

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-QSB

Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 1996.

Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 0-21116

USANA, INC.

(Exact name of small business issuer as specified in its charter)

Utah  
(State or other jurisdiction  
of incorporation or organization)

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

3838 Parkway Blvd.  
Salt Lake City, UT 84120  
(Address of principal executive offices)

(801) 954-7100  
(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or Section 15(d) of the Exchange Act during the past 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  or No

The number of shares outstanding of the Company's common stock, no par value, as of June 30, 1996 was 6,326,619.

Transitional Small Business Disclosure Format  
(Check one) Yes  No   
USANA, INC.

PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements

Bases of presentation

The interim financial statements presented herein are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required for complete audited financial statements. These statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 1995.

In the opinion of management, the accompanying unaudited consolidated financial statements of USANA, Inc. and subsidiary ( the Company or USANA) contain all adjustments (consisting of only normal recurring adjustments) necessary to fairly present the Company's financial position as of September 30, 1996 and December 31, 1995 and the results of operations for the three and nine month periods ended September 30, 1996 and 1995, and cash flow for the nine month periods ended September 30, 1996 and 1995. The interim financial statements should be read in conjunction with the following explanatory notes. The results of operations for the three and nine month periods ended September 30, 1996 may not be indicative of the

results that may be expected for the fiscal year ending December 28, 1996.

#### Note 1. Property and Equipment

During the month of June 1996, USANA moved the manufacturing and packaging operations to newly constructed, state-of-the-art facilities. The larger building will provide USANA with ample room for current operations. The land on which the new facilities are located will accommodate significant expansion. The remainder of the operations relocated to the new facility in July, 1996.

The current estimated total cost for the land, building, and associated facilities is approximately \$7.6 million. In addition the Company expects to spend a total of approximately \$1.4 million for new equipment and furnishings related to the construction project. The Company has financed the purchase of the land and construction costs to-date through a bank loan, internally generated funds and from the sale of 964,377 shares of restricted stock to Gull Holdings, Ltd., the Company's largest shareholder, wholly-owned by Dr. Myron Wentz, the Company's founder. At September 30, 1996, a \$1,000,000 draw had been taken on the construction loan with Wells Fargo Bank.

USANA has obtained from Wells Fargo Bank a commitment to lend up to \$5,000,000 under a short-term construction loan and to provide permanent financing on the new headquarters, land and building. The construction loan is at a variable interest rate of prime plus .25%. The construction loan is for one year.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Results of Operations

##### Three months ended September 30, 1996 and 1995

Net sales for the three months ended September 30, 1996 totaled \$16,098,095 compared to net sales of \$7,318,487 for the same period in 1995, an increase of \$8,779,608 or 120.0%. Management believes the increase in sales for such three month period is attributable to the growth in the Company's independent distributor base in the United States and Canada.

The Company's cost of sales as a percentage of net sales has decreased for the three months ended, September 30, 1996 to 21.0% of sales as compared to 24.6% of sales for the three months ended September 30, 1995. The improvement was due primarily to increased efficiency of operations, resulting substantially from larger batch sizes made possible by the significant increase in sales volume.

Distributor incentives of \$7,392,919 (45.9% of net sales) paid during the three months ended September 30, 1996 represented an increase of \$4,075,916 from \$3,317,003 (45.3% of net sales) paid in the same period in 1995. The increase in distributor incentives was due to significantly higher sales. Distributors are paid incentives based on the volume of sales generated by their independently owned distribution network, as provided by the Company's distribution plan. Incentives are paid weekly.

Selling, general and administrative expenses (excluding distributor incentives) during the three months ended September 30, 1996 totaled \$2,840,268 or 17.6% of sales, compared to \$1,271,260 or 17.4% of sales for the same period in 1995. The increase of 123.4% in selling, general and administrative expenses was due primarily to the need for more support services and facilities to accommodate the growth in sales volume and the number of independent distributors. Management expects these expenses to increase in line with net sales.

The Company recognized net earnings of \$1,457,338 during the three months ended September 30, 1996, compared to \$526,301 during the same period of 1995. The improvement of 176.9% was due principally to increased sales, accompanied by more efficient use of personnel, facilities and other administrative resources. Net earnings per share during the third quarter of 1996 were \$.23 per share, compared to \$.09 per share during the third quarter of 1995.

The Company's quarter to quarter (June 30, 1996 to September 30, 1996)

sales comparison equated to a 13% increase with third quarter sales increasing about \$1,883,000 to \$16,098,095. Third quarter earnings remained level as compared to second quarter results at \$.23 per share. Flat earnings growth in the quarter was attributed to a number of strategic investment costs. These costs were associated with the relocation of the Company's manufacturing, research and development, and administrative operations to its new, state-of-the-art headquarters; the initial stages of a major computer hardware and software upgrade; and the substantial recruitment of senior management talent. These investments may contribute to a slower bottom-line growth in the near term but should facilitate the Company's future growth and international expansion.

