USANA HEALTH SCIENCES INC
Form 10-Q
August 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2009

OR

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

For the transition period from to

Commission file number: 0-21116

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah	**87-0500306**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

The number of shares outstanding of the registrant s common stock as of August 5, 2009 was 15,535,210.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 4, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands)

	As of January 3, 2009 (1)	As of July 4, 2009 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,281	$ 11,170
Inventories	23,879	24,656
Prepaid expenses and other current assets	12,657	10,206
Deferred income taxes	2,857	2,698
Total current assets	52,674	48,730
Property and equipment, net	56,762	56,994
Assets held for sale	607	607
Goodwill	5,690	5,690
Other assets	6,839	7,933
	$ 122,572	$ 119,954
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 6,879	$ 4,697
Other current liabilities	47,655	32,400
Total current liabilities	54,534	37,097
Line of credit	34,990	28,170
Other long-term liabilities	1,212	1,885
Stockholders equity		
Common stock, $0.001 par value;		
Authorized 50,000 shares, issued and outstanding 15,350 as of January 3, 2009 and 15,350 as of July 4, 2009	15	15
Additional paid-in capital	8,089	12,707
Retained earnings	24,107	39,544
Accumulated other comprehensive income (loss)	(375)	536
Total stockholders equity	31,836	52,802

	$	122,572	$	119,954

(1) Derived from audited financial statements.

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(U.S. dollars in thousands, except per share data)

(unaudited)

	Quarter Ended	
	June 28, 2008 (as restated)	July 4, 2009
Net sales	$ 109,208	$ 112,093
Cost of sales	21,884	23,753
Gross profit	87,324	88,340
Operating expenses:		
Associate incentives	45,603	50,321
Selling, general and administrative	25,753	24,719
Total operating expenses	71,356	75,040
Earnings from operations	15,968	13,300
Other income (expense):		
Interest income	85	12
Interest expense	(123)	(146)
Other, net	(27)	259
Other income (expense), net	(65)	125
Earnings before income taxes	15,903	13,425
Income taxes	5,821	4,634
Net earnings	10,082	8,791
Earnings per common share		
Basic	$ 0.62	$ 0.57
Diluted	$ 0.61	$ 0.57
Weighted average common shares outstanding		
Basic	16,393	15,350

Diluted	16,460	15,385

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(U.S. dollars in thousands, except per share data)

(unaudited)

	Six Months Ended	
	June 28, 2008 (as restated)	July 4, 2009
Net sales	$ 210,778	$ 209,392
Cost of sales	43,386	43,599
Gross profit	167,392	165,793
Operating expenses:		
Associate incentives	86,967	92,211
Selling, general and administrative	52,789	50,049
Total operating expenses	139,756	142,260
Earnings from operations	27,636	23,533
Other income (expense):		
Interest income	183	30
Interest expense	(362)	(435)
Other, net	43	440
Other income (expense), net	(136)	35
Earnings before income taxes	27,500	23,568
Income taxes	10,125	8,131
Net earnings	17,375	15,437
Earnings per common share		
Basic	$ 1.06	$ 1.01
Diluted	$ 1.06	$ 1.00
Weighted average common shares outstanding		
Basic	16,378	15,350

Diluted	16,460	15,384

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

Six Months Ended June 28, 2008 and July 4, 2009

(U.S. dollars in thousands)

(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
For the Six Months Ended June 28, 2008						
Balance at December 29, 2007 (as restated)	16,198	$ 16	$ 5,636	$ 26,308	$ 989	$ 32,949
Comprehensive income						
Net earnings				17,375		17,375
Foreign currency translation adjustment, net of tax benefit of $ 438					844	844
Comprehensive income						18,219
Equity-based compensation expense			2,858			2,858
Common stock issued under equity award plans, including tax benefit of $1,028	215		1,376			1,376
Balance at June 28, 2008 (as restated)	16,413	$ 16	$ 9,870	$ 43,683	$ 1,833	$ 55,402
For the Six Months Ended July 4, 2009						
Balance at January 3, 2009	15,350	15	8,089	24,107	(375)	31,836
Comprehensive income						
Net earnings				15,437		15,437
Foreign currency translation adjustment, net of tax benefit of $613					911	911

