
**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 September 30, 2017

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: 001-35024

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

[Table of Contents](#)

USANA HEALTH SCIENCES, INC.
FORM 10-Q
For the Quarterly Period Ended September 30, 2017
INDEX

		Page
<u>PART I. FINANCIAL INFORMATION</u>		
Item 1	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Comprehensive Income	4
	Condensed Consolidated Statements of Stockholders' Equity	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7-15
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	16-25
Item 3	Quantitative and Qualitative Disclosures About Market Risk	25
Item 4	Controls and Procedures	25
<u>PART II. OTHER INFORMATION</u>		
Item 1	Legal Proceedings	26
Item 1A	Risk Factors	26
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3	Defaults Upon Senior Securities	27
Item 4	Mine Safety Disclosures	27
Item 5	Other Information	27
Item 6	Exhibits	27
Signatures		29

[Table of Contents](#)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)
(unaudited)

	As of December 31, 2016	As of September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 175,774	\$ 191,745
Inventories	64,810	63,334
Prepaid expenses and other current assets	37,277	31,373
Total current assets	277,861	286,452
Property and equipment, net	101,267	102,146
Goodwill	16,715	17,167
Intangible assets, net	34,349	34,728
Deferred tax assets	18,292	28,577

Other assets		22,158	21,581
	\$	470,642	\$ 490,651
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$	9,040	\$ 9,290
Other current liabilities		129,451	112,137
Total current liabilities		138,491	121,427
Deferred tax liabilities		5,499	5,249
Other long-term liabilities		1,365	1,163
Stockholders' equity			
Common stock, \$0.001 par value; Authorized — 50,000 shares, issued and outstanding 24,485 as of December 31, 2016 and 23,946 as of September 30, 2017		24	24
Additional paid-in capital		71,505	72,962
Retained earnings		265,405	293,921
Accumulated other comprehensive income (loss)		(11,647)	(4,095)
Total stockholders' equity		325,287	362,812
	\$	470,642	\$ 490,651

The accompanying notes are an integral part of these statements.

[Table of Contents](#)

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Quarter Ended		Nine Months Ended	
	October 1, 2016	September 30, 2017	October 1, 2016	September 30, 2017
Net sales	\$ 254,219	\$ 261,765	\$ 753,182	\$ 774,151
Cost of sales	44,979	47,135	133,869	133,691
Gross profit	209,240	214,630	619,313	640,460
Operating expenses:				
Associate incentives	112,816	116,010	335,541	350,195
Selling, general and administrative	60,591	67,263	176,986	193,653
Total operating expenses	173,407	183,273	512,527	543,848
Earnings from operations	35,833	31,357	106,786	96,612
Other income (expense):				
Interest income	338	571	1,099	1,644
Interest expense	(46)	(10)	(424)	(31)
Other, net	(24)	129	(684)	19
Other income (expense), net	268	690	(9)	1,632
Earnings before income taxes	36,101	32,047	106,777	98,244
Income taxes	6,003	8,278	28,618	29,858
Net earnings	\$ 30,098	\$ 23,769	\$ 78,159	\$ 68,386
Earnings per common share				
Basic	\$ 1.24	\$ 0.98	\$ 3.24	\$ 2.80
Diluted	\$ 1.20	\$ 0.97	\$ 3.12	\$ 2.75
Weighted average common shares outstanding				
Basic	24,178	24,283	24,112	24,462

Diluted	25,050	24,588	25,050	24,871
Comprehensive income:				
Net earnings	\$ 30,098	\$ 23,769	\$ 78,159	\$ 68,386
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(341)	2,941	(2,643)	10,153
Tax benefit (expense) related to foreign currency translation adjustment	(515)	(625)	1,655	(2,601)
Other comprehensive income (loss), net of tax	(856)	2,316	(988)	7,552
Comprehensive income	\$ 29,242	\$ 26,085	\$ 77,171	\$ 75,938

The accompanying notes are an integral part of these statements.

4

[Table of Contents](#)

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2017

(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 31, 2016	24,485	\$ 24	\$ 71,505	\$ 265,405	\$ (11,647)	\$ 325,287
Net earnings				68,386		68,386
Other comprehensive income (loss), net of tax					7,552	7,552
Equity-based compensation expense			11,711			11,711
Common stock repurchased and retired	(865)	(1)	(10,129)	(39,870)		(50,000)
Common stock issued under equity award plans	326	1				1
Tax withholding for net-share settled equity awards			(125)			(125)
Balance at September 30, 2017	23,946	\$ 24	\$ 72,962	\$ 293,921	\$ (4,095)	\$ 362,812

The accompanying notes are an integral part of these statements.

