

USANA HEALTH SCIENCES INC  
Form 10-Q  
November 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 1, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-21116

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**USANA HEALTH SCIENCES, INC.**

(Exact name of registrant as specified in its charter)

**Utah**  
(State or other jurisdiction  
of incorporation or organization)

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

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

(Address of principal executive offices, Zip Code)

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**(801) 954-7100**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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The number of shares outstanding of the registrant's common stock as of October 31, 2011 was 14,959,597.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended October 1, 2011

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

(in thousands)

(unaudited)

	As of January 1, 2011	As of October 1, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 24,222	\$ 36,317
Inventories	34,078	36,199
Prepaid expenses and other current assets	23,377	17,461
Total current assets	81,677	89,977
Property and equipment, net	57,568	59,756
Goodwill	17,267	17,596
Intangible assets, net	41,915	42,370
Deferred tax assets	12,383	13,486
Other assets	5,826	6,108
	\$ 216,636	\$ 229,293
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 6,445	\$ 9,096
Other current liabilities	52,584	50,193
Total current liabilities	59,029	59,289
Deferred tax liabilities	9,793	9,896
Other long-term liabilities	1,012	969
Stockholders equity	16	15

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Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 15,985  
as of January 1, 2011 and 14,954 as of October 1, 2011

Additional paid-in capital	51,222	46,834
Retained earnings	90,207	106,170
Accumulated other comprehensive income	5,357	6,120
Total stockholders' equity	146,802	159,139
	\$ 216,636	\$ 229,293

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)

(unaudited)

	Quarter Ended	
	October 2, 2010	October 1, 2011
Net sales	\$ 135,006	\$ 143,501
Cost of sales	25,157	25,202
Gross profit	109,849	118,299
Operating expenses:		
Associate incentives	60,560	66,158
Selling, general and administrative	30,751	33,365
Total operating expenses	91,311	99,523
Earnings from operations	18,538	18,776
Other income (expense):		
Interest income	36	42
Interest expense	(42)	(1)
Other, net	557	92
Other income, net	551	133
Earnings before income taxes	19,089	18,909
Income taxes	6,240	6,524
Net earnings	\$ 12,849	\$ 12,385
Earnings per common share		
Basic	\$ 0.83	\$ 0.82
Diluted	\$ 0.79	\$ 0.81
Weighted average common shares outstanding		
Basic	15,562	15,043
Diluted	16,247	15,205

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)

(unaudited)

	Nine Months Ended	
	October 2, 2010	October 1, 2011
Net sales	\$ 380,104	\$ 435,992
Cost of sales	70,912	77,072
Gross profit	309,192	358,920
Operating expenses:		
Associate incentives	171,743	198,725
Selling, general and administrative	87,358	103,038
Total operating expenses	259,101	301,763
Earnings from operations	50,091	57,157
Other income (expense):		
Interest income	70	146
Interest expense	(68)	(9)
Other, net	301	97
Other income, net	303	234
Earnings before income taxes	50,394	57,391
Income taxes	17,134	19,800
Net earnings	\$ 33,260	\$ 37,591
Earnings per common share		
Basic	\$ 2.16	\$ 2.43
Diluted	\$ 2.11	\$ 2.39
Weighted average common shares outstanding		
Basic	15,397	15,495
Diluted	15,763	15,712

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

Nine Months Ended October 2, 2010 and October 1, 2011

(in thousands)

(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>For the Nine Months Ended October 2, 2010</b>						
Balance at January 2, 2010	15,309	\$ 15	\$ 16,425	\$ 56,410	\$ 1,523	\$ 74,373
Comprehensive income						
Net earnings				33,260		33,260
Foreign currency translation adjustment, net of tax benefit of \$614					2,305	2,305
Comprehensive income						35,565
Common stock repurchased and retired	(199)		(2,232)	(6,398)		(8,630)
Common stock issued in connection with acquisition	400	1	17,715			17,716
Equity-based compensation expense			7,107			7,107
Common stock issued under equity award plans, including tax benefit of \$50	250		4,690			4,690
Balance at October 2, 2010	15,760	\$ 16	\$ 43,705	\$ 83,272	\$ 3,828	\$ 130,821
<b>For the Nine Months Ended October 1, 2011</b>						
Balance at January 1, 2011	15,985	\$ 16	\$ 51,222	\$ 90,207	\$ 5,357	\$ 146,802
Comprehensive income						
Net earnings				37,591		37,591
Foreign currency translation adjustment, net of tax benefit of \$491					763	763

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Comprehensive income									38,354
Equity-based compensation expense				7,739					7,739
Common stock repurchased and retired	(1,095)		(1)	(11,072)		(21,628)			(32,701)
Common stock issued under equity award plans, including tax expense of \$309	64			(270)					(270)
Tax impact of canceled vested equity awards				(785)					(785)
Balance at October 1, 2011	14,954	\$	15	\$	46,834	\$	106,170	\$	6,120 \$ 159,139

The accompanying notes are an integral part of these statements.

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## USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	October 2, 2010	October 1, 2011
<b>Cash flows from operating activities</b>		
Net earnings	\$ 33,260	\$ 37,591
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	5,641	6,361
Loss on sale of property and equipment	87	44
Equity-based compensation expense	7,107	7,739
Excess tax benefits from equity-based payment arrangements	(792)	(48)
Deferred income taxes	(1,221)	(1,473)
Inventory valuation	989	888
Changes in operating assets and liabilities:		
Inventories	(5,040)	(3,552)
Prepaid expenses and other assets	30	6,063
Accounts payable	41	2,614
Other liabilities	6,137	(2,759)
Total adjustments	12,979	15,877
Net cash provided by operating activities	46,239	53,468
<b>Cash flows from investing activities</b>		
Acquisitions, net of cash acquired	\$ (42,694)	\$
Proceeds from sale of property and equipment	32	1
Purchases of property and equipment	(3,676)	(8,558)
Net cash used in investing activities	(46,338)	(8,557)
<b>Cash flows from financing activities</b>		
Proceeds from equity awards exercised	\$ 4,640	\$ 39
Excess tax benefits from equity-based payment arrangements	792	48
Repurchase of common stock	(8,630)	(32,701)
Borrowings on line of credit	23,350	
Payments on line of credit	(11,350)	
Net cash used in financing activities	8,802	(32,614)
Effect of exchange rate changes on cash and cash equivalents	567	(202)
Net increase in cash and cash equivalents	9,270	12,095

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Cash and cash equivalents, beginning of period	13,658	24,222
Cash and cash equivalents, end of period	\$ 22,928	\$ 36,317
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 62	\$ 10
Income taxes	18,582	19,281
Non-cash financing activities		
Common stock issued in connection with acquisitions	17,716	

The accompanying notes are an integral part of these statements.