#### Nine Months Ended September 30, 1996 and 1995

Net sales for the first nine months of 1996 of \$40,867,037 showed an increase of 153.7% over the \$16,105,904 recorded in the same period in 1995. Cost of sales as a percentage of sales reflected an improvement from 24.6% in 1995 to 20.8% in 1996, primarily as a result of the change in product mix towards higher margin items. Distributor incentives were \$6,929,395 or 43.0% of net sales in 1995 and \$18,547,192 or 45.4% of net sales in 1996. The increase as a percentage of net sales was due to the maturation of the network marketing distribution system. Selling, general and administrative expenses of \$6,982,037 as a percentage of sales showed an improvement to 17.1% in 1996 from 17.9% or \$2,882,840 in 1995 largely due to economies of scale.

In February 1995, as a result of the Company's growth in Canada, the Company established USANA Canada Inc. and invested \$100,000 in this wholly-owned subsidiary. Net sales of USANA Canada were \$8,120,704 for the first nine months of 1996 (approximately 19.9% of consolidated sales). Canadian sales in the first nine months of 1995 were \$1,642,960 or approximately 10.2% of consolidated sales.

Net earnings during the first nine months of 1996 totaled \$4,045,503 an increase of 182.4% over 1995's net earnings of \$1,432,541. Earnings per share increased from \$.26 to \$.64 or 146.2% during the same period. The weighted average number of common and common equivalent shares increased from 5,604,233 at September 30, 1995 to 6,296,633 as of September 30, 1996. The increase was primarily a result of shares sold to finance the purchase of land and the construction of the Company's new manufacturing and administrative facilities.

#### Liquidity and Capital Resources

At September 30, 1996, current assets of the Company were approximately \$7.8 million and current liabilities totaled about \$7.5 million, resulting in working capital of \$300,000 compared to working capital of \$1.8 million at December 31, 1995. The Company's current ratio was 1.04 to 1 at September 30, 1996, compared to 1.5 to 1 at December 31, 1995. The decrease in the current ratio was a result of investing short term assets in the construction of the Company's new manufacturing and administrative facilities. Cash totaling \$4.0 million was used to fund the construction of the Company's new headquarters building during the first nine months of 1996.

The Company believes that existing cash balances of approximately \$1.5 million, together with borrowings and additional capital sources related to financing of the Company's new facilities will be adequate to meet the Company's anticipated cash requirements through September 30, 1997. However, in the event the Company experiences an adverse operating environment or unusual capital expenditure requirements, additional financing may be required. There can be no assurance that additional financing, if required, would be available on favorable terms.

#### Material Commitments for capital expenditures

Estimated remaining costs on the construction of the Company's new headquarters, manufacturing, and distribution facilities described earlier including equipment and furnishings are approximately \$440,000. A commitment for financing of up to \$5.0 million on the project has been received from Wells Fargo Bank, as mentioned above. Management anticipates

long-term or permanent financing arrangements will be completed within the next several months.

## Inflation

Inflation has not had a significant impact on the Company's operations in the past three years and is not expected to have a significant impact in the foreseeable future.

## Forward Looking Statements

From time to time, the Company may publish forward-looking statements relating, among other things, to such matters as anticipated financial performance, business prospects, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward looking-statements under federal law. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results on other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to the Company's ability to obtain raw materials, its legal rights to continue selling Proflavanol, and other regulatory, environmental and economic risks typical of all businesses in the nutritional (see discussion in Item 1 of Part II) products industry.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

On March 6, 1996, International Nutrition Company ("INC") filed a patent infringement action against eighteen defendants including USANA alleging infringement of U.S. patent number 4,698,360. The complaint, filed in the United States District Court for the District of Connecticut, alleges that USANA's Proflavanol product violates the INC patent. The complaint seeks preliminary and permanent injunctions against USANA that would prohibit further sales of the Proflavanol product. INC also seeks monetary damages, including any profits lost by INC as a result of the alleged infringement, damages suffered by INC resulting from the alleged infringement, and attorneys' fees and costs incurred by INC. On June 4, 1996, USANA filed a Motion to Dismiss INC's action for lack of subject matter jurisdiction, for failure to state a claim upon which relief can be granted, for lack of standing, and for failure to join an indispensable party. As of November 6, 1996, the Court had not yet ruled on that motion. Having conducted a thorough investigation of the patent and allegations made in the complaint and having consulted with patent counsel, USANA believes that its manufacture and sale of Proflavanol does not infringe any valid claim of the asserted patent. USANA intends to vigorously defend its right to continue providing its Proflavanol product to its customers and distributors. There can be no assurance, however, that USANA will succeed in its defense of this matter.