5

[Table of Contents](#)

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Nine Months Ended	
	October 1, 2016	September 30, 2017
Cash flows from operating activities		
Net earnings	\$ 78,159	\$ 68,386
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	9,930	11,797
(Gain) loss on sale of property and equipment	55	8
Equity-based compensation expense	13,963	11,711
Deferred income taxes	(2,249)	(12,801)

Changes in operating assets and liabilities:		
Inventories	(7,922)	4,556
Prepaid expenses and other assets	(12,179)	6,352
Accounts payable	597	550
Other liabilities	1,386	(21,909)
Net cash provided by (used in) operating activities	81,740	68,650
Cash flows from investing activities		
Additions to notes receivable	(4)	—
Receipts on notes receivable	605	259
Proceeds from sale of property and equipment	3	16
Purchases of property and equipment	(26,047)	(9,168)
Net cash provided by (used in) investing activities	(25,443)	(8,893)
Cash flows from financing activities		
Repurchase of common stock	(64,610)	(50,000)
Borrowings on line of credit	73,700	3,500
Payments on line of credit	(72,500)	(3,500)
Payments related to tax withholding for net-share settled equity awards	—	(125)
Deferred debt issuance costs	(250)	—
Net cash provided by (used in) financing activities	(63,660)	(50,125)
Effect of exchange rate changes on cash and cash equivalents	(1,304)	6,339
Net increase (decrease) in cash and cash equivalents	(8,667)	15,971
Cash and cash equivalents, beginning of period	143,210	175,774
Cash and cash equivalents, end of period	\$ 134,543	\$ 191,745
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 317	\$ 9
Income taxes	41,114	40,532
Cash received during the period for:		
Income tax refund	—	4,700
Non-cash investing activities:		
Credits on notes receivable	1,142	412
Accrued purchases of property and equipment	1,763	202

The accompanying notes are an integral part of these statements.

[Table of Contents](#)

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

NOTE A — 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 global network marketing system, which is a form of direct selling. The Condensed 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: Asia Pacific, and Americas and Europe. Asia Pacific is further divided into three sub-regions: Greater China, Southeast Asia Pacific, and North Asia. Greater China includes Hong Kong, Taiwan and China; Southeast Asia Pacific includes Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia; North Asia includes Japan, and South Korea. Americas and Europe includes the United States, Canada, Mexico, Colombia, the United Kingdom, France, Belgium, and the Netherlands. All intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2016, derived from audited consolidated financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, 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 (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of management, the accompanying interim condensed consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company’s financial position as of September 30, 2017 and results of operations for the quarters and nine months ended October 1, 2016 and September 30, 2017.

The interim condensed consolidated 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 December 31, 2016, as filed with the SEC. The results of operations for the nine months ended September 30, 2017, are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2017.

Recent Accounting Pronouncements

Adopted accounting pronouncements

In January 2017 the FASB issued an Accounting Standard Update (“ASU”) No. 2017-04, “Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment.” ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating the Step 2 requirement to calculate the implied fair value of goodwill. Instead, under ASU 2017-04, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of each reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2017-04 effective for the quarter ended September 30, 2017 in conjunction with its annual goodwill impairment test. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

[Table of Contents](#)

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

NOTE A — ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION - CONTINUED

Issued accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The Company plans to adopt ASU 2014-09 in the first quarter of 2018 and apply the modified retrospective approach.

The Company continues to evaluate the impact of this ASU on the specific areas that apply to the Company and their potential impact to its processes, accounting, financial reporting, disclosures, and controls. At this point, the Company has determined that the overall impact of adopting this ASU will not be material. This ASU will primarily involve updating revenue related internal control documentation and expanding revenue disclosures in our periodic filings. In addition to the documentation updates, the Company is considering a change in the timing for recognizing revenue on orders that have shipped but have not been delivered at period end. None of these changes are expected to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The update requires lessees to apply a modified retrospective approach for recognition and disclosure, beginning with the earliest period presented. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently in the process of evaluating the impact of the ASU on the Company’s outstanding leases and expects that adoption will have an impact on the consolidated balance sheets related to recording right-of-use assets and corresponding lease liabilities.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”. The ASU

requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2017. The Company does not expect the adoption of ASU 2016-18 will have a material impact on its statement of cash flows.

In May 2017 the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. ASU 2017-09 does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The ASU is effective for all annual and interim periods in fiscal years beginning after December 15, 2017. The Company does not expect the adoption of ASU 2017-09 will have a material impact on its consolidated financial statements.

[Table of Contents](#)

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

NOTE B — FAIR VALUE MEASURES

The Company measures at fair value certain of its financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

- 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.

As of the dates indicated, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	December 31, 2016	Fair Value Measurements Using		
		Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 27,917	\$ 27,917	\$ —	\$ —
Foreign currency contracts included in prepaid expenses and other current assets	4	—	4	—
	<u>\$ 27,921</u>	<u>\$ 27,917</u>	<u>\$ 4</u>	<u>\$ —</u>

	September 30, 2017	Fair Value Measurements Using		
		Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 74,584	\$ 74,584	\$ —	\$ —
Foreign currency contracts included in other current liabilities	(37)	—	(37)	—
	<u>\$ 74,547</u>	<u>\$ 74,584</u>	<u>\$ (37)</u>	<u>\$ —</u>

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy for the periods indicated.

The majority of the Company's non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment charge is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 31, 2016 and September 30, 2017, there were no non-financial assets measured at fair value on a non-recurring basis.

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

NOTE B — FAIR VALUE MEASURES - CONTINUED

The Company's financial instruments include cash equivalents, accounts receivable, restricted cash, notes receivable, and accounts payable. The recorded values of cash equivalents, accounts receivable, restricted cash, and accounts payable approximate their fair values, based on their short-term nature. Historically, the carrying value of the notes receivable approximated fair value because the variable interest rates in the notes reflected current market rates. As of September 30, 2017, an impairment was recorded on a note receivable (discussed in Note E) based on the estimated fair value of the underlying collateral as a practical expedient, which is considered to be a non-recurring fair value measurement using Level 2 inputs as significant observable inputs exist for similar assets.

