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 March 29, 1997.

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

(801)954-7100
(Registrants' 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 Section 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 [ ]

The number of shares of common stock of the Company, without par value, outstanding as of April 28, 1997 was 6,355,119.

USANA, INC.

Index to Financial Statements and Exhibits
Filed with the Quarterly Report of the Company on Form 10-Q
For the Quarter Ended March 29, 1997

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

USANA, INC. & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
Unaudited

<TABLE>
<CAPTION>

As of	March 29, 1997	December 28, 1996
<S>	<C>	<C>
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 1,340,586	$ 1,130,487
Accounts receivable, net	33,529	55,149
Income tax receivable	0	405,503
Inventories (Note 3)	5,454,689	6,399,128
Prepaid expenses and other current assets	651,705	661,359
Current maturities of notes receivable	27,898	27,212
Deferred income taxes	365,308	361,000
Total current assets	7,873,715	9,039,838
Property and equipment, at cost (Note 4)	11,639,528	11,549,813
Other assets	156,676	489,189
Total Assets	$19,669,919	$21,078,840
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 3,696,384	$ 4,709,028
Short-term borrowings	0	1,500,000
Other current liabilities	2,357,900	2,373,533
Total current liabilities	6,054,284	8,582,561
Deferred income taxes	129,062	129,000
Stockholders' equity:		
Common stock, no par value: Authorized -- 50,000,000 shares, issued and outstanding 6,351,119 as of March 29, 1997 and December 28, 1996	6,768,844	6,768,844
Cumulative foreign currency translation adjustment	5,797	9,786
Retained earnings	6,711,932	5,588,649
Total stockholders' equity	13,486,573	12,367,279
Total liabilities and stockholders' equity	$19,669,919	$21,078,840

</TABLE>

The accompanying notes are an integral part of these statements.

USANA, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS

Unaudited

<TABLE>
<CAPTION>

Quarter Ended	March 29, 1997	March 31, 1996
<S>	<C>	<C>
Net sales	$17,654,299	$10,554,160
Cost of sales	3,759,050	2,037,758
Gross profit	13,895,249	8,516,402
Operating Expenses:		
Distributor incentives	8,348,321	4,816,435
Selling, general, and administrative	3,402,603	1,836,926
Research and development	280,234	127,785
Total operating expenses	12,031,158	6,781,146
Earnings from operations	1,864,091	1,735,256
Other income (expense):		
Interest income	11,628	49,834
Interest expense	(7,550)	(384)
Gain on sale of property and equipment	7,571	5,784
Other, net	10,307	7,348
Total other income	21,956	62,582
Earnings before income taxes	1,886,047	1,797,838
Income taxes	762,764	678,880
NET EARNINGS	$ 1,123,283	$ 1,118,958
Earnings per common and common equivalent share	$ 0.18	$ 0.18
Weighted average number of common and common equivalent shares outstanding	6,392,619	6,280,119

</TABLE>

The accompanying notes are an integral part of these statements.

USANA, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

<TABLE>
<CAPTION>

QUARTER ENDED	March 29, 1997	March 31, 1996
<S>	<C>	<C>
NET CASH FLOW FROM OPERATING ACTIVITIES:		
Net earnings	$ 1,123,283	$ 1,118,958
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	410,419	135,478
Provision for doubtful accounts	0	0
Gain on sale of property and equipment	(7,571)	(5,784)
Deferred income taxes	(4,246)	101
Changes in operating assets and liabilities:		
Accounts receivable	21,620	11,232
Income tax receivable	405,503	0
Inventories	944,439	(554,183)
Prepaid expenses and other assets	334,930	(123,930)
Accounts payable	(1,012,644)	356,684

Other current liabilities	(15,633)	(335,743)
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Net cash provided by operating activities	2,200,100	602,813
NET CASH FLOW FROM INVESTING ACTIVITIES:		
Collection on note receivable	6,551	0
Purchase of property and equipment	(1,549,952)	(1,239,404)
Proceeds from the sale of property and equipment	1,057,389	9,400
	-----------	-----------
Net cash used in investing activities	(486,012)	(1,230,004)
NET CASH FLOW FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	0	(2,616)
Payment on short-term borrowings	(1,500,000)	0
	-----------	-----------
Net cash used in financing activities	(1,500,000)	(2,616)
Effect of exchange-rate changes on cash and cash equivalents	(3,989)	16,726
	-----------	-----------
Net increase (decrease) in cash and cash equivalents	210,099	(613,081)
Cash and cash equivalents at beginning of period	1,130,487	2,976,406
	-----------	-----------
Cash and cash equivalents at end of period	$ 1,340,586	$ 2,363,325
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</TABLE>