Comprehensive income											16,348
Equity-based compensation expense					4,618						4,618
Balance at July 4, 2009	15,350	$	15	$	12,707	$	39,544	$	536	$	52,802

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

(U.S. dollars in thousands)

(unaudited)

	Six Months Ended June 28, 2008 (as restated)	Six Months Ended July 4, 2009
Cash flows from operating activities		
Net earnings	$ 17,375	$ 15,437
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	3,171	3,569
(Gain) loss on sale of property and equipment	(78)	20
Equity-based compensation expense	2,858	4,618
Excess tax benefit from equity-based payment arrangements	(1,028)	
Deferred income taxes	(1,791)	(1,508)
Provision for inventory valuation	400	334
Changes in operating assets and liabilities:		
Inventories	(2,563)	(600)
Prepaid expenses and other assets	2,291	2,359
Accounts payable	1,705	(2,200)
Other liabilities	2,855	(15,565)
Total adjustments	7,820	(8,973)
Net cash provided by operating activities	25,195	6,464
Cash flows from investing activities		
Receipts on notes receivable	$ 57	$ 108
Increase in notes receivable	(16)	(1)
Proceeds from sale of property and equipment	119	1
Purchases of property and equipment	(11,582)	(1,893)
Net cash used in investing activities	(11,422)	(1,785)
Cash flows from financing activities		
Proceeds from equity awards exercised	$ 348	$
Excess tax benefits from equity-based payment arrangements	1,028	
Borrowings on line of credit	2,655	49,340
Payments on line of credit	(20,820)	(56,160)
Net cash used in financing activities	(16,789)	(6,820)
Effect of exchange rate changes on cash and cash equivalents	133	30
Net decrease in cash and cash equivalents	(2,883)	(2,111)

Cash and cash equivalents, beginning of period		12,865		13,281
Cash and cash equivalents, end of period	$	9,982	$	11,170
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest, net of amount capitalized	$	371	$	411
Income taxes		9,948		12,492

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

(U.S. dollars in thousands, except per share data)

(unaudited)

Basis of Presentation

The unaudited interim consolidated financial information of USANA Health Sciences, Inc. and its subsidiaries (collectively, the Company or USANA) has 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 July 4, 2009, and results of operations for the quarters and six months ended June 28, 2008 and July 4, 2009. 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 3, 2009. The results of operations for the quarter and six months ended July 4, 2009 may not be indicative of the results that may be expected for the fiscal year 2009 ending January 2, 2010.

Recently Adopted Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, 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. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim and annual financial periods ending after June 15, 2009 and requires prospective application. The Company adopted SFAS 165 during the second quarter ended July 4, 2009, and its application had no impact on the Company s consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was August 11, 2009.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles and 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. SFAS 168 is effective for interim and annual financial periods ending after September 15, 2009. On this effective date, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS 162. The Company will adopt SFAS 168 during its interim period ending October 3, 2009 and does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(U.S. dollars in thousands, except per share data)

(unaudited)

Restatement of consolidated financial statements

In its Annual Report on Form 10-K filed with the SEC on March 6, 2009, the Company restated its historical consolidated financial statements for the fiscal years ending December 29, 2007 and December 30, 2006 to correct two errors related to income taxes payable during the reported periods, as explained below.

During 2008, the Internal Revenue Service (IRS) commenced an audit of the Company s tax returns for tax years 2003 through 2007. In January 2009, the IRS communicated its intent to disallow deductions claimed by the Company under Section 162(m) of the Internal Revenue Code (IRC). In February 2009, the Company settled the Section 162(m) matter with the IRS. Under the settlement, the cumulative tax impact to the Company is the loss of $11.8 million in tax deductions resulting in estimated taxes due of $4.4 million, plus $0.8 million in interest. The $4.4 million in taxes due resulted in an increase to current liabilities and corresponding reduction in stockholders equity in the affected periods. The $0.8 million in interest resulted in an increase to current liabilities with a corresponding increase to income tax expense in the affected periods.

