If you would like more information on the provisions of a stock warrant agreement, you should review the form of stock warrant agreement, including the stock warrant certificate, which we have incorporated by reference as an exhibit to the registration statement for the securities of which this prospectus is a part.

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General

A supplement to this prospectus will describe all material terms relating to the common stock warrants being offered that are not described herein. These terms will include some or all of the following:

- the offering price of the common stock warrants, if any;
- the manner in which common stock warrants may be exercised;
- the amount of common stock warrants then outstanding;
- the number of shares of common stock purchasable upon exercise of each common stock warrant and the exercise price;
- the date on which the right to exercise the common stock warrants commences and the expiration date;
- whether (and if so, when and on what terms) we can call the common stock warrants for redemption; and
- any other terms of the common stock warrants.

The shares of common stock issuable upon exercise of a common stock warrant, when issued in accordance with a stock warrant agreement, will be validly issued, fully paid and nonassessable.

Prior to the exercise of their common stock warrants, holders will not have any of the rights of holders of the common stock purchasable upon such exercise and will not be entitled to dividend payments on those shares of common stock.

Exercise of Stock Warrants

Each common stock warrant will entitle its holder to purchase for cash the number of shares of common stock at the exercise price set forth in the applicable prospectus supplement. Commencing on the date the common stock warrants become exercisable, holders may exercise their common stock warrants at any time up to the close of business on the expiration date, after which time any unexercised common stock warrants will become void.

Upon receipt of the exercise price and the stock warrant certificate properly completed and executed, we will forward to the holder, as soon as practicable, a certificate representing the number of shares of common stock purchased upon such exercise. If less than all the common stock warrants represented by a certificate are exercised, we will issue a new stock warrant certificate for the remaining amount of common stock warrants.

Antidilution Provisions

Unless otherwise described in the applicable prospectus supplement, the exercise price payable and number of shares of common stock purchasable upon exercise of a common stock warrant will be adjusted to prevent the holder s beneficial interest in the common stock from being diluted in the event we:

- issue a stock dividend to all holders of common stock or combine, subdivide or reclassify our common stock;

issue rights, warrants or options to all holders of common stock entitling them to purchase shares of our common stock at a price per share less than the current market price per share of common stock; or

distribute to all holders of common stock any of our assets or evidences of our indebtedness which are not payable out of our capital surplus.

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DESCRIPTION OF CURRENCY WARRANTS

We may issue, separately or together with debt securities or debt warrants, currency warrants entitling the holder to receive from us the cash value in U.S. dollars of the right to purchase (currency call warrants) or sell (currency put warrants) a specified amount of a designated foreign currency. We will issue the currency warrants under currency warrant agreements to be entered into between us and a bank or trust company, as currency warrant agent, as set forth in the applicable prospectus supplement. We have summarized selected provisions of the form of currency warrant agreement below. This summary is subject to, and qualified by reference to, all of the provisions of the currency warrant agreement. If you would like more information on the provisions of a currency warrant agreement, you should review the form of currency warrant agreement, including the global warrant certificates, which we have incorporated by reference as an exhibit to the registration statement for the securities of which this prospectus is a part.

General

A supplement to this prospectus will describe all material terms relating to the currency warrants being offered that are not described herein. These terms will include some or all of the following:

- whether the currency warrants will be currency put warrants or currency call warrants, or both;
- the formula for determining the cash value in U.S. dollars, if any, of each currency warrant;
- the manner in which currency warrants may be exercised and the circumstances, if any, in which such exercise will be deemed automatic;
- the amount of currency warrants then outstanding;
- the minimum number, if any, of currency warrants which must be exercised at any one time;
- the date on which the right to exercise the currency warrants commences and the expiration date; and
- any other terms of the currency warrants.

The spot exchange rate of the designated foreign currency, upon exercise, as compared to the U.S. dollar, will determine whether the currency warrants have a cash value (cash settlement value) on any given day prior to their expiration.

Form of Currency Warrants

Unless otherwise described in a prospectus supplement, all currency warrants will be issued in the form of one or more fully registered global certificates that will be deposited with DTC or its nominee. This means that we will not issue certificates to each holder. Each global certificate will be issued to DTC, which will keep a computerized record of its Participants (for example, your broker) whose clients have purchased currency warrants. The Participant will then keep a record of its clients who purchased the currency warrants. Accordingly, transfers of ownership of any currency warrant may only be effected through a selling holder s broker. For more information on the procedures of DTC, see Description of Debt Securities Form and Exchange of Debt Securities above.

Exercise of Currency Warrants

Each currency warrant will entitle its holder to receive the cash settlement value on the applicable exercise date. Holders may exercise their currency warrants at any time up to 3:00 p.m., New York City time, on the fifth business day preceding the expiration date, after which time all currency warrants will be deemed automatically exercised on the expiration date.

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DESCRIPTION OF THE STOCK PURCHASE CONTRACTS AND THE STOCK PURCHASE UNITS

We may issue stock purchase contracts, representing contracts obligating holders to purchase from us, and obligating us to sell to the holders, a specified number (or range of numbers) of shares of our common stock at a future date or dates. The price per share and number of shares of common stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts.

The stock purchase contracts may be issued separately or as part of units, often known as stock purchase units, consisting of a stock purchase contract and a beneficial interest in either:

- our senior debt securities;
- our preferred stock; or
- debt obligations of third parties, including U.S. Treasury securities, securing the holder s obligations to purchase common stock under the stock purchase contracts.

The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis, to be specified in the applicable prospectus supplement. The stock purchase contracts may require holders to secure their obligations in a specified manner, and, in certain circumstances we may deliver newly issued prepaid stock purchase contracts, often known as prepaid securities, upon release to a holder of any collateral securing such holder s obligations under the original stock purchase contract.

The applicable prospectus supplement will describe all material terms relating to the stock purchase contracts or stock purchase units, the collateral or depositary arrangements relating to the stock purchase units, if any, and, if applicable, the prepaid securities.

Material U.S. federal income tax considerations applicable to the stock purchase units and stock purchase contracts will be discussed in the applicable prospectus supplement.

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PLAN OF DISTRIBUTION

We may sell securities to underwriters or dealers, through agents or directly to purchasers (or a combination of these methods). Under certain circumstances, we may also repurchase securities (directly or through dealers) and reoffer them to the public in the same manner.

With respect to any offered securities, the terms of any offering, including the name or names of any underwriters, dealers or agents, the purchase price of those securities and the proceeds to us from the sale, any underwriting discounts, selling commissions and other items constituting underwriters , dealers or agents compensation, any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers or agents, any auction or bidding process and any securities exchanges on which the offered securities may be listed, will be set forth in, or may be calculated from the information set forth in, the related prospectus supplement. Any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any offered securities, the securities will be acquired by the underwriters for their own account. The underwriters may resell the offered securities in one or more transactions, including negotiated transactions, at a fixed public offering price, which may be changed, or at varying prices determined at the time of sale. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase the offered securities will be subject to certain conditions and the underwriters will be obligated to purchase all of the securities offered by the prospectus supplement if any of those securities are purchased.

We may designate from time to time dealers, acting as our agents, to offer and sell securities upon certain terms and conditions. Unless otherwise indicated in the applicable prospectus supplement, any agent we designate will act on a best efforts basis for the period of its appointment.

We may also sell securities directly to the public, without the use of underwriters, dealers or agents.

The securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing. Any remarketing would occur upon the securities purchase, in accordance with a redemption or repayment pursuant to their terms or otherwise, by one or more remarketing firms, acting as principals for their own account or as our agents. The applicable prospectus supplement will identify any remarketing firm and will describe the terms of its agreement, if any, with us.

If so indicated in a prospectus supplement, we will authorize agents, underwriters or dealers to solicit offers by certain specified institutions to purchase securities from us at the public offering price set forth in that prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a future date specified in the prospectus supplement. Those contracts will be subject to conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commissions payable for solicitation of those contracts.

Underwriters, dealers and agents that participate in the distribution of the securities may be, or may be deemed to be, underwriters as defined in the Securities Act of 1933, and any discounts or commissions received by them from us and any profit on the resale of the offered securities by them may be treated as underwriting discounts and commissions under the Securities Act. Any underwriters, dealers or agents will be identified and their compensation from us will be described in a supplement to this prospectus.

We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act, or to contribute with respect to payments which the underwriters, dealers or agents may be required to make.

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Underwriters, dealers and agents and/or their respective affiliates may engage in transactions with, or perform services for, us or our subsidiaries in the ordinary course of their businesses.

LEGAL MATTERS

An opinion as to the legality of the securities offered herein has been rendered for Sara Lee Corporation by Margaret M. Foran, Esq., Executive Vice President, General Counsel and Corporate Secretary for Sara Lee Corporation.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the fiscal year ended June 28, 2008 have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of the securities, other than underwriting discounts and agency fees or commissions, are estimated as follows:

SEC registration fee	*
Accounting fees and expenses	(1)
Printing expenses	(1)
Legal fees and expenses	(1)
Rating agency fees	(1)
Trustee s fee and expenses	(1)
Miscellaneous	(1)
Total	(1)

* In accordance with Rules 456(b) and 457(r), the registrant is deferring payment of the registration fee for the securities offered by this prospectus.

(1) These fees are calculated based on the securities offered and the number of issuances and accordingly cannot be estimated at this time.

Item 15. Indemnification of Directors and Officers.

Section 2-405.2 of Maryland General Corporation Law (MGCL) permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment or other adjudication as material to the cause of action adjudicated in the proceeding. The Company s charter contains a provision that eliminates directors and officers liability to the maximum extent permitted by MGCL.

Section 2-418(d) of MGCL requires a corporation (unless its charter provides otherwise, which the Company s charter does not) to indemnify a director of the corporation who has been successful, on the merits or otherwise, in the defense of any proceeding to which such director was made a party by reason of the director s service in that capacity. Section 2-418(b) permits a corporation to indemnify its present or former directors against judgments, penalties, fines, settlements and reasonable expenses actually incurred by the director in connection with any proceeding to which the director is made a party by reason of the director s service as a director, unless it is established that (1) the act or omission of the director was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (2) the director actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, the director had reasonable cause to believe that the act or omission was unlawful. If, however, the proceeding was one by or in the right of the corporation and the director was adjudged liable to the corporation, the corporation may not indemnify the director. MGCL also permits a Maryland corporation to pay a director s expenses in advance of the final disposition of an action to which the director is a party upon receipt by the corporation of (1) a written affirmation by the director of the director s good faith belief that the director has met the standard of conduct necessary for indemnification and (2) a written undertaking by or on behalf of the director to repay the amount advanced if it is ultimately determined that the director did not meet the necessary standard of conduct. Section 2-418 of the MGCL defines a director as any person who is or was a director of a corporation and any person who, while a director of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise or employee benefit plan. Section 2-418(j)(2) of MGCL also

permits a Maryland corporation to indemnify and advance expenses to its officers, employees and agents to the extent that it may indemnify and advance expenses to its directors.

The Company s bylaws obligate us, to the fullest extent permitted by Maryland law, to indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of the Company, or while a director or officer of the Company is or was serving at the request of the Company as a director, officer, member, partner, employee, trustee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, against expenses (including reasonable attorneys fees), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such proceeding. This indemnity could apply to liabilities under the Securities Act in certain circumstances.

The Company s bylaws also permit us, to the extent authorized by the Company s board of directors, to indemnify and advance expenses to any employee or agent of the Company.

The Company also maintains indemnity insurance as permitted by Section 2-418 of MGCL, pursuant to which the Company s officers and directors are indemnified or insured against liability or loss under certain circumstances, which may include liability or related losses under the Securities Act or the Exchange Act.

Item 16. Exhibits.

Exhibit No.	Description
1.1**	Form of Underwriting Agreement for Debt Securities.
4.1	Articles of Restatement of Charter of Sara Lee Corporation dated August 28, 2003 (incorporated herein by reference to Exhibit 3(a) to the Company s Annual Report on Form 10-K for Fiscal Year ended June 28, 2003).
4.2	Bylaws of Sara Lee Corporation, as amended through March 26, 2009 (incorporated herein by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated March 26, 2009 and filed with the SEC on April 1, 2009).
4.3.1	Indenture, dated as of October 2, 1990, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as successor to Continental Bank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant s Registration Statement on Form S-3/A, Registration No. 333-33603, filed with the SEC on October 5, 1990).
4.3.2	Form of Note (Fixed Rate) (incorporated by reference to Exhibit 4.8.2 to the Registrant s Registration Statement on Form S-3, Registration No. 333-96173, filed with the SEC on February 4, 2000).
4.3.3	Form of Note (Floating Rate) (incorporated by reference to Exhibit 4.2 to the Registrant s Current Report on Form 8-K dated April 13, 1993).
4.4	Form of Debt Warrant Agreement (incorporated by reference to Exhibit 4.9 to the Registrant s Registration Statement of Form S-3, Registration No. 333-96173, filed with the SEC February 4, 2000).
4.5	Form of Stock Warrant Agreement (incorporated by reference to Exhibit 4.10 to the Registrant s Registration Statement on Form S-3, Registration No. 333-96173, filed with the SEC on February 4, 2000).
4.6	Form of Currency Warrant Agreement (incorporated by reference to Exhibit 4.11 to the Registrant s Registration Statement on Form S-3, Registration No. 333-96173, filed with the SEC on February 4, 2000).

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Exhibit No.	Description
5*	Opinion of Margaret M. Foran, Executive Vice President, General Counsel and Corporate Secretary.
12.1*	Computation of ratios of earnings to fixed charges and ratios of earnings to fixed charges and preferred stock dividend requirements.
23.1*	Consent of PricewaterhouseCoopers LLP.
23.2*	Consent of Margaret M. Foran (included in Exhibit 5).
24*	Power of Attorney (included on signature page to this Registration Statement).
25*	Statement of Eligibility and Qualification on Form T-1 of The Bank of New York Mellon Trust Company N.A. to act as Trustee.

* Filed herewith.
** To be filed as an exhibit to a post-effective amendment to this registration statement or as an exhibit to a document filed under the Securities Exchange Act of 1934 and incorporated by reference herein.

Item 17. Undertakings.
(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i)(A) Each prospectus filed by the Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in

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the registration statement; and (B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) That, for the purpose of determining liability of the Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referred to in Item 15 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Downers Grove, State of Illinois, on April 9, 2009.

SARA LEE CORPORATION

By:	/s/ Margaret M. Foran
Name:	**Margaret M. Foran**
Title:	*Executive Vice President, General Counsel and Corporate Secretary*

Each person whose signature appears below constitutes and appoints Margaret M. Foran and Brenda C. Barnes, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all post-effective amendments to this Registration Statement, including any filings pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying all that such attorneys-in-fact and agents, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated, as of April 9, 2009.

