

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

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 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

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation or organization)

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

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

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

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

The number of shares outstanding of the registrant's common stock as of August 1, 2011 was 15,078,394.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 2, 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)

| | As of January 1, 2011 (1) | As of July 2, 2011 (unaudited) |
|--|---------------------------------|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 24,222 | \$ 24,944 |
| Inventories | 34,078 | 35,381 |
| Prepaid expenses and other current assets | 20,261 | 16,325 |
| Deferred income taxes | 1,711 | 2,607 |
| Total current assets | 80,272 | 79,257 |
| Property and equipment, net | 57,568 | 60,564 |
| Goodwill | 16,930 | 16,930 |
| Intangible assets, net | 40,616 | 40,105 |
| Other assets | 8,416 | 9,072 |
| | \$ 203,802 | \$ 205,928 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 6,445 | \$ 8,345 |
| Other current liabilities | 51,179 | 46,144 |
| Total current liabilities | 57,624 | 54,489 |
| Other long-term liabilities | 1,012 | 1,020 |
| Stockholders' equity | | |
| Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 15,985 as of January 1, 2011 and 15,173 as of July 2, 2011 | 16 | 15 |
| Additional paid-in capital | 51,222 | 46,878 |
| Retained earnings | 90,207 | 98,800 |
| Accumulated other comprehensive income | 3,721 | 4,726 |
| Total stockholders' equity | 145,166 | 150,419 |

\$ 203,802 \$ 205,928

(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

(in thousands, except per share data)

(unaudited)

| | Quarter Ended | |
|--|-----------------|-----------------|
| | July 3, 2010 | July 2, 2011 |
| Net sales | \$ 126,011 | \$ 148,925 |
| Cost of sales | 22,735 | 26,208 |
| Gross profit | 103,276 | 122,717 |
| Operating expenses: | | |
| Associate incentives | 57,065 | 67,760 |
| Selling, general and administrative | 29,149 | 33,803 |
| Total operating expenses | 86,214 | 101,563 |
| Earnings from operations | 17,062 | 21,154 |
| Other income (expense): | | |
| Interest income | 16 | 54 |
| Interest expense | (5) | (2) |
| Other, net | (598) | (52) |
| Other expense, net | (587) | |
| Earnings before income taxes | 16,475 | 21,154 |
| Income taxes | 5,705 | 7,298 |
| Net earnings | \$ 10,770 | \$ 13,856 |
| Earnings per common share | | |
| Basic | \$ 0.70 | \$ 0.89 |
| Diluted | \$ 0.69 | \$ 0.88 |
| Weighted average common shares outstanding | | |
| Basic | 15,318 | 15,530 |
| Diluted | 15,697 | 15,752 |

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)

| | Six Months Ended | |
|--|------------------|-----------------|
| | July 3, 2010 | July 2, 2011 |
| Net sales | \$ 245,098 | \$ 292,491 |
| Cost of sales | 45,755 | 51,870 |
| Gross profit | 199,343 | 240,621 |
| Operating expenses: | | |
| Associate incentives | 111,183 | 132,567 |
| Selling, general and administrative | 56,607 | 69,673 |
| Total operating expenses | 167,790 | 202,240 |
| Earnings from operations | 31,553 | 38,381 |
| Other income (expense): | | |
| Interest income | 34 | 104 |
| Interest expense | (26) | (8) |
| Other, net | (256) | 5 |
| Other income (expense), net | (248) | 101 |
| Earnings before income taxes | 31,305 | 38,482 |
| Income taxes | 10,894 | 13,276 |
| Net earnings | \$ 20,411 | \$ 25,206 |
| Earnings per common share | | |
| Basic | \$ 1.33 | \$ 1.60 |
| Diluted | \$ 1.31 | \$ 1.58 |
| Weighted average common shares outstanding | | |
| Basic | 15,315 | 15,720 |
| Diluted | 15,609 | 15,964 |