The IRS also disallowed the treatment of certain stock options granted by the Company as Incentive Stock Options. The Company s February 2009 settlement with the IRS also settled this matter. The settlement resulted in a cumulative increase of $1.3 million to compensation expense recorded in selling, general and administrative expense for the affected periods.

The Company concluded that the cumulative effect of the balance sheet adjustments due to these two errors was material to its fiscal year 2007, as well as its 2007 and 2008 quarterly, balance sheets. The consolidated financial statements and related disclosures for the quarter and six months ended June 28, 2008 have been restated in this report to reflect the errors discussed above. The earnings impact of this restatement on the second quarter of 2008 was an increase to income taxes of $66 and a decrease in diluted earnings per share of $0.01. The earnings impact of this restatement on the six months ended June 28, 2008 was an increase in selling, general and administrative expense of $289, an increase to income taxes of $31, and a decrease in both basic and diluted earnings per share of $0.02. The impact of this restatement on the balance sheet as of June 28, 2008 was an increase in other current liabilities of $6,009, a decrease in additional paid-in capital of $1,889, and a decrease in retained earnings of $4,120.

Refer to Note A of the 2008 Form 10-K for the effects of the restatement on the Company s consolidated financial statements as of and for the fiscal years ended December 29, 2007 and January 3, 2009.

NOTE A ORGANIZATION

USANA 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 Company s products are sold throughout the United States, Canada, Mexico, Australia, New Zealand, Singapore, Malaysia, the Philippines, Hong Kong, Taiwan, Japan, South Korea, the United Kingdom, and the Netherlands.

NOTE B INVENTORIES

Inventories consist of the following:

	January 3, 2009	July 4, 2009
Raw materials	$ 7,063	$ 6,469
Work in progress	5,412	5,764
Finished goods	11,404	12,423
	$ 23,879	$ 24,656

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE C PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	January 3, 2009	July 4, 2009
Prepaid insurance	$ 1,393	$ 694
Other prepaid expenses	1,458	2,283
Federal income taxes receivable	3,759	1,601
Miscellaneous receivables, net	3,182	2,382
Deferred commissions	2,174	2,458
Other current assets	691	788
	$ 12,657	$ 10,206

NOTE D PROPERTY AND EQUIPMENT

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

	Years	January 3, 2009	July 4, 2009
Buildings	40	$ 35,714	$ 36,582
Laboratory and production equipment	5-7	14,414	14,680
Sound and video library	5	600	600
Computer equipment and software	3-5	24,626	26,261
Furniture and fixtures	3-5	4,474	4,481
Automobiles	3-5	201	255
Leasehold improvements	3-5	3,871	4,404
Land improvements	15	1,979	2,005
		85,879	89,268
Less accumulated depreciation and amortization		36,796	40,203
		49,083	49,065
Land		6,224	6,757
Deposits and projects in process		1,455	1,172
		$ 56,762	$ 56,994

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE D PROPERTY AND EQUIPMENT

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE E OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

		January 3, 2009		July 4, 2009
Associate incentives	$	6,498	$	7,839
Accrued employee compensation		11,212		6,122
Income taxes		6,243		594
Sales taxes		3,923		3,398
Associate promotions		607		1,326
Deferred revenue		6,588		6,778
Provision for returns and allowances		1,101		989
Arbitration award		7,020		
All other		4,463		5,354
	$	47,655	$	32,400

NOTE F LONG TERM DEBT AND LINE OF CREDIT

The Company has a $40,000 line of credit. At July 4, 2009, there was an outstanding balance of $28,170 associated with the line of credit, with a weighted-average interest rate of 1.33%. 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 a minimum EBITDA requirement 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.

