

**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 June 29, 2019**

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	USNA	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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
Non-accelerated filer

Accelerated filer
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

The number of shares outstanding of the registrant's common stock as of August 2, 2019 was 22,257,042

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 29, 2019

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Cautionary Note Regarding Forward-Looking Statements and Certain Risks

This report contains, “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the SEC including our most recent Annual Report on Form 10-K. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date hereof. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, the occurrence of unanticipated events or otherwise. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in our forward-looking statements include, among others, the following:

- ⌚ Our ability to attract and maintain a sufficient number of Associates and Preferred Customers;
- ⌚ Our dependence upon a direct selling system to distribute our products and the activities of our independent Associates;
- ⌚ The operation and expansion of our business in China through BabyCare;
- ⌚ Unanticipated effects of changes to our Compensation Plan;
- ⌚ Uncertainties relating to the interpretation and enforcement of applicable laws and regulations, particularly in China, governing direct selling and anti-pyramiding, including changes, if any, resulting from the 100-day review which occurred in early 2019;
- ⌚ Our inability to obtain or maintain the necessary licenses for our direct selling business in China and elsewhere;
- ⌚ Adverse changes in the Chinese economy, marketplace in general, or consumer environment;
- ⌚ Challenges associated with our planned expansion into new international markets, delays in commencement of sales or product offerings in such markets, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- ⌚ General economic conditions, both domestically and internationally;
- ⌚ The impact of changes in trade policies and tariffs;
- ⌚ Potential political events, natural disasters, or other events that may negatively affect economic conditions;
- ⌚ Potential effects of adverse publicity regarding USANA, nutritional supplements, or the direct selling industry;
- ⌚ Reliance on our key management personnel;
- ⌚ Extensive government regulation of our 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 Associate incentives as a percentage of net revenues;
- ⌚ Our reliance on the use of information technology;
- ⌚ Disruption in operations or increased liability resulting from cybersecurity incidents, data breaches, or failure to comply with data privacy or data security laws and regulations;
- ⌚ The effects of competition from new as well as from 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 our 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 in connection 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.

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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 29, 2018	As of June 29, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 214,326	\$ 231,353
Securities held-to-maturity	63,539	2,999
Inventories	81,948	88,127
Prepaid expenses and other current assets	32,522	26,304
Total current assets	392,335	348,783
Property and equipment, net	92,025	92,637
Goodwill	16,815	16,829
Intangible assets, net	31,811	31,129
Deferred tax assets	3,348	5,473
Other assets	18,129	37,550
	<u>\$ 554,463</u>	<u>\$ 532,401</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,947	\$ 11,694
Other current liabilities	138,739	117,065
Total current liabilities	148,686	128,759
Deferred tax liabilities	13,367	5,787
Other long-term liabilities	1,264	13,699
Stockholders' equity		
Common stock, \$0.001 par value; Authorized -- 50,000 shares, issued and outstanding 23,567 as of December 29, 2018	24	23
and 22,980 as of June 29, 2019		
Additional paid-in capital	72,008	68,846
Retained earnings	329,501	327,544
Accumulated other comprehensive income (loss)	(10,387)	(12,257)
Total stockholders' equity	<u>391,146</u>	<u>384,156</u>
	<u>\$ 554,463</u>	<u>\$ 532,401</u>

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Quarter Ended		Six Months Ended	
	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019
Net sales	\$ 301,460	\$ 256,016	\$ 593,458	\$ 529,006
Cost of sales	49,991	46,494	99,366	92,395
Gross profit	251,469	209,522	494,092	436,611
Operating expenses:				
Associate incentives	132,790	111,511	262,152	234,041
Selling, general and administrative	67,537	66,854	137,669	136,409
Total operating expenses	200,327	178,365	399,821	370,450
Earnings from operations	51,142	31,157	94,271	66,161
Other income (expense):				
Interest income	1,031	1,301	1,871	2,785
Interest expense	(9)	(10)	(19)	(22)
Other, net	(634)	64	(602)	(118)
Other income (expense), net	388	1,355	1,250	2,645
Earnings before income taxes	51,530	32,512	95,521	68,806
Income taxes	17,623	11,134	32,668	23,256
Net earnings	<u>\$ 33,907</u>	<u>\$ 21,378</u>	<u>\$ 62,853</u>	<u>\$ 45,550</u>
Earnings per common share				
Basic	\$ 1.40	\$ 0.92	\$ 2.60	\$ 1.95
Diluted	\$ 1.36	\$ 0.91	\$ 2.56	\$ 1.93
Weighted average common shares outstanding				
Basic	24,193	23,245	24,134	23,364
Diluted	24,841	23,370	24,557	23,648
Comprehensive income:				
Net earnings	\$ 33,907	\$ 21,378	\$ 62,853	\$ 45,550
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(11,520)	(5,592)	(3,706)	(818)
Tax benefit (expense) related to foreign currency translation adjustment	1,808	242	1,268	(1,052)
Other comprehensive income (loss), net of tax	(9,712)	(5,350)	(2,438)	(1,870)
Comprehensive income	<u>\$ 24,195</u>	<u>\$ 16,028</u>	<u>\$ 60,415</u>	<u>\$ 43,680</u>