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 July 3, 2010 and July 2, 2011

(in thousands)

(unaudited)

| | Shares | Common Stock Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|--------|-----------------------|----------------------------------|----------------------|--|------------|
| For the Six Months Ended July 3, 2010 | | | | | | |
| Balance at January 2, 2010 | 15,309 | \$ 15 | \$ 16,425 | \$ 56,410 | \$ 1,523 | \$ 74,373 |
| Comprehensive income | | | | | | |
| Net earnings | | | | 20,411 | | 20,411 |
| Foreign currency translation adjustment, net of tax benefit of \$317 | | | | | (463) | (463) |
| Comprehensive income | | | | | | 19,948 |
| Equity-based compensation expense | | | 4,140 | | | 4,140 |
| Common stock issued under equity award plans, including tax benefit of \$38 | 10 | | 97 | | | 97 |
| Balance at July 3, 2010 | 15,319 | \$ 15 | \$ 20,662 | \$ 76,821 | \$ 1,060 | \$ 98,558 |
| For the Six Months Ended July 2, 2011 | | | | | | |
| Balance at January 1, 2011 | 15,985 | \$ 16 | \$ 51,222 | \$ 90,207 | \$ 3,721 | \$ 145,166 |
| Comprehensive income | | | | | | |
| Net earnings | | | | 25,206 | | 25,206 |
| Foreign currency translation adjustment, net of tax expense of \$560 | | | | | 1,005 | 1,005 |
| Comprehensive income | | | | | | 26,211 |
| Equity-based compensation expense | | | 4,802 | | | 4,802 |
| Common stock repurchased and retired | (827) | (1) | (8,725) | (16,613) | | (25,339) |
| Common stock issued under equity award plans, including tax benefit of \$49 | 15 | | 88 | | | 88 |
| Tax impact of cancelled vested equity awards | | | (509) | | | (509) |
| Balance at July 2, 2011 | 15,173 | \$ 15 | \$ 46,878 | \$ 98,800 | \$ 4,726 | \$ 150,419 |

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)

| | Six Months Ended | |
|--|------------------|-----------------|
| | July 3, 2010 | July 2, 2011 |
| Cash flows from operating activities | | |
| Net earnings | \$ 20,411 | \$ 25,206 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation and amortization | 3,623 | 4,246 |
| Loss on sale of property and equipment | 7 | 9 |
| Equity-based compensation expense | 4,140 | 4,802 |
| Excess tax benefits from equity-based payment arrangements | (61) | (48) |
| Deferred income taxes | (2,240) | (1,981) |
| Inventory valuation | 601 | 575 |
| Changes in operating assets and liabilities: | | |
| Inventories | (5,781) | (1,136) |
| Prepaid expenses and other assets | 996 | 4,109 |
| Accounts payable | 1,312 | 1,914 |
| Other liabilities | 2,319 | (6,295) |
| Total adjustments | 4,916 | 6,195 |
| Net cash provided by operating activities | 25,327 | 31,401 |
| Cash flows from investing activities | | |
| Proceeds from sale of property and equipment | 4 | 1 |
| Purchases of property and equipment | (3,666) | (5,794) |
| Net cash used in investing activities | (3,662) | (5,793) |
| Cash flows from financing activities | | |
| Proceeds from equity awards exercised | 59 | 39 |
| Excess tax benefits from equity-based payment arrangements | 61 | 48 |
| Repurchase of common stock | | (25,339) |
| Payments on line of credit | (7,000) | |
| Net cash used in financing activities | (6,880) | (25,252) |
| Effect of exchange rate changes on cash and cash equivalents | (16) | 366 |

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| | | |
|--|-----------|-----------|
| Net increase in cash and cash equivalents | 14,769 | 722 |
| Cash and cash equivalents, beginning of period | 13,658 | 24,222 |
| Cash and cash equivalents, end of period | \$ 28,427 | \$ 24,944 |
| <u>Supplemental disclosures of cash flow information</u> | | |
| Cash paid during the period for: | | |
| Interest | \$ 32 | \$ 9 |
| Income taxes | 12,513 | 13,483 |

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 July 2, 2011 and results of operations for the quarters and six months ended July 3, 2010 and July 2, 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 six months ended July 2, 2011, may not be indicative of the results that may be expected for the fiscal year 2011 ending December 31, 2011.