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**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except per share data)**  
**(unaudited)**

**Organization, Consolidation, and Basis of Presentation**

USANA Health Sciences, Inc. develops and manufactures high-quality nutritional and personal care products that are sold internationally through a network marketing system, which is a form of direct selling. The Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries (collectively, the Company or USANA ) in two geographic regions: North America and Asia Pacific, which is further divided into three sub-regions; Southeast Asia/Pacific, Greater China, 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; Greater China includes Hong Kong, Taiwan and China; and North Asia includes Japan and South Korea. All significant inter-company accounts and transactions have been eliminated in this consolidation.

The condensed balance sheet as of January 1, 2011, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to present fairly the Company's financial position as of October 1, 2011 and results of operations for the quarters and nine months ended October 2, 2010 and October 1, 2011. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended January 1, 2011. The results of operations for the quarter and nine months ended October 1, 2011, may not be indicative of the results that may be expected for the fiscal year 2011 ending December 31, 2011.

*Revisions*

Revisions relating to deferred taxes and intangible assets have been made to the Company's financial statements to reflect adjustments made to correct the presentation of deferred taxes on a gross rather than net basis, and to record the impact of currency translation on intangible assets acquired as part of the 2010 purchase of BabyCare Holdings Ltd. These adjustments revise amounts reported for periods prior to January 2, 2011 in the financial statements and related notes, for deferred taxes, goodwill, intangible assets and accumulated other comprehensive income in the Consolidated Balance Sheet, and the foreign currency translation adjustment component of comprehensive income in the Consolidated Statement of Stockholders' Equity and Comprehensive Income. While the overall net deferred tax amount has not changed, certain deferred tax line items in the Consolidated Balance Sheet have been modified to reflect a gross presentation. Additionally, goodwill and intangible assets have been increased, along with a corresponding increase in accumulated other comprehensive income, to capture the changes on these assets related to foreign currency translation. These revisions had no effect on our earnings from operations, net earnings, or earnings per share.





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

(in thousands, except per share data)

(unaudited)

*Revisions continued*

The following tables illustrate the effects of the revision on the Company's consolidated financial statements for only those line items that were affected:

**Consolidated Balance Sheet Items**

(in thousands)

	As Previously Reported	As of January 1, 2011	
		Adjustment	As Revised
Prepaid expenses and other current assets, including current deferred tax assets	\$ 21,972	\$ 1,405	\$ 23,377
Total current assets	80,272	1,405	81,677
Goodwill	16,930	337	17,267
Intangible assets, net	40,616	1,299	41,915
Other assets, including long-term deferred tax assets	8,416	9,793	18,209
Total assets	203,802	12,834	216,636
Other current liabilities	51,179	1,405	52,584
Total current liabilities	57,624	1,405	59,029
Long-term deferred tax liabilities		9,793	9,793
Accumulated other comprehensive income *	3,721	1,636	5,357
Total stockholders' equity *	145,166	1,636	146,802
Total liabilities and stockholders' equity	203,802	12,834	216,636

\* Change also reflected in the beginning balance within the Consolidated Statement of Stockholders' Equity and Comprehensive Income.

**Consolidated Statement of Stockholders' Equity and Comprehensive Income Items**

(in thousands)

For the nine months ended October 2, 2010  
Adjustment                      As Revised

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	As Previously Reported		
Accumulated other comprehensive income (loss), foreign currency translation adjustment	\$ 1,431	\$ 874	\$ 2,305
Accumulated other comprehensive income (loss), total comprehensive income	34,691	874	35,565
Accumulated other comprehensive income (loss), balance at October 2, 2010	2,954	874	3,828
Total stockholders' equity at October 2, 2010	129,947	874	130,821

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

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

**(unaudited)**

**Recent accounting pronouncements**

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 updates existing guidance in Topic 820 to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). ASU 2011-04 is effective prospectively for fiscal years, and interim periods, beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect adoption of this standard to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate the convergence of U.S. GAAP and IFRS, ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under the amendments in this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of which option is chosen, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Also, the amendments do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of this standard to have a material impact on its consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08). ASU 2011-08 simplifies how entities test goodwill for impairment. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. An entity also has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. Additionally, an entity no longer is permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted by Topic 350.

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company has early adopted this standard, which did not have a material impact on its consolidated financial statements.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

**NOTE A FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company reports term deposits in accordance with established authoritative guidance, which requires a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

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

The fair values of term deposits placed with banks are determined based on the pervasive interest rates in the market, which are also the interest rates as stated in the contracts with the banks. The Company classifies the valuation techniques that use the pervasive interest rates input as Level 2. The carrying values of these term deposits approximate their fair values due to their short-term maturities. As of October 1, 2011, the fair value of term deposits in the consolidated balance sheet totaled \$313, classified in cash and cash equivalents.

**NOTE B INVENTORIES**

Inventories consist of the following:

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	January 1, 2011		October 1, 2011
Raw materials	\$ 9,372	\$	10,155
Work in progress	5,791		6,844
Finished goods	18,915		19,200
	\$ 34,078	\$	36,199

**NOTE C PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

	January 1, 2011		October 1, 2011
Prepaid insurance	\$ 1,175	\$	342
Other prepaid expenses	2,583		2,249
Federal income taxes receivable	3,108		1,985
Miscellaneous receivables, net	3,735		2,944
Deferred commissions	4,867		3,864
Term deposits	3,034		
Deferred tax assets	3,116		4,194
Other current assets	1,759		1,883
	\$ 23,377	\$	17,461

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

(in thousands, except per share data)

(unaudited)

**NOTE D PROPERTY AND EQUIPMENT**

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

	Years	January 1, 2011	October 1, 2011
Buildings	40	\$ 38,732	\$ 39,343
Laboratory and production equipment	5-7	17,723	18,778
Sound and video library	5	600	600
Computer equipment and software	3-5	27,788	29,790
Furniture and fixtures	3-5	4,953	5,024
Automobiles	3-5	290	293
Leasehold improvements	3-5	5,404	5,344
Land improvements	15	2,051	2,040
		97,541	101,212
Less accumulated depreciation and amortization		48,298	52,794
		49,243	48,418
Land		8,107	7,780
Deposits and projects in process		218	3,558
		\$ 57,568	\$ 59,756

**NOTE E INTANGIBLE ASSETS**

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate, and operating or cash flow losses related to such assets. Goodwill and indefinite lived intangible assets are not amortized. Definite lived intangibles are amortized over their related useful lives. No events have occurred subsequent to any of our acquisitions that have resulted in an impairment of the original goodwill or intangible asset amounts that were initially recorded from the transactions.