NOTE G EQUITY-BASED COMPENSATION

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

	Quarter Ended				Six Months Ended			
		June 28, 2008		July 4, 2009		June 28, 2008		July 4, 2009
Cost of sales	$	150	$	153	$	331	$	343
Selling, general and administrative		1,220		1,951		2,527		4,275
		1,370		2,104		2,858		4,618

Related tax benefit		479		758		1,048		1,647
Net equity-based compensation expense	$	891	$	1,346	$	1,810	$	2,971

NOTE E OTHER CURRENT LIABILITIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE G EQUITY-BASED COMPENSATION CONTINUED

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 July 4, 2009. This table does not include an estimate for future grants that may be issued.

Remainder of 2009	$	4,342
2010		8,230
2011		6,813
2012		5,410
2013		2,642
2014		27
	$	27,464

The cost above is expected to be recognized over a weighted-average period of 2.2 years.

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			Six Months Ended		
	June 28, 2008		July 4, 2009	June 28, 2008		July 4, 2009
Expected volatility	*		37.3%	*		37.3%
Risk-free interest rate	*		1.6%	*		1.7%
Expected life	*		4.0 yrs.	*		4.0 yrs.
Expected dividend yield	*			*		
Weighted-average grant price	*	$	24.99	*	$	26.04

* There were no equity awards granted during the quarter and six months ended June 28, 2008 that required calculation of fair value.

A summary of the Company s stock option and stock-settled stock appreciation right activity for the six months ended July 4, 2009 is as follows:

	Shares		Weighted-average grant price	Weighted-average remaining contractual term		Aggregate intrinsic value*
Outstanding at January 3, 2009	4,244	$	30.28	4.7	$	21,382
Granted	100		26.04			

Exercised						
Canceled or expired	(5)		35.43			
Outstanding at July 4, 2009	4,339	$	30.17	4.2	$	4,470
Exercisable at July 4, 2009	1,159	$	34.59	4.0	$	1,007

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date and the exercise price of awards that were in-the-money. It is estimated using the closing price of the Company s common stock on the last trading day of the period reported.

NOTE E OTHER CURRENT LIABILITIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE G EQUITY-BASED COMPENSATION CONTINUED

There were no stock options or stock-settled stock appreciation rights that were granted during the six months ended June 28, 2008. The weighted-average fair value of those that were granted during the six months ended July 4, 2009 was $8.16. The total intrinsic value of awards that were exercised during the six months ended June 28, 2008 was $7,096. There were no awards exercised during the six months ended July 4, 2009.

The total fair value of awards that vested during the six month periods ended June 28, 2008 and July 4, 2009 was $5,381 and $5,946, respectively. This total fair value includes equity awards that were issued in the form of stock options, stock-settled stock appreciation rights, and deferred stock units.

NOTE H 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 is also currently evaluating 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 quarter and six months ended July 4, 2009. Historically, the exercise of currency contracts has not had a material impact on the Company s consolidated statements of earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE I 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 include equity awards that are in-the-money but have not yet been exercised.

	For the Quarter Ended	
	June 28, 2008 (as restated)	July 4, 2009
Net earnings available to common shareholders	$ 10,082	$ 8,791
Basic EPS		
Shares		
Common shares outstanding - entire period		
Weighted-average common shares:	16,198	15,350
Issued during period	195	
Canceled during period		
Weighted-average common shares outstanding during period	16,393	15,350
Earnings per common share from net earnings - basic	$ 0.62	$ 0.57
Diluted EPS		
Shares		
Weighted-average shares outstanding during period - basic	16,393	15,350
Dilutive effect of equity awards	67	35
Weighted-average shares outstanding during period - diluted	16,460	15,385
Earnings per common share from net earnings - diluted	$ 0.61	$ 0.57

Equity awards for 1,539 and 1,584 shares of stock were not included in the computation of diluted EPS for the quarters ended June 28, 2008, and July 4, 2009, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE I COMMON STOCK AND EARNINGS PER SHARE CONTINUED

	For the Six Months Ended June 28, 2008 (as restated)	July 4, 2009
Net earnings available to common shareholders	$ 17,375	$ 15,437
Basic EPS		
Shares		
Common shares outstanding - entire period		
Weighted-average common shares:	16,198	15,350
Issued during period	180	
Canceled during period		
Weighted-average common shares outstanding during period	16,378	15,350
Earnings per common share from net earnings - basic	$ 1.06	$ 1.01
Diluted EPS		
Shares		
Weighted-average shares outstanding during period - basic	16,378	15,350
Dilutive effect of equity awards	82	34
Weighted-average shares outstanding during period - diluted	16,460	15,384
Earnings per common share from net earnings - diluted	$ 1.06	$ 1.00