The accompanying notes are an integral part of these statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. INTERIM FINANCIAL INFORMATION

The unaudited interim consolidated financial information of USANA, Inc. and Subsidiary (the "Company") has been prepared in accordance with Article 10 of the Securities and Exchange Commission's Regulation S-X. Certain information and footnotes disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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, necessary to present fairly the Company's financial position and results of operations as of March 29, 1997, and for quarters ended March 29, 1997, and March 31, 1996. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on form 10-KSB for the year ended December 28, 1996. The results of operations for the quarter ended March 29, 1997, may not be indicative of the results that may be expected for the fiscal year ending December 27, 1997.

2. GENERAL

[NOTE: In 1996, the Company adopted a 52/53 week fiscal year. Commencing with the fiscal year 1996, the fiscal year end of the Company was changed from December 31 of each year to the Saturday closest to December 31. The fiscal year for 1996 was, therefore, changed from December 31 to December 28, 1996. Each quarterly period is composed of 13 weeks.]

The Company develops, manufactures, packages and markets its own line of nutritionals, antioxidants, weight loss products, and natural skin and hair care products. USANA products are distributed through a network marketing organization of independent distributors.

USANA was incorporated July 20, 1992, as a wholly-owned subsidiary of Gull Laboratories, Inc. ("Gull"), a manufacturer of diagnostic test kits listed on the American Stock Exchange with the symbol "GUL." USANA was subsequently spun off from Gull as an independent corporation in January 1993.

From its inception, the Company has carried on a significant program of research and development. The Company has continued to increase its R&D budget, spending $280,234 in the first quarter of 1997 as compared to $127,785 in the first quarter of 1996. The Company expects to spend approximately $1 million for research activities in 1997.

USANA distributes its products through a network marketing organization. Net sales, as reported herein, include the revenues generated by selling the Company's products, including sales aids, to the independent distributors. Cost of sales incorporates the expenses of materials, depreciation, labor, overhead and other costs directly associated with producing USANA's products. Distributor incentives reflect all cash payments made to distributors,

including commissions and bonuses. Selling, general and administrative expenses include the cost of operating the Company's customer service call center, along with other marketing and administrative expenses. R&D reflects only research and development activities.

3. INVENTORIES

Inventories consist of the following:

	March 29, 1997	December 28, 1996
Raw materials	$1,435,391	$2,487,907
Work in process	665,961	455,315
Finished goods	3,353,337	3,455,906
	$5,454,689	$6,399,128

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 29, 1997	December 28, 1996
Building	$ 5,324,237	$ 5,034,304
Laboratory and production equipment	1,286,444	2,337,358
Computer equipment	2,778,235	2,347,347
Furniture and fixtures	1,179,823	684,481
Automobiles	285,039	285,039
	10,853,778	10,688,529
Less accumulated depreciation and amortization	1,276,360	1,196,779
	9,577,418	9,491,750
Land	1,772,785	1,772,785
Land improvements	289,325	285,278
	$11,639,528	$11,549,813

5. EARNINGS PER COMMON SHARE

Earnings per common share is computed on the weighted average number of common and common equivalent shares outstanding. Weighted average number of common and common equivalent shares outstanding were 6,392,619 and 6,280,119 at March 29, 1997, and March 31, 1996, respectively.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings per

Share." The statement is effective for financial statements for periods ending after December 15, 1997, and changes the method in which earnings per share will be determined. The effect of adopting SFAS No. 128 has not yet been determined by the Company.

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

FORWARD-LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS QUARTERLY REPORT ON FORM 10Q CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITITGATION REFORM ACT OF 1995, AND THE COMPANY DESIRES TO TAKE ADVANTAGE OF THE "SAFE HARBOR" PROVISIONS THEREOF. THEREFORE, THE COMPANY IS INCLUDING THIS STATEMENT FOR THE EXPRESS PURPOSE OF AVAILING ITSELF OF THE PROTECTIONS OF SUCH SAFE HARBOR WITH RESPECT TO ALL OF SUCH FORWARD-LOOKING STATEMENTS. THE FORWARD-LOOKING STATEMENTS IN THIS REPORT REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL PERFORMANCE. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING THOSE DISCUSSED HEREIN, THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM HISTORICAL RESULTS OR THOSE ANTICIPATED. IN THIS REPORT, THE WORDS "ANTICIPATES," "BELIEVES," "EXPECTS," "INTENDS," "FUTURE," " PROJECTED" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED TO CONSIDER THE SPECIFIC RISK FACTORS DESCRIBED BELOW [SEE PART I ITEM 2. MANAGMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CERTAIN FACTORS THAT MAY AFFECT OPERATING RESULTS] AND NOT TO PLACE UNDUE RELIANCE ON THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN, WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY REVISE THESE FORWARD-L OOKING SATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES THAT MAY ARISE AFTER THE DATE HEREOF.