Goodwill is as follows:

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	January 1, 2011	Goodwill acquired	Currency translation adjustments	Impairment adjustments	October 1, 2011
North America	\$ 6,390	\$	\$	\$	\$ 6,390
Asia Pacific	10,877		329		11,206
	\$ 17,267	\$	\$ 329	\$	\$ 17,596



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

(in thousands, except per share data)

(unaudited)

**NOTE E INTANGIBLE ASSETS CONTINUED**

Intangible assets are as follows:

	Gross carrying amount	As of October 1, 2011 Accumulated amortization	Net carrying amount	Weighted-average amortization period (years)
<b>Amortized intangible assets</b>				
Trade Name and Trademarks	\$ 4,147	\$ (467)	\$ 3,680	10
Customer Relationships	2,020	(758)	1,262	3
	6,167	(1,225)	4,942	
<b>Unamortized intangible assets</b>				
Product Formulas	9,145		9,145	
Direct Sales License	28,283		28,283	
	37,428		37,428	
	\$ 43,595		\$ 42,370	
<b><u>Aggregate Amortization Expense:</u></b>				
For the nine months ended October 1, 2011	\$ 816			
<b><u>Estimated Amortization Expense:</u></b>				
Remainder of 2011	272			
2012	1,088			
2013	836			
2014	415			
2015	415			
Thereafter	1,916			
	\$ 4,942			

**NOTE F OTHER CURRENT LIABILITIES**

Other current liabilities consist of the following:

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	January 1, 2011	October 1, 2011
Associate incentives	\$ 11,379	\$ 11,914
Accrued employee compensation	14,395	11,703
Income Taxes	1,571	2,880
Sales taxes	4,671	4,090
Deferred tax liabilities	1,405	1,501
Associate promotions	1,491	1,046
Deferred revenue	11,772	10,162
Provision for returns and allowances	929	963
All other	4,971	5,934
	\$ 52,584	\$ 50,193

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

(in thousands, except per share data)

(unaudited)

**NOTE G EQUITY BASED COMPENSATION**

Equity-based compensation expense for the quarters ended October 2, 2010, and October 1, 2011, was \$2,967 and \$2,937, respectively. The related tax benefit for these periods was \$1,180 and \$1,073, respectively. Expense for the nine months ended October 2, 2010, and October 1, 2011, was \$7,107 and \$7,739, respectively. The related tax benefit for these periods was \$2,693 and \$2,824, respectively.

During the nine months ended October 1, 2011, certain executives left the Company, which resulted in the cancellation of these executives' equity awards. The recapture of equity compensation expense related to the cancellation of unvested equity awards reduced equity-based compensation expense for the nine months ended October 1, 2011 by \$1,230. The related tax impact for these cancellations was \$424.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of equity awards that were outstanding as of October 1, 2011. This table does not include an estimate for future grants that may be issued.

Remainder of 2011	\$	2,800
2012		10,027
2013		6,448
2014		4,475
2015 and beyond		2,828
	\$	26,578

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

During the nine months ended October 1, 2011, the Company's shareholders approved a 5,000 increase in the number of new shares authorized for issuance under the Company's 2006 Equity Incentive Award Plan (the 2006 Plan). This increase brings the total shares authorized under the 2006 Plan to 10,000. The 2006 Plan is currently the only plan utilized by the Company for the issuance of equity awards. As of October 1, 2011, a total of 5,363 units had been issued under this plan, comprising 5,241 stock-settled stock appreciation rights, 114 deferred stock units, and 8 stock options. Also, as of October 1, 2011, 811 units had been canceled and added back to the number of units available for issuance under the 2006 Plan.

A summary of the Company's stock option and stock-settled stock appreciation right activity for the nine months ended October 1, 2011 is as follows:

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	Shares	Weighted- average grant price	Weighted-average remaining contractual term	Aggregate intrinsic value*
Outstanding at January 1, 2011	4,047	\$ 32.46	3.5	\$ 45,263
Granted	417	28.83		
Exercised	(57)	28.66		
Canceled or expired	(607)	32.29		
Outstanding at October 1, 2011	3,800	\$ 32.15	3.1	\$ 2,623
Exercisable at October 1, 2011	1,562	\$ 32.50	2.6	\$ 1,273

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\* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at January 1, 2011 and October 1, 2011, was \$43.45 and \$27.50, respectively.

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

(in thousands, except per share data)

(unaudited)

**NOTE G EQUITY BASED COMPENSATION CONTINUED**

The weighted-average fair value of stock-settled stock appreciation rights that were granted during the nine-month periods ended October 2, 2010, and October 1, 2011 was \$17.07 and \$12.40, respectively. The total intrinsic value of awards that were exercised during the nine-month periods ended October 2, 2010, and October 1, 2011 was \$6,057 and \$555, respectively.