Signature	Title
/s/ Brenda C. Barnes	Chairman of the Board and Chief Executive Officer
Brenda C. Barnes	(Principal Executive Officer)
/s/ Theo de Kool	Executive Vice President and Chief Financial and Administrative Officer (Principal Financial Officer)
L.M. (Theo) de Kool	
/s/ Christopher B. Begley	Director
Christopher B. Begley	
/s/ Crandall C. Bowles	Director
Crandall C. Bowles	
/s/ Virgis W. Colbert	Director
Virgis W. Colbert	
/s/ James S. Crown	Director
James S. Crown	
/s/ Laurette T. Koellner	Director

Laurette T. Koellner

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Signature	Title
/s/ Cornelis J.A. van Lede	Director
Cornelis J.A. van Lede	
/s/ Dr. John McAdam	Director
Dr. John McAdam	
/s/ Sir Ian Prosser	Director
Sir Ian M.G. Prosser	
/s/ Rozanne L. Ridgway	Director
Rozanne L. Ridgway	
/s/ Norman R. Sorensen	Director
Norman R. Sorensen	
/s/ Jeffrey W. Ubben	Director
Jeffrey W. Ubben	
/s/ Jonathan P. Ward	Director
Jonathan P. Ward	

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INDEX TO EXHIBITS

Exhibit No.	**Description**
1.1**	Form of Underwriting Agreement for Debt Securities.
4.1	Articles of Restatement of Charter of Sara Lee Corporation dated August 28, 2003 (incorporated herein by reference to Exhibit 3(a) to the Company s Annual Report on Form 10-K for Fiscal Year ended June 28, 2003).
4.2	Bylaws of Sara Lee Corporation, as amended through March 26, 2009 (incorporated herein by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated March 26, 2009 and filed with the SEC on April 1, 2009).
4.3.1	Indenture, dated as of October 2, 1990, between the Registrant and The Bank of New York, as successor to Continental Bank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant s Registration Statement on Form S-3/A, Registration No. 333-33603, filed with the SEC on October 5, 1990).
4.3.2	Form of Note (Fixed Rate) (incorporated by reference to Exhibit 4.8.2 to the Registrant s Registration Statement on Form S-3, Registration No. 333-96173, filed with the SEC on February 4, 2000)..
4.3.3	Form of Note (Floating Rate) (incorporated by reference to Exhibit 4.2 to the Registrant s Current Report on Form 8-K dated April 13, 1993).
4.4	Form of Debt Warrant Agreement (incorporated by reference to Exhibit 4.9 to the Registrant s Registration Statement of Form S-3, Registration No. 333-96173, filed with the SEC February 4, 2000).
4.5	Form of Stock Warrant Agreement (incorporated by reference to Exhibit 4.10 to the Registrant s Registration Statement on Form S-3, Registration No. 333-96173, filed with the SEC on February 4, 2000).
4.6	Form of Currency Warrant Agreement (incorporated by reference to Exhibit 4.11 to the Registrant s Registration Statement on Form S-3, Registration No. 333-96173, filed with the SEC on February 4, 2000).
5*	Opinion of Margaret M. Foran, Executive Vice President, General Counsel and Corporate Secretary.
12.1*	Computation of ratios of earnings to fixed charges and ratios of earnings to fixed charges and preferred stock dividend requirements.
23.1*	Consent of PricewaterhouseCoopers LLP.
23.2*	Consent of Margaret M. Foran (included in Exhibit 5).
24*	Power of Attorney (included on signature page to this Registration Statement).
25*	Statement of Eligibility and Qualification on Form T-1 of The Bank of New York Mellon Trust Company N.A. to act as Trustee.

* Filed herewith.

** To be filed as an exhibit to a post-effective amendment to this registration statement or as an exhibit to a document filed under the Securities Exchange Act of 1934 and incorporated by reference herein.

could result in substantial financial or other penalties. Any action against us by the FTC could materially and adversely affect our ability to successfully market our products.

In December 2007, the Dietary Supplement & Nonprescription Drug Consumer Protection Act went into effect and requires manufacturers of dietary supplement and over-the-counter products to notify the FDA when they receive reports of serious adverse events occurring within the United States. Potential FDA responses to any such report could include injunctions, product withdrawals, recalls, product seizures, fines, or criminal prosecutions. We have an internal adverse event reporting system that has been in place for several years and believe that we are in compliance with this new law. Nevertheless, any action by the FDA in response to a serious adverse event report that may be filed by us could materially and adversely affect our ability to successfully market our products.

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In markets outside the United States, prior to commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or a comparable agency. For example, our manufacturing facility has been registered with the FDA and Health Canada and is certified by Australia's Therapeutic Goods Administration. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We must also comply with product labeling and packaging regulations that vary from country to country. These activities are also subject to regulation by various agencies of the countries in which our products are sold.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, could have on our business. These potential effects could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping and reporting requirements, expanded documentation of the properties of certain products, expanded or different labeling, or additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, or results of operations.

Our net sales are significantly affected by our success in growing existing markets, as well as opening new markets. As we continue to expand into international markets, our business becomes increasingly subject to political, economic, legal and other risks. Changes in these markets could adversely affect our business. We have a history of expanding into new international markets. We believe that our ability to achieve future growth is dependent in part on our ability to continue our international expansion efforts. There can be no assurance, however, that we will be able to grow in our existing international markets, enter new international markets on a timely basis, or that new markets will be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any international market. Also, before marketing commences it is difficult to assess the extent to which our products and sales techniques will be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. No assurance can be given that we will be able to successfully reformulate our products in any of our current or potential international markets to meet local regulatory requirements or to attract local customers. Our failure to do so could have a material adverse effect on our business, financial condition, or results of operations. There can be no assurance that we will be able to obtain and retain necessary permits and approvals in new markets, or that we will have sufficient capital to finance our expansion efforts in a timely manner. In many market areas, other network marketing companies already have significant market penetration, the effect of which could be to desensitize the local Associate population to a new opportunity, such as USANA, or to make it more difficult for us to attract qualified Associates. Even if we are able to commence operations in new markets, there may not be a sufficient population of persons who are interested in our network marketing system. We believe our future success will depend in part on our ability to seamlessly integrate our Compensation Plan across all markets in which our products are sold. There can be no assurance that we will be able to further develop and maintain a seamless compensation program.

On December 1, 2005, China announced the adoption of new regulations governing direct selling. These regulations continue to be the state of the law in China. Single-level compensation models are permissible under these new regulations, but multi-level compensation models, as practiced by USANA and many other direct selling companies, are not. If we were to enter the Chinese market, we would be required to adjust our compensation and selling model to comply with these regulations. These adjustments could require more time and effort to enter the Chinese market than would otherwise be necessary, if multi-level compensation models were permissible. Additionally, such adjustments could make it more difficult to be successful in China.

An increase in the amount of incentives paid to Associates reduces our profitability. The payment of Associate incentives is our most significant expense. These incentives include commissions, bonuses, and certain awards and prizes. From time to time, we adjust our Compensation Plan to better manage these incentives as a percentage of net sales. We closely monitor the amount of Associate incentives that are paid as a percentage of net sales, and may periodically adjust our Compensation Plan to prevent Associate incentives from having a significant adverse effect on our earnings. There can be no assurance that changes to the Compensation Plan or product pricing will be successful in achieving target levels of Associate incentives as a percentage of net sales. Furthermore, such changes may make it difficult to attract and retain qualified and motivated Associates or cause us to lose some of our longer-standing Associates.

Our business is subject to the risks associated with intense competition from larger, wealthier, and more established competitors. We face intense competition in the business of distributing and marketing nutritional supplements, vitamins and minerals, personal care products, and other nutritional products, as described in greater detail in "Business Competition." Numerous manufacturers, Associates, and retailers compete actively for consumers and, in the case of other network marketing companies, for Associates. There can be no assurance that we will be able to compete in this intensely competitive environment. In addition, nutrition and personal care products can be purchased in a wide variety of channels of distribution, including retail stores. Our product offerings in each product category are also relatively small, compared to the wide variety of products offered by many of our competitors.

We are also subject to significant competition from other network marketing organizations for the time, attention, and commitment of new and existing Associates. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining Associates. There can be no assurance that our programs for recruiting and retaining Associates will be successful. The pool of individuals who may be interested in network marketing is limited in each market, and it is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although we believe we offer an attractive opportunity for Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

Taxation and transfer pricing considerations affect our operations. In many countries, including the United States, we are subject to transfer pricing and other tax regulations that are designed to ensure that appropriate levels of income are reported by our U.S. and foreign entities and are taxed appropriately. Although we believe that we are in compliance with all material regulations and restrictions in this regard, we are subject to the risk that taxing authorities could audit our transfer pricing and related practices and assert that additional taxes are owed. We are also subject to the risk that taxing authorities in any of our markets could change the laws in a manner that may increase our effective tax rate and/or duties on our products. Under tax treaties, we are eligible to receive foreign tax credits in the United States for foreign taxes actually paid abroad. In the event any audits or assessments are concluded adversely to us, we may or may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Currently, we are utilizing all foreign tax credits in the year in which they arise. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of any foreign tax credits in the future. As a result, adverse outcomes in these matters could have a material impact on our financial condition or operating results.

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Fluctuation in the value of currency exchange rates with the U.S. dollar affects our operations and our net sales and earnings. Over the past several years, a significant portion of our net sales have been generated outside the United States. Such sales for the year ended January 2, 2010 represented 65.3% of our total net sales. We will likely continue to expand our operations into new markets, exposing us to expanding risks of changes in social, political, and economic conditions, including changes in the laws and policies that govern investment or exchange in these markets. Because a significant portion of our sales are generated outside the United States, exchange rate fluctuations will have a significant effect on our sales and earnings. Further, if exchange rates fluctuate dramatically, it may become uneconomical for us to establish or to continue activities in certain countries. For instance, changes in currency exchange rates may affect the relative prices at which we and our competitors sell similar products in the same market. As our business expands outside the United States, an increasing share of our net sales and operating costs will be transacted in currencies other than the U.S. dollar. Accounting practices require that our non-U.S. financial results be converted to U.S. dollars for reporting purposes. Consequently, our reported net earnings may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. Product purchases by our subsidiaries are transacted in U.S. dollars. As our operations expand in countries where transactions may be made in currencies other than the U.S. dollar, our operating results will be increasingly subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes might have on our future business, product pricing, results of operations, or financial condition. In addition, the value of the U.S. dollar in relation to other currencies may also adversely affect our sales to customers outside the United States. From time-to-time we enter into forward and option exchange contracts to manage currency fluctuations on certain commitments, including intercompany cash transfers that are denominated in a variety of currencies. We do not use derivative instruments for speculative purposes. There can be no assurance that currency contract transactions will protect our operating results or cash flows from potentially adverse effects of currency exchange fluctuations. Any such adverse effects could also adversely affect our business, financial condition, or results of operations.

Disruptions to shipping channels that we use to distribute our products to international warehouses may adversely affect our margins and profitability in those markets. In the past, we have felt the impact of disruptions to the shipping channels used to distribute our products; these disruptions have included increased port congestion, a lack of capacity on the railroads, and a shortage of manpower. In particular, we felt the effects of this disruption in our container shipments to Australia, which required additional use of airfreight to meet demand. Although we have not recently experienced significant shipping disruptions, we continue to watch for signs of upcoming congestion. Congestion to ports can affect previously negotiated contracts with shipping companies, resulting in unexpected increases in shipping costs and reduction in our net sales.

The inability to obtain adequate supplies of raw materials for products at favorable prices, or at all, or the inability to obtain certain products from third-party suppliers, could have a material adverse effect on our business, financial condition, or results of operations. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. Materials used in manufacturing our products are purchased through purchase order, often invoking pre-negotiated annual supply agreements. We have very few long-term agreements for the supply of these materials. We also contract with third-party manufacturers and suppliers for the production of some of our products, including gelatin-capsuled supplements, Garlic EC , OptOmega®, Rev3 Energy Drink, our powdered drink mixes and nutrition bars, and certain of our personal care products. These third-party suppliers and manufacturers produce and, in most cases, package these products according to formulations that have been developed by, or in conjunction with, our in-house product development team. There is a risk that any of our suppliers or manufacturers could discontinue manufacturing our products or selling their products to us. Although we believe that we could establish alternate sources for most of our products, any delay in locating and establishing relationships with other sources could result in product shortages or back orders for products, with a resulting loss of net sales. In certain situations, we may be required to alter our products or to substitute different products from another source. We have, in the past, discontinued or temporarily stopped sales of certain products that were manufactured by third parties while those products were on back order. There can be no assurance that suppliers will provide the raw materials or manufactured products that are needed by us in the quantities that we request or at the prices that we are willing to pay. Because we do not control the actual production of certain raw materials and products, we are also subject to delays caused by any interruption in the production of these materials, based on conditions not within our control, including weather, crop conditions, transportation interruptions, strikes by supplier employees, and natural disasters or other catastrophic events.

Shortages of raw materials may temporarily adversely affect our margins or our profitability related to the sale of those products. In the past, we have experienced temporary shortages of the raw materials used in certain of our nutritional products. Although we had identified multiple sources to supply such raw material ingredients, quantities of the materials we purchased during these shortages were at higher prices, which negatively impacted our gross margins for those products. We have not recently experienced raw material shortages that have resulted in materially greater costs. However, there is no assurance that our raw materials might not be similarly adversely affected in the future.

Nutritional supplement products may be supported by only limited availability of conclusive clinical studies. Our products include nutritional supplements that are made from vitamins, minerals, herbs, and other substances for which there is a long history of human consumption. Some of our products contain innovative ingredients or combinations of ingredients. Although we believe that all of our products are safe when taken as directed, there is little long-term experience with human consumption of certain of these product ingredients or combinations of ingredients in concentrated form. We conduct research and test the formulation and production of our products, but we have performed or sponsored only limited clinical studies. Furthermore, because we are highly dependent on consumers' perception of the efficacy, safety, and quality of our products, as well as similar products distributed by other companies, we could be adversely affected in the event that those products prove or are asserted to be ineffective or harmful to consumers or in the event of adverse publicity associated with any illness or other adverse effects resulting from consumers' use or misuse of our products or similar products of our competitors.

As a manufacturer, we may be subject to product liability claims. As a manufacturer and a distributor of products for human consumption and topical application, we could become exposed to product liability claims and litigation. Additionally, the manufacture and sale of these products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. To date, we have not been a party to any product liability litigation, although, like any dietary supplement company, we have received reports from individuals who have asserted that they suffered adverse consequences as a result of using our products. The number of reports we have received to date is nominal. These matters historically have been settled to our satisfaction and have not resulted in material payments. We are aware of no instance in which any of our products are or have been defective in any way that could give rise to material losses or expenditures related to product liability claims. Although we maintain product liability insurance, which we believe to be adequate for our needs, there can be no assurance that we will not be subject to such claims in the future or that our insurance coverage will be adequate.

Our business is subject to particular intellectual property risks. Most of our products are not protected by patents. The labeling regulations governing our nutritional supplements require that the ingredients of such products be precisely and accurately indicated on product containers. Accordingly, patent protection for nutritional supplements often is impractical given the large number of manufacturers who produce nutritional supplements having many active ingredients in common. Additionally, the nutritional supplement industry is characterized by rapid change and frequent reformulations of products, as the body of scientific research and literature refines current understanding of the application and efficacy of certain substances and the interactions among various substances. In this respect, we maintain an active research and development program that is devoted to developing better, purer, and more effective formulations of our products. We protect our investment in research, as well as the techniques we use to improve the purity and effectiveness of our products, by relying on trade secret laws. We have also entered into confidentiality agreements with certain of our employees involved in research and development activities. Additionally, we endeavor to seek, to the fullest extent permitted by applicable law, trademark and trade dress protection for our products, which protection has been sought in the United States, Canada, and in many of the other countries in which we are either presently operating or plan to commence operations in the future. Notwithstanding our efforts, there can be no assurance that our efforts to protect our trade secrets and trademarks will be successful. Nor can there be any assurance that third-parties will not assert claims against us for infringement of their intellectual proprietary rights. If an infringement claim is asserted, we may be required to obtain a license of such rights, pay royalties on a retrospective or prospective basis, or terminate our manufacturing and marketing of our infringing products. Litigation with respect to such matters could result in substantial costs and diversion of management and other resources and could have a material adverse effect on our business, financial condition, or operating results.

Our manufacturing activity is subject to certain risks. We manufacture approximately 75% of the products sold to our customers. As a result, we are dependent upon the uninterrupted and efficient operation of our manufacturing facilities in Salt Lake City, and Draper, Utah. Those operations are subject to power failures, the breakdown, failure, or substandard performance of equipment, the improper installation or operation of equipment, natural or other disasters, and the need to comply with the requirements or directives of government agencies, including the FDA. There can be no assurance that the occurrence of these or any other operational problems at our facility would not have a material adverse effect on our business, financial condition, or results of operations. We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, manufacture, use and disposal of chemicals, solid and hazardous waste, and other toxic and hazardous materials. Our manufacturing operations presently do not result in the generation of material amounts of hazardous or toxic substances. Nevertheless, complying with new or more stringent laws or regulations, or more vigorous enforcement of current or future policies of regulatory agencies, could require substantial expenditures by us that could have a material adverse effect on our business, financial condition, or results of operations. Environmental laws and regulations require us to maintain and comply with a number of permits, authorizations, and approvals and to maintain and update training programs and safety data regarding materials used in our processes. Violations of those requirements could result in financial penalties and other enforcement actions and could require us to halt one or more portions of our operations until a violation is cured. The combined costs of curing incidents of non-compliance, resolving enforcement actions that might be initiated by government authorities, or of satisfying new legal requirements could have a material adverse effect on our business, financial condition, or results of operations.