Results of Operations

Quarters ended March 29, 1997 and March 31, 1996
- --

Net sales for the quarter ended March 29, 1997 totaled $17,654,299 compared to net sales of $10,554,160 for the quarter ended March 31, 1996, an increase of $7,100,139 or 67.3 percent. The increase in sales is attributable primarily to the growth in the Company's independent distributor base in the United States and Canada, success of regional conventions, and restored goodwill from the completion of the customer service software conversion.

The Company's cost of sales as a percentage of net sales increased to 21.3 percent for the quarter ended March 29, 1997 from 19.3 percent for the quarter ended March 31, 1996. The increase in the cost of sales percentage is a result of sales mix which included a greater number of lower margin products in 1997 than in 1996.

Distributor incentives of $8,348,321 (47.3 percent of net sales) for the quarter ended March 29, 1997 represented an increase of $3,531,886 from the incentives totaling $4,816,435 (45.6 percent of net sales) paid during the quarter ended March 31, 1996. The increase in distributor incentives was primarily a result of significantly higher sales. The higher distributor incentives as a percentage of net sales was partially due to the sales mix which included fewer sales aids, on which no commissions are paid, and also certain inefficiencies resulting from the implementation of the new customer service software.

Selling, general and administrative expenses during the quarter ended March 29, 1997 totaled $3,402,603 or 19.3 percent of net sales, compared to $1,836,926 or 17.4 percent of net sales for the quarter ended March 31, 1996. The increase in cost was primarily a result of the need for more support services and facilities to accommodate the growth in sales volume and the increased number of independent distributors. SG&A expenses were higher as a percentage of net sales because of the Company's investment in senior management talent to facilitate future growth, inefficiencies related to implementing new customer service software, and friction costs related to moving into its new manufacturing and administrative building. Management anticipates no adverse future earnings impact from the software conversion or the move into new facilities. The Company believes expenditures made relating to acquiring management talent, updating its customer service software and adding additional capacity to be key contributing factors to its future growth.

Research and development expenditures of $280,234 or 1.6 percent of net sales for the quarter ended March 29, 1997 represented an increase of 119.3 percent over the quarter ended March 31, 1996 expenditures of $127,785 (1.2 percent of net sales). The increase in research and development expenditures is evidence of the Company's continued efforts to remain at the forefront of the nutritional industry. The Company expects to continue expending funds and resources in research and development at higher levels than last year.

Net earnings totaled $1,123,283 during the quarter ended March 29, 1997, compared to $1,118,958 during the quarter ended March 31, 1996. In the quarter ended March 31, 1997, net earnings were adversely affected by three factors (as previously mentioned); the costs associated with settling into the new facility, the addition of senior management in the latter half of 1996, and the implementation of the customer service software. Both the implementation of the customer service software and the costs associated with settling into the new facilities are not expected to have an adverse impact on future net earnings. Furthermore, the relative costs associated with senior management salaries will diminish as sales grow.

Net earnings per common and common equivalent share for the quarter ended March 31, 1997 were $.18, the same as the quarter ended March 31, 1996.

The Company's quarter to quarter (March 29, 1997 to December 28, 1996) sales comparison resulted in an increase of $1,821,214, or approximately 12 percent, to $17,654,299. First quarter earnings increased to $1,123,283 from $989,795 in the fourth quarter of fiscal 1996, representing an increase of 13 percent.

Liquidity and Capital Resources

At March 29, 1997, current assets of the Company were approximately $7.9 million and current liabilities totaled approximately $6.1 million, resulting in net working capital of $1.8 million compared to net working capital of approximately $457,000 at December 28, 1996. The Company's current ratio was 1.30 to 1 at March 29, 1997, as compared to 1.05 to 1 at December 28, 1996. The increase is primarily due to cash generated from operations.