Equity awards for 1,400 and 2,935 shares of stock were not included in the computation of diluted EPS for the six months ended June 28, 2008, and July 4, 2009, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

NOTE J COMPREHENSIVE INCOME

Total comprehensive income consisted of the following:

	Quarter Ended June 28, 2008 (as restated)	July 4, 2009	Six Months Ended June 28, 2008 (as restated)	July 4, 2009

Net earnings	$	10,082	$	8,791	$	17,375	$	15,437
Foreign currency translation adjustment		258		1,157		844		911
Comprehensive income	$	10,340	$	9,948	$	18,219	$	16,348

NOTE E OTHER CURRENT LIABILITIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE K 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 SFAS No. 131, 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 or Preferred Customer accounted for 10% or more of net sales for the periods presented. The table below summarizes the approximate percentage of total product revenue that has been contributed by the Company s nutritional and personal care products for the periods indicated.

	Quarter Ended		Six Months Ended	
Product Line	**June 28, 2008**	**July 4, 2009**	**June 28, 2008**	**July 4, 2009**
USANA® Nutritionals	88%	88%	88%	88%
Sensé beautiful science®	10%	9%	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
- Canada
- Mexico
- Asia Pacific
- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, and Philippines*

- East Asia   Hong Kong and Taiwan

- North Asia   Japan and South Korea

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*Operations in the Philippines commenced in January 2009.

NOTE E   OTHER CURRENT LIABILITIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE K 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		Six Months Ended	
	June 28, 2008	July 4, 2009	June 28, 2008	July 4, 2009
Net Sales to External Customers				
North America				
United States	$ 40,125	$ 39,908	$ 78,675	$ 76,397
Canada	19,527	16,454	38,110	31,390
Mexico	6,269	6,379	11,411	10,849
North America Total	65,921	62,741	128,196	118,636
Asia Pacific				
Southeast Asia/Pacific	24,170	24,518	45,715	44,456
East Asia	15,057	19,649	28,672	36,604
North Asia	4,060	5,185	8,195	9,696
Asia Pacific Total	43,287	49,352	82,582	90,756
Consolidated Total	$ 109,208	$ 112,093	$ 210,778	$ 209,392
Total Assets				
North America				
United States	$ 73,726	$ 77,356	$ 73,726	$ 77,356
Canada	3,171	2,112	3,171	2,112
Mexico	4,853	3,522	4,853	3,522
North America Total	81,750	82,990	81,750	82,990
Asia Pacific				
Southeast Asia/Pacific	22,610	24,308	22,610	24,308
East Asia	7,637	8,448	7,637	8,448
North Asia	4,148	4,208	4,148	4,208
Asia Pacific Total	34,395	36,964	34,395	36,964
Consolidated Total	$ 116,145	$ 119,954	$ 116,145	$ 119,954

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

	Quarter Ended		Six Months Ended	
	June 28, 2008	July 4, 2009	June 28, 2008	July 4, 2009
Net Sales:				
United States	$ 40,125	$ 39,908	$ 78,675	$ 76,397
Canada	19,527	16,454	38,110	31,390
Hong Kong	9,013	14,392	17,394	26,293

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NOTE E   OTHER CURRENT LIABILITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE E OTHER CURRENT LIABILITIES

(U.S. dollars in thousands, except per share data)

(unaudited)

NOTE K SEGMENT INFORMATION CONTINUED

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. As of June 28, 2008, and July 4, 2009, long-lived assets in the United States totaled $49,633 and $47,749, respectively. Additionally, long-lived assets in the Australia market as of June 28, 2008, and July 4, 2009 totaled $13,571 and $12,721, respectively. There is no significant concentration of long-lived assets in any other market.

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 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 3, 2009, 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.