NOTE C — INVENTORIES

Inventories consisted of the following:

	December 31, 2016	September 30, 2017
Raw materials	\$ 26,186	\$ 22,353
Work in progress	9,455	8,876
Finished goods	29,169	32,105
	<u>\$ 64,810</u>	<u>\$ 63,334</u>

NOTE D — INTANGIBLE ASSETS

The Company performed its annual goodwill impairment test during the third quarter of 2017. The Company performed a qualitative assessment of each reporting unit and determined that it was not more-likely-than-not that the fair value of any reporting unit was less than its carrying amount. As a result, a quantitative goodwill impairment test was not required and no impairments of goodwill were recognized.

The Company performed its annual indefinite-lived intangible asset impairment test during the third quarter of 2017. The Company performed a qualitative assessment of the indefinite-lived intangible asset and determined that it was not more-likely-than-not that the fair value of the indefinite-lived intangible asset was less than the carrying amount. As a result, the quantitative impairment test was not required and no impairment was recognized.

NOTE E — OTHER ASSETS

Other assets consist primarily of land use rights related to a production facility in China and a secured loan to a former supplier of the Company's nutrition bars. The Company extended non-revolving credit to the former supplier of nutrition bars to allow it to acquire equipment that was necessary to manufacture the USANA nutrition bars, which is secured by the equipment. This relationship was intended to provide improved supply chain stability for USANA and create a mutually beneficial relationship between the parties. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and was to be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. The total contractual unpaid principal balance, including accrued unpaid interest on the note receivable from this supplier as of December 31, 2016, and September 30, 2017 was \$6,867 and \$6,742, respectively.

A loan is considered impaired when, based on current information and events; it is probable that the Company will be unable to collect the scheduled payments in accordance with the contractual terms of the loan. Factors considered in determining impairment include payment status, collateral value and the probability of collecting payments when due.

[Table of Contents](#)

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

NOTE E — OTHER ASSETS - CONTINUED

During the first half of 2017, the Company experienced challenges with the third-party supplier of the Company's nutrition bars and subsequently determined to no longer use this supplier. The Company has evaluated the recoverability of the note receivable from this supplier, considering financial data of the third-party supplier, and the estimated fair value of the collateralized equipment as of September 30, 2017. Based on this analysis, the Company believes it is probable that the note receivable has been impaired. Accordingly, an impairment of \$1,622 was recorded as determined by the difference between the notes receivable balance and the estimated fair value of the collateralized equipment as a practical expedient. The Company will continue to evaluate the recoverability of the note receivable in future periods.

This third-party supplier is considered to be a variable interest entity; however, the Company is not the primary beneficiary due to the inability to direct the activities that most significantly affect the third-party supplier's economic performance. Additionally, the Company does not absorb a majority of the third-party supplier's expected losses or returns. Consequentially, the financial information of the third-party supplier is not consolidated. The maximum exposure to loss as a result of the Company's involvement with the third-party supplier is limited to the carrying value of the note receivable due from the third-party supplier.

NOTE F — LINE OF CREDIT

The Company has a \$75,000 line of credit with Bank of America. Interest 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, set forth in a separate pledge agreement with the bank. On February 19, 2016, the Company entered into an Amended and Restated Credit Agreement with Bank of America, which extends the term of the Credit Agreement to April 27, 2021 and increases the Company's consolidated rolling four-quarter adjusted EBITDA covenant from \$60,000 to equal to or greater than \$100,000 and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter.

The adjusted EBITDA under this agreement is modified for certain non-cash expenses. Part of the credit agreement is that any existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$5,241, and \$4,729 reduction in the available borrowing limit as of December 31, 2016 and September 30, 2017, respectively, due to existing normal course of business guarantees in certain markets.

There was no outstanding debt on this line of credit at December 31, 2016 or at September 30, 2017. The Company will be required to pay any balance on this line of credit in full at the time of maturity in April 2021 unless the line of credit is replaced or terms are renegotiated.

NOTE G — CONTINGENCIES

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving its products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company records a liability when a particular contingency is probable and estimable. The Company faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that any of these matters, individually or in the aggregate, will have a material adverse effect on the Company's financial condition, liquidity, or results of operations.

[Table of Contents](#)

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

NOTE G — CONTINGENCIES - CONTINUED

In August 2014, a purported shareholder derivative lawsuit was filed in the Third Judicial District Court of Salt Lake County, State of Utah (James Robert Rawcliffe v. Robert Anciaux, et al.) against certain of the Company's directors and officers. The derivative complaint, which also names USANA as a nominal defendant but is asserted on USANA's behalf, contains claims of breach of fiduciary duty, waste of corporate assets and unjust enrichment against the defendant directors and officers in connection with certain equity awards granted by the Compensation Committee of the Company's Board of Directors in February 2014. In October 2014, the Company filed a motion to dismiss the complaint and, in March 2015, the court granted that motion and dismissed the complaint without prejudice. In May 2015, the plaintiffs filed an appeal with the Utah Supreme Court. The Supreme Court remanded the case to the Utah Court of Appeals. In December 2016, the Court of Appeals certified the case to the Utah Supreme Court, confirming the Company's belief that this case addresses a new issue under Utah law. Subsequent to September 30, 2017, in October 2017 the Utah Supreme Court affirmed the trial court's motion to dismiss the complaint.