A failure of our information technology systems would harm our business. The global nature of our business and our seamless global compensation plan requires the development and implementation of robust and efficiently functioning information technology systems. Such systems are vulnerable to a variety of potential risks, including damage or interruption resulting from natural disasters and telecommunication failures and human error or intentional acts of sabotage, vandalism, break-ins and similar acts. Although we have adopted and implemented a business continuity and disaster recovery plan, which includes routine back-up, off-site archiving and storage, and certain redundancies, the occurrence of any of these events could result in costly interruptions or failures adversely affecting our business and the results of our operations.

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We may incur liability under our "Athlete Guarantee" program, if and to the extent participating athletes make a successful claim against USANA for testing positive for certain banned substances while taking USANA nutritional supplements. USANA believes that its nutritional supplement products are free from substances that have been banned by world-class training and competitive athletic programs. The Company retains independent testing agencies to conduct periodic checks for banned substances. The Company further believes that, while its products promote good health, they are not otherwise considered to be "performance enhancing" as that term has been used in defining substances that are banned from use in international competition by the World Anti-Doping Agency ("WADA"). For many years, USANA has been a sponsor of Olympic athletes and professional competitors around the world. These athletes have been tested on many occasions and have never tested positive for banned substances as a result of taking USANA nutritional products. To back up its claim that athletes who use the Company's products as part of their training regimen will not be consuming banned substances, the Company has offered to enter into agreements with select athletes, some of whom have high-profiles and are highly compensated, which state that, during the term of the agreement, should the athlete test positive for a banned substance included in the WADA, and should such positive result be the result of taking USANA nutritional products, USANA will compensate that athlete two times their current annual earnings up to one million dollars, based on the athlete's personal level of competition, endorsement, and other income, as well as other factors. To mitigate potential exposure under these agreements, we:

- Designate lots identified as dedicated to the Athlete Guarantee program and retain additional samples;
- Store designated lot samples externally with a third-party; and
- Establish a chain of custody that requires signatures on behalf of USANA and the third-party to transfer possession of the product lots and that restricts access by USANA employees after the transfer.

All applicants to this Athlete Guarantee program are subject to screening and acceptance by the Company in its sole discretion. Contracts are tailored to fit the athlete's individual circumstances and the amount of the Company's exposure is limited based on the level of sponsorship of the participating athlete. Although the Company believes that the pool of current and potential participants in the program is small, there is no guarantee that an athlete who is accepted in the program will not successfully make a claim against us. The Company currently has no insurance to protect it from potential claims under this program.

Based on the mitigating factors, screening process and the Company's view that its products are not "performance enhancing," management believes there is a less than remote chance that the Company will incur a liability under the Athlete Guarantee program.

Item 1B. Unresolved Staff Comments

We received no written comments from the Commission staff that remain unresolved regarding periodic or current reports under the Exchange Act in the 180 days prior to January 2, 2010.

Item 2. Properties

In Salt Lake City, Utah, we own a 354,000 square foot facility that we utilize as our world-wide corporate headquarters. This facility includes space for manufacturing, distribution, and administrative functions and is located on a company-owned 16-acre parcel of land.

In addition to our corporate headquarters, we own two other facilities. The first is a 45,000 square foot office/warehouse building in Sydney, Australia, and the second is a 31,000 square foot manufacturing facility in Tianjin, China, which is used for an immaterial amount of third-party manufacturing.

We lease regional offices and distribution warehouses located in Canada, Hong Kong, Japan, Malaysia, Mexico, New Zealand, the Philippines, Singapore, South Korea, and Taiwan. Although we sold our contract manufacturing business during 2007, we continue to lease a facility in Draper, Utah for the manufacture and packaging of our Sensé products.

We believe that the facilities listed above are in good condition and are adequately utilized. Further, we believe that our manufacturing facilities provide for the productive capacity to meet our foreseeable needs.

Item 3. Legal Proceedings

From time to time we are involved in litigation arising out of our operations. We maintain liability insurance, including product liability coverage, in amounts our management believes is adequate. We are not currently engaged in any legal proceedings that we expect would materially harm our business or financial condition.

Chirco vs. USANA et. al

On April 17, 2009, a former USANA Associate filed a purported class action lawsuit in State District Court in Clark County, Nevada and named USANA and certain of USANA's present and former officers and directors, as well as other individuals, as defendants. The proposed class consists of distributors who were Nevada residents at any time since 1995. The complaint is essentially a copy of a complaint from a purported distributor class action lawsuit filed against USANA in California state court in 2007, which was dismissed. The complaint alleges a number of purported material misrepresentations to the market in violation of state pyramid law, deceptive business practices, and business fraud law. The complaint seeks damages, general injunctive relief, pre-judgment interest, costs, attorney's fees, and other further relief deemed appropriate by the court. We believe the claims in this complaint are distorted, not actionable under applicable law, and without merit. In June 2009, we filed our answer to the complaint, which contained a general denial of the allegations in the complaint and set forth our affirmative defenses. Discovery is currently pending for this action. We will continue to vigorously defend the Company and related defendants in this action.

We are not a party to any other legal proceedings that we believe will have a material impact on our financial condition or results of operations.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on The NASDAQ Global Select Market under the symbol "USNA." The following table contains the reported high and low sale prices for our common stock as reported on The NASDAQ Global Select Market for the periods indicated:

2008	**High**	**Low**
First Quarter	$ 49.89	$ 18.25
Second Quarter	$ 28.97	$ 18.18
Third Quarter	$ 45.80	$ 23.52
Fourth Quarter	$ 44.99	$ 28.03

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2009	High	Low
First Quarter	$ 33.95	$ 17.72
Second Quarter	$ 30.22	$ 22.41
Third Quarter	$ 36.93	$ 23.58
Fourth Quarter	$ 37.19	$ 27.87

The market price of our common shares is subject to fluctuations in response to variations in our quarterly operating results, general trends in the market for our products and product candidates, economic and currency exchange issues in the markets where we operate, as well as other factors, many of which are not within our control. In addition, broad market fluctuations, as well as general economic, business and political conditions may adversely affect the market for our common shares, regardless of our actual or projected performance.

On March 8, 2010, the high and low sales prices of our common stock as reported by NASDAQ were $30.85 and $30.11, respectively.

Shareholders

As of March 8, 2010, we had 414 holders of record of our common stock.

Dividends

We have never declared or paid cash dividends on our common stock. Future cash dividends, if any, will be determined by our Board of Directors and will be based on earnings, available capital, our financial condition, and other factors that the Board of Directors deems to be relevant.

Share Repurchases

Purchases made during the quarter ended January 2, 2010 for each fiscal month therein are summarized in the following table:

Issuer Purchases of Equity Securities
(amounts in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*
Fiscal October (Oct. 4, 2009 through Nov. 7, 2009)	21	$ 29.82	21	$ 8,736
Fiscal November (Nov. 8, 2009 through Dec. 5, 2009)	0	$ 0.00	0	$ 8,736
Fiscal December (Dec. 6, 2009 through Jan. 2, 2010)	0	$ 0.00	0	$ 8,736
	21	$ 29.82	21	

* 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 fourth quarter with $9,368 remaining under the plan and ended with $8,736. There currently is no expiration date on the approved repurchase amount.

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes thereto that are included in this report.

	Fiscal Year(1)				
	2005	2006(2)	2007	2008	2009
	(in thousands, except per share data)				
Consolidated Statements of Earnings Data:					
Net sales	$ 315,017	$ 365,166	$ 423,149	$ 429,012	$ 436,940
Cost of sales	68,703	79,836	87,891	88,878	89,803
Gross profit	246,314	285,330	335,258	340,134	347,137
Operating expenses:					
Associate incentives	124,045	146,251	170,383	178,309	196,363
Selling, general and administrative(3)	62,272	76,566	94,174	113,828	99,983
Total operating expenses	186,317	222,817	264,557	292,137	296,346
Earnings from continuing operations	59,997	62,513	70,701	47,997	50,791
Other income (expense), net	479	1,408	471	(1,676)	187
Earnings from continuing operations before income taxes	60,476	63,921	71,172	46,321	50,978
Income taxes	20,439	22,679	25,530	16,376	17,422
Income from continuing operations	40,037	41,242	45,642	29,945	33,556
Loss from discontinued operations, net of tax	(1,178)	(877)	(612)		
Net earnings	$ 38,859	$ 40,365	$ 45,030	$ 29,945	$ 33,556
Earnings (loss) per common share:					
Basic					
Continuing operations	$ 2.12	$ 2.29	$ 2.73	$ 1.87	$ 2.19
Discontinued operations	(0.06)	(0.05)	(0.04)		
Net earnings	$ 2.06	$ 2.24	$ 2.69	$ 1.87	$ 2.19
Diluted					
Continuing operations	$ 2.03	$ 2.20	$ 2.65	$ 1.85	$ 2.17
Discontinued operations	(0.06)	(0.04)	(0.03)		
Net earnings	$ 1.97	$ 2.16	$ 2.62	$ 1.85	$ 2.17
Weighted average common shares outstanding:					
Basic	18,873	18,053	16,734	16,048	15,340
Diluted	19,721	18,724	17,206	16,163	15,432
Dividends per share					
Cash Flow Related Data:					
Net cash provided by (used in):					

Operating activities	$ 48,018	$ 61,290	$ 58,205	$ 45,956	$ 32,469
Investing activities	(5,698)	(11,680)	(26,010)	(15,206)	(3,197)
Financing activities	(46,238)	(33,218)	(46,886)	(29,765)	(29,502)
Purchase of property and equipment	(4,311)	(11,038)	(26,264)	(16,061)	(4,128)
Repurchase of common stock	(49,199)	(40,958)	(79,580)	(39,873)	(1,654)

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	As of				
	Dec. 31, 2005	**Dec. 30, 2006**	**Dec. 29, 2007**	**Jan. 3, 2009**	**Jan. 2, 2010**
	(in thousands, except other data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 10,579	$ 27,029	$ 12,865	$ 13,281	$ 13,658
Working capital	12,828	16,275	118	(1,860)	11,448
Current assets	41,830	60,615	45,992	52,674	51,926
Total assets	73,708	100,002	109,128	122,572	123,438
Total current liabilities	29,002	44,340	45,874	54,534	40,478
Line of credit			28,000	34,990	7,000
Other long-term liabilities	1,414		2,305	1,212	1,587
Stockholders' equity	43,292	55,662	32,949	31,836	74,373
Other Data:					
Active Associates	133,000	153,000	176,000	198,000	199,000
Active Preferred Customers	70,000	78,000	78,000	71,000	67,000
Total Active Customers	203,000	231,000	254,000	269,000	266,000

(1) The Company's fiscal year ends on the Saturday that is closest to December 31. The 2005, 2006, 2007, and 2009 fiscal years were 52-week years. Fiscal year 2008 was a 53-week year. The extra week in 2008 added nearly $7,000 to net sales.

(2) Effective January 1, 2006, the Company began recognizing equity-based compensation expense in its statements of earnings.

(3) During 2008, an unanticipated arbitration award was rendered against the Company in the amount of $7,020.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing elsewhere in this report.

Overview

We develop and manufacture high-quality 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 customer; "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 January 2, 2010, we had approximately 199,000 active Associates and approximately 67,000 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

United States

Canada

Mexico

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Asia Pacific		
	Southeast Asia/Pacific	Australia-New Zealand, Singapore, Malaysia, and the Philippines*
	East Asia	Hong Kong and Taiwan
	North Asia	Japan and South Korea

* Operations in the Philippines commenced in January 2009.

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

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates and the continued success and growth of our business. To 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, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. For example, during the third quarter of 2009, we introduced a new on-line training system, called eApprentice. This system was designed to make training in USANA's network marketing system readily available, simple to use and easy to understand. We believe that this system will assist new Associates by providing detailed training about the industry and a deeper understanding of USANA's products and compensation plan.

In addition to Company-sponsored meetings and sales tools, we maintain a website exclusively for our Associates where they can stay up-to-date on the latest USANA news, obtain training materials, manage their personal information, enroll new customers, shop, and register for Company-sponsored events. Additionally, through this website, Associates can access other online services to which they may subscribe. For example, we offer an online business management service, which includes a tool that helps Associates track and manage their business activity, a personal webpage to which their prospects or retail customers can be directed, e-cards for advertising, and a tax information tool.

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year net sales at the average exchange rates in effect during the comparable prior year periods.

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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. Notably, sales to Associates account for the majority of our product sales, representing 89% of product sales during 2009. In general, the volume of recurring monthly product purchases by our active Associates and Preferred Customers, in their local currencies, remains relatively constant over time. Accordingly, sales growth in local currencies is driven primarily by an increased number of active Associates and Preferred Customers. 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 as of the dates indicated.

Active Associates By Region
(rounded to the nearest thousand)

	As of January 3, 2009		As of January 2, 2010		Change from Prior Year	Percent Change
North America:						
United States	63,000	31.8%	57,000	28.6%	(6,000)	(9.5)%
Canada	29,000	14.6%	25,000	12.6%	(4,000)	(13.8)%
Mexico	15,000	7.6%	15,000	7.5%		0.0%
North America Total	107,000	54.0%	97,000	48.7%	(10,000)	(9.3)%
Asia Pacific:						
Southeast Asia/Pacific	44,000	22.2%	46,000	23.1%	2,000	4.5%
East Asia	40,000	20.2%	48,000	24.2%	8,000	20.0%
North Asia	7,000	3.6%	8,000	4.0%	1,000	14.3%
Asia Pacific Total	91,000	46.0%	102,000	51.3%	11,000	12.1%
	198,000	100.0%	199,000	100.0%	1,000	0.5%

Active Preferred Customers By Region
(rounded to the nearest thousand)

	As of January 3, 2009		As of January 2, 2010		Change from Prior Year	Percent Change
North America:						
United States	43,000	60.6%	39,000	58.2%	(4,000)	(9.3)%
Canada	16,000	22.5%	16,000	23.9%		0.0%
Mexico	3,000	4.2%	3,000	4.5%		0.0%
North America Total	62,000	87.3%	58,000	86.6%	(4,000)	(6.5)%
Asia Pacific:						
Southeast Asia/Pacific	7,000	9.9%	7,000	10.4%		0.0%
East Asia	1,000	1.4%	1,000	1.5%		0.0%
North Asia	1,000	1.4%	1,000	1.5%		0.0%
Asia Pacific Total	9,000	12.7%	9,000	13.4%		0.0%
	71,000	100.0%	67,000	100.0%	(4,000)	(5.6)%

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Total Active Customers By Region
(rounded to the nearest thousand)

	As of January 3, 2009		As of January 2, 2010		Change from Prior Year	Percent Change
North America:						
United States	106,000	39.4%	96,000	36.1%	(10,000)	(9.4)%
Canada	45,000	16.7%	41,000	15.4%	(4,000)	(8.9)%
Mexico	18,000	6.7%	18,000	6.8%		0.0%
North America Total	169,000	62.8%	155,000	58.3%	(14,000)	(8.3)%
Asia Pacific:						
Southeast Asia/Pacific	51,000	19.0%	53,000	19.9%	2,000	3.9%
East Asia	41,000	15.2%	49,000	18.4%	8,000	19.5%
North Asia	8,000	3.0%	9,000	3.4%	1,000	12.5%
Asia Pacific Total	100,000	37.2%	111,000	41.7%	11,000	11.0%
	269,000	100.0%	266,000	100.0%	(3,000)	(1.1)%

Presentation

Product sales and the shipping and handling fees billed to our customers are recorded as revenue net of applicable sales discounts when the product is delivered, title has transferred, and the risk of loss passes to the customer. Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. Also reflected in net sales is a provision for product returns and allowances, which is estimated based on our historical experience. Additionally, the Company collects an annual renewal fee from Associates that is deferred on receipt and is recognized as income on a straight-line basis over a twelve-month period.