Our fiscal year end is the Saturday closest to December 31st of each year. Fiscal year 2009 will end on January 2, 2010 and is a 52-week year. Fiscal year 2008 ended on January 3, 2009 and was a 53-week year.

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 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 July 4, 2009, we had approximately 200,000 active Associates and approximately 69,000 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*
- East Asia Hong Kong and Taiwan
- North Asia Japan and South Korea

*Operations in the Philippines commenced in January 2009.

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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.

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

	Six Months Ended	
Product Line	**June 28, 2008**	**July 4, 2009**
USANA® Nutritionals		
Essentials	35%	33%
Optimizers	40%	43%
USANA Foods	13%	12%
Sensé beautiful science®	10%	9%
All Other *	2%	3%

* Includes items such as services, sales tools, and logo merchandise.

	Six Months Ended	
Key Product	**June 28, 2008**	**July 4, 2009**
USANA® Essentials	20%	19%
HealthPak 100	12%	12%
Proflavanol®	10%	11%

As a manufacturer of nutritional and personal care products utilizing direct selling for the distribution of our products, we compete within two industries: direct selling and nutrition. We believe that the most significant factors affecting us are the aging of the worldwide population, the general public s heightened awareness and understanding of the connection between diet and health, and the growing desire for a secondary source of income, all of which affect our ability to attract and retain Associates and Preferred Customers to sell and consume our products.

The number of active Associates and Preferred Customers is used by management as a key non-financial measure because the number of customers purchasing our products is a leading indicator for product sales. Associate sales account for the majority of our product sales, representing 89% of product sales during the six months ended July 4, 2009. Typically, changes in product sales are not significantly affected by changes in product price, but rather, they are affected by variations in product sales volumes principally relating to changes in the number of active Associates and Preferred Customers purchasing our products. Notably, the volume of average 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.

We believe that our high-quality products and our financially rewarding Associate compensation plan (Compensation Plan) are the key components to attracting and retaining Associates. 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 the USANA 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.

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In addition to Company-sponsored meetings and sales tools, we maintain a website exclusively for our Associates where they can keep 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 management tool.

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 June 28, 2008		As of July 4, 2009		Change from Prior Year	Percent Change
North America:						
United States	57,000	33.7%	65,000	32.5%	8,000	14.0%
Canada	26,000	15.4%	26,000	13.0%		0.0%
Mexico	13,000	7.7%	15,000	7.5%	2,000	15.4%
North America Total	96,000	56.8%	106,000	53.0%	10,000	10.4%
Asia Pacific:						
Southeast Asia/Pacific	39,000	23.1%	46,000	23.0%	7,000	17.9%
East Asia	27,000	16.0%	40,000	20.0%	13,000	48.1%
North Asia	7,000	4.1%	8,000	4.0%	1,000	14.3%
Asia Pacific Total	73,000	43.2%	94,000	47.0%	21,000	28.8%
	169,000	100.0%	200,000	100.0%	31,000	18.3%

Active Preferred Customers By Region

	As of June 28, 2008		As of July 4, 2009		Change from Prior Year	Percent Change
North America:						
United States	49,000	63.6%	42,000	60.9%	(7,000)	(14.3)%
Canada	17,000	22.1%	15,000	21.7%	(2,000)	(11.8)%
Mexico	3,000	3.9%	3,000	4.3%		0.0%
North America Total	69,000	89.6%	60,000	86.9%	(9,000)	(13.0)%
Asia Pacific:						
Southeast Asia/Pacific	6,000	7.8%	7,000	10.1%	1,000	16.7%
East Asia	1,000	1.3%	1,000	1.5%		0.0%
North Asia	1,000	1.3%	1,000	1.5%		0.0%
Asia Pacific Total	8,000	10.4%	9,000	13.1%	1,000	12.5%
	77,000	100.0%	69,000	100.0%	(8,000)	(10.4)%

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Total Active Customers By Region