On February 7, 2017, the Company disclosed in a Current Report on Form 8-K filed with the SEC that it is conducting a voluntary internal investigation regarding its BabyCare operations in China. In connection with this investigation, the Company expects to continue to incur costs in conducting the on-going review and investigation, in responding to requests for information in connection with any government investigations and in defending any potential civil or governmental proceedings that are instituted against it or any of its current or former officers or directors. The Company has voluntarily contacted the SEC and the United States Department of Justice to advise both agencies that an internal investigation is underway and intends to provide additional information to both agencies as the investigation progresses. Because the internal investigation is ongoing, the Company cannot predict the duration, scope, or result of the investigation. One or more governmental actions could be instituted in respect of the matters that are the subject of the internal investigation, and such actions, if brought, may result in judgments, settlements, fines, penalties, injunctions, cease and desist orders, criminal penalties, or other relief.

On February 13, 2017, a putative shareholder class action complaint was filed in the United States District Court for the District of Utah, with the plaintiff, Chi Wah, alleging that the Company failed to disclose that (i) the Company's BabyCare subsidiary had engaged in improper reimbursement practices in China, (ii) these practices constituted violations of the Foreign Corrupt Practices Act ("FCPA"), (iii) as such, the Company's China revenues were in part the product of unlawful conduct and unlikely to be sustainable, and

(iv) the foregoing conduct, when it became known, was likely to subject the Company to significant regulatory scrutiny. The lawsuit names as defendants the Company; its former Co-Chief Executive Officer, David A. Wentz; and its Chief Leadership Development Officer, Paul A. Jones (formerly the Chief Financial Officer). On behalf of the plaintiff, and a putative class of purchasers of USANA stock between March 14, 2014 and February 7, 2017, the plaintiff asserts claims for violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder. The plaintiff seeks, among other things, an award of damages, interest, reasonable attorney's fees, expert fees, and other costs. The Company believes that the action is without merit, and intends to vigorously defend against all claims asserted. In September 2017, the Company filed a motion to dismiss the complaint.

Chinese regulators regularly make inquiries about the business activities of direct sellers in China and have done so with the Company's operating subsidiary in China, BabyCare, Ltd. There have been instances where inquiries or complaints about BabyCare's business have resulted in the payment of fines by BabyCare. For instance, during the first quarter of 2017, an inquiry from a provincial-level regulator was received and promptly resolved by BabyCare. A fine was issued in a BabyCare Associate's name and paid by BabyCare in connection with resolving this matter. The fine was not quantitatively material.

[Table of Contents](#)

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

NOTE H — COMMON STOCK AND EARNINGS PER SHARE

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

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

	Quarter Ended		Nine Months Ended	
	October 1, 2016	September 30, 2017	October 1, 2016	September 30, 2017
Net earnings available to common shareholders	\$ 30,098	\$ 23,769	\$ 78,159	\$ 68,386
Weighted average common shares outstanding - basic	24,178	24,283	24,112	24,462
Dilutive effect of in-the-money equity awards	872	305	938	409
Weighted average common shares outstanding - diluted	25,050	24,588	25,050	24,871
Earnings per common share from net earnings - basic	\$ 1.24	\$ 0.98	\$ 3.24	\$ 2.80
Earnings per common share from net earnings - diluted	\$ 1.20	\$ 0.97	\$ 3.12	\$ 2.75

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

	Quarter Ended		Nine Months Ended	
	October 1, 2016	September 30, 2017	October 1, 2016	September 30, 2017
	2,309	2,035	2,236	2,091

During the quarter ended September 30, 2017, the Company repurchased and retired 865 shares, for \$50,000 under the Company's share repurchase plan.

During the nine months ended October 1, 2016, and September 30, 2017, the Company repurchased and retired 1,106 shares, and 865 shares for \$64,610 and \$50,000, respectively under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

As of September 30, 2017, the remaining approved repurchase amount under the stock repurchase plan was \$50,000. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

[Table of Contents](#)

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

NOTE I — SEGMENT INFORMATION

USANA operates 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 aggregates its operating segments into one reportable segment as management believes that the Company’s segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. No single Associate accounted for 10% or more of net sales for the periods presented. The table below summarizes the approximate percentage of total product revenue that has been contributed by the Company’s nutritional and personal care products for the periods indicated.

	<u>Quarter Ended</u>		<u>Nine Months Ended</u>	
	<u>October 1, 2016</u>	<u>September 30, 2017</u>	<u>October 1, 2016</u>	<u>September 30, 2017</u>
USANA® Nutritionals	85%	83%	83%	84%
USANA Foods	8%	9%	10%	9%
Sensé — beautiful science®	6%	6%	6%	6%

Selected financial information for the Company is presented for two geographic regions: Asia Pacific, with three sub-regions under Asia Pacific, and Americas and Europe. Individual markets are categorized into these regions as follows:

- Asia Pacific —
 - Greater China — Hong Kong, Taiwan and China(1)
 - Southeast Asia Pacific — Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia
 - North Asia — Japan and South Korea
- Americas and Europe — United States, Canada, Mexico, Colombia, the United Kingdom, France, Belgium, and the Netherlands.

(1) The Company’s business in China is that of BabyCare, its wholly-owned subsidiary.