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:

	Quarter Ended		Nine Months Ended	
	October 2, 2010	October 1, 2011	October 2, 2010	October 1, 2011
Expected volatility	54.8%	56.0%	54.9%	56.0%
Risk-free interest rate	1.4%	1.1%	1.7%	1.1%
Expected life	4.2 yrs.	3.8 yrs.	4.2 yrs.	3.9 yrs.
Expected dividend yield				
Weighted-average grant price	\$ 43.73	\$ 28.16	\$ 38.23	\$ 28.83

A summary of the Company's deferred stock unit activity for the nine months ended October 1, 2011 is as follows:

	Shares	Weighted- average Fair Value
Nonvested at January 1, 2011	100	\$ 44.29
Granted		
Vested	(49)	44.29
Canceled or expired	(2)	44.29
Nonvested at October 1, 2011	49	\$ 44.29

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

(in thousands, except per share data)

(unaudited)

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

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

	Quarter Ended	
	October 2, 2010	October 1, 2011
Net earnings available to common shareholders	\$ 12,849	\$ 12,385
<b>Basic EPS</b>		
Shares		
Common shares outstanding entire period	15,309	15,985
Weighted average common shares:		
Issued during period	320	39
Canceled during period	(67)	(981)
Weighted average common shares outstanding during period	15,562	15,043
Earnings per common share from net earnings - basic	\$ 0.83	\$ 0.82
<b>Diluted EPS</b>		
Shares		
Weighted average common shares outstanding during period - basic	15,562	15,043
Dilutive effect of in-the-money equity awards	685	162
Weighted average common shares outstanding during period - diluted	16,247	15,205
Earnings per common share from net earnings - diluted	\$ 0.79	\$ 0.81

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Equity awards for 434 and 2,002 shares of stock were not included in the computation of diluted EPS for the quarters ended October 2, 2010, and October 1, 2011, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

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

(in thousands, except per share data)

(unaudited)

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

	Nine Months Ended	
	October 2, 2010	October 1, 2011
Net earnings available to common shareholders	\$ 33,260	\$ 37,591
<b>Basic EPS</b>		
Shares		
Common shares outstanding entire period	15,309	15,985
Weighted average common shares:		
Issued during period	110	19
Canceled during period	(22)	(509)
Weighted average common shares outstanding during period	15,397	15,495
Earnings per common share from net earnings - basic	\$ 2.16	\$ 2.43
<b>Diluted EPS</b>		
Shares		
Weighted average common shares outstanding during period - basic	15,397	15,495
Dilutive effect of in-the-money equity awards	366	217
Weighted average common shares outstanding during period - diluted	15,763	15,712
Earnings per common share from net earnings - diluted	\$ 2.11	\$ 2.39

Equity awards for 1,627 and 1,571 shares of stock were not included in the computation of diluted EPS for the nine months ended October 2, 2010, and October 1, 2011, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

**NOTE I COMPREHENSIVE INCOME**



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Total comprehensive income consisted of the following:

	Quarter Ended		Nine Months Ended	
	October 2, 2010	October 1, 2011	October 2, 2010	October 1, 2011
Net Earnings	\$ 12,849	\$ 12,385	\$ 33,260	\$ 37,591
Foreign currency translation adjustment, net of tax	2,768	(1,259)	2,305	763
Comprehensive income	\$ 15,617	\$ 11,126	\$ 35,565	\$ 38,354

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

(in thousands, except per share data)

(unaudited)

**NOTE J SEGMENT INFORMATION**

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

Product Line	Quarter Ended		Nine Months Ended	
	October 2, 2010	October 1, 2011	October 2, 2010	October 1, 2011
USANA® Nutritionals	78%	78%	77%	78%
USANA Foods	12%	12%	12%	12%
Sensé beautiful science®	7%	7%	8%	7%

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

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

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\* Our business in China is that of BabyCare, our wholly-owned subsidiary.

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

(in thousands, except per share data)

(unaudited)

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

Selected financial information, presented by geographic region, is listed below for the periods ended as of the dates indicated:

	Quarter Ended		Nine Months Ended	
	October 2, 2010	October 1, 2011	October 2, 2010	October 1, 2011
Net Sales to External Customers				
North America				
United States	\$ 38,228	\$ 37,975	\$ 113,826	\$ 112,132
Canada	16,419	16,107	52,352	50,896
Mexico	5,314	4,946	16,416	16,288
North America Total	59,961	59,028	182,594	179,316
Asia Pacific				
Southeast Asia/Pacific	25,730	30,117	74,231	82,036
Greater China	43,456	47,012	106,156	152,801
North Asia	5,859	7,344	17,123	21,839
Asia Pacific Total	75,045	84,473	197,510	256,676
Consolidated Total	\$ 135,006	\$ 143,501	\$ 380,104	\$ 435,992

	As of	
	October 2, 2010	October 1, 2011
Total Assets		
North America		
United States	\$ 94,452	\$ 98,067
Canada	3,853	3,072
Mexico	3,170	2,580
North America Total	101,475	103,719
Asia Pacific		
Southeast Asia/Pacific	26,591	25,730
Greater China	78,445	92,964
North Asia	6,851	6,880
Asia Pacific Total	111,887	125,574
Consolidated Total	\$ 213,362	\$ 229,293



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

(in thousands, except per share data)

(unaudited)

**NOTE J SEGMENT INFORMATION CONTINUED**

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

	Quarters Ended		Nine Months Ended	
	October 2, 2010	October 1, 2011	October 2, 2010	October 1, 2011
<b>Net sales:</b>				
United States	\$ 38,228	\$ 37,975	\$ 113,826	\$ 112,132
Hong Kong	34,518	34,826	85,385	116,814
Canada	16,419	16,107	52,352	50,896
	As of		As of	
	January 1, 2011	October 1, 2011	January 1, 2011	October 1, 2011
<b>Long-lived Assets:</b>				
United States	\$ 44,017	\$ 46,981		
Australia	15,779	14,572		
China	57,818	59,365		

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of USANA's financial condition and results of operations is presented in six sections:

- Overview
- Customers
- Current Focus
- Results of Operations
- Liquidity and Capital Resources
- Forward-Looking Statements and Certain Risks

This discussion and analysis should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes thereto that are contained in this quarterly report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations that are included in our Annual Report on Form 10-K for the year ended January 1, 2011, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission (SEC) through the date of this report.

**Overview**

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. Our customer base comprises two types of customers: Associates and Preferred Customers. Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of October 1, 2011, we had approximately 214,000 active Associates and approximately 66,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period, either for personal use or for resale.

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

- North America

- United States
- Canada
- Mexico
- Asia Pacific
- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, and the Philippines
- Greater China Hong Kong, Taiwan, and China\*
- North Asia Japan and South Korea

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\* Our business in China is that of BabyCare, our wholly-owned subsidiary.