During the first quarter of 1997, the Company spent approximately $1.5 million on capital expenditures. To assist the Company in funding the aforementioned acquisitions, USANA entered into a sale lease-back agreement with an unrelated, third-party leasing company. The agreement called for the sale of approximately $1,000,000 of book value of equipment held by the Company. The proceeds of one million dollars were received on March 13, 1997.

The Company's management demonstrated strong progress in its efforts to decrease inventory levels. Inventory decreased by $944,439 (14.8 percent) from the amount reported at December 28, 1996, of $6,399,128 to $5,454,689 at March 29, 1997.

In November of 1996, the Company entered into a line of credit agreement with a bank for $2,500,000. In February of 1997, the line of credit was increased to $3,500,000. The interest rate is computed at the bank's prime rate, or at the option of the Company, the LIBOR base rate plus 2.25 percent. The line of credit is collateralized by certain receivables, inventories, and equipment. The line of credit agreement also contains restrictive convenants requiring the Company to maintain certain financial ratios. As of March 29, 1997, the Company is in compliance with these convenants. The Company paid off the balance of $1,500,000 that existed at December 28, 1996, and there was no outstanding balance as of March 29, 1997. The line of credit agreement expires in May 1997; however, the Company is currently pursuing negotiations to extend the line of credit.

The Company believes that its current cash balances, the available line of credit and anticipated extension thereof, and cash provided by operations will be sufficient to cover its needs for the remainder of the year.

Certain Factors That May Affect Operating Results

When used in this report, the terms "believes," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, including those discussed below. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Important factors that may cause results to differ from expectations include the following:

Reliance Upon Independent Distributor Network. The Company's products are distributed exclusively through an extensive network marketing system of indepen dent distributors. These distributors are independent contractors who purchase products directly from the Company for their own use or for resale at retail prices. Distributors typically work at the distribution of the Company's products on a part-time basis and may engage in other business activities. The Company has a large number of distributors and a relatively small corporate staff to implement its marketing programs and provide motivational support. The Company's continued growth and success depends to a significant degree on its ability to retain and motivate its distributors and to attract new distributors by continuing to offer new products of superior quality and new marketing programs. Distributor agreements with the Company may be voluntarily terminated

by distributors at any time. There is typically significant turnover in distributors from year to year. Because the Company's revenue is directly dependent upon the efforts of non-employee, independent distributors and future growth in sales volume will depend in large part upon an increase in the number of new distributors and/or improved productivity of the Company's distributors; turnovers, decreases in the size of the distributor force, seasonal or other decreases in purchase volume, costs associated with training new distributors and other expenses associated with these problems, may combine to reduce the revenues and profitability of the Company.

Government Scrutiny of Network Marketing Practices. Network marketing systems such as the Company's are frequently subject to laws and regulations directed at ensuring that product sales are made to consumers of the products and that compensation, recognition and advancement within the marketing organization are based on the sale of products rather than "investment" in the sponsoring company. In the U.S., these laws and regulations include the federal securities laws, regulations and statutes administered by the Federal Trade Commission ("FTC") and various state anti-pyramid and business opportunity laws. Similar laws may also govern the Company's activities in foreign countries. Although the Company believes that it is in compliance with all such laws and regulations, the Company remains subject to the risk that, in one or more of its present or future markets, its marketing system could be found not to be in compliance with applicable laws or regulations. Failure by the Company to comply with these laws and regulations could have an adverse material effect on the Company or a distributor in a particular market or in general.

Distributors' Actions. The Company's distributors are required to sign the Company's Distributor Application and Agreement which requires them to abide by the USANA Policies and Procedures. Although these Policies and Procedures prohibit distributors from making certain claims regarding the products or income potential from the distribution of those products, nonetheless, in certain instances distributors may from time to time create promotional materials which do not accurately describe the Company's marketing program or may make statements regarding potential earnings, product claims or other matters not in accordance with the Company's policies or contrary to applicable laws and regulations concerning these matters. Although the Company has not been sued by regulatory authorities, legal actions against distributors or others affiliated with the Company could lead to increased regulatory scrutiny of the Company and its network marketing system. In order to assure itself that its Policies and Procedures and the practices of its independent distributors conform to law and fairly protect the interests of consumers, the Company attempts to carefully monitor against misrepresentations by distributors. There can be no assurance that the Company will be able to completely accomplish this objective. In addition, distributors could make predictive statements about the Company's operations or other unauthorized remarks regarding USANA which the Company may be unable to control. Publicity resulting from such activities of distributors can also make it more difficult for the Company to sponsor and retain distributors or may adversely affect the Company's ability to expand into new markets or in other ways.