[Table of Contents](#)

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

NOTE I — SEGMENT INFORMATION - CONTINUED

Selected Financial Information

Financial information by geographic region is presented for the periods indicated below:

	<u>Quarter Ended</u>		<u>Nine Months Ended</u>	
	<u>October 1, 2016</u>	<u>September 30, 2017</u>	<u>October 1, 2016</u>	<u>September 30, 2017</u>
Net Sales to External Customers				
Asia Pacific				
Greater China	\$ 124,470	\$ 131,273	\$ 373,308	\$ 399,713
Southeast Asia Pacific	54,351	52,310	154,335	151,381
North Asia	11,555	15,708	33,376	42,612
Asia Pacific Total	<u>190,376</u>	<u>199,291</u>	<u>561,019</u>	<u>593,706</u>
Americas and Europe	<u>63,843</u>	<u>62,474</u>	<u>192,163</u>	<u>180,445</u>
Consolidated Total	<u>\$ 254,219</u>	<u>\$ 261,765</u>	<u>\$ 753,182</u>	<u>\$ 774,151</u>

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

	Quarter Ended		Nine Months Ended	
	October 1, 2016	September 30, 2017	October 1, 2016	September 30, 2017
Net sales:				
China	\$ 108,355	\$ 116,174	\$ 324,689	\$ 352,462
United States	\$ 34,352	\$ 34,183	\$ 101,245	\$ 93,219
Long-lived assets:				
China			\$ 91,909	\$ 94,938
United States			\$ 63,654	\$ 61,384

15

[Table of Contents](#)

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

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

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

This discussion and analysis should be read in conjunction with the Unaudited Condensed 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 included in our Annual Report on Form 10-K for the year ended December 31, 2016, and our other filings, including Current Reports on Form 8-K, that have been filed with the SEC through the date of this report.

Overview

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. We have chosen this distribution method as we believe it is more conducive to meeting our vision as a company, which is improving the overall health and nutrition of individuals and families around the world. Our customer base comprises two types of customers: “Associates” and “Preferred Customers” referred to together as “active Customers.” Associates share in our company vision by acting as independent distributors of our products in addition to purchasing 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 September 30, 2017, we had approximately 563,000 active Customers worldwide. For purposes of this report, we only count as active Customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period.

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

- Asia Pacific
 - Greater China — Hong Kong, Taiwan, and China(1)
 - Southeast Asia Pacific — Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia
 - North Asia — Japan and South Korea
- Americas and Europe — United States, Canada, Mexico, Colombia, the United Kingdom, France, Belgium, and the Netherlands

(1) Our business in China is that of BabyCare, our wholly-owned subsidiary.

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

[Table of Contents](#)

	Nine Months Ended	
	October 1, 2016	September 30, 2017
Product Line		
USANA® Nutritionals		
Essentials/CellSentials	20%	19%
Optimizers	63%	65%
USANA Foods	10%	9%
Sensé — beautiful science®	6%	6%
All Other	1%	1%
Key Product		
USANA® Essentials	14%	13%
Proflavonol®	13%	12%
BiOmega-3™	13%	14%

We believe that our ability to attract and retain Associates and Preferred Customers to sell and consume our products is positively influenced by a number of factors, some of which include: the general public's heightened awareness and understanding of the connection between diet and long-term health, and the growing desire for a secondary source of income and small business ownership.

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates. We periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding in the industry, to encourage behavior that we believe leads to a successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings.

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

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, our operating results are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. During the nine months ended September 30, 2017, net sales outside of the United States represented 88.0% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

Customers

Because we sell our products exclusively to a customer base of independent Associates and Preferred Customers, to increase net sales we must increase either the number or the productivity of our active Customers. Increasing the productivity of our active Customers has not been our primary focus. Rather, we seek to increase the number of active Customers who use and sell our products. We believe this focus is more consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for the majority of our product sales, representing approximately 91% of product sales during the nine months ended September 30, 2017; the remainder of our sales are to Preferred Customers. Increases or decreases in product sales are typically the result of variations in the volume of product sold relating to fluctuations in the number of

[Table of Contents](#)

active Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial indicator to evaluate our operational performance.

During the first quarter of 2017, we initiated our Preferred Customer Invitation Plan in the United States and pursuant to this invitation 16,000 active Associates in the United States became Preferred Customers. We are continuing to evaluate whether to offer the same invitation to Associates in our other markets around the world.

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		Change from Prior Year	Percent Change
	As of October 1, 2016	As of September 30, 2017		
Asia Pacific:				

Greater China	263,000	57.7%	281,000	60.7%	18,000	6.8%
Southeast Asia Pacific	91,000	20.0%	90,000	19.4%	(1,000)	(1.1)%
North Asia	15,000	3.3%	23,000	5.0%	8,000	53.3%
Asia Pacific Total	369,000	81.0%	394,000	85.1%	25,000	6.8%
Americas and Europe (1)	87,000	19.0%	69,000	14.9%	(18,000)	(20.7)%
	456,000	100.0%	463,000	100.0%	7,000	1.5%

Active Preferred Customers by Region

	As of October 1, 2016		As of September 30, 2017		Change from Prior Year	Percent Change
Asia Pacific:						
Greater China	5,000	5.3%	4,000	4.0%	(1,000)	(20.0)%
Southeast Asia Pacific	15,000	16.0%	16,000	16.0%	1,000	6.7%
North Asia	10,000	10.6%	11,000	11.0%	1,000	10.0%
Asia Pacific Total	30,000	31.9%	31,000	31.0%	1,000	3.3%
Americas and Europe (1)	64,000	68.1%	69,000	69.0%	5,000	7.8%
	94,000	100.0%	100,000	100.0%	6,000	6.4%

(1) Pursuant to the Preferred Customer Invitation Plan in the United States, 16,000 active Associates became Preferred Customers during the first quarter of 2017.