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

<b>Product Line</b>	<b>Nine Months Ended</b>	
	<b>October 2, 2010</b>	<b>October 1, 2011</b>
<b>USANA® Nutritionals</b>		
Essentials	30%	29%
Optimizers	47%	49%
USANA Foods	12%	12%
Sensé beautiful science®	8%	7%
All Other	3%	3%
<b>Key Product</b>		
USANA® Essentials	18%	18%
Proflavanol®	11%	12%
HealthPak 100	10%	9%

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

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates. We strive to ensure that our products are up-to-date with the latest science in nutrition research and to keep our product lines relatively compact, which we believe simplifies the selling and buying process for our Associates and Preferred Customers. We also periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding in the industry, to encourage behavior that we believe leads to a more successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings. There is a risk, however, that such changes may cause an unanticipated shift in Associate behavior, thus harming our business.

To further support our Associates in building their businesses, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in their business development and to provide a forum for interaction with some of our Associate leaders and members of our management team. We also provide low cost sales tools, including online sales, business management, and training tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. Although we provide training and sales tools, we ultimately rely on our Associates to (i) sell our products, (ii) attract new customers to purchase our products; and (iii) educate and train new Associates.

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, net sales, cost of goods sold, and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Currency fluctuations, however, have the opposite effect on our Associate incentives and selling, general and administrative expenses. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect

during the comparable periods of the prior year.

**Customers**

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on our ability to attract new Associates and retain existing Associates to sell and consume our products. Notably, sales to Associates account for the majority of our product sales, representing 90% of product sales during the nine months ended October 1,

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2011. Additionally, it is important to attract and retain Preferred Customers as consumers of our products. Increases or decreases in product sales are typically the result of variations in product sales volumes relating to fluctuations in the number of active Associates and Preferred Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

The tables below summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated.

**Active Associates By Region**

	As of October 2, 2010		As of October 1, 2011		Change from Prior Year	Percent Change
<b>North America:</b>						
United States	55,000	23.5%	47,000	22.0%	(8,000)	(14.5)%
Canada	25,000	10.7%	23,000	10.7%	(2,000)	(8.0)%
Mexico	11,000	4.7%	10,000	4.7%	(1,000)	(9.1)%
North America Total	91,000	38.9%	80,000	37.4%	(11,000)	(12.1)%
<b>Asia Pacific:</b>						
Southeast Asia/Pacific	46,000	19.7%	47,000	22.0%	1,000	2.2%
Greater China	89,000	38.0%	78,000	36.4%	(11,000)	(12.4)%
North Asia	8,000	3.4%	9,000	4.2%	1,000	12.5%
Asia Pacific Total	143,000	61.1%	134,000	62.6%	(9,000)	(6.3)%
	234,000	100.0%	214,000	100.0%	(20,000)	(8.5)%

**Active Preferred Customers By Region**

	As of October 2, 2010		As of October 1, 2011		Change from Prior Year	Percent Change
<b>North America:</b>						
United States	37,000	50.0%	35,000	53.0%	(2,000)	(5.4)%
Canada	14,000	18.9%	13,000	19.7%	(1,000)	(7.1)%
Mexico	3,000	4.1%	3,000	4.6%		0.0%
North America Total	54,000	73.0%	51,000	77.3%	(3,000)	(5.6)%
<b>Asia Pacific:</b>						
Southeast Asia/Pacific	7,000	9.5%	7,000	10.6%		0.0%
Greater China	12,000	16.2%	7,000	10.6%	(5,000)	(41.7)%
North Asia	1,000	1.3%	1,000	1.5%		0.0%
Asia Pacific Total	20,000	27.0%	15,000	22.7%	(5,000)	(25.0)%
	74,000	100.0%	66,000	100.0%	(8,000)	(10.8)%

**Current Focus**

We are currently focusing our efforts on: (i) the development of China through BabyCare, (ii) growing our North American markets during a difficult economic environment, and (iii) aggressive international expansion. Additionally, in light of certain management and strategy changes that took place during the first half of the year, as well as increased competition, our management team has continued devoting significant time to meeting with our Associate sales force. These meetings have helped assure our

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Associates of our commitment to supporting them and have also provided us with more opportunity to receive their input on strategies for the business.

Over the past several years, we have experienced significant growth in our Asia Pacific region, particularly in our Hong Kong market. In light of this growth and our acquisition of BabyCare in China, we believe that we are well-positioned long-term for growth in China. During 2011 our efforts in Asia Pacific are focused on integrating BabyCare into our business and motivating our successful Asian Associate base to grow BabyCare in China. This includes introducing USANA products for sale by BabyCare's Associates in China, educating our Hong Kong Associates on BabyCare's compensation plan, and working with the Chinese government to assist BabyCare in obtaining direct selling licenses in additional Chinese provinces. We have introduced several USANA products in China during 2011. During the first quarter, we rebranded several BabyCare products with USANA branding and now offer these products for sale by BabyCare's Associates. In the second quarter, we introduced five of our Sensé products to go along with the rebranded products. Finally, in the fourth quarter, we anticipate introducing four of our key nutritional products for sale through BabyCare. With this final product introduction, we will have 13 USANA products available in China, as well as 11 BabyCare branded products. We also continue to make progress on obtaining additional provincial direct selling licenses and educating our Hong Kong Associates on BabyCare's compensation plan.

Difficult economic conditions continue to present a challenge for our overall business, especially in our North American markets. Additionally, during the third quarter of 2010, we changed the commission qualification requirements for new Associates worldwide to encourage more entrepreneurial Associates to join USANA and build a downline sales force at an accelerated pace. While this change has caused us to enroll more entrepreneurial Associates, it has made it more challenging for us to enroll Associates in general, including those who simply consume our products and are less entrepreneurial. As a result, our Associate counts have decreased in most of our markets, including North America, but the average spending per Associate has increased in these markets. Although this increased spending per Associate has generated net sales growth for the Company, we are developing both short and long-term strategies to increase the number of Associates in North America and other markets. In the short-term, we plan to offer promotions and incentives for our customers to generate excitement and regain momentum. We have been working closely with our Associate leaders to develop these initiatives. We will also continue our efforts to increase our global brand recognition. In the long-term, we are evaluating strategies around personalization and product innovation, as well as longer-term incentives that will reward our top performing Associates in all of our markets.

During the third quarter we held our annual international convention in Salt Lake City, where we made several exciting announcements, including our plans to open France and Belgium in the first quarter of 2012. These two markets, together with Thailand, which we plan to open near the end of 2011, will bring USANA's country count to 18 markets worldwide. Thailand and France are among the top Direct Selling markets in the world, and we are encouraged by the growth opportunity that these markets provide.