Government Regulation-Products and Manufacturing. The manufacturing, processing, formulation, packaging, labeling and advertising of the Company's products are subject to regulation by federal agencies, including the Food and Drug Administration (the "FDA"), the FTC, the Consumer Product Safety Commission, the United States Department of Agriculture, the United States Postal Service and the United States Environmental Protection Agency. These activities are also subject to regulation by various agencies of the countries, states and other localities in which the Company's products are sold. In October 1994 the "Dietary Supplement Health and Education Act of 1994" ("DSHEA") was enacted. The DSHEA defines dietary supplements (which include vitamins, minerals, nutritional supplements and herbs) and provides a regulatory framework to ensure safe, quality dietary supplements, and the dissemination of accurate information about such products. Dietary supplements are regulated as foods under the DSHEA and the FDA is generally prohibited from regulating the active ingredients in dietary supplements as food additives, or as drugs unless product claims trigger drug status. The DSHEA provides for specific nutritional labeling requirements for dietary supplements effective January 1, 1997. The DSHEA permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well-being from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining structure or function of the body. In addition, the DSHEA authorizes the FDA to promulgate current Good Manufacturing Practices ("GMP") specific to the manufacture of dietary supplements to be modeled after food GMP's. The Company currently manufactures its dietary supplement products pursuant to food GMP's.

The Company cannot determine what effect currently proposed FDA regulations or changed or amended regulations, when and if promulgated, will have on its business in the future. Such regulations could, among other things, require expanded or different labeling, the recall or discontinuance of certain products, additional record keeping and expanded documentation of the properties of certain products and scientific substantiation. In addition, the Company cannot predict whether new legislation regulating its activities will be enacted, which new legislation could have a material adverse effect on the Company.

Product Liability. As a manufacturer and distributor, the Company could become exposed to product liability claims. The Company has not had any such claims to date. Although the Company maintains product liability insurance which it believes to be adequate for its needs, there can be no assurance that the Company will not be subject to claims in the future or that its insurance coverage will be adequate.

Competition. The business of distributing and marketing nutritional supplements, vitamins and minerals, personal care products, weight management items, and other nutritional products offered by the Company is highly competitive. Numerous manufacturers, distributors and retailers compete actively for consumers and for distributors. The Company competes directly with other entities that manufacture, market and distribute nutritional and personal care products in each of its product lines. The Company competes with these entities by emphasizing the value and high quality of its products as well as the convenience and financial benefits afforded by its network marketing system. However, many of the Company's competitors are substantially larger than the Company and have greater financial resources and broader name recognition. The market is highly sensitive to the introduction of new products that may rapidly capture a significant share of the market.

As a result, the Company's ability toremain competitive depends in part upon the successful introduction of new products. The Company is also subject to significant competition from other marketing organizations for the recruitment of distributors. The Company's ability to remain competitive depends, in significant part, on the Company's success in recruiting and retaining distributors. There can be no assurance that the Company's programs for recruiting and retaining distributors will be successful. The Company competes for the time, attention and commitment of its independent distributor force. The pool of individuals interested in the business opportunities presented by direct selling tends to be limited in each market, and it is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although management believes the Company offers an attractive opportunity for distributors, there can be no assurance that other marketing companies will not be able to recruit the Company's existing distributors or deplete the pool of potential distributors in a given market.

Expansion Into Foreign Markets. The Company has announced its intentions to expand into markets outside North America. However, there can be no assurance that the Company can open markets on a timely basis or that such new markets will prove to be profitable. Significant regulatory and legal barriers must be overcome before marketing can begin in any foreign market. Also, before marketing has commenced, it is difficult to assess the extent to which the Company's products and sales techniques will be successful in any given country. In addition to significant regulatory barriers, the Company may also expect problems related to entering new markets with different cultural bases and legal systems from those encountered elsewhere. Expansion of the Company's operations into new markets may require substantial working capital and capital requirements associated with regulatory compliance. There can be no assurance that the Company will be able to obtain necessary permits and approvals or that it will have sufficient capital to finance its expansion efforts in a timely manner.

Risks Associated With Rapid Growth. Since commencing operations after the spin-off from Gull in 1992, the Company has experienced rapid growth. The management challenges imposed by, and encountered by the Company as a result of this growth include significant growth in the number of employees and distributors, needed expansion of facilities and acquisition of capital equipment and information systems to accommodate growth and additions and modifications to the Company's product lines, and expansion into new markets. To effectively manage these and other changes resulting from rapid growth, the Company may be required to hire additional management and operations personnel and to improve its operational, financial, information and management systems. If the Company is unable to manage growth effectively or to hire or retain qualified personnel, its business and results of operations may be adversely affected. Moreover, the capital expenditures and personnel expenses associated with such growth may adversely affect the Company's results of operations.