[Table of Contents](#)

Current Focus and Recent Developments

Our primary objective is to increase the number of active Customers who use our products throughout the world. We have several strategies in place to support this objective, including:

- Future product and technology innovation that supports our desire to personalize our customer's overall experience with USANA that would encompass our product offering, Associate Compensation Plan, and online business environment;
- Expansion in China, where we plan to continue devoting significant time and resources on growing this market;
- Enhancing our information technology systems and infrastructure to support our growing active Customer base and to further improve our active Customers' experience of doing business with us around the world as well as to prepare for future growth and expansion;
- Development and offering of market-specific promotions to build momentum and grow sales and active Customer growth in each of our markets around the world;
- Enhancing our Preferred Customer Program through our Preferred Customer Invitation Plan and additional strategies; and
- Increasing our brand recognition, which includes our relationship as a Trusted Partner and Sponsor of *The Dr. Oz Show*, our partnership with the Women's Tennis Association, and our sponsorship of the U.S. Ski Team; to make it easier for our Associates to talk about USANA with potential customers.

In August 2017, at our International Convention we introduced Celavive® our new innovative skincare system formulated with our InCelligence® Technology. Celavive® was made available for purchase exclusively to convention attendees, which allowed us to get this new product line into the hands of our brand advocates prior to the official launch in 2018. We will officially launch the Celavive® line in select markets beginning in January 2018, and then systematically roll it out to other markets around the world.

At our International Convention, we also announced that we will be expanding sales and operations into four additional European countries beginning in mid 2018. These new markets, Romania, Germany, Italy and Spain, will increase our global footprint from 20 to 24 markets worldwide.

Non-GAAP Financial Measures

Regulation G, Conditions for Use of non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Constant and local currency net sales, earnings, EPS and other currency-related financial information (collectively, "Financial Results") are non-GAAP financial measures that remove the impact of fluctuations in foreign-currency exchange rates and help facilitate period-to-period comparisons of the Company's Financial Results and thus provide investors an additional perspective on trends and underlying business results. Constant currency Financial Results are calculated by translating the current period's Financial Results at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount for the current period to the prior-year period's Financial Results. A reconciliation of these non-GAAP financial measures accompanies any reference to them in the presentation in the accompanying financial statements and notes thereto. Management believes that the non-GAAP financial measures assist management and investors in evaluating, and comparing from period to period, results from ongoing operations in a more meaningful and consistent manner while also highlighting more meaningful trends in

the results of operations. These measures are used in addition to and in conjunction with results presented in accordance with GAAP; investors should rely primarily on our GAAP results and use non-GAAP financial measures only supplementally in making investment decisions.

Results of Operations

Summary of Financial Results

Net sales for the third quarter of 2017 increased 3.0% to \$261.8 million, an increase of \$7.5 million, compared with the third quarter of 2016.

19

[Table of Contents](#)

Net earnings for the third quarter of 2017 decreased 21.0% to \$23.8 million, a decrease of \$6.3 million, compared with the third quarter of 2016. The decrease in net earnings was mostly the result of higher selling general and administrative expenses and a higher effective tax rate.

Quarters Ended October 1, 2016 and September 30, 2017

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	Currency impact on sales	Percent change excluding currency impact
	October 1, 2016		September 30, 2017					
Asia Pacific								
Greater China	\$ 124,470	49.0%	\$ 131,273	50.1%	\$ 6,803	5.5%	\$ 201	5.3%
Southeast Asia Pacific	54,351	21.4%	52,310	20.0%	(2,041)	(3.8)%	(1,197)	(1.6)%
North Asia	11,555	4.5%	15,708	6.0%	4,153	35.9%	(243)	38.0%
Asia Pacific Total	190,376	74.9%	199,291	76.1%	8,915	4.7%	(1,239)	5.3%
Americas and Europe	63,843	25.1%	62,474	23.9%	(1,369)	(2.1)%	1,198	(4.0)%
	\$ 254,219	100.0%	\$ 261,765	100.0%	\$ 7,546	3.0%	\$ (41)	3.0%

Asia Pacific: The increase in net sales in Greater China continues to be driven by growth in Mainland China, where local currency net sales increased 7.3% and the number of active Customers increased 8.7%. Net sales decreased in Southeast Asia Pacific as a result of changes in currency exchange rates and softer sales in the Philippines, which declined 10.2% on a year-over-year basis. The increase in net sales in North Asia continues to be driven by growth in South Korea, where constant currency net sales increased 41.8%, and the number of active Customers increased 39.1%.

Americas and Europe: Net sales in this region were affected by local currency sales decreases of 7.1% in Canada, and 8.1% in Mexico. These decreases are primarily due to declines in the number of active Customers of 6.7% in Canada, and 10.0% in Mexico. Net sales in the U.S. were essentially flat with the prior year period as a result of an estimated \$2.5 million in incremental product sales at our 2017 International Convention.

Gross Profit

Gross profit decreased 30 basis points to 82.0% of net sales for the third quarter of 2017, from 82.3% in the prior year. This decrease can be attributed to changes in sales mix by market, higher material costs in China, and increased scrap costs. These changes were offset by favorable changes in currency exchange rates in markets outside of China as well as the annual price adjustments. With the exception of China, where products are manufactured in-market, changes in currency exchange rates affect the valuation of U.S. manufactured inventory that is transferred to international subsidiaries.