Cost of sales primarily consists of expenses related to raw materials, labor, quality assurance, and overhead costs that are directly associated with the production and distribution of our products and sales materials, as well as duties and taxes that are associated with the import and export of our products. As our international sales increase as a percentage of net sales, cost of sales are increasingly affected by additional duties, freight, and other factors, such as changes in currency exchange rates.

Associate incentive expenses include all forms of commissions, compensation, and other incentives paid to our Associates. These incentives include bonuses earned, rewards from contests and promotions and base commissions, which makes up the majority of our Associate incentives expense. Bonuses are paid out to our Associates based on certain business growth criteria, total base commission earnings, and leadership level. Promotions and contests are offered as an incentive and reward to our Associates and are typically paid out only after an Associate achieves specific growth and advancement levels. Base commissions are paid out on the sale of products, which are assigned a sales volume point value that is independent of the product's price. Associates earn their commissions based on sales volume points that are generated in their down-line organization. Items such as our starter kits and sales tools have no sales volume point value, and commissions are not paid on the sale of these items. Although insignificant to our financial statements, an Associate may earn commissions on sales volume points that are generated from personal purchases that are not considered to be part of their "Qualifying Purchases." Qualifying Purchases are the amount of product that Associates must purchase each month, which they must either resell to consumers or personally use in order to qualify to earn commissions or bonuses under USANA's Compensation Plan. Commissions paid to an Associate on personal purchases are considered a sales discount and are reported as a reduction to our net sales.

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Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate event costs, advertising, professional fees, marketing, and research and development expenses. Wages and benefits represent the largest component of selling, general and administrative expenses. Significant depreciation and amortization expense is incurred as a result of investments in physical facilities, computer and telecommunications equipment, and systems to support our international operations.

During 2008, we incurred two unusual expenses that affected our selling, general and administrative results. These expenses related to (1) a tender offer to acquire all of the outstanding shares of the Company initiated by the Company's Chairman and certain other participants, which was terminated on July 16, 2008, and (2) an unanticipated arbitration award against the Company for approximately $7 million. As each of the matters leading to these unusual expenses concluded in 2008, no further expense relative to these matters was incurred in 2009 or is anticipated to be incurred in the future.

Sales to customers outside the United States are transacted in the respective local currencies and are translated to U.S. dollars at weighted-average currency exchange rates for each monthly accounting period to which they relate. Most of our raw material purchases from suppliers and our product purchases from third-party manufacturers are transacted in U.S. dollars. Consequently, our sales and net earnings may be affected by changes in currency exchange rates, with sales and earnings generally increasing with a weakening U.S. dollar and decreasing with a strengthening U.S. dollar. For several years we have received a benefit to net sales and earnings from a weakening U.S. dollar. Throughout most of 2009, however, the U.S. dollar strengthened significantly when compared with 2008, negatively affecting overall sales and earnings.

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Results of Operations

The following table summarizes our consolidated operating results as a percentage of net sales, respectively, for the periods indicated:

	Fiscal Year		
	2007	2008	2009
Consolidated Statements of Earnings Data:			
Net sales	100.0%	100.0%	100.0%
Cost of sales	20.8%	20.7%	20.6%
Gross profit	79.2%	79.3%	79.4%
Operating expenses:			
Associate incentives	40.3%	41.6%	44.9%
Selling, general and administrative*	22.3%	26.5%	22.9%
Total operating expenses	62.6%	68.1%	67.8%
Earnings from continuing operations	16.6%	11.2%	11.6%
Other income (expense), net	0.1%	(0.4)%	0.1%
Earnings from continuing operations before income taxes	16.7%	10.8%	11.7%
Income taxes	6.0%	3.8%	4.0%
Income from continuing operations	10.7%	7.0%	7.7%
Loss from discontinued operations, net of tax benefit	(0.1)%	0.0%	0.0%
Net earnings	10.6%	7.0%	7.7%

* Included in selling, general and administrative during 2008 was $7.0 million related to an unanticipated arbitration award, without which selling, general and administrative expense as a percent of net sales would have been 24.9%.

Summary of 2009 Financial Results and Developments

Net sales increased $7.9 million to $436.9 million in 2009 from $429.0 million in 2008. The most significant item impacting net sales during 2009 was an increase in the average number of active Associates purchasing our products during 2009 when compared with 2008, which included the addition of operations in the Philippines in January 2009. This was partially offset by a decrease in the average number of active Preferred Customers and the overall negative effects of currency fluctuations (i.e. a significant strengthening of the U.S. dollar when compared to prior year exchange rates). Although overall net sales were reduced in 2009 by currency fluctuations, we experienced a benefit to net sales due to favorable currency rate fluctuations during the fourth quarter. Also, 2008 was a 53-week fiscal year resulting in one additional week of sales, which amounted to nearly $7.0 million.

Net earnings increased 12.1% to $33.6 million in 2009 from $29.9 million in 2008. This year-over-year increase was primarily due to a significant decrease in selling, general and administrative expense relative to net sales, part of which related to an unanticipated arbitration award in the fourth quarter of 2008. Excluding this arbitration award, net earnings decreased by $643 thousand, or 1.9%. This decrease was primarily a result of the unfavorable net effects of currency fluctuations, and higher Associate incentives expense relative to net sales due to the full-year effect of Compensation Plan enhancements that were introduced in 2008.

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In the third quarter of 2009, we re-formulated three of our key products, which included important formula upgrades to our flagship products, Essentials and HealthPak. In conjunction with these product upgrades, we increased the price of Essentials and HealthPak in the United Stated by approximately 6% and 3%, respectively, and made minor price adjustments in some of our other markets as well. In 2009, these two products constituted approximately 31% of our global product sales. Although we do not expect these particular price changes to materially increase our net sales, we do expect our gross margins to improve as a result of these changes.

During 2010, we will take additional steps to continue reducing our operating costs, with a specific focus on improving operating margins. We will look at areas in our cost of goods, such as raw material sourcing. Also, we will review current operating processes in our production facilities and look for ways to operate more efficiently. An important investment that was a major company focus for 2009 was our Matching Bonus program. This has been a rewarding investment for our Associates and a sales driver for USANA and, in 2010, we will work to ensure greater productivity related to this bonus in our continuing effort to grow our net sales.

Fiscal Year 2009 compared to Fiscal Year 2008

Net Sales

The following table summarizes the changes in our net sales by geographic region for the fiscal years ended January 3, 2009 and January 2, 2010:

	Net Sales by Region (in thousands) Year Ended							
	2008		2009		Change from prior year	Percent change	Approximate impact of currency exchange	Change excluding the impact of currency exchange
North America:								
United States	$ 161,194	37.6%	$ 151,663	34.7%	$ (9,531)	(5.9)%	$ N/A	(5.9)%
Canada	74,979	17.5%	65,682	15.1%	(9,297)	(12.4)%	(4,800)	(6.0)%
Mexico	23,630	5.5%	22,384	5.1%	(1,246)	(5.3)%	(4,900)	15.5%
North America Total	259,803	60.6%	239,729	54.9%	(20,074)	(7.7)%	(9,700)	(4.0)%
Asia Pacific:								
Southeast Asia/Pacific	91,348	21.3%	95,185	21.8%	3,837	4.2%	(6,300)	11.1%
East Asia	61,410	14.3%	81,455	18.6%	20,045	32.6%	(800)	33.9%
North Asia	16,451	3.8%	20,571	4.7%	4,120	25.0%	(300)	26.9%
Asia Pacific Total	169,209	39.4%	197,211	45.1%	28,002	16.5%	(7,400)	20.9%
	$ 429,012	100.0%	$ 436,940	100.0%	$ 7,928	1.8%	$ (17,100)	5.8%

North America: For the first time in several years, net sales in North America were negatively affected by changes in currency exchange rates. The overall negative effect of currency fluctuations in 2009, when compared with 2008, accounted for nearly half of the $20.1 million decline in net sales in this region. Further changes in net sales in this region were due to reduced product sales related to an overall decrease in the number of active Associates and Preferred Customers. We believe that this decrease in the number of Associates and Preferred Customers is largely due to the difficult economic conditions that exist in both the U.S. and Canada. As a manufacturer of premium products, we believe that the economic impact on consumer spending has affected our ability to attract and retain Associates, Preferred Customers, and other consumers of our products. We also believe that, due to the international nature of our business and our global seamless Compensation Plan, many of our North American-based Associates are pursuing the opportunity to grow their business in markets outside of

North America. We believe that this shift has also negatively affected our sales and Associate growth in North America. We are taking steps to reinvigorate our sales efforts in North America by creating and teaching the benefits of using our new training materials, by developing a new rewards and recognition program for our Associates, and by emphasizing the benefits of our Compensation Plan and products, including the unique contests and promotions that we offer, as a way to enhance our Associate retention and enrollments.

Net sales in local currency for the United States and Canada, our largest individual markets, decreased 5.9% and 6.0%, respectively. These declines are due to fewer Associates and Preferred Customers purchasing our products in 2009. Additionally, we experienced a slight decrease in the average product order size from many of our new Associates, primarily on their initial purchase. We believe this is due to the difficult economic conditions and the related effect on consumers, as well as from the matching bonus portion of our compensation plan. Net sales in Mexico, however, increased 15.5% in local currency due primarily to an increase in the number of Associates purchasing our products throughout most of 2009.

Asia Pacific: Sales growth in this region was also negatively affected by currency fluctuations, which reduced net sales by approximately $7.4 million. Local currency growth, however, outpaced the negative effect of currency changes, resulting in a net sales increase of 16.5% in 2009. This increase in net sales in Asia Pacific was due mainly to higher product sales volume, resulting from double-digit, year-over-year increases in the number of active Associates during 2009. This increase in the number of active Associates came from Hong Kong, Malaysia, South Korea, and the Philippines. Similar to North America, we experienced a slight decrease in the average product order size from many of our new Associates, primarily on their initial purchase. We believe this is primarily due to the matching bonus portion of our compensation plan.

Gross Profit

Gross profit in 2009 increased slightly to 79.4% of net sales, compared with 79.3% in 2008. This increase in gross profit margin can be primarily attributed to lower relative freight costs and select product price increases. These improvements, however, were partially offset by increased costs of certain raw materials.

Associate Incentives

As a percentage of net sales, Associate incentives increased to 44.9% in 2009, compared with 41.6% in 2008. This increase is due to the full-year effect of Compensation Plan enhancements that were introduced at the end of the third quarter of 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to 22.9% of net sales in 2009, from 26.5% in 2008. In absolute terms, our selling, general and administrative expenses decreased by $13.8 million. The most significant components of this decrease in absolute terms were as follows:

- An unanticipated arbitration award of $7.0 million that took place in 2008;
- A decrease in non-recurring legal and other professional fees of approximately $3.8 million;
- A decrease in wage-related expenses of approximately $2.1 million; and
- A decrease in promotional expenses of approximately $1.0 million.

The aggregate decrease in selling, general and administrative expenses listed above was partially offset by an increase in equity-based compensation expense of approximately $1.4 million.

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Other Income (Expense)

Other income (expense) improved by $1.9 million. The largest component of this change was a $0.5 million gain relating to foreign currency exchange on intercompany transactions during 2009, compared with a $1.0 million loss during 2008.

Income Taxes

Income taxes totaled 34.2% of earnings before income taxes in 2009, compared with 35.4% in 2008. This decrease was primarily due to increased tax benefits from a research tax credit.

Fiscal Year 2008 compared to Fiscal Year 2007

The tables below summarize the changes in our active customer base by geographic region as of the dates indicated.

Active Associates By Region
(rounded to the nearest thousand)

	As of December 29, 2007		As of January 3, 2009		Change from Prior Year	Percent Change
North America:						
United States	61,000	34.7%	63,000	31.8%	2,000	3.3%
Canada	26,000	14.8%	29,000	14.6%	3,000	11.5%
Mexico	13,000	7.4%	15,000	7.6%	2,000	15.4%
North America Total	100,000	56.8%	107,000	54.0%	7,000	7.0%
Asia Pacific:						
Southeast Asia/Pacific	39,000	22.2%	44,000	22.2%	5,000	12.8%
East Asia	30,000	17.0%	40,000	20.2%	10,000	33.3%
North Asia	7,000	4.0%	7,000	3.5%		0.0%
Asia Pacific Total	76,000	43.2%	91,000	46.0%	15,000	19.7%
	176,000	100.0%	198,000	100.0%	22,000	12.5%

Active Preferred Customers By Region
(rounded to the nearest thousand)

	As of December 29, 2007		As of January 3, 2009		Change from Prior Year	Percent Change
North America:						
United States	50,000	64.1%	43,000	60.6%	(7,000)	(14.0)%
Canada	18,000	23.1%	16,000	22.5%	(2,000)	(11.1)%
Mexico	2,000	2.6%	3,000	4.2%	1,000	50.0%
North America Total	70,000	89.8%	62,000	87.3%	(8,000)	(11.4)%
Asia Pacific:						
Southeast Asia/Pacific	6,000	7.6%	7,000	9.9%	1,000	16.7%
East Asia	1,000	1.3%	1,000	1.4%		0.0%
North Asia	1,000	1.3%	1,000	1.4%		0.0%
Asia Pacific Total	8,000	10.2%	9,000	12.7%	1,000	12.5%
	78,000	100.0%	71,000	100.0%	(7,000)	(9.0)%

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Total Active Customers By Region
(rounded to the nearest thousand)

	As of December 29, 2007		As of January 3, 2009		Change from Prior Year	Percent Change
North America:						
United States	111,000	43.7%	106,000	39.4%	(5,000)	(4.5)%
Canada	44,000	17.3%	45,000	16.7%	1,000	2.3%
Mexico	15,000	5.9%	18,000	6.7%	3,000	20.0%
North America Total	170,000	66.9%	169,000	62.8%	(1,000)	(0.6)%
Asia Pacific:						
Southeast Asia/Pacific	45,000	17.7%	51,000	19.0%	6,000	13.3%
East Asia	31,000	12.2%	41,000	15.2%	10,000	32.3%
North Asia	8,000	3.2%	8,000	3.0%		0.0%
Asia Pacific Total	84,000	33.1%	100,000	37.2%	16,000	19.0%
	254,000	100.0%	269,000	100.0%	15,000	5.9%

The following table summarizes the changes in our net sales by geographic region for the fiscal years ended December 29, 2007 and January 3, 2009:

Net Sales by Region
(in thousands)
Year Ended

	2007		2008		Change from Prior Year	Percent Change
North America:						
United States	$ 169,645	40.1%	$ 161,194	37.6%	$ (8,451)	(5.0)%
Canada	75,360	17.8%	74,979	17.5%	(381)	(0.5)%
Mexico	22,230	5.2%	23,630	5.5%	1,400	6.3%
North America Total	267,235	63.1%	259,803	60.6%	(7,432)	(2.8)%
Asia Pacific:						
Southeast Asia/Pacific	90,690	21.4%	91,348	21.3%	658	0.7%
East Asia	49,314	11.7%	61,410	14.3%	12,096	24.5%
North Asia	15,910	3.8%	16,451	3.8%	541	3.4%
Asia Pacific Total	155,914	36.9%	169,209	39.4%	13,295	8.5%
	$ 423,149	100.0%	$ 429,012	100.0%	$ 5,863	1.4%

North America: The decrease in 2008 net sales in North America, particularly the United States, was due to a decrease in active customers throughout most of 2008. We believe that this decrease was due to the lingering effects of negative misinformation about the Company that appeared in the mass media during 2007 and the deteriorating economic conditions in the United States. During the fourth quarter of 2008, however, we began to see growth in the number of active Associates purchasing and selling our products. We believe this growth was due to the enhancements to our Compensation Plan that we implemented during the third quarter of 2008. We continued, however, to see the number of active Preferred Customers decline. We believe that the deteriorating economic conditions in the United States and Canada contributed significantly to the declining number of active Preferred Customers.