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

For the six months ended June 30, 2018

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 30, 2017	24,024	\$ 24	\$ 76,542	\$ 288,070	\$ (1,426)	\$ 363,210
Cumulative effect of accounting change				994		994
Balance after cumulative effect of accounting change	24,024	24	76,542	289,064	(1,426)	364,204
Net earnings				62,853		62,853
Other comprehensive income (loss), net of tax					(2,438)	(2,438)
Equity-based compensation expense			7,058			7,058
Common stock repurchased and retired	(39)	—	(605)	(2,338)		(2,943)
Common stock issued under equity award plans	235	—				—
Tax withholding for net-share settled equity awards			(360)			(360)
Disgorgement of short-swing stock profits			907			907
Balance at June 30, 2018	<u>24,220</u>	<u>\$ 24</u>	<u>\$ 83,542</u>	<u>\$ 349,579</u>	<u>\$ (3,864)</u>	<u>\$ 429,281</u>

For the six months ended June 29, 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 29, 2018	23,567	\$ 24	\$ 72,008	\$ 329,501	\$ (10,387)	\$ 391,146

Net earnings				45,550		45,550
Other comprehensive income (loss), net of tax					(1,870)	(1,870)
Equity-based compensation expense			8,601			8,601
Common stock repurchased and retired	(651)	(1)	(10,115)	(47,507)		(57,623)
Common stock issued under equity award plans	64	—				—
Tax withholding for net-share settled equity awards			(1,648)			(1,648)
Balance at June 29, 2019	<u>22,980</u>	<u>\$ 23</u>	<u>\$ 68,846</u>	<u>\$ 327,544</u>	<u>\$ (12,257)</u>	<u>\$ 384,156</u>

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

For the three months ended June 30, 2018

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at March 31, 2018	24,099	\$ 24	\$ 79,434	\$ 315,672	\$ 5,848	\$ 400,978
Net earnings				33,907		33,907
Other comprehensive income (loss), net of tax					(9,712)	(9,712)
Equity-based compensation expense			3,253			3,253
Common stock issued under equity award plans	121	—				—
Tax withholding for net-share settled equity awards			(52)			(52)
Disgorgement of short-swing stock profits			907			907
Balance at June 30, 2018	<u>24,220</u>	<u>\$ 24</u>	<u>\$ 83,542</u>	<u>\$ 349,579</u>	<u>\$ (3,864)</u>	<u>\$ 429,281</u>

For the three months ended June 29, 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at March 30, 2019	23,335	\$ 23	\$ 69,100	\$ 329,001	\$ (6,907)	\$ 391,217
Net earnings				21,378		21,378
Other comprehensive income (loss), net of tax					(5,350)	(5,350)
Equity-based compensation expense			4,769			4,769
Common stock repurchased and retired	(367)	—	(4,788)	(22,835)		(27,623)
Common stock issued under equity award plans	12	—				—
Tax withholding for net-share settled equity awards			(235)			(235)
Balance at June 29, 2019	<u>22,980</u>	<u>\$ 23</u>	<u>\$ 68,846</u>	<u>\$ 327,544</u>	<u>\$ (12,257)</u>	<u>\$ 384,156</u>

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended	
	June 30, 2018	June 29, 2019
Cash flows from operating activities		
Net earnings	\$ 62,853	\$ 45,550
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	8,685	7,654
Right-of-use asset amortization	—	3,977
(Gain) loss on sale of property and equipment	1,777	26
Equity-based compensation expense	7,058	8,601
Deferred income taxes	(5,293)	(10,722)
(Gain) loss on impairment on note receivable	(658)	—
Changes in operating assets and liabilities:		