**Results of Operations**

*Summary of Financial Results*

Net sales for the third quarter of 2011 increased 6.3%, or \$8.5 million, to \$143.5 million, compared with the third quarter in 2010. This increase in net sales is largely due to currency benefits of approximately \$5.1 million from favorable year-over-year changes in currency exchange rates. Additionally, strong sales growth in certain markets within our Asia Pacific region, including BabyCare, contributed to the increase in net sales. Net sales in North America decreased slightly in the third quarter of 2011, compared with the third quarter of 2010.

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Net earnings for the third quarter of 2011 decreased 3.6%, or \$0.4 million, to \$12.4 million, compared with the third quarter in 2010. This decrease was primarily the result of higher relative Associate incentives and selling, general, and administrative expenses, which were partially offset by improved gross profit margin.

Table of Contents**Quarters Ended October 2, 2010 and October 1, 2011***Net Sales*

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

	Net Sales by Region (in thousands) Quarter Ended				Change from prior year	Percent change	Approximate impact of currency exchange	Change excluding the impact of currency
	October 2, 2010		October 1, 2011					
<b>North America:</b>								
United States	\$ 38,228	28.3%	\$ 37,975	26.5%	\$ (253)	(0.7)%	\$ N/A	(0.7)%
Canada	16,419	12.2%	16,107	11.2%	(312)	(1.9)%	900	(7.4)%
Mexico	5,314	3.9%	4,946	3.4%	(368)	(6.9)%	200	(10.7)%
North America Total	59,961	44.4%	59,028	41.1%	(933)	(1.6)%	1,100	(3.4)%
<b>Asia Pacific:</b>								
Southeast Asia/Pacific	25,730	19.1%	30,117	21.0%	4,387	17.1%	2,800	6.2%
Greater China	43,456	32.2%	47,012	32.8%	3,556	8.2%	700	6.6%
North Asia	5,859	4.3%	7,344	5.1%	1,485	25.3%	500	16.8%
Asia Pacific Total	75,045	55.6%	84,473	58.9%	9,428	12.6%	4,000	7.2%
	\$ 135,006	100.0%	\$ 143,501	100.0%	\$ 8,495	6.3%	\$ 5,100	2.5%

*North America:* The decrease in local currency net sales in this region was the result of lower product sales volume due to a decrease in the number of active Associates in this region. We believe that this decrease in Associates is predominantly due to difficult economic conditions in North America, coupled with the commission qualification changes we made in the third quarter of 2010. This decrease in active Associates was partially offset by an increase in average spending per Associate on a year-over-year basis, also due to the commission qualification changes for new Associates.

*Asia Pacific:* The increase in net sales in this region was the result of currency benefits from favorable changes in year-over-year currency exchange rates and higher product sales volume from an increase in the number of active Associates in the Philippines and South Korea. The number of active Associates in the Philippines increased 87.5% year-over-year to 15,000, and net sales increased 156.8% to \$6.8 million. The number of active Associates in South Korea increased 50.0% to 6,000, and net sales increased 65.8% to \$5.0 million. BabyCare sales also increased 78.1% to \$6.2 million. This increase is due, partially, to a comparison of BabyCare's full third quarter 2011 operations with partial third quarter 2010 operations, as we acquired BabyCare in August 2010.

The increases noted above were partially offset by declining sales and Associate counts in other markets within this region, particularly Hong Kong. During the third quarter of 2011, the number of active Associates in Hong Kong declined 22.1% to 53,000, compared with the third quarter of 2010. Third quarter 2011 sales in Hong Kong, however, were relatively flat at \$34.8 million, compared with the prior year period. Similar to North America, an increase in average spending per Associate in Hong Kong, due to our commission qualification changes, helped offset the decline in active Associates in that market.

We believe that the decline in Hong Kong Associate count during the third quarter is a function of our China integration plan and changes that have occurred throughout the process. In the second quarter of 2011, we communicated our initial China integration plan to our Hong Kong Associates. This plan included policy changes in Hong Kong that we ultimately did not implement, largely because of feedback from our Associates. Although we did not implement these particular policy changes, many of our Hong Kong Associates meaningfully increased their volume of product purchases during the second quarter in anticipation of the policy changes and,



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as a result, did not purchase from us in the third quarter. Notably, the Associates who thus did not purchase from us at all during the third quarter are not included in our active Associate count in Hong Kong for the quarter.

Additionally, the change to our China integration plan created uncertainty among many of our Hong Kong Associates. We believe that we have lost business from many Associates in Hong Kong as a result of this uncertainty. Our Asia Pacific management team is working closely with our Associates in Hong Kong to ease the integration.

*Gross Profit*

Gross profit increased to 82.4% of net sales for the third quarter of 2011 from 81.4% for the third quarter of 2010. This increase in gross profit can primarily be attributed to currency benefits received from our international subsidiaries, as the majority of our products sold are manufactured at our corporate headquarters in the United States and transferred to our international subsidiaries.

*Associate Incentives*

Associate incentives increased to 46.1% of net sales during the third quarter of 2011, compared with 44.9% for the third quarter of 2010. This increase was primarily due to a higher payout under our Matching Bonus program and the negative effect of currency fluctuations. Additionally, we had a higher payout rate on base commissions under our Associate compensation plan. On a comparable basis, this increase was partially offset by the inclusion of a full quarter of BabyCare's operations in our operating results, as BabyCare's separate compensation plan has a lower relative payout than the USANA compensation plan.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased to 23.3% of net sales for the third quarter of 2011, compared with 22.8% for the third quarter of 2010. This relative increase can be attributed to expenses associated with our increased corporate branding efforts and the inclusion of a full quarter of BabyCare's expenses in our operating results. BabyCare currently carries significantly higher selling, general, and administrative expense as a percentage of net sales. Changes in currency exchange rates also negatively affected selling, general and administrative expenses. Partially offsetting these increases was leverage gained on increased sales outside the United States in markets where selling, general and administrative expenses are lower.

In absolute terms, our selling, general and administrative expenses increased by \$2.6 million for the third quarter of 2011, compared with the third quarter of 2010. The most significant components of this increase in absolute terms were as follows:

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- An increase in BabyCare expense of \$1.7 million, primarily due to the inclusion of a full quarter of operations during the current year;
- An increase related to our corporate branding efforts of approximately \$0.8 million; and
- An increase in credit card processing and bank fees of approximately \$0.3 million.