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Asia Pacific: The increase in 2008 net sales in Asia Pacific was due primarily to growth in Hong Kong, where net sales increased $12.5 million, or 47.4% from 2007, primarily due to a large increase in the number of active Associates in that market. Additionally, net sales in Malaysia increased $5.9 million, or 34.4% during 2008. Declining sales in most of the other markets within this region were the result of a decrease in active customers throughout most of 2008 and were partially offset by a $2.3 million benefit from changes in currency exchange rates. At the end of 2008, however, we began to see an increase in the number of active Associates in all markets within this region. Again, we believe that this increase was the result of the Compensation Plan enhancements that we introduced in 2008.

Associate Incentives

As a percentage of net sales, Associate incentives increased to 41.6% in 2008, compared with 40.3% in 2007. This increase was due to higher base Compensation Plan commissions, Compensation Plan enhancements made at the end of the third quarter, and an increase in spending on contests and promotions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to 26.5% of net sales in 2008 from 22.3% in 2007. In absolute terms, our selling, general and administrative expenses increased in 2008 by $19.7 million. The most significant components of this increase in absolute terms were as follows:

- An unanticipated arbitration award of $7.0 million;
- Wage-related increases of $6.7 million;
- Higher depreciation and rent expense of $1.8 million related to the expansion of our facilities, both domestically and internationally;
- An increase of approximately $1.5 million in equity-compensation expense;
- An increase in non-recurring legal and other professional fees of approximately $0.9 million that related to the tender offer process and defending false allegations against the Company;
- Increased spending on Associate events and support activities of $0.8 million; and
- The overall impact of changes in currency exchange rates.

Included in the increases listed above for wage-related expenses and equity-based compensation expense are increased base salaries and equity grants to certain members of senior management. These particular increases to cash and equity compensation were the result of increased compensation for senior management, which were implemented during the third quarter of 2008.

Other Income (Expense)

Other income (expense) changed from net other income of $471 thousand in 2007 to net other expense of $1.7 million in 2008. The largest component of this change was a $1.0 million loss relating to foreign currency exchange during 2008, compared with a $732 thousand gain in 2007. Interest income also decreased $306 thousand from 2007 to 2008.

Income Taxes

Income taxes totaled 35.4% of earnings before income taxes in 2008, compared with 35.9% in 2007. This change was due to favorable tax adjustments recognized in 2008.

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Quarterly Financial Information (Unaudited)

The following tables set forth unaudited quarterly operating results for each of the last eight fiscal quarters, as well as percentages of net sales for certain data for the periods indicated. This information is consistent with the Consolidated Financial Statements herein and includes normally recurring adjustments that management considers to be necessary for a fair presentation of the data. Quarterly results are not necessarily indicative of future results of operations. This information should be read in conjunction with the audited Consolidated Financial Statements and notes thereto that are included elsewhere in this report.

	Quarter Ended							
	March 29, 2008	June 28, 2008	Sept. 27, 2008	Jan. 3, 2009(2)	April 4, 2009	July 4, 2009	Oct. 3, 2009	Jan. 2, 2010
	(in thousands, except per share data)							
Consolidated Statements of Earnings Data:								
Net sales	$ 101,570	$ 109,208	$ 107,176	$ 111,058	$ 97,299	$ 112,093	$ 110,764	$ 116,784
Cost of sales	21,502	21,884	22,228	23,264	19,846	23,753	22,637	23,567
Gross profit	80,068	87,324	84,948	87,794	77,453	88,340	88,127	93,217
Operating expenses:								
Associate incentives	41,364	45,603	44,573	46,769	41,890	50,321	50,799	53,353
Selling, general, and administrative	27,036	25,753	27,621	33,418	25,330	24,719	25,414	24,520
Total operating expenses	68,400	71,356	72,194	80,187	67,220	75,040	76,213	77,873
Earnings from operations	11,668	15,968	12,754	7,607	10,233	13,300	11,914	15,344
Other income (expense), net	(71)	(65)	(489)	(1,051)	(90)	125	110	42
Earnings from operations before income taxes	11,597	15,903	12,265	6,556	10,143	13,425	12,024	15,386
Income taxes	4,304	5,821	4,185	2,066	3,497	4,634	4,112	5,179
Net earnings	$ 7,293	$ 10,082	$ 8,080	$ 4,490	$ 6,646	$ 8,791	$ 7,912	$ 10,207
Earnings per common share(1):								
Basic	$ 0.45	$ 0.62	$ 0.50	$ 0.29	$ 0.43	$ 0.57	$ 0.52	$ 0.67
Diluted	$ 0.44	$ 0.61	$ 0.50	$ 0.29	$ 0.43	$ 0.57	$ 0.51	$ 0.66
Weighted average shares outstanding:								
Basic	16,363	16,393	16,031	15,452	15,350	15,350	15,345	15,314
Diluted	16,459	16,460	16,133	15,642	15,382	15,385	15,547	15,558

(1) Earnings per common share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts does not necessarily equal the total for the year.

(2) The quarter ended January 3, 2009 included one extra week of sales, due to 2008 being a 53-week fiscal year, which amounted to nearly $7,000. Also, included in selling, general and administrative for the quarter was an unaticipated arbitration award in the amount

of $7,020.

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	Quarter Ended							
	March 29, 2008	June 28, 2008	Sept. 27, 2008	Jan. 3, 2009	April 4, 2009	July 4, 2009	Oct. 3, 2009	Jan. 2, 2010
Consolidated Statements of Earnings as a percentage of Net Sales:								
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	21.2	20.0	20.7	20.9	20.4	21.2	20.4	20.2
Gross profit	78.8	80.0	79.3	79.1	79.6	78.8	79.6	79.8
Operating expenses:								
Associate incentives	40.7	41.7	41.6	42.1	43.1	44.9	45.9	45.7
Selling, general and administrative	26.6	23.5	25.8	30.1	26.0	22.0	22.9	21.0
Total operating expenses	67.3	65.3	67.4	72.2	69.1	66.9	68.8	66.7
Earnings from operations	11.5	14.6	11.9	6.9	10.5	11.8	10.8	13.1
Other income (expense), net	(0.1)	(0.1)	(0.5)	(0.9)	(0.1)	0.1	0.1	
Earnings from operations before income taxes	11.4	14.6	11.4	6.0	10.4	12.0	10.9	13.1
Income taxes	4.2	5.3	3.9	1.9	3.6	4.1	3.8	4.4
Net earnings	7.2%	9.2%	7.5%	4.1%	6.8%	7.8%	7.1%	8.7%

We may experience variations in the results of operations from quarter to quarter as a result of factors that include the following:

The recruiting and retention of Associates and Preferred Customers;

The opening of new markets;

The timing of Company-sponsored events, contests, and promotions;

Fluctuations in currency exchange rates;

New product introductions;

The timing of holidays, which may reduce the amount of time that our Associates spend selling products or recruiting new Associates;

The negative impact of changes in or interpretations of regulations that may limit or restrict the sale of certain products in some countries;

- The adverse effect of a failure by us or an Associate (or allegations of such failure) to comply with applicable governmental regulations;

- The integration and operation of new information technology systems;

- The inability to introduce new products or the introduction of new products by competitors;

- Entry into one or more of our markets by competitors;

- Availability of raw materials;

- General conditions in the nutritional supplement, personal care, and weight management industries or the network marketing industry; and

- Consumer perceptions of our products and operations.

Because our products are ingested by consumers or applied to their bodies, we are highly dependent upon consumers' perception of the safety, quality, and efficacy of our products and nutritional supplements in general. As a result, substantial negative publicity, whether founded or unfounded, concerning one or more of our products or of other products that are similar to our products could adversely affect our business, financial condition, or results of operations.

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As a result of these and other factors, quarterly revenues, expenses, and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance. There can be no assurance that we will be able to increase revenues in future periods or be able to sustain the level of revenue or rate of revenue growth on a quarterly or annual basis that we have sustained in the past. Due to the foregoing factors, future results of operations could be below the expectations of public market analysts and investors. If that occurs, the market price of our common stock would likely decline.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing from our line of credit. Our principal source of liquidity is our operating cash flow. There are no material restrictions on our ability to transfer and remit funds among our international markets.

Operating cash flow

We typically generate positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled $32.5 million in 2009, compared with $46.0 million in 2008. The most significant factors of this change were the unusual payments that we made during the first half of 2009 and their effects on related balance sheet items, such as other liabilities and prepaid expenses and other assets. The payments, totaling $14.4 million, were the result of an IRS tax settlement and an unanticipated arbitration award.

As a U.S.-based, multi-national company, reporting in U.S. dollars, we received a benefit to net sales and earnings for several years prior to 2009 from favorable changes in currency exchange rates. Net sales and earnings for 2009, however, were negatively affected by a significant strengthening of the U.S. dollar during the first three quarters of 2009, compared with the first three quarters of 2008. During the fourth quarter of 2009, however, we received a benefit to net sales and earnings due to a weaker U.S. dollar, compared with the fourth quarter of 2008. In general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar.

Line of credit

We currently maintain a $40.0 million credit facility with Bank of America. As of January 2, 2010, our balance on this line of credit was $7.0 million, down from $35.0 million at the beginning of the year. The weighted-average interest rate on this line of credit at January 2, 2010 was 1.23%.

The agreement for this line of credit 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 $50.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.5 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement includes a modification for certain additional non-cash expenses. As of January 2, 2010, 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.

We will be required to pay the balance on this line of credit in full at the time of maturity in May 2011 unless the line is replaced or terms are renegotiated. There can be no assurance that we will be able to secure the same or similar credit terms on a new line of credit upon maturity of our existing agreement or that we will have the same amount available to us.

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Working capital

Cash and cash equivalents increased slightly to $13.7 million at January 2, 2010, from $13.3 million at January 3, 2009. Net working capital increased to $11.4 million at January 2, 2010, compared with ($1.9) million at January 3, 2009. This increase in net working capital was due mostly to a decrease in other current liabilities as a result of the unusual payments mentioned above. The impact of these payments on our cash balance was partially offset by decreased spending on property, plant, and equipment due to the completion of our facility expansion projects in 2008.

Share repurchase

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. Our Board of Directors has periodically approved additional dollar amounts for share repurchases under that plan. Share repurchases are made from time-to-time, in the open market, through block trades or otherwise, and are based on market conditions, the level of cash balances, general business opportunities, and other factors. During 2009, we repurchased and retired 54 thousand shares of common stock for a total investment of $1.7 million, at an average market price of $30.63 per share. There currently is no expiration date on the remaining approved repurchase amount of $8.7 million 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 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.

Contractual Obligations and Commercial Contingencies

The following table summarizes our expected contractual obligations and commitments subsequent to January 2, 2010:

Payments Due By Period
(in thousands)

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases	$ 6,382	$ 3,269	$ 2,949	$ 164	$
Other Commitments	7,770	3,330	3,874	566	
Line of Credit	7,216	152	7,064		
Total Contractual Obligations	$ 21,368	$ 6,751	$ 13,887	$ 730	$

"Operating Leases" generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. Such expenses are not included in the operating lease amounts that are outlined in the table above.

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"Other Commitments" include consulting- and IT-related services, corporate and athlete sponsorships, facility maintenance, and services related to the events that we hold for our Associates both locally and internationally. Additionally, throughout the year we will enter into various short-term contracts, mostly for services related to events that we hold for our Associates.

The "Line of Credit" has a maturity date of May 2011. Interest on the principal and fees on the unused portion of this line are due periodically, with the principal due at maturity. This estimate is based upon the balance at, and interest rates in effect on, January 2, 2010.

Inflation

We do not believe that inflation has had a material impact on our historical operations or profitability.

Critical Accounting Estimates

Our Consolidated Financial Statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Our significant accounting policies are described in Note A to the Consolidated Financial Statements herein. The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Those estimates and assumptions are derived and are continually evaluated based on our historical experiences, current facts and circumstances, and on changes in the business environment. Actual results, however, may sometimes differ materially from estimates under different conditions. Critical accounting estimates are defined as both those that are material to the portrayal of our financial condition and results of operations and those that require management's most subjective judgments. We believe that our most critical accounting estimates are described in this section.

Revenue Recognition.

Revenue is recognized at the estimated point of delivery of the merchandise, at which point the risks and rewards of ownership have passed to the customer. Revenue is realizable when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured. We require cash or credit card payment prior to shipping and do not extend credit to customers.

Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities.

A provision for product returns and allowances is established and is founded on our historical experience.

Amounts billed to customers for shipping and handling are classified as revenue.

Commissions paid to an Associate on his or her own orders are captured and reported as a reduction to net sales in the form of a sales discount. Management estimates, based on the structure of USANA's Compensation Plan, that an Associate who places an order with sales volume points in a personal sales position will eventually be paid commission on that purchase. Such reduction of revenue for Associates outside of the United States is converted to U.S. Dollars at the average currency exchange rate for the applicable period.

We collect an annual renewal fee from our Associates that is deferred when it is collected and is recognized as income on a straight-line basis over the subsequent twelve-month period.

Allowance for Inventory Valuation. Inventories are stated at the lower of cost or market, using the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. An allowance for inventory valuation is maintained and is based on the difference between the cost of the inventory and its estimated market value. To estimate the allowance, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could result in additional reserves. At January 3, 2009 and January 2, 2010, our allowance for inventory valuation totaled 10.8% and 7.5% of gross inventory, respectively. Actual write-offs have not varied materially from the allowance.

Impairment of Long-Lived Assets and Goodwill. Long-lived assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. A long-lived asset other than goodwill is considered to be impaired when the carrying amount of an asset exceeds its fair value. Events or changes in circumstances that would indicate the need for impairment testing include, among other factors: operating losses; unused capacity; market value declines; technological developments resulting in obsolescence; changes in demand for products manufactured; changes in competition and competitive practices; uncertainties associated with the world economies; and changes in governmental regulations or actions.

Goodwill represents the excess of purchase price paid over the fair market value of identifiable net assets of companies acquired. Each company for which goodwill has been recognized was acquired in the United States. Goodwill is not amortized, but rather it is tested at least annually for impairment (or more frequently if triggering events or changes in circumstances indicate impairment). An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. In order to estimate the fair value of goodwill, we primarily use the discounted cash flow model, known as the income approach. The income approach requires the use of estimates and assumptions in projecting future operating results and related cash flows. The determination of impairment is made at the reporting unit level and consists of two steps. The first step involves testing for impairment of goodwill by estimating the fair values of reporting units. If the carrying amount of goodwill exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. Fair value of each of the acquired subsidiaries at January 2, 2010 was greater than the carrying amount; therefore, no impairment was recorded.

Accounting for Income Taxes. We calculate income taxes in each of the jurisdictions in which we operate. This process involves estimating our current tax exposure, together with assessing temporary differences for items treated differently for tax and financial reporting. We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or cash flows. Additional information is available in Note E to the Consolidated Financial Statements herein.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year, and we record a quarterly income tax provision in accordance with this anticipated effective rate. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This estimation process periodically results in changes to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

Equity-Based Compensation. We record compensation expense in the financial statements for equity-based awards based on the grant date fair value and an estimate of forfeitures derived from historical experience. Equity-based compensation expense is recognized on a straight-line basis over the requisite service period, which is generally the vesting period. For more information regarding the assumptions and estimates used in calculating this equity-based compensation expense, see Note K to the Consolidated Financial Statements herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our earnings, cash flows, and financial position are affected by fluctuations in currency exchange rates, interest rates, and other uncertainties that are inherent in doing business and selling product in more than one currency. In addition, our operations are exposed to risks that are associated with changes in social, political, and economic conditions in our international operations. This includes changes in the laws and policies that govern investment in international countries where we have operations, as well as, to a lesser extent, to changes in United States laws and regulations relating to international trade and investment.