Inventories	(13,443)	(6,026)
Prepaid expenses and other assets	(5,448)	3,334
Accounts payable	546	1,379
Other liabilities	1,116	(33,094)
Net cash provided by (used in) operating activities	57,193	20,679
Cash flows from investing activities		
Receipts on notes receivable	4,760	92
Proceeds from the settlement of net investment hedges	739	1,936
Payments for net investment hedge	—	(1,660)
Purchases of investment securities held-to-maturity	(42,433)	—
Maturities of investment securities held-to-maturity	—	60,540
Proceeds from sale of property and equipment	381	6
Purchases of property and equipment	(6,636)	(7,130)
Net cash provided by (used in) investing activities	(43,189)	53,784
Cash flows from financing activities		
Repurchase of common stock	(2,943)	(57,623)
Proceeds from disgorgement of short-swing stock profits	907	—
Borrowings on line of credit	—	5,000
Payments on line of credit	—	(5,000)
Payments related to tax withholding for net-share settled equity awards	(360)	(1,648)
Net cash provided by (used in) financing activities	(2,396)	(59,271)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,687)	1,839
Net increase (decrease) in cash, cash equivalents and restricted cash	8,921	17,031
Cash, cash equivalents, and restricted cash, at beginning of period	250,535	217,234
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 259,456</u>	<u>\$ 234,265</u>
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets		
Cash and equivalents	\$ 256,326	\$ 231,353
Restricted cash included in prepaid expenses and other current assets	108	—
Restricted cash included in other assets	3,022	2,912
Total cash, cash equivalents, and restricted cash	<u>\$ 259,456</u>	<u>\$ 234,265</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 4	\$ 7
Income taxes	46,532	35,149
Cash received during the period for:		
Income tax refund	2,066	5,169
Non-cash operating activities:		
Right-of-use assets obtained in exchange for lease obligations	—	22,926
Non-cash investing activities:		
Accrued purchases of property and equipment	151	659

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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/skincare products that are sold internationally through a global network marketing system, which is a form of direct selling. The Condensed Consolidated Financial Statements (the "Financial Statements") include the accounts and operations of USANA Health Sciences, Inc., a Utah corporation 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, Germany, Spain, Italy, Romania, Belgium, and the Netherlands. All intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 29, 2018, 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 Rule 10-01 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 the Company's 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 June 29, 2019 and results of operations for June 30, 2018 and June 29, 2019.

The interim 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 29, 2018. The results of operations for the three and six months ended June 29, 2019, are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2019.

Recent Accounting Pronouncements

Adopted accounting pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 requires 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. In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842)—Targeted Improvements, which allows an additional transition method to adopt the new lease standard at the adoption date, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption.

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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

The Company adopted Topic 842 in the first quarter of 2019, using the transition method per ASU 2018-11. Accordingly, all periods prior to December 30, 2018 were presented in accordance with the previous Topic 840, Leases, and no retrospective adjustments were made to the comparative periods presented. As a result of the adoption on December 30, 2018, the Company, recorded operating lease right-of-use (“ROU”) assets of \$19,671 and operating lease liabilities of \$20,010 (of which, \$7,120 was current and \$12,890 was non-current) on the Company’s balance sheet for facility and equipment lease agreements. Additionally, the Company has prepaid land use rights related to production facilities in China of \$6,853 that were reclassified to ROU assets. The Company utilized the incremental borrowing rate for the remaining lease term and remaining minimum rental payments for the calculation of the lease liability at the adoption date. Consistent with the treatment under Topic 840, the Company has excluded the portion of fixed rental payments attributable to executory costs such as taxes, insurance and maintenance in the determination of the future minimum rental payments for purposes of calculation of the lease liability at the adoption date. The Company does not have significant finance leases.

As part of the adoption of Topic 842, the Company made the following practical expedient elections:

- ① The Company elected the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs for all leases
- ② The Company did not elect the hindsight practical expedient, for all leases.
- ③ The Company did not elect the land easement practical expedient.