Risks Associated with Material Supplies. The Company has short term contracts with some suppliers of raw material used in its products. Normally, materials used in manufacturing the Company's products are purchased on account or by purchase order. The Company has very few long term agreements for the supply of such materials. There is a risk that any of the Company's suppliers or manufacturers could discontinue selling their products to the Company. Although the Company believes that it could establish alternate

sources for most of itsproducts, any delay in locating and establishing relationships with other sources could result in product shortages and back orders for the products, with a resulting loss of revenues to the Company. For example, in the fourth quarter of 1996, the Company experienced difficulty in obtaining sufficient quantities of Vitamin E Succinate Powder, an ingredient required for the manufacture of several of its products. It is expected that the supplier's shortage will continue during 1997. As a consequence, the Company has been required to alter its product or to substitute a different product from another source. This and similar future product or ingredient shortages may adversely affect the Company's results of operations.

Control by Principal Shareholder. Gull Holdings, Ltd., an Isle of Man limited company wholly-owned by Dr. Myron Wentz, is the beneficial owner of approximately 63 percent of the issued and outstanding shares of common stock of the Company. There are no cumulative voting rights under the Company's Articles of Incorporation and, therefore, this shareholder possesses the ability to elect all of the directors of the Company, to increase its authorized capital, to dissolve or merge the Company or to sell its assets and generally to exert substantial control over the business and operations of the Company.

Reliance on Personnel. The Company's success depends to a significant extent upon certain members of senior management, including Dr. Wentz, Jeb McCandless, Dallin Larsen, Gilbert Fuller, Mark Petersen and David Wentz. The Company does not maintain key man life insurance policies on any of these persons and there can be no assurance that such policies will be obtained in the future or that if obtained they can adequately compensate the Company for the loss of such individuals. The Company has no employment contracts with any of these persons. The loss of any senior manager or other key employee could have an adverse effect upon the Company's business, financial condition and operating results.

Effect of Exchange Rate Fluctuations. The Company has a Canadian subsidiary and has commenced efforts to expand its marketing organization into other foreign countries. As a result, exchange rate fluctuations may have a significant effect on its sales and the Company's gross margins. Further, if exchange rates fluctuate dramatically, it may become uneconomical for the Company to establish or continue activities in certain countries.

Anti-Takeover Protection. The Utah Control Shares Act (the "Control Shares Act") provides that any person or entity that acquires 20 percent or more of the outstanding voting shares of a publicly-held Utah corporation is denied voting rights with respect to the acquired shares, unless a majority of the disinterested shareholders of the corporation elects to restore such voting rights. The provisions of the Control Shares Act may discourage companies or persons interested in acquiring a significant interest in or control of the Company, regardless of whether such acquisition may be in the interest of the Company's shareholders.

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 [R] product violates the patent. The complaint seeks preliminary and permanent injunctions against USANA that would prohibit further sales of the Proflavanol [R] 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. Having conducted a thorough investigation of the patent and the allegations made in the complaint, USANA believes that its manufacture and sale of the Proflavanol [R] product does not infringe any valid claim of the asserted patent. USANA intends to vigorously defend its right to continue providing its Proflavanol [R] 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. On January 13, 1997, the Patent Examiner responsible for the reexamination issued a written Office Action rejecting the validity of each of the claims of the patent based on a number of grounds. The owner of the patent has denied those rejections, and a final determination as to the patent's validity has not yet been issued by the PTO. However, if the PTO's rejection of the patent stands, INC would be precluded from proceeding with its lawsuit against USANA.

On March 21, 1997, the Federal Judge responsible for the lawsuit stayed the action until the PTO rules on the validity of the patent. Also, the Judge stayed the action until another lawsuit in France is resolved. That lawsuit does not involve USANA, but involves the question of whether INC has any ownership rights in the '360 patent. On March 25, 1997, the French court in that action ruled that INC does not own the '360 patent. If that ruling is upheld, INC may be barred from proceeding with the patent infringement action against USANA.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Item 601 Exhibit No. and Description	
27	Financial Data Schedule

SIGNATURES

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

USANA, INC.

April 28, 1997 /s/ Gilbert A. Fuller

Gilbert A. Fuller
Vice President of Finance and
Principal Financial Officer

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