Foreign Currency Risks. Net sales outside the United States represented 59.9%, 62.4%, and 65.3% of our net sales in 2007, 2008, and 2009, respectively. Because a significant portion of our sales are generated outside the United States, currency exchange rate fluctuations may have a significant effect on our sales and earnings. This risk is partially mitigated by the fact that our sales are spread across 14 countries, with Canada being our largest international market at 15.1% of net sales in 2009, followed by Hong Kong (where the local currency is tied to the U.S. dollar) at 13.6%. The local currency of each international subsidiary is considered the functional currency, with all revenue and expenses being translated at weighted-average currency exchange rates for the applicable periods. In general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Changes in currency exchange rates may also affect our product margins, because we manufacture the majority of our products in the U.S. and sell them to our international subsidiaries in their respective functional currencies. We are unable to reasonably estimate the effect that currency fluctuations may have on our future business, results of operations, or financial condition. This is due to the uncertainty in, and the varying degrees and type of exposure that we face from, fluctuations in various currencies.

At times we have sought to reduce exposure to fluctuations in currency exchange rates by creating offsetting positions through the use of currency exchange contracts on cash that we repatriate. We do not use derivative financial instruments for trading or speculative purposes. From time-to-time we use currency exchange contracts, which includes the purchase of put and call options, giving us the right, but not the obligation, to sell or buy international currency at a specified exchange rate ("strike price"). These contracts provide protection in the event that the currency weakens beyond the option strike price. The fair value of these contracts is estimated based on period-end quoted market prices, and the resulting asset and expense, which historically has not been material, is recognized in our Consolidated Financial Statements. We have also considered the costs and benefits of managing currency impacts on net sales and certain balance sheet items. There can be no assurance that our practices will be successful in eliminating all or substantially all of the risks that may be encountered in connection with our currency transactions. As of January 2, 2010, we had no currency exchange contracts in place.

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Following are the average exchange rates of currency units to one U.S. dollar for each of our international markets for the quarterly periods indicated:

	2007				2008				2009			
	First	Second	Third	Fourth	First	Second	Third	Fourth	First	Second	Third	Fourth
Canadian Dollar	1.17	1.10	1.05	0.98	1.00	1.01	1.04	1.20	1.24	1.16	1.09	1.06
Australian Dollar	1.27	1.20	1.18	1.12	1.11	1.06	1.12	1.48	1.50	1.31	1.20	1.10
New Zealand Dollar	1.44	1.35	1.34	1.31	1.27	1.29	1.40	1.72	1.87	1.65	1.48	1.36
Hong Kong Dollar	7.81	7.82	7.81	7.78	7.79	7.80	7.80	7.75	7.75	7.75	7.75	7.75
Japanese Yen	119.32	120.77	117.77	113.11	105.39	104.45	107.63	95.90	93.83	97.09	93.28	90.38
New Taiwan Dollar	32.91	33.13	32.92	32.42	31.56	30.44	31.14	32.93	33.98	33.11	32.75	32.36
Korean Won	938.98	928.88	927.50	920.95	954.48	1,016.0	1,058.7	1,346.5	1,411.3	1,250.0	1,234.6	1,174.6
Singapore Dollar	1.53	1.52	1.52	1.45	1.41	1.37	1.40	1.48	1.51	1.47	1.44	1.40
Mexican Peso	11.02	10.88	10.96	10.85	10.81	10.43	10.30	12.98	14.35	13.28	13.29	13.21
Chinese Yuan	7.76	7.68	7.56	7.43	7.17	6.96	6.84	6.84	6.84	6.83	6.83	6.83
Malaysian Ringitt	3.50	3.43	3.47	3.36	3.23	3.21	3.33	3.54	3.63	3.54	3.52	3.40
Philippine Peso	*	*	*	*	*	*	*	*	47.68	47.62	48.06	46.98

*
USANA operations had not commenced during period indicated.

Interest Rate Risks. As of January 2, 2010, we had a balance of $7.0 million outstanding on our line of credit, with a weighted-average interest rate of 1.23%. This interest rate is computed at the bank's Prime Rate, or LIBOR, adjusted by features specified in our loan agreements, with fixed rate term options of up to six months. The annual impact on after-tax expense of a 100-basis-point increase in the interest rate on the above balance would not materially affect our earnings. If, however, we are unable to meet the covenants in our loan agreement, we would be required to renegotiate the terms of credit under the loan agreement, including the interest rate. There can be no assurance that any renegotiated terms of credit would not materially impact our earnings.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Supplementary Data required by this Item are set forth at the pages indicated at Item 15 below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

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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 the disclosure controls and procedures were effective to provide reasonable assurance as of January 2, 2010.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rule 13a-15(f) under the Exchange Act). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- Provide reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of January 2, 2010. In making this assessment, management used the criteria that have been set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on its assessment, using those criteria, management concluded that, as of January 2, 2010, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of January 2, 2010, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the quarter ended January 2, 2010, that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 14. Principal Accounting Fees and Services

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Form:

1. *Financial Statements*

2. *Financial Statement Schedules.*

For the years ended December 29, 2007, January 3, 2009, and January 2, 2010
Schedule II Valuation and Qualifying Accounts

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3. *Exhibits.*

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)
3.2	Bylaws (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)
4.1	Specimen Stock Certificate for Common Stock (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 USANA Health Sciences, Inc. Stock Option Plan (incorporated by reference to Annual Report on Form 10-K, filed March 6, 2006)*
10.3	Form of employee incentive stock option agreement under the 2002 USANA Health Sciences, Inc. Stock Option Plan (incorporated by reference to Annual Report on Form 10-K, filed March 6, 2006)*
10.4	Credit Agreement, dated as of June 16, 2004, by and between Bank of America, N.A. and USANA Health Sciences, Inc. (incorporated by reference to Quarterly Report on Form 10-Q for the period ended July 3, 2004, filed August 5, 2004)
10.5	Amendment to Credit Agreement, dated as of May 17, 2006 (incorporated by reference to Quarterly Report on Form 10-Q for the period ended July 1, 2006, filed August 8, 2006)
10.6	Amendment to Credit Agreement, dated as of April 24, 2007 (incorporated by reference to Quarterly Report on Form 10-Q for the period ended March 31, 2007, filed May 7, 2007)
10.7	USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current 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 Current 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 Current Report on Form 8-K, filed April 26, 2006)*
10.10	Form of Incentive Stock Option Agreement for award of incentive stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.11	Form of Stock-Settled Stock Appreciation Rights Award Agreement for award of stock-settled stock appreciation rights to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.12	Form of Stock-Settled Stock Appreciation Rights Award Agreement for award of stock-settled stock appreciation rights to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*

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Exhibit Number	Description
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 Current 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 Current Report on Form 8-K, filed May 24, 2006)*
11.1	Computation of Net Income per Share (included in Notes to Consolidated Financial Statements)
14	Code of Ethics of USANA Health Sciences, Inc. (posted on the Company's Internet web site at www.usanahealthsciences.com)
21	Subsidiaries of the Registrant, as of March 8, 2010 (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP) (filed herewith)
31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)

* Denotes a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ DAVID A. WENTZ

David A. Wentz
Chief Executive Officer

Date: March 17, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MYRON W. WENTZ Myron W. Wentz, PhD	Chairman	March 17, 2010
/s/ DAVID A. WENTZ David A. Wentz	Chief Executive Officer (Principal Executive Officer)	March 17, 2010
/s/ RONALD S. POELMAN Ronald S. Poelman	Director	March 17, 2010
/s/ ROBERT ANCIAUX Robert Anciaux	Director	March 17, 2010
/s/ JERRY G. MCCLAIN Jerry G. McClain	Director	March 17, 2010
/s/ GILBERT A. FULLER Gilbert A. Fuller	Director	March 17, 2010
/s/ JEFFREY A. YATES Jeffrey A. Yates	Chief Financial Officer (Principal Financial and Accounting Officer)	March 17, 2010

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REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
USANA Health Sciences, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, stockholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of USANA Health Sciences, Inc. and its subsidiaries at January 2, 2010 and January 3, 2009, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Salt Lake City, UT
March 15, 2010

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	As of January 3, 2009	As of January 2, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,281	$ 13,658
Inventories	23,879	25,761
Prepaid expenses and other current assets	12,657	10,391
Deferred income taxes	2,857	2,116
Total current assets	52,674	51,926
Property and equipment, net	56,762	57,241
Assets held for sale	607	
Goodwill	5,690	5,690
Other assets	6,839	8,581
	$ 122,572	$ 123,438
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 6,879	$ 5,810
Other current liabilities	47,655	34,668
Total current liabilities	54,534	40,478
Line of credit	34,990	7,000
Other long-term liabilities	1,212	1,587
Stockholders' equity		
Common stock, $0.001 par value; Authorized 50,000 shares, issued and outstanding 15,350 as of January 3, 2009 and 15,309 as of January 2, 2010	15	15
Additional paid-in capital	8,089	16,425
Retained earnings	24,107	56,410
Accumulated other comprehensive income (loss)	(375)	1,523
Total stockholders' equity	31,836	74,373
	$ 122,572	$ 123,438

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

	Year ended		
	2007	**2008**	**2009**
Net sales	$ 423,149	$ 429,012	$ 436,940
Cost of sales	87,891	88,878	89,803
Gross profit	335,258	340,134	347,137
Operating expenses:			
Associate incentives	170,383	178,309	196,363
Selling, general and administrative	94,174	113,828	99,983
Total operating expenses	264,557	292,137	296,346
Earnings from continuing operations	70,701	47,997	50,791
Other income (expense):			
Interest income	555	249	82
Interest expense	(806)	(792)	(609)
Other, net	722	(1,133)	714
Other income (expense), net	471	(1,676)	187
Earnings from continuing operations before income taxes	71,172	46,321	50,978
Income taxes	25,530	16,376	17,422
Income from continuing operations	45,642	29,945	33,556
Loss from discontinued operations, net of tax benefit	(612)		
Net earnings	$ 45,030	$ 29,945	$ 33,556
Earnings (loss) per common share			
Basic			
Continuing operations	$ 2.73	$ 1.87	$ 2.19
Discontinued operations	(0.04)		
Net earnings	$ 2.69	$ 1.87	$ 2.19
Diluted			
Continuing operations	$ 2.65	$ 1.85	$ 2.17
Discontinued operations	(0.03)		
Net earnings	$ 2.62	$ 1.85	$ 2.17
Weighted average common shares outstanding			
Basic	16,734	16,048	15,340
Diluted	17,206	16,163	15,432

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 AND COMPREHENSIVE INCOME

Years ended December 29, 2007; January 3, 2009; and January 2, 2010

(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 30, 2006	17,859	$ 18	$ 13,391	$ 41,898	$ 355	$ 55,662
Comprehensive income						
Net earnings for the year				45,030		45,030
Foreign currency translation adjustment, net of tax expense of $385					634	634
Comprehensive income						45,664
Common stock repurchased and retired	(1,892)	(2)	(18,958)	(60,620)		(79,580)
Common stock awarded to Associates	1		47			47
Equity-based compensation expense			6,108			6,108
Common stock issued under equity award plans, including tax benefit of $1,900	230		5,048			5,048
Balance at December 29, 2007	16,198	$ 16	$ 5,636	$ 26,308	$ 989	$ 32,949
Comprehensive income						
Net earnings for the year				29,945		29,945
Foreign currency translation adjustment, net of tax benefit of $1,267					(1,364)	(1,364)
Comprehensive income						28,581
Common stock repurchased and retired	(1,116)	(1)	(7,726)	(32,146)		(39,873)
Equity-based compensation expense			7,688			7,688
Common stock issued under equity award plans, including tax benefit of $1,745	268		2,491			2,491
Balance at January 3, 2009	15,350	$ 15	$ 8,089	$ 24,107	$ (375)	$ 31,836
Comprehensive income						
Net earnings for the year				33,556		33,556
Foreign currency translation adjustment,					1,898	1,898

net of tax expense of $1,852						
Comprehensive income						35,454
Common stock repurchased and retired	(54)		(401)	(1,253)		(1,654)
Equity-based compensation expense			8,925			8,925
Common stock issued under equity award plans, including tax expense of $319	13		(188)			(188)
Balance at January 2, 2010	15,309	$ 15	$ 16,425	$ 56,410	$ 1,523	$ 74,373

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)

	Year ended		
	2007	**2008**	**2009**
Cash flows from operating activities			
Net earnings	$ 45,030	$ 29,945	$ 33,556
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	5,333	6,697	7,069
(Gain) loss on sale of property and equipment	53	(68)	(149)
Equity-based compensation expense	6,108	7,688	8,925
Excess tax benefit from equity-based payment arrangements	(1,546)	(2,372)	(11)
Common stock awarded to Associates	47		
Deferred income taxes	(1,565)	(2,435)	(2,296)
Provision for inventory valuation	1,323	1,000	824
Changes in operating assets and liabilities:			
Inventories	2,681	(7,216)	(1,123)
Prepaid expenses and other assets	(2,556)	(5,306)	1,685
Accounts payable	(3,140)	686	(1,138)
Other liabilities	6,437	17,337	(14,873)
Total adjustments	13,175	16,011	(1,087)
Net cash provided by operating activities	58,205	45,956	32,469
Cash flows from investing activities			
Receipts on notes receivable	123	726	245
Increase in notes receivable	(666)	(19)	(151)
Proceeds from sale of property and equipment	797	148	837
Purchases of property and equipment	(26,264)	(16,061)	(4,128)
Net cash used in investing activities	(26,010)	(15,206)	(3,197)
Cash flows from financing activities			
Proceeds from equity awards exercised	3,148	746	131
Excess tax benefits from equity-based payment arrangements	1,546	2,372	11
Repurchase of common stock	(79,580)	(39,873)	(1,654)
Borrowings on line of credit	104,093	85,020	57,020
Payments on line of credit	(76,093)	(78,030)	(85,010)
Net cash used in financing activities	(46,886)	(29,765)	(29,502)
Effect of exchange rate changes on cash and cash equivalents	527	(569)	607
Net increase (decrease) in cash and cash equivalents	(14,164)	416	377
Cash and cash equivalents, beginning of year	27,029	12,865	13,281
Cash and cash equivalents, end of year	$ 12,865	$ 13,281	$ 13,658
Supplemental disclosures of cash flow information			
Cash paid during the year for:			

Interest, net of amount capitalized	$ 659	$ 714	$ 552
Income taxes	25,421	19,968	22,817

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The accounting and reporting policies of USANA Health Sciences, Inc. and its subsidiaries (the Company) conform with accounting principles generally accepted in the United States of America (US GAAP).

Principles of consolidation

The Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly owned subsidiaries in two geographic regions: North America and Asia Pacific, which is further divided into three sub-regions; Southeast Asia/Pacific, East Asia, and North Asia. North America includes the United States, Canada, Mexico, and direct sales from the United States to the United Kingdom and the Netherlands. Southeast Asia/Pacific includes Australia, New Zealand, Singapore, Malaysia, and the Philippines; East Asia includes Hong Kong and Taiwan; and North Asia includes Japan and South Korea. All significant inter-company accounts and transactions have been eliminated in this consolidation.

Business activity

The Company 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") throughout the United States, Canada, Mexico, the United Kingdom, the Netherlands, Australia, New Zealand, Singapore, Malaysia, the Philippines, Hong Kong, Taiwan, Japan, and South Korea. No single Associate accounted for more than 10% of net sales for the years ended 2007, 2008, or 2009. An immaterial amount of third-party manufacturing is conducted at the Company's facility located in Tianjin, China.

Prior to the 2007 sale of assets that were related to its third-party contract manufacturing business, the Company operated two reportable business segments: Direct Selling and Contract Manufacturing. The Company's financial results have since been adjusted to reflect the reclassification of sales and related expenses in the former Contract Manufacturing segment to "discontinued operations." Further information on this sale can be found in Note B Discontinued Operations.

Fiscal year

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 2007 and 2009 were 52-week years. Fiscal year 2008 was a 53-week year. Fiscal year 2007 covered the period December 31, 2006 to December 29, 2007 (hereinafter 2007). Fiscal year 2008 covered the period December 30, 2007 to January 3, 2009 (hereinafter 2008). Fiscal year 2009 covered the period January 4, 2009 to January 2, 2010 (hereinafter 2009).