Although reflected in some of the above items, changes in currency added approximately \$0.9 million to overall selling, general and administrative expense. These increases were partially offset by the decrease of \$1.2 million in BabyCare acquisition costs compared with the prior year.

### *Other income (expense), net*

Other income decreased by \$0.4 million for the third quarter of 2011, compared with the third quarter of 2010 due to lower currency exchange gains on intercompany transactions during the current year quarter.

### *Income taxes*

Income taxes totaled 34.5% of earnings before income taxes in the third quarter of 2011, compared with 32.7% in the third quarter of 2010. The income tax rate for the third quarter of 2010 was lower due to tax benefits related to changes in uncertain income tax positions, larger prior-year tax benefits, and the level of stock option exercises.

Table of Contents*Diluted Earnings Per Share*

Although net earnings decreased by 3.6% during the third quarter of 2011, when compared with the third quarter of 2010, diluted earnings per share increased by 2.5% due to a lower number of diluted shares outstanding as a result of share repurchases over the last twelve months.

**Nine Months Ended October 2, 2010 and October 1, 2011***Net Sales*

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

	Net Sales by Region (in thousands)				Change from prior year	Percent change	Approximate impact of currency exchange	Change excluding the impact of currency				
	October 2, 2010		October 1, 2011									
<b>North America:</b>												
United States	\$	113,826	29.9%	\$	112,132	25.7%	\$	(1,694)	(1.5)%	\$	N/A	(1.5)%
Canada		52,352	13.8%		50,896	11.7%		(1,456)	(2.8)%		2,800	(8.1)%
Mexico		16,416	4.3%		16,288	3.7%		(128)	(0.8)%		900	(6.3)%
North America Total		182,594	48.0%		179,316	41.1%		(3,278)	(1.8)%		3,700	(3.8)%
<b>Asia Pacific:</b>												
Southeast Asia/Pacific		74,231	19.6%		82,036	18.8%		7,805	10.5%		8,000	(0.3)%
Greater China		106,156	27.9%		152,801	35.1%		46,645	43.9%		1,700	42.3%
North Asia		17,123	4.5%		21,839	5.0%		4,716	27.5%		1,600	18.2%
Asia Pacific Total		197,510	52.0%		256,676	58.9%		59,166	30.0%		11,300	24.2%
	\$	380,104	100.0%	\$	435,992	100.0%	\$	55,888	14.7%	\$	15,000	10.8%

*North America:* The decrease in local currency net sales in this region was the result of lower product sales volume due to a decrease in the average number of active Associates in this region during the first nine months of 2011, compared with the same period in 2010. This decrease in active Associates was partially offset by an increase in average spending per Associate on a year-over-year basis, also due to the commission qualification changes for new Associates.

*Asia Pacific:* The increase in net sales in this region was the result of higher product sales volume due primarily to an increase in the average number of active Associates during the first nine months of 2011, compared with the same period in 2010. This increase came predominantly from Greater China, where growth was led by Hong Kong with a 36.8% increase in net sales during the first nine months of 2011, compared with the same period in 2010. Additionally, BabyCare added \$14.0 million to net sales during the first nine months of 2011, in comparison with the prior year period, which included only partial third quarter 2010 results. Excluding BabyCare, local currency net sales in this region would have increased 17.6% for the first nine months of 2011, compared with the first nine months of 2010. Similar to North America, average

spending per Associate increased in Asia Pacific due to our commission qualification changes.

We also experienced local currency sales growth of 102.1% in the Philippines, and 52.5% in South Korea. This growth is also primarily due to higher product sales volume from an increase in the average number of active Associates in these markets during the first nine months of 2011.

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*Gross Profit*

Gross profit increased to 82.3% of net sales for the first nine months of 2011 from 81.3% for the first nine months of 2010. This increase in gross profit can primarily be attributed to currency benefits received from our international subsidiaries, as the majority of our products sold are manufactured at our corporate headquarters in the United States and transferred to our international subsidiaries. The improvement in gross profit was partially offset by higher net freight costs on shipments to our customers.

*Associate Incentives*

Associate incentives as a percent of net sales were 45.6% during the first nine months of 2011, compared with 45.2% in the first nine months of 2010. This increase was due to increased payout under our Matching Bonus program, as well as base commissions under our Associate compensation plan. Additionally, currency fluctuations had a negative impact on incentives. Partially offsetting these increases were (i) the addition of BabyCare in our operating results (the relative payout under their compensation plan is lower than payout under the USANA compensation plan) and (ii) certain initiatives that the Company put in place in the second quarter of 2010 to manage Associate Incentives as a percent of sales.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased to 23.6% of net sales for the first nine months of 2011, compared with 23.0% for the first nine months of 2010. This relative increase can primarily be attributed to the inclusion of BabyCare's expenses in our operating results (BabyCare currently carries significantly higher relative selling, general and administrative expense as a percent of net sales than USANA). This increase was partially offset by leverage gained on increased sales outside the United States in markets where selling, general and administrative expenses are lower.

In absolute terms, our selling, general and administrative expenses increased by \$15.7 million for the first nine months of 2011, compared with the first nine months of 2010. The most significant components of this increase in absolute terms were as follows:

- Added costs from BabyCare's operation of approximately \$8.2 million;
- An increase related to our corporate branding efforts of approximately \$2.8 million;
- An increase in wage-related expenses of approximately \$1.6 million; and

- An increase in credit card processing and bank fees of approximately \$1.3 million.

Additionally, although reflected in some of the above items, changes in currency added approximately \$2.7 million to overall selling, general and administrative expenses. These increases were partially offset by the decrease of \$1.9 million in BabyCare acquisition costs compared with the prior year.

### **Liquidity and Capital Resources**

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing on our line of credit. Our principal source of liquidity is our operating cash flow. There are currently no material restrictions on our ability to transfer and remit available funds among our international markets. Repatriation of funds that are related to earnings considered permanently reinvested in certain of our markets would not result in a tax liability that would have a material impact on our liquidity.

#### *Operating cash flow*

We typically generate positive cash flow due to our strong operating margins. During the first nine months of 2011, we had a net cash flow from operating activities of \$53.5 million, compared with \$46.2 million in the same period of 2010. The most significant factor of this change was the increase in net earnings.