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.

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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 July 2, 2011, the fair value of term deposits in the consolidated balance sheet totaled \$1,856, consisting of \$309, classified in cash and cash equivalents, and \$1,547 in prepaid expenses and other current assets.

NOTE B INVENTORIES

Inventories consist of the following:

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| | January 1, 2011 | | July 2, 2011 |
|------------------|--------------------|----|-----------------|
| Raw materials | \$ 9,372 | \$ | 9,931 |
| Work in progress | 5,791 | | 5,821 |
| Finished goods | 18,915 | | 19,629 |
| | \$ 34,078 | \$ | 35,381 |

NOTE C PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

| | January 1, 2011 | | July 2, 2011 |
|---------------------------------|--------------------|----|-----------------|
| Prepaid insurance | \$ 1,175 | \$ | 660 |
| Other prepaid expenses | 2,583 | | 3,501 |
| Federal income taxes receivable | 3,108 | | 1,741 |
| Miscellaneous receivables, net | 3,735 | | 3,067 |
| Deferred commissions | 4,867 | | 3,535 |
| Term deposits | 3,034 | | 1,547 |
| Other current assets | 1,759 | | 2,274 |
| | \$ 20,261 | \$ | 16,325 |

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 | July 2, 2011 |
|--|-------|--------------------|-----------------|
| Buildings | 40 | \$ 38,732 | \$ 39,466 |
| Laboratory and production equipment | 5-7 | 17,723 | 18,517 |
| Sound and video library | 5 | 600 | 600 |
| Computer equipment and software | 3-5 | 27,788 | 29,780 |
| Furniture and fixtures | 3-5 | 4,953 | 4,904 |
| Automobiles | 3-5 | 290 | 292 |
| Leasehold improvements | 3-5 | 5,404 | 5,533 |
| Land improvements | 15 | 2,051 | 2,063 |
| | | 97,541 | 101,155 |
| Less accumulated depreciation and amortization | | 48,298 | 51,898 |
| | | 49,243 | 49,257 |
| Land | | 8,107 | 8,443 |
| Deposits and projects in process | | 218 | 2,864 |
| | | \$ 57,568 | \$ 60,564 |

NOTE E OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| | January 1, 2011 | July 2, 2011 |
|----------------------|--------------------|-----------------|
| Associate incentives | \$ 11,379 | \$ 12,453 |

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| | | |
|--------------------------------------|-----------|-----------|
| Accrued employee compensation | 14,395 | 8,645 |
| Income Taxes | 1,571 | 1,731 |
| Sales taxes | 4,671 | 4,302 |
| Associate promotions | 1,491 | 1,417 |
| Deferred revenue | 11,772 | 9,422 |
| Provision for returns and allowances | 929 | 898 |
| All other | 4,971 | 7,276 |
| | \$ 51,179 | \$ 46,144 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

NOTE F EQUITY BASED COMPENSATION

Equity-based compensation expense for the quarters ended July 3, 2010, and July 2, 2011, was \$2,184 and \$1,567, respectively. The related tax benefit for these periods was \$787 and \$568, respectively. Expense for the six months ended July 3, 2010, and July 2, 2011, was \$4,140 and \$4,802, respectively. The related tax benefit for these periods was \$1,514 and \$1,751, respectively.

During the quarter ended July 2, 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 quarter and six months ended July 2, 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 July 2, 2011. This table does not include an estimate for future grants that may be issued.

Remainder of 2011