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Significant estimates for the Company relate to revenue recognition, obsolescence, goodwill, equity-based compensation, and income taxes. Actual results could differ from

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

those estimates. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Fair value of financial instruments

The Company's financial instruments include: cash and cash equivalents, accounts receivable, accounts payable, and line of credit. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values, based on their short-term nature. The recorded value of the line of credit approximates fair value as interest adjusts to market based on LIBOR and prime rates.

Translation of foreign currencies

The functional currency of the Company's foreign subsidiaries is the local currency of their country of domicile. Assets and liabilities of the foreign subsidiaries are translated into U.S. dollar amounts at month-end exchange rates. Revenue and expense accounts are translated at the weighted-average rates for the monthly accounting period to which they relate. Equity accounts are translated at historical rates. Foreign currency translation adjustments are accumulated as a component of other comprehensive income. Foreign currency gains and losses resulting from intercompany transactions are included in the "Other, net" component of Other income (expense) in the Company's consolidated statements of earnings.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company is required to maintain cash deposits with banks in certain subsidiary locations for various operating purposes.

Inventories

Inventories consist of raw materials, work in progress and finished goods and are stated at the lower of cost or market, using the first-in, first-out method.

Income taxes

The Company accounts for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the differences between the financial statement assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the "more-likely-than-not" criteria for recognition. The Company recognizes interest and penalties related

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

to unrecognized tax benefits in income taxes. Deferred taxes are not provided on the portion of undistributed earnings of subsidiaries outside of the United States when these earnings are considered permanently reinvested. At January 2, 2010, taxes had not been provided on $1,600 of accumulated undistributed earnings of subsidiaries that has been or is intended to be permanently reinvested.

Interest cost capitalized

The Company capitalizes interest cost that it has incurred on funds that it has used to construct property, plant, and equipment. This capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life once placed in service.

Property and equipment

Property and equipment are recorded at cost. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the related assets. The straight-line method of depreciation and amortization is followed for financial statement purposes. Leasehold improvements are amortized over the shorter of the life of the respective lease or the useful life of the improvements. Property and equipment are reviewed for impairment whenever triggering events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets of acquired companies. Goodwill is not amortized, but rather is tested at least annually for impairment (or more frequently if triggering events or changes in circumstances indicate impairment). The first step involves comparing the fair value of a reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves comparing the implied fair value to the carrying amount of the goodwill of that reporting unit. If the carrying amount of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Fair value of each of the acquired subsidiaries at January 2, 2010 was greater than the carrying amount; therefore, no impairment was recorded.

Self insurance

The Company is self-insured, up to certain limits, for employee group health claims. The Company has purchased stop-loss insurance on both an individual and an aggregate basis, which will reimburse the Company for individual claims in excess of $1,000 and aggregate claims that are greater than 125% of projected claims. The Company's recorded expense includes an estimate for claims that have been incurred but not billed. A liability is accrued and reflected in the Balance Sheet for all unpaid and unbilled claims. Total expense under this self insurance program was $3,499, $3,983 and $3,355 in 2007, 2008 and 2009, respectively.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Common stock and additional paid-in capital

The Company records cash that it receives upon the exercise of equity awards by crediting common stock and additional paid-in capital. The Company received $3,148, $746, and $131 in cash proceeds from the exercise of equity awards in 2007, 2008, and 2009, respectively. The Company also realizes an income tax benefit from the exercise of certain equity awards. For equity awards earned prior to January 1, 2006, this tax benefit resulted in a decrease in current income taxes payable and an increase in additional paid-in capital. For equity awards earned after January 1, 2006, the tax benefits are recorded in accordance with ASC 718-740, "Compensation-Stock Compensation." Under ASC 718-740, the Company establishes deferred tax assets for the value of certain equity awards. Upon exercise, the deferred tax assets are reversed and the difference between the deferred tax assets and the realized tax benefit creates a tax windfall or shortfall that increases or decreases the additional paid-in capital pool ("APIC Pool"). If the APIC Pool is reduced to zero, additional shortfalls are treated as a current tax expense. The total tax benefit recorded in additional paid-in capital was $1,900 in 2007 and $1,745 in 2008. The total tax expense recorded in additional paid-in capital was $319 in 2009.

The Company has a stock repurchase plan in place that has been authorized by the Board of Directors. As of January 2, 2010, $8,736 was available to repurchase shares under this plan.

Revenue recognition and deferred revenue

The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders. Sales and related fees such as shipping and handling, net of applicable sales discounts, are recorded as revenue when the product is delivered and when title and the risk of ownership passes to the customer. Payments received for unshipped products are recorded as deferred revenue and are included in other current liabilities. Certain incentives offered to Associates, including sales discounts, are classified as a reduction of revenue. A provision for product returns and allowances is recorded and is founded on historical experience. Additionally, the Company collects an annual account renewal fee from Associates that is deferred on receipt and is recognized as income on a straight-line basis over the subsequent twelve-month period.

Taxes that have been assessed by governmental authorities and that are directly imposed on revenue-producing transactions between the Company and its customers, including sales, use, value-added, and some excise taxes, are presented on a net basis (excluded from net sales).

Product return policy

All product that is returned within the first 30 days following purchase is refunded at 100% of the sales price to retail customers and Preferred Customers. This 30-day return policy is offered to Associates only on their first order. All other returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price less a 10% restocking fee.

According to the terms of the Associate agreement, return of product where the purchase amount exceeds one hundred dollars and was not damaged at the time of receipt by the Associate may result in cancellation of the Associate's distributorship. Depending upon the conditions under which product was returned Associates and Preferred Customers may either receive a refund based on their original form

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of payment, or credit on account for a product exchange. Product returns totaled approximately 1.5%, 1.6%, and 1.6% of net sales during fiscal years 2007, 2008, and 2009, respectively.

Shipping and handling costs

The Company's shipping and handling costs are included in cost of sales for all periods presented.

Associate incentives

Associate incentives expenses include all forms of commissions, compensation, and other incentives paid to our Associates.

Selling, general and administrative

Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate event costs, advertising and professional fees, marketing, and research and development expenses.

Equity-based compensation

The Company records compensation expense in the financial statements for equity-based awards based on the grant date fair value and an estimate of forfeitures derived from historical experience. Equity-based compensation expense is recognized under the straight-line method over the period that service is provided, which is generally the vesting term. Further information regarding equity awards can be found in Note K Equity-Based Compensation.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled $1,219 in 2007, $1,583 in 2008 and $1,575 in 2009.

Research and development

Research and development costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Research and development expense totaled $3,363 in 2007, $3,306 in 2008 and $3,626 in 2009.

Earnings per share

Basic earnings per common share (EPS) are based on the weighted-average number of common shares that were outstanding during each period. Diluted earnings per common share are based on shares that were outstanding (computed as under basic EPS) and potentially dilutive common shares. Potential common shares that are included in the diluted earnings per share calculation include in-the-money, equity-based awards that have been granted but have not been exercised.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently adopted accounting pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued ASC 855, "Subsequent Events," which establishes general accounting standards and disclosure for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted ASC 855 during the second quarter ended July 4, 2009, and its application had no impact on the Company's consolidated financial statements.

In June 2009, the FASB issued ASC 105, "Generally Accepted Accounting Principles," which establishes the "FASB Accounting Standards Codification " (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also sources of authoritative GAAP for SEC registrants. ASC 105 is effective for interim and annual financial periods ending after September 15, 2009. The Company adopted ASC 105 during the third quarter ended October 3, 2009. The adoption had no impact on the Company's consolidated financial statements. All prior references to previous GAAP in the Company's consolidated financial statements were updated with new references under the Codification.

Recently issued accounting pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 addresses the accounting for sales arrangements that include multiple products or services by revising the criteria for when deliverables may be accounted for separately rather than as a combined unit. Specifically, this guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is necessary to separately account for each product or service. This hierarchy provides more options for establishing selling price than existing guidance. ASU 2009-13 is required to be applied prospectively to new or materially modified revenue arrangements in fiscal periods beginning on or after June 15, 2010. The Company does not expect adoption of this standard to have a material impact on its consolidated financial statements.

NOTE B DISCONTINUED OPERATIONS

Consistent with the Company's long-term objectives of focusing on its Direct Selling Segment, on June 5, 2007, the Company adopted a plan to discontinue the operations of its third-party contract manufacturing business at its Draper, Utah facility. On August 10, 2007, the Company completed the sale of certain assets of its third-party contract manufacturing business, including inventory, property and equipment, and accounts receivable, for a total of $3,444 consisting of $800 cash received at closing and notes receivable of $2,644. The Company retained assets that are associated with manufacturing and packaging its Sensé skin and beauty care products and continues to manufacture these products at the Draper, Utah facility.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE B DISCONTINUED OPERATIONS (Continued)

The results of the third-party contract manufacturing operations have been classified as "discontinued operations" for all relevant periods. There are no reported discontinued operations beyond the year ended December 29, 2007. The Company's sales reported in discontinued operations for the year ended December 29, 2007 were $4,460.

The following table shows the composition of discontinued operations on the Consolidated Statement of Earnings for 2007.

	Year ended 2007
Loss from discontinued operations	$ (938)
Income tax benefit	343
Loss from disposal, included in other income (expense)	(17)
Loss from discontinued operations (net of tax benefit)	$ (612)

NOTE C INVENTORIES

Inventories consist of the following:

	January 3, 2009	January 2, 2010
Raw materials	$ 7,063	$ 6,785
Work in progress	5,412	5,003
Finished goods	11,404	13,973
	$ 23,879	$ 25,761

NOTE D PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	January 3, 2009	January 2, 2010
Prepaid insurance	$ 1,393	$ 1,165
Other prepaid expenses	1,458	2,263
Federal income taxes receivable	3,759	505
Miscellaneous receivables, net	3,182	2,775
Deferred commissions	2,174	2,738
Other current assets	691	945
	$ 12,657	$ 10,391

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE E INCOME TAXES

Income tax expense (benefit) included in income from continuing operations consists of the following:

	Year ended		
	2007	**2008**	**2009**
Current			
Federal	$ 21,108	$ 16,793	$ 15,116
State	2,267	2,006	1,091
Foreign	3,416	1,041	1,800
	26,791	19,840	18,007
Deferred			
Federal	(1,064)	(3,268)	(326)
State	(75)	(117)	(18)
Foreign	(122)	(79)	(241)
	$ 25,530	$ 16,376	$ 17,422

The income tax provision, as reconciled to the tax computed at the federal statutory rate of 35% for 2007, 2008 and 2009, is as follows:

	Year ended		
	2007	**2008**	**2009**
Federal income taxes at statutory rate	$ 24,910	$ 16,212	$ 17,842
State income taxes, net of federal tax benefit	1,762	959	1,032
Difference between U.S. statutory rate and foreign rate	(15)	20	(108)
Qualified production activities deduction	(991)	(695)	(979)
Research tax credit	(436)		(438)
Equity-based compensation incentive stock options	175	57	64
Non-deductible VAT Expense	133		
All other, net	(8)	(177)	9
	$ 25,530	$ 16,376	$ 17,422

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE E INCOME TAXES (Continued)

Deferred tax assets and liabilities consist of the following:

	January 3, 2009	January 2, 2010
Current deferred tax assets (liabilities)		
Inventory capitalization	$ 640	$ 802
Intercompany sales	333	440
Prepaid expenses	(1,281)	(1,439)
Vacation accrual	1,162	541
Provision for inventory valuation	1,068	770
Allowance for bad debts	100	158
Sales returns and allowances	407	413
Distributor accruals	138	128
All other, net	290	303
	$ 2,857	$ 2,116
Long-term deferred tax assets (liabilities), included in other assets		
Accumulated depreciation/amortization	$ (914)	$ (1,373)
Accumulated other comprehensive income	438	(981)
Equity based compensation	5,329	8,421
All other, net	85	197
	$ 4,938	$ 6,264

The Company files income tax returns in the U.S. federal jurisdiction and in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2005. A reconciliation of the beginning and ending amount of unrecognized tax benefits included in other long-term liabilities is as follows:

	2008	2009
Beginning balance	$ 1,678	$ 425
Additions based on tax positions related to the current year	39	111
Additions for tax positions of prior years		144
Settlements	(889)	
Lapse of statute	(403)	(135)
Ending balance	$ 425	$ 545

The Company anticipates that it is reasonably possible that unrecognized tax benefits, including interest and penalties, of up to $304 could be recognized within the next twelve months due to the lapse of the applicable statute of limitations. Recognition of these uncertain tax positions or any uncertain tax position that is included in the January 2, 2010 balance would result in an adjustment to the Company's effective tax rate.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE E INCOME TAXES (Continued)

The Company records interest and penalties accrued related to unrecognized tax benefits in income taxes. In 2009, the Company recognized $3 in interest and penalties, compared to $27 in 2008 and $121 in 2007. The Company has accrued $84 and $81 for the payment of interest and penalties at the end of 2009 and 2008, respectively.

NOTE F PROPERTY AND EQUIPMENT

Cost of property and equipment and their estimated useful lives is as follows:

	Years	January 3, 2009	January 2, 2010
Buildings	40	$ 35,635	$ 37,346
Laboratory and production equipment	5 - 7	14,414	16,242
Sound and video library	5	600	600
Computer equipment and software	3 - 5	24,626	27,419
Furniture and fixtures	3 - 5	4,474	4,561
Automobiles	3 - 5	201	256
Leasehold improvements	3 - 5	3,871	4,478
Land improvements	15	1,979	2,025
		85,800	92,927
Less accumulated depreciation and amortization		36,717	43,714
		49,083	49,213
Land		6,224	7,352
Deposits and projects in process		1,455	676
		$ 56,762	$ 57,241

During 2007 and 2008, the Company utilized its line of credit to expand its facilities in Salt Lake City, Utah, and in Sydney, Australia. The interest expense associated with these projects has been capitalized as part of the asset to which it relates and will be amortized over the asset's estimated useful life. Total interest expense incurred during 2008 and 2009 was $1,212 and $609, respectively, of which $420 was capitalized in 2008, and $0 in 2009.

NOTE G GOODWILL

Goodwill represents the excess of the purchase price paid of acquired entities over the fair market value of the net assets acquired. As of January 2, 2010, goodwill totaled $5,690, comprising $4,267 that was associated with the July 1, 2003 acquisition of Wasatch Products Development and $1,423 that was associated with the February 1, 2004 acquisition of FMG. Fair value of each of the acquired subsidiaries at January 2, 2010 was greater than the carrying amount; therefore, no impairment was recorded.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE H OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	January 3, 2009	January 2, 2010
Associate incentives	$ 6,498	$ 8,008
Accrued employee compensation	11,212	8,508
Income taxes	6,243	284
Sales taxes	3,923	3,683
Associate promotions	607	1,026
Deferred revenue	6,588	7,387
Provision for returns and allowances	1,101	1,115
Arbitration award	7,020	
All other	4,463	4,657
	$ 47,655	$ 34,668

NOTE I LONG-TERM DEBT AND LINE OF CREDIT

The Company has a $40,000 line of credit. At January 2, 2010, there was an outstanding balance of $7,000 associated with the line of credit, with a weighted-average interest rate of 1.23%. The interest rate is computed at the bank's Prime Rate or LIBOR, adjusted by features specified in the Credit Agreement. The collateral for this line of credit is the pledge of the capital stock of certain subsidiaries of the Company, as set forth in a separate pledge agreement with the bank. The Credit Agreement contains restrictive covenants based on adjusted EBITDA and a debt coverage ratio. The Company will be required to pay the balance on this line of credit in full at the time of maturity in May 2011 unless the line of credit is replaced or terms are renegotiated.