20

[Table of Contents](#)

Associate Incentives

Associate incentives were essentially flat at 44.3% of net sales for the third quarter of 2017.

Selling, General and Administrative Expenses

In absolute terms, our selling, general and administrative expense increased \$6.7 million during the third quarter of 2017 when compared with the same period of the prior year. This increase can be attributed to incremental expense associated with our 2017 International Convention, China and our internal investigation, continued investment in information technology systems and infrastructure, and an impairment charge related to our note receivable from a former third-party supplier.

Income Taxes

Income taxes were 25.8% of earnings in the third quarter of 2017 compared with 16.6% of earnings in the prior year. The higher effective tax rate for the third quarter was primarily due to lower excess tax benefits from equity award exercises recognized during the current quarter compared to the prior-year quarter.

Diluted Earnings Per Share

Diluted earnings per share decreased 19.2% in the third quarter of 2017 when compared with the prior-year quarter. This decrease was due to lower net earnings. These decreases were partially offset by a lower number of shares outstanding resulting from activity under our share buyback program.

[Table of Contents](#)

Nine Months Ended October 1, 2016 and September 30, 2017

Net Sales

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

	Net Sales by Region (in thousands) Nine Months Ended						Percent change excluding currency impact	
	October 1, 2016		September 30, 2017		Change from prior year	Percent change		Currency impact on sales
Asia Pacific								
Greater China	\$ 373,308	49.6%	\$ 399,713	51.6%	\$ 26,405	7.1%	\$ (10,562)	9.9%
Southeast Asia Pacific	154,335	20.5%	151,381	19.6%	(2,954)	(1.9)%	(3,454)	0.3%
North Asia	33,376	4.4%	42,612	5.5%	9,236	27.7%	598	25.9%
Asia Pacific Total	561,019	74.5%	593,706	76.7%	32,687	5.8%	(13,418)	8.2%
Americas and Europe	192,163	25.5%	180,445	23.3%	(11,718)	(6.1)%	(287)	(5.9)%
	\$ 753,182	100.0%	\$ 774,151	100.0%	\$ 20,969	2.8%	\$ (13,705)	4.6%

Changes in net sales are primarily due to corresponding changes in active Customer counts unless specifically noted otherwise.

Asia Pacific: The increase in net sales in Greater China continues to be driven by growth in Mainland China, where local currency net sales increased 12.2%. The decrease in net sales in Southeast Asia Pacific was the result of changes in currency exchange rates and softer sales in the Philippines, which declined 6.5%. The increase in constant currency net sales in North Asia continues to be driven by growth in South Korea, where local currency net sales increased 28.4%.

Americas and Europe: Net sales in this region were affected by a sales decrease of 7.9% in the United States, and a 4.8% local currency decrease in Canada.

Gross Profit

Gross profit increased 50 basis points to 82.7% of net sales for the nine months of 2017, from 82.2% in the prior year. This increase can be attributed to favorable changes in currency exchange rates in markets outside of China as well as the annual price adjustments, partially offset by an unfavorable shift in sales mix by market.

Associate Incentives

Associate incentives were 45.2% of net sales for the nine months of 2017, compared with 44.5% in the prior year. The increase in relative Associate incentives expense can be attributed to increased spending related to contests, promotions and reward trips during the first nine months of 2017. These increases were partially offset by our annual price adjustment.

[Table of Contents](#)*Selling, General and Administrative Expenses*

In absolute terms, our selling, general and administrative expense increased \$16.7 million during the nine months of 2017 when compared with the same period of the prior year. This increase can primarily be attributed to our continued investments in information technology and infrastructure, costs associated with China and our internal investigation, and higher costs associated with our 2017 International Convention.

Income Taxes

Income taxes were 30.4% of earnings in the first nine months of 2017 compared with 26.8% of earnings in the prior year. The higher effective tax rate for the first nine months was primarily due to lower excess tax benefits received from equity award exercises during the current nine months compared to the prior year period.

Diluted Earnings Per Share

Diluted earnings per share decreased 11.9% in the nine months of 2017 when compared with the same period of the prior year. This decrease was mostly due to lower net earnings. This decrease was partially offset by a lower number of shares outstanding resulting from activity under our share buyback program.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing from our line of credit. Our principal source of liquidity is our operating cash flow. Although we are required to maintain cash deposits with banks in certain of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. Notwithstanding the foregoing, if we were to repatriate the \$19.6 million of cumulative earnings that have been indefinitely reinvested in certain of our markets at September 30, 2017, there would be a tax liability to the Company of approximately \$3.1 million.

We have historically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$68.7 million in the first nine months of 2017.

Cash and cash equivalents increased to \$191.7 million at September 30, 2017, from \$175.8 million at December 31, 2016. Of the \$191.7 million held at September 30, 2017, \$43.3 million was held in the United States and \$148.4 million was held by international subsidiaries. Of the \$175.8 million in cash and cash equivalents held at December 31, 2016, \$20.1 million was held in the United States and \$155.7 million was held by international subsidiaries. Net working capital increased to \$165.0 million at September 30, 2017, from \$139.4 million at December 31, 2016.

Line of Credit

Information with respect to our line of credit may be found in Note F to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Report on Form 10-Q.

[Table of Contents](#)*Share Repurchase*

During the nine months ended September 30, 2017, we repurchased 865,000 shares of our common stock for \$50.0 million under our share repurchase plan, at an average market price of \$57.78. At September 30, 2017, the remaining approved repurchase amount under the plan was \$50.0 million. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Off-Balance Sheet Arrangements

None.