	As of June 28, 2008		As of July 4, 2009		Change from Prior Year	Percent Change
North America:						
United States	106,000	43.1%	107,000	39.8%	1,000	0.9%
Canada	43,000	17.5%	41,000	15.2%	(2,000)	(4.7)%
Mexico	16,000	6.5%	18,000	6.7%	2,000	12.5%
North America Total	165,000	67.1%	166,000	61.7%	1,000	0.6%
Asia Pacific:						
Southeast Asia/Pacific	45,000	18.3%	53,000	19.7%	8,000	17.8%
East Asia	28,000	11.4%	41,000	15.2%	13,000	46.4%
North Asia	8,000	3.2%	9,000	3.4%	1,000	12.5%
Asia Pacific Total	81,000	32.9%	103,000	38.3%	22,000	27.2%
	246,000	100.0%	269,000	100.0%	23,000	9.3%

Our primary growth strategy includes continuing to attract and retain Associates through increased investment in Associate events and the marketing of our Compensation Plan. This includes continued Associate education on our Compensation Plan and the two enhancements that were announced during the third quarter of 2008 the Elite Bonus and the Matching Bonus. Other growth opportunities that we frequently evaluate include entering new markets, introducing new products, re-formulating existing products, strategic acquisitions, and capital investments that will help support our growth.

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. These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as believes, expects, anticipates, should, plans, estimates, and potential, among others. Forward-looking statements inclu 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;

- Activities of our independent Associates;

- Our planned expansion into international markets, including delays in commencement of sales in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;

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- Rigorous government scrutiny of network marketing practices;

- Potential political events, natural disasters, or other events that may negatively affect economic conditions;

- Potential effects of adverse publicity regarding the Company, nutritional supplements, or the network marketing industry;

- Reliance on key management personnel;

- Extensive government regulation of the Company s products, manufacturing, and network marketing system;

- Potential inability to sustain or manage growth, including the failure to continue to develop new products;

- An increase in the amount of Associate incentives;

- Our reliance on the use of information technology;

- The 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;
- 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; and
- The outcome of regulatory and litigation matters.

Results of Operations

Summary of Financial Results and Recent Developments

Net sales for the second quarter of 2009 increased $2.9 million to $112.1 million, compared with $109.2 million in the second quarter of 2008. Net sales during the first six months of 2009 decreased $1.4 million to $209.4 million, compared with $210.8 million for the same period in 2008. The most significant items impacting net sales during the second quarter and first six months of 2009 were negative changes in currency exchange rates (i.e. a significant strengthening of the U.S. dollar when compared to prior year exchange rates) and changes in product sales driven by an 18.3% increase in the number of active Associates and a 10.4% decrease in the number of active Preferred Customers. Net sales were also impacted by the commencement of our

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operations in the Philippines in January, which added $1.6 million to net sales for the quarter and $3.3 million for the first six months of 2009, and to a lesser extent, an increase in product prices in certain of our markets.

Net earnings during the second quarter of 2009 decreased 12.8% to $8.8 million from $10.1 million in the second quarter of 2008. Net earnings during the first six months of 2009 decreased 11.2% to $15.4 million from $17.4 million during the same period of the prior year. These decreases were due primarily to the negative effect of currency exchange rates and higher Associate incentives expense relative to net sales, which were offset in part by lower selling, general and administrative expense and a lower effective tax rate.

Quarters Ended June 28, 2008 and July 4, 2009

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	Impact of currency exchange	Change excluding the impact of currency
	June 28, 2008		July 4, 2009					
North America:								
United States	$ 40,125	36.8%	$ 39,908	35.6%	$ (217)	(0.5)%	N/A	(0.5)%
Canada	19,527	17.9%	16,454	14.7%	(3,073)	(15.7)%	(2,482)	(3.0)%
Mexico	6,269	5.7%	6,379	5.7%	110	1.8%	(1,742)	29.5%
North America Total	65,921	60.4%	62,741	56.0%	(3,180)	(4.8)%	(4,224)	1.6%
Asia Pacific:								
Southeast Asia/Pacific	24,170	22.1%	24,518	21.9%	348	1.4%	(4,116)	18.5%
East Asia	15,057	13.8%	19,649	17.5%				