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*Line of credit*

We have a long-standing relationship with Bank of America. For the last few years, we have maintained a \$40.0 million credit facility pursuant to a credit agreement with Bank of America. During the second quarter of 2011 we entered into an Amended and Restated Credit Agreement with Bank of America, which, among other things, extends the term of our credit facility through April 2016 and increases the amount that we may borrow under the credit facility to \$60.0 million. We have not drawn on this line of credit since it was amended in the second quarter, and, as of October 1, 2011 there was no outstanding balance on this line of credit.

The agreement for this new credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization ( adjusted EBITDA ) equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of October 1, 2011, 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.

*Working capital*

Cash and cash equivalents at October 1, 2011 was \$36.3 million, compared with \$24.2 million at January 1, 2011. Of the \$36.3 million held at October 1, 2011, \$18.3 million was held in the United States, and \$18.0 million was held by international subsidiaries. Of the \$24.2 million held at January 1, 2011, \$1.9 million was held in the United States, and \$22.3 was held by international subsidiaries. There are no material restrictions on our ability to repatriate cash held by our international subsidiaries.

Net working capital increased to \$30.7 million at October 1, 2011, from \$22.6 million at January 1, 2011. This increase in net working capital was due mostly to net cash provided by operating activities, which was offset in large part by share repurchases as discussed below.

*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 our cash balances, general business opportunities, and other factors. During the first nine months of 2011, we repurchased and retired 1.1 million shares of common stock for a total of \$32.7 million, at an average market price of \$29.86 per share. Also, during the third quarter of 2011, our Board of Directors authorized an additional \$30.0 million for share repurchases under the plan. As of October 1, 2011, the remaining approved repurchase amount under the plan was \$29.0 million. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

*Summary*

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

### **Forward-Looking Statements and Certain Risks**

The statements contained in this report that are not purely historical are considered to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. These



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

- Our ability to attract and maintain a sufficient number of Associates;
- Our dependence upon a network marketing system to distribute our products and the activities of our independent Associates;
- The integration of BabyCare's operations and expansion of our business in China through BabyCare;
- Unanticipated effects of changes to our Compensation Plan;
- Our planned expansion into international markets, including delays in commencement of sales or product offerings in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- General economic conditions, both domestically and internationally;
- Potential political events, natural disasters, or other events that may negatively affect economic conditions;
- Potential effects of adverse publicity regarding the Company, nutritional supplements, or the network marketing industry;
- Reliance on key management personnel;

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- Extensive government regulation of the Company's products, manufacturing, and network marketing system;
- Potential inability to sustain or manage growth, including the failure to continue to develop new products;
- An increase in the amount of Associate incentives;
- Our reliance on the use of information technology;
- The effects of competition from new and established network and direct selling organizations in our key markets;
- The adverse effect of the loss of a high-level sponsoring Associate, together with a group of leading Associates, in that person's downline;
- The loss of product market share or Associates to competitors;
- Potential adverse effects of customs, duties, taxation, and transfer pricing regulations, including regulations governing distinctions between and Company responsibilities to employees and independent contractors;
- The fluctuation in the value of foreign currencies against the U.S. dollar;
- Our reliance on outside suppliers for raw materials and certain manufactured items;
- Shortages of raw materials that we use in certain of our products;
- Significant price increases of our key raw materials;
- Product liability claims and other risks that may arise with our manufacturing activity;

- Intellectual property risks;

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

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

There have been no material changes to information presented from that presented for the year ended January 1, 2011.

**Item 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information that is required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods that are specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 1, 2011.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended October 1, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

## (c) Repurchases

The following table presents information with respect to purchases of USANA common stock made by the Company during the three months ended October 1, 2011:

**Issuer Purchases of Equity Securities**

(amounts in thousands, except per share data)

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs *</b>
Fiscal July (Jul. 3, 2011 through Aug. 6, 2011)	221	\$ 27.91	221	\$ 189
Fiscal August (Aug. 7, 2011 through Sept. 3, 2011)	7	\$ 26.21	7	\$ 30,000
Fiscal September (Sept. 4, 2011 through Oct. 1, 2011)	40	\$ 25.12	40	\$ 29,004
	268	\$ 27.46	268	

\* 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 third quarter with \$6,366 remaining under the plan. As announced in a publicly issued press release on September 2, 2011, the Board of Directors approved an additional \$30,000 for share repurchases under the plan. There currently is no expiration date on the approved repurchase amount.

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#### Item 6. EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)
3.2	Bylaws (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)
4.1	Specimen Stock Certificate for Common Stock, no par value (Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993)
10.1	2002 USANA Health Sciences, Inc. Stock Option Plan (Incorporated by reference to Registration Statement on Form S-8, filed July 18, 2002)*
10.2	Form of employee or director non-statutory stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)*
10.3	Form of employee incentive stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)*
10.4	Credit Agreement, dated June 16, 2004, by and between Bank of America, N.A. and USANA Health Sciences, Inc. (Incorporated by reference to Report on Form 10-Q for the period ended July 3, 2004)
10.5	Amendment dated May 17, 2006 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended September 30, 2006)
10.6	Amendment dated April 24, 2007 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended March 31, 2007)
10.7	USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)*
10.8	Form of Stock Option Agreement for award of non-statutory stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.9	Form of Stock Option Agreement for award of non-statutory stock options to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.10	Form of Incentive Stock Option Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.11	Form of Stock-Settled Stock Appreciation Rights Award Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.12	Form of Stock-Settled Stock Appreciation Rights Award Agreement for directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.13	Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*

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



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10.16	Share Purchase Agreement, dated as of August 16, 2010, among USANA Health Sciences, Inc., Petlane, Inc., Yaolan Ltd., and BabyCare Holdings Ltd. (Incorporated by Reference to Report on Form 8-K, filed August 16, 2010)
10.17	Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011)
10.18	Form of Executive Confidentiality, Non-Disclosure and Non-Solicitation Agreement.*
31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101	The following financial information from the quarterly report on Form 10-Q of USANA Health Sciences, Inc. for the quarter ended October 1, 2011, formatted in eXtensible Reporting Language ( XBRL ): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Stockholders Equity and Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

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

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USANA HEALTH SCIENCES, INC.

Date: November 9, 2011

/s/ G. Douglas Hekking  
G. Douglas Hekking  
Chief Financial Officer

(Principal Financial and Accounting Officer)