Summary

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

existing shareholders.

Forward-Looking Statements and Certain Risks

The statements contained in this report that are not purely historical are considered to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the 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 include, but are not limited to, statements contained in Management’s Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund our future operations and capital spending needs. Readers are cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in these forward-looking statements for the reasons that are detailed in our most recent Annual Report on Form 10-K. The fact that some of these risk factors may be the same or similar to those in our past SEC reports means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in the industry in which we operate and will likely be present in all periods reported. The fact that certain risks are common in the industry does not lessen their significance. The forward-looking statements contained in this report are made as of the date of this report, and we assume no obligation to update them or to update the reasons why our actual results could differ from those that we have projected. Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include:

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

[Table of Contents](#)

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

- Intellectual property risks;
- Liability claims that may arise with our “Athlete Guarantee” program;
- Continued compliance with debt covenants;
- Disruptions to shipping channels that are used to distribute our products to international warehouses;
- The introduction of new laws or changes to existing laws, both domestically and internationally; and
- The outcome of the internal investigation into our China operations, as well as other regulatory and litigation matters.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information presented for the year ended December 31, 2016.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

[Table of Contents](#)

internal control over financial reporting described in Part II, Item 9A of our Form 10-K for the fiscal year ended December 31, 2016 (the “2016 Form 10-K”), our disclosure controls and procedures were not effective to provide reasonable assurance as of September 30, 2017.

Changes in Internal Control Over Financial Reporting

Other than with respect to the remediation efforts addressed below, there were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Efforts to Address Material Weakness

As previously disclosed in Part II, Item 9A of the 2016 Form 10-K, we are implementing a plan to remediate the material weakness described therein and strengthen our internal control and compliance environment. The remediation plan includes the following:

- Termination of certain BabyCare employees and senior management whose conduct may have violated the FCPA;
- Enhancement of our global anticorruption and ethics program, with additional training and education on such program at BabyCare, with the objective of promoting company-wide ethics and preventing and detecting violations of applicable anti-corruption laws, including FCPA; and
- Revision and communication of BabyCare accounting controls, policies and procedures relating to signing authority, supporting documentation requirements, and reimbursable expenses to provide additional details with the submission of supporting documentation to provide further transparency.

During the first nine months of 2017, we have (i) terminated certain BabyCare employees and senior management whose conduct may have violated the FCPA; and (ii) revised and enhanced BabyCare’s accounting controls, policies and procedures in the areas referenced above. Additionally, we have made, and will continue to make during the fourth quarter, enhancements to our global anticorruption and ethics program. The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We continue to expect that the remediation of this material weakness will be completed during 2017.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to litigation and other proceedings that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters.

Information with respect to our legal proceedings may be found in Note G to the Condensed Consolidated Financial Statements included in Item 1 Part I of this Report on Form 10-Q.

Item 1A. Risk Factors

The Company's business, results of operations, and financial condition are subject to various risks. These risks are described elsewhere in this Quarterly Report on Form 10-Q and in the Company's other filings with the SEC, including the 2016 Form 10-K. The risk factors identified in the Company's 2016 Form 10-K have not changed in any material respect.

26

[Table of Contents](#)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information with respect to purchases of USANA common stock made by the Company during the three months ended September 30, 2017:

Issuer Purchases of Equity Securities (amounts in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs *
Fiscal July (Jul. 2, 2017 through Aug. 5, 2017)	189	\$ 56.83	189	\$ 89,238
Fiscal August (Aug. 6, 2017 through Sep. 2, 2017)	676	\$ 58.05	676	\$ 50,000
Fiscal September (Sep. 3, 2017 through Sep. 30, 2017)	0	\$ 0.00	0	\$ 50,000
	<u>865</u>		<u>865</u>	

* The Company's share repurchase plan has been ongoing since the fourth quarter of 2000, with the Company's Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. The Company began the third quarter of 2017 with \$35,390 remaining under the plan. As announced in a Current Report on Form 8-K filed with the SEC on July 25, 2017, the Board of Directors authorized an increase in the amount available for repurchase under the plan to a total of \$100,000. There is no requirement for future share repurchases, and there currently is no expiration date on the approved repurchase amount.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006, Exhibit 3.1, File No. 0-21116).
3.2	Bylaws (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006, Exhibit 3.2, File No. 0-21116).

27

[Table of Contents](#)

4.1	Specimen Stock Certificate for Common Stock (incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993)
31.1	Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)
32.2	Certification of Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

[Table of Contents](#)

SIGNATURES

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

USANA HEALTH SCIENCES, INC.

Date: November 8, 2017

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

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Kevin G. Guest, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant’s internal control over financial reporting.

Date: November 8, 2017

/s/ Kevin G. Guest

Kevin G. Guest
Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, G. Douglas Hekking, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant’s internal control over financial reporting.

Date: November 8, 2017

/s/ G. Douglas Hekking
G. Douglas Hekking
Chief Financial Officer
(Principal Accounting and Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended September 30, 2017 as filed November 8, 2017 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: November 8, 2017

/s/ Kevin G. Guest
Kevin G. Guest
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended September 30, 2017 as filed November 8, 2017 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: November 8, 2017

/s/ G. Douglas Hekking

G. Douglas Hekking

Chief Financial Officer

(Principal Accounting and Financial Officer)