NOTE J COMMITMENTS AND CONTINGENCIES

1. *Operating leases*

With the exception of the Company's headquarters and Australian facility, facilities are generally leased. Each of the facility lease agreements is a non-cancelable operating lease generally structured with renewal options and expires prior to or during 2015. The Company utilizes equipment under non-cancelable operating leases, expiring through 2014. The minimum rental commitments under operating leases at January 2, 2010 are as follows:

Year ending	
2010	$ 3,269
2011	1,841
2012	735
2013	373
2014	140
2015	24
	$ 6,382

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE J COMMITMENTS AND CONTINGENCIES (Continued)

These leases generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. Such expenses are not included in the operating lease amounts outlined in the table above or in the rent expense amounts that follow. The total rent expense for the years ended 2007, 2008, and 2009 was approximately $4,530, $4,283, and $4,109, respectively.

2. *Contingencies*

The Company is involved in various lawsuits and disputes arising in the normal course of business. In the opinion of management, based upon advice of counsel, the likelihood of an adverse outcome against the Company is remote. As such, management believes that the ultimate outcome of these lawsuits will not have a material impact on the Company's financial position or results of operations.

3. *Employee Benefit Plan*

The Company sponsors an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers employees who are at least 18 years of age and have met a one-month service requirement. The Company makes a matching contribution equal to 100 percent of the first one percent of a participant's compensation that is contributed by the participant, and 50 percent of that deferral that exceeds one percent of the participant's compensation, not to exceed six percent of the participant's compensation, subject to the limits of ERISA. In addition, the Company may make a discretionary contribution based on earnings. The Company's matching contributions cliff vest at two years of service. Contributions made by the Company to the plan in the United States for the years ended 2007, 2008, and 2009 were $622, $966, and $879, respectively. The 401(k) match balances for 2007, 2008, and 2009 were decreased by $8, $23, and $0, respectively, due to the application of prior year forfeitures of the unvested balances of terminated employees.

NOTE K EQUITY-BASED COMPENSATION

Equity-based compensation expense relating to equity awards granted under the current and previous plans of the Company, together with the related tax benefit recognized in earnings for the periods indicated is as follows:

	Year ended		
	2007	2008	2009
Cost of sales	$ 650	$ 787	$ 674
Selling, general and administrative	5,458	6,901	8,251
	6,108	7,688	8,925
Related tax benefit	2,104	2,777	3,255
Net equity-based compensation expense	$ 4,004	$ 4,911	$ 5,670

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K EQUITY-BASED COMPENSATION (Continued)

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of January 2, 2010. This table does not include an estimate for future grants that may be issued.

2010	$ 8,238
2011	6,820
2012	5,450
2013	2,738
2014	132
	$ 23,378

The cost above is expected to be recognized over a weighted-average period of 2 years.

The Company's 2006 Equity Incentive Award Plan (the "2006 Plan"), which was approved by the shareholders at the Annual Shareholders' Meeting held on April 19, 2006, allows for the grant of various equity awards, including stock-settled stock appreciation rights, stock options, deferred stock units, and other types of equity-based awards, to the Company's officers, key employees, and non-employee directors. Prior to the approval of the 2006 Plan, the Company maintained the 2002 Stock Option Plan (the "2002 Plan"), which was limited to the granting of incentive and non-qualified stock options. Options granted under the 2002 Plan generally vest 20% each year on the anniversary of the grant date and expire five to ten years from the date of grant. The 2006 Plan replaced the 2002 Plan for all future grants, and no awards have been granted under the 2002 Plan since the approval of the 2006 Plan. The 2006 Plan authorized 5,000 shares of common stock for issuance. As of January 2, 2010, 3,723 awards had been granted under the 2006 Plan, of which 3,701 were stock-settled stock appreciation rights, 8 were stock options, and 14 were deferred stock units. The Company's Compensation Committee has initially determined that awards to be granted to officers and key employees under the 2006 Plan will generally vest 20% each year on the anniversary of the grant date and expire five to five and one-half years from the date of grant.

Awards of stock options and stock-settled stock appreciation rights to be granted to non-employee directors will generally vest 25% each quarter, commencing on the last day of the fiscal quarter in which the awards are granted, and will expire five years to five and one-half years from the date of grant. Awards of deferred stock units are full-value shares at the date of grant, vesting over the periods of service, and do not have expiration dates.

The Company recognizes equity-based compensation expense under the straight-line method over the vesting term based on the grant date fair value and an estimate of forfeitures derived from historical experience. The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards, which requires the input of highly subjective assumptions, including expected stock price volatility. For awards granted by the Company prior to 2008, expected volatility was calculated by averaging the historical volatility of the Company and a peer group index. Beginning in 2008, expected volatility became a weighted-average of historical volatility and implied volatility of the Company. The risk-free interest rate is based on the U.S. Treasury yield curve on the date of grant with respect to the expected life of the award. For awards granted prior to 2008, the simplified method was used to determine expected life. Beginning in 2008, expected life became a weighted-average that

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K EQUITY-BASED COMPENSATION (Continued)

includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards.

The following table includes weighted-average assumptions that the Company has used to calculate the fair value of equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date of grant and have been excluded from the table below.

	Year ended		
	2007	**2008**	**2009**
Expected volatility	41.9%	37.3%	43.5%
Risk-free interest rate	4.6%	3.2%	1.8%
Expected life	4.2 yrs.	4.0 yrs.	4.0 yrs.
Expected dividend yield	0.0%	0.0%	0.0%
Weighted-average grant price	$ 42.21	$ 26.74	$ 28.09

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

	Shares	Weighted-average grant price	Weighted-average remaining contractual term	Aggregate intrinsic value*
Outstanding at December 30, 2006	1,720	$ 27.15	5.8	$ 42,172
Granted	464	42.21		
Exercised	(230)	13.67		
Canceled or expired	(90)	35.06		
Outstanding at December 29, 2007	1,864	$ 32.18	4.9	$ 12,606
Granted	2,752	26.74		
Exercised	(271)	3.18		
Canceled or expired	(101)	41.48		
Outstanding at January 3, 2009	4,244	$ 30.28	4.7	$ 21,382
Granted	150	28.09		
Exercised	(31)	25.24		
Canceled or expired	(96)	29.32		
Outstanding at January 2, 2010	4,267	$ 30.26	3.8	$ 17,173
Exercisable at December 29, 2007	782	$ 24.51	5.6	$ 10,562
Exercisable at January 3, 2009	793	$ 35.20	4.7	$ 1,845
Exercisable at January 2, 2010	1,564	$ 32.61	3.7	$ 4,601

*
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 the awards that were in-the-money.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K EQUITY-BASED COMPENSATION (Continued)

The weighted-average fair value of stock options and stock-settled stock appreciation rights that were granted in 2007, 2008, and 2009 was $16.81, $8.93, and $10.30, respectively. The total intrinsic value of equity awards that were exercised during 2007, 2008, and 2009, which include stock options and stock-settled stock appreciation rights, was $8,430, $8,781, and $222, respectively.

Additional information about stock options and stock-settled stock appreciation rights outstanding at January 2, 2010 is summarized below:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$0.74 - $3.20	28	2.1 years	$ 0.81	28	$ 0.81
19.42 - 24.99	34	4.5 years	23.52	9	19.42
26.06 - 29.04	2,814	4.1 years	26.25	677	26.73
30.36 - 36.89	175	3.5 years	33.69	125	32.50
37.60 - 39.54	703	3.3 years	38.64	539	38.74
40.35 - 60.70	513	3.2 years	41.65	187	41.76
$0.74 - $60.70	4,267	3.8 years	$ 30.26	1,565	$ 32.61

The total fair value of equity awards that vested during fiscal years 2007, 2008, and 2009 was $5,226, $5,984, and $10,386, respectively. This total fair value includes equity-based awards issued in the form of stock options, stock-settled stock appreciation rights, and deferred stock units. The Company issues new shares of common stock upon the exercise of equity awards.

NOTE L DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company designates certain derivatives, such as certain currency option and forward contracts, as freestanding derivatives for which hedge accounting does not apply. The changes in the fair market value of the derivatives are included in "Other, net" in the Company's consolidated statements of earnings. The fair value of any option or forward contract is based on period-end quoted market prices. The Company does not use derivative financial instruments for trading or speculative purposes. The use of currency exchange contracts includes the purchase of put and call options, which give the Company the right, but not the obligation, to sell or buy international currency at a specified exchange rate ("strike price"). In addition, the Company has used forward contracts to supplement its use of options. The Company's objective in using currency exchange contracts has been to reduce the impact of currency fluctuations on cash that it repatriates. The Company has also considered the costs and benefits of managing currency impacts on net sales and certain balance sheet items. The Company did not enter into any currency exchange contracts during the year ended January 2, 2010. Historically, the exercise of currency contracts has not had a material impact on the Company's consolidated statements of earnings.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE M COMPREHENSIVE INCOME

Total comprehensive income consisted of the following:

	Year ended		
	2007	**2008**	**2009**
Net earnings	$ 45,030	$ 29,945	$ 33,556
Foreign currency translation adjustment	634	(1,364)	1,898
Comprehensive income	$ 45,664	$ 28,581	$ 35,454

NOTE N 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 as defined in ASC 280, "Disclosures about Segments of an Enterprise and Related Information." 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.

	Year Ended		
Product Line	**2007**	**2008**	**2009**
USANA® Nutritionals	87%	87%	88%
Sensé beautiful science®	10%	10%	9%

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

- North America
  - United States (including direct sales from the United States to the United Kingdom and the Netherlands)
  - Canada
  - Mexico
- Asia Pacific
  - Southeast Asia/Pacific Australia-New Zealand, Singapore, Malaysia, and the Philippines*

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*

Operations in the Philippines commenced in January 2009.

East Asia Hong Kong and Taiwan

North Asia Japan and South Korea

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE N SEGMENT INFORMATION (Continued)

Selected Financial Information

Financial information, presented by geographic region for the years ended December 29, 2007 and January 3, 2009, and January 2, 2010 is listed below:

	Year ended		
	2007	**2008**	**2009**
Net Sales to External Customers			
North America			
United States	$ 169,645	$ 161,194	$ 151,663
Canada	75,360	74,979	65,682
Mexico	22,230	23,630	22,384
North America Total	$ 267,235	$ 259,803	$ 239,729
Asia Pacific			
Southeast Asia/Pacific	$ 90,690	$ 91,348	$ 95,185
East Asia	49,314	61,410	81,455
North Asia	15,910	16,451	20,571
Asia Pacific Total	$ 155,914	$ 169,209	$ 197,211
Consolidated Total	$ 423,149	$ 429,012	$ 436,940
Long-lived Assets			
North America			
United States	$ 46,620	$ 48,632	$ 46,310
Canada	178	218	404
Mexico	166	196	274
North America Total	$ 46,964	$ 49,046	$ 46,988
Asia Pacific			
Southeast Asia/Pacific	$ 10,368	$ 12,596	$ 14,924
East Asia	2,030	2,163	1,870
North Asia	1,492	1,155	1,466
Asia Pacific Total	$ 13,890	$ 15,914	$ 18,260
Consolidated Total	$ 60,854	$ 64,960	$ 65,248
Total Assets			
North America			
United States	$ 69,852	$ 72,386	$ 63,145
Canada	5,558	6,261	4,902
Mexico	4,287	3,766	4,904
North America Total	$ 79,697	$ 82,413	$ 72,951
Asia Pacific			

Southeast Asia/Pacific	$ 17,925	$ 25,149	$ 30,104
East Asia	6,911	10,686	14,505
North Asia	4,595	4,324	5,878
Asia Pacific Total	$ 29,431	$ 40,159	$ 50,487
Consolidated Total	$ 109,128	$ 122,572	$ 123,438

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE N SEGMENT INFORMATION (Continued)

The following table provides further information on markets representing ten percent or more of consolidated net sales:

	Year ended		
	2007	**2008**	**2009**
Net sales:			
United States	$ 169,645	$ 161,194	$ 151,663
Canada	75,360	74,979	65,682
Hong Kong	26,450	38,992	59,956

Due to the centralized structure of the Company's manufacturing operations and its corporate headquarters in the United States, a significant concentration of assets exists in this market. Long-lived assets in the United States totaled $46,620, 48,632 and $46,310 as of December 29, 2007, January 3, 2009 and January 2, 2010, respectively. Additionally, we own our facility in Sydney, Australia, and long-lived assets in this market totaled $11,462 and $14,116 as of January 3, 2009 and January 2, 2010, respectively. There is no significant concentration of long-lived assets in any other market.

NOTE O QUARTERLY FINANCIAL RESULTS (Unaudited)

The following table summarizes quarterly financial information for fiscal years 2008 and 2009.

2008	**First**	**Second**	**Third**	**Fourth**
Earnings information for the period indicated:				
Net sales	$ 101,570	$ 109,208	$ 107,176	$ 111,058
Gross profit	$ 80,068	$ 87,324	$ 84,948	$ 87,794
Net earnings	$ 7,293	$ 10,082	$ 8,080	$ 4,490
Earnings per share:				
Basic	$ 0.45	$ 0.62	$ 0.50	$ 0.29
Diluted	$ 0.44	$ 0.61	$ 0.50	$ 0.29

2009	**First**	**Second**	**Third**	**Fourth**
Earnings information for the period indicated:				
Net sales	$ 97,299	$ 112,093	$ 110,764	$ 116,784
Gross profit	$ 77,453	$ 88,340	$ 88,127	$ 93,217
Net earnings	$ 6,646	$ 8,791	$ 7,912	$ 10,207
Earnings per share:				
Basic	$ 0.43	$ 0.57	$ 0.52	$ 0.67
Diluted	$ 0.43	$ 0.57	$ 0.51	$ 0.66

NOTE P 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

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE P EARNINGS PER SHARE (Continued)

are outstanding (computed under basic EPS) and potential dilutive shares. Shares included in the diluted earnings per share calculations include equity awards that are in-the-money but have not yet been exercised.

	Year ended		
	2007	2008	2009
Earnings from continuing operations available to common shareholders	$ 45,642	$ 29,945	$ 33,556
Loss from discontinued operations available to common shareholders	(612)		
Net earnings available to common shareholders	$ 45,030	$ 29,945	$ 33,556
Basic EPS			
Shares			
Common shares outstanding during entire period	17,859	16,198	15,350
Weighted average common shares:			
Issued during period	123	213	4
Canceled during period	(1,248)	(363)	(14)
Weighted average common shares outstanding during period	16,734	16,048	15,340
Earnings per common share from continuing operations basic	$ 2.73	$ 1.87	$ 2.19
Loss per common share from discontinued operations basic	(0.04)		
Earnings per common share from net earnings basic	$ 2.69	$ 1.87	$ 2.19
Diluted EPS			
Shares			
Weighted average common shares outstanding during period basic	16,734	16,048	15,340
Dilutive effect of in-the-money equity awards	472	115	92
Weighted average common shares outstanding during period diluted	17,206	16,163	15,432

Earnings per common share from continuing operations diluted	$ 2.65	$ 1.85	$ 2.17
Loss per common share from discontinued operations diluted	(0.03)		
Earnings per common share from net earnings diluted	$ 2.62	$ 1.85	$ 2.17

Equity awards for 21, 1,334, and 1,541 shares of stock were not included in the computation of EPS for the years ended 2007, 2008, and 2009, respectively, due to their exercise prices being greater than the average market price of the shares.

During the years ended December 29, 2007, January 3, 2009, and January 2, 2010, the Company expended $79,580, $39,873, and $1,654 to purchase 1,892, 1,116, and 54 shares, respectively, under the Company's share repurchase plan. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
December 29, 2007					
Deducted from related asset account:					
Allowance for sales returns	$ 948	$ 143	$	$ 160	$ 931
Allowance for doubtful accounts	1,808	454		132	2,130
Inventory reserve	2,707	1,423		1,542	2,588
January 3, 2009					
Deducted from related asset account:					
Allowance for sales returns	931	188		18	1,101
Allowance for doubtful accounts	2,130	6		438	1,698
Inventory reserve	2,588	1,000		694	2,894
January 2, 2010					
Deducted from related asset account:					
Allowance for sales returns	1,101	66		52	1,115
Allowance for doubtful accounts	1,698	236		4	1,930
Inventory reserve	2,894	824		1,633	2,085