On April 17, 1996, an unidentified party filed a request with the United States Patent and Trademark Office (PTO) to reexamine the validity of the patent now being asserted against USANA. On June 27, 1996 the PTO granted that request, and stated that a substantial new question of patentability had been raised. The PTO is currently re-evaluating the validity of the patent. The outcome of that reexamination proceeding, while unknown at this time, may affect INC's ability to proceed with its lawsuit against USANA.

Other than as described herein, the Company is not a party to any material litigation or proceedings.

### Item 2. Changes in Securities

There were no changes in the instruments defining the rights of holders of any class of registered securities during the quarter.

### Item 3. Defaults Upon Senior Securities

There were no defaults in payments of this type during the reporting period.

### Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the period covered by this report.

### Item 5. Other Information.

None.

### Item 6. Exhibits and Reports on Form 8-K

#### Exhibits

Exhibit 11 -- Computation of Earnings Per Share  
Exhibit 27 -- Financial Data Schedule

#### Reports on Form 8-K

On July 18, 1996, the Company filed a Report on Form 8-K to report the appointment of two additional independent directors and the creation of an audit committee of the Board of Directors as a precursor to the Company's listing on the NASDAQ National Market System.

## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USANA, Inc.

By: /s/ Gilbert A. Fuller

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Gilbert A. Fuller, Vice President of Finance

Dated: November 13, 1996

## USANA, INC. & SUBSIDIARY CONDENSED CONSOLIDATED BALANCE SHEETS Unaudited

<TABLE>  
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	September 30 1996	December 31 1995
	----- <C>	----- <C>
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ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,534,235	\$ 2,976,406
Accounts receivable, net	32,020	11,246
Inventories	5,537,894	2,127,724
Prepaid expenses and other assets	473,296	75,365
Notes receivable, current portion	26,543	-
Deferred income taxes	170,059	170,000
	-----	-----
Total current assets	7,774,047	5,360,741
Property and equipment, at cost		
Land	1,748,877	1,748,877
Building under construction	5,939,365	1,508,886
Equipment and furniture, net of accumulated depreciation and amortization of \$917,826 in 1996 and \$ 874,178 in 1995	2,539,757	1,318,343
Other assets		

Deposits on machinery	240,700	186,115
Notes receivable, less current portion	53,311	-
Other	44,673	50,641
	-----	-----
Total assets	\$ 18,340,730	\$ 10,173,603
	=====	=====

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 3,448,518	\$ 1,210,205
Short-term borrowings	1,000,000	-
Accrued liabilities		
Accrued commissions	628,932	231,819
Sales tax payable	664,267	465,830
Income taxes payable	663,326	1,435,469
Accrued compensation and related items	442,583	99,074
Other	394,976	36,744
Unearned revenue	263,976	76,127
Current maturities of long-term obligations	-	10,909
	-----	-----
Total current liabilities	7,506,578	3,566,177
Long-term obligations, less current maturities	-	3,910
Deferred income taxes	49,160	49,000
Stockholders' equity		
Common stock, no par value, 50,000,000 shares authorized		
6,341,119 and 6,280,119 shares issued and outstanding		
at 1996 and 1995, respectively		
	6,190,967	6,004,917
Cumulative foreign currency translation adjustment	(4,829)	(3,752)
Retained earnings	4,598,854	553,351
	-----	-----
Total stockholders' equity	10,784,992	6,554,516
	-----	-----
Total liabilities and stockholders' equity	\$ 18,340,730	\$ 10,173,603
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements

#### USANA, INC. & SUBSIDIARY CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS Unaudited

<TABLE>

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	Three Months Ended	
	September 30,	
	-----	-----
	1996	1995
	-----	-----
<S>	<C>	<C>
Net sales	\$ 16,098,095	\$ 7,318,487
Cost of sales	3,381,640	1,803,412
	-----	-----
Gross profit	12,716,455	5,515,075
Operating expenses		
Distributor incentives	7,392,919	3,317,003
Selling, general and administrative	2,840,268	1,271,260
Research and development	189,956	56,213
	-----	-----
Total operating expenses	10,423,143	4,644,476
	-----	-----
Earnings from operations	2,293,312	870,599
Other Income (expense)		

Interest income	33,883	49,249
Interest expense	(22,046)	(1,198)
Gain on sale of property and equipment	65,028	-
Other, net	7,961	28
	-----	-----
Total other income	84,826	48,079
	-----	-----
Earnings before income taxes	2,378,138	918,678
Income taxes	(920,800)	(392,377)
	-----	-----
NET EARNINGS	\$ 1,457,338	\$ 526,301
	=====	=====
Earnings per common and common equivalent share	\$ 0.23	\$ 0.09
	=====	=====
Weighted average number of common and common equivalent shares	6,338,141	5,641,167
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements

USANA, INC. & SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
Unaudited

<TABLE>  
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	Nine Months Ended September 30,	
	1996	1995
	-----	-----
	<C>	<C>
	-----	-----
Net sales	\$ 40,867,037	\$ 16,105,904
Cost of sales	8,488,824	3,961,812
	-----	-----
Gross profit	32,378,213	12,144,092
Operating expenses		
Distributor incentives	18,547,192	6,929,395
Selling, general and administrative	6,982,037	2,882,840
Research and development	473,447	118,473
	-----	-----
Total operating expenses	26,002,676	9,930,708
	-----	-----
Earnings from operations	6,375,537	2,213,384
Other Income (expense)		
Interest income	123,030	71,850
Interest expense	(22,430)	(1,975)
Gain on Sale of Equipment	70,812	104,281
Other, net	15,508	28
	-----	-----
Total other income	186,920	174,184
	-----	-----
Earnings before income taxes	6,562,457	2,387,568
Income taxes	(2,516,954)	(955,027)
	-----	-----

NET EARNINGS	\$ 4,045,503	\$ 1,432,541
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Earnings per common and common equivalent share	\$ 0.64	\$ 0.26
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Weighted average number of common and common equivalent shares	6,296,633	5,604,233
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</TABLE>

The accompanying notes are an integral part of these statements

USANA, INC. & SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
Unaudited

<TABLE>

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Nine Months Ended  
September 30,

1996	1995
------	------

<S>

<C>	<C>
-----	-----

Increase (decrease) in cash and cash equivalents

Cash flows from operating activities

Net earnings	\$ 4,045,503	\$ 1,432,541
--------------	--------------	--------------

Adjustments to reconcile net earnings to net cash provided by operating activities

Depreciation and amortization	467,391	214,581
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Gain on sale of property and equipment	(70,812)	(104,281)
--	----------	-----------

Deferred income taxes	101	23,000
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Changes in assets and liabilities

Receivables	(20,774)	(1,354)
-------------	----------	---------

Inventories	(3,410,172)	(646,216)
-------------	-------------	-----------

Prepaid expenses and other assets	(391,963)	(168,511)
-----------------------------------	-----------	-----------

Cash overdraft	-	(275,084)
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Accounts payable	2,238,313	124,462
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Accrued liabilities	712,997	1,312,593
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Total adjustments	(474,919)	479,190
-------------------	-----------	---------

Net cash provided by operating activities	3,570,584	1,911,731
---	-----------	-----------

Cash flows from investing activities

Deposits on machinery	(54,585)	(39,619)
-----------------------	----------	----------

Purchase of land	-	(1,741,743)
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Building under construction	(4,430,480)	-
-----------------------------	-------------	---

Purchase of property and equipment	(1,728,990)	(793,706)
------------------------------------	-------------	-----------

Proceeds from the sale of property and equipment	111,000	230,800
--	---------	---------

Issuance of notes receivable	(86,087)	-
------------------------------	----------	---

Collection on notes receivable	6,233	-
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Advances - related parties	-	160,000
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Net cash used in investing activities	(6,182,909)	(2,184,268)
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Cash flows from financing activities

Principal payments on long-term obligations	(14,819)	(19,721)
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Proceeds from issuance of long-term obligations	-	20,652
---	---	--------

Proceeds from short-term borrowings	1,000,000	-
-------------------------------------	-----------	---

Common stock issued	186,050	2,531,488
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Net cash provided by financing activities	1,171,231	2,532,419
	-----	-----
Effect of exchange rate changes on cash	(1,077)	-
	-----	-----
Net (decrease) increase in cash and cash equivalents	(1,442,171)	2,259,882
Cash and cash equivalents at beginning of period	2,976,406	646,904
	-----	-----
Cash and cash equivalents at end of period	\$ 1,534,235	\$ 2,906,786
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements

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USANA, INC. & SUBSIDIARY  
 COMPUTATION OF EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES  
 Unaudited

<TABLE>  
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	Three months ended		Nine months ended		
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995	
<S>	<C>	<C>	<C>	<C>	
Average number of shares outstanding during period					
Common shares outstanding during entire period		6,326,619	5,315,742	6,280,119	5,315,742
Weighted average common shares issued during the period		11,522	325,425	16,514	288,491
Dilutive effect of common stock equivalents under stock options (based on the Treasury stock method)*		---	---	---	---
Weighted average common and common equivalent shares outstanding		6,338,141	5,641,167	6,296,633	5,604,233
Net earnings	\$ 1,457,338	\$ 526,301	\$ 4,045,503	\$ 1,432,541	
Earnings per common and common equivalent share	\$ 0.23	\$ 0.09	\$ 0.64	\$ 0.26	

\* Not included in this earnings per share calculation, since the total dilutive effect of all common stock equivalents calculated under the treasury stock method is less than 3% for the three and nine months ended September 30, 1996 and 1995.

</TABLE>