The adoption of Topic 842 had a material impact to the Company’s consolidated balance sheets, but did not materially impact the Company’s consolidated statements of comprehensive income. The most significant changes to the consolidated balance sheets relate to the recognition of new ROU assets and lease liabilities for operating leases. The adoption of Topic 842 also had no material impact on operating, investing, or financing cash flows in the consolidated statement of cash flows. However, Topic 842 has affected the Company’s disclosures about noncash activities relating to the initial recognition of ROU assets and lease liabilities. Additionally, the Company’s lease-related disclosures have increased as a result of adoption. See Note B - Operating Leases for additional information regarding the Company’s lease policies under the new standard.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” ASU 2017-12 better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To satisfy that objective, the amendments expand and refine hedge accounting for both non-financial and financial risk components, and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted ASU 2017-12 during the quarter ended March 30, 2019 and the adoption of the standard did not have an impact on its consolidated financial statements.

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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

Issued accounting pronouncements not yet adopted

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.” ASU 2018-13 modifies the disclosure requirements for fair value measurements. The modifications removed the following disclosure requirements: (i) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) the policy for timing of transfers between levels; and (iii) the valuation processes for Level 3 fair value measurements. This ASU added the following disclosure requirements: (i) the changes in unrealized gains and losses for the

period included in other comprehensive income (“OCI”) for recurring Level 3 fair value measurements held at the end of the reporting period; and (ii) the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles - Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The capitalized implementation costs of a hosting arrangement that is a service contract will be expensed over the term of the hosting arrangement. For public business entities, the amendments in this ASU are effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period. The amendments can be applied either retrospectively or prospectively to all implementation costs incurred after the adoption date. The Company does not expect the adoption of ASU 2018-15 will have a material impact on its consolidated financial statements.

NOTE B - OPERATING LEASES

With the exception of the Company’s headquarters in Salt Lake City, Utah, and its facilities in New South Wales, Australia, and in Beijing, China, and Tianjin, China, the Company generally leases its facilities. Each of the facility lease agreements is a non-cancelable operating lease generally structured with renewal options and expires prior to or during 2026. In connection with the production facilities in Beijing and Tianjin, China, the Company has prepaid land use rights that are considered when applying the lease definition under the guidance for lease accounting. The Company utilizes equipment under non-cancelable operating leases, expiring through 2022.

At contract inception, the Company determines whether an arrangement is or contains a lease and whether the lease should be classified as an operating or a financing lease. A contract is or contains a lease if the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration. Control is determined based on the right to obtain all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. ROU assets for operating leases represent the right to use an underlying asset for the lease term, and operating lease liabilities represent the obligation to make lease payments.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)
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NOTE B - OPERATING LEASES - CONTINUED

Lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date for leases exceeding 12 months. Minimum lease payments include only the fixed lease component of the agreement, as well as any variable rate payments that depend on an index, initially measured using the index at the lease commencement date. Non-lease components are accounted for separately from the fixed lease component for all leases. Most of the Company’s leases do not provide an implicit rate that can readily be determined. Therefore, the applied discount rate is based on the Company’s incremental borrowing rate, which is determined using its credit rating and other information available as of the commencement date and is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Lease terms may include options to renew when it is reasonably certain that the Company will exercise that option. The ROU asset is measured at the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in cost of sales and selling, general and administrative expense in the Company’s consolidated statements of comprehensive income. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases is recognized on a straight-line basis over the lease term.

The Company monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the ROU asset unless doing so would reduce the ROU asset to an amount less than zero, in which case the remaining adjustment would be recorded in the consolidated statements of comprehensive income.

The following table summarizes the classification of lease assets and lease liabilities in the Company’s consolidated balance sheet:

Leases	Classification	As of June 29, 2019
Assets		
ROU operating lease assets, net	Other assets	\$ 25,325
Total ROU assets		<u>\$ 25,325</u>
Liabilities		
Current:		
Operating lease liabilities	Other current liabilities	\$ 6,782
Non-current:		
Operating lease liabilities	Other long-term liabilities	\$ 12,650
Total lease liabilities		<u>\$ 19,432</u>

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share data)
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NOTE B - OPERATING LEASES - CONTINUED

The following table presents supplemental lease information:

	<u>Quarter Ended</u> June 29, 2019	<u>Six Months</u> <u>Ended</u> June 29, 2019
Lease cost		
Operating lease cost	\$ 2,328	\$ 4,494
Total lease cost	<u>\$ 2,328</u>	<u>\$ 4,494</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases		\$ 4,215
ROU assets obtained in exchange for new operating lease liabilities		\$ 3,305
Weighted-average remaining lease term—operating leases		4.00 yrs.
Weighted-average discount rate—operating leases		3.73%

The following table presents the maturity of the Company's lease liabilities as of June 29, 2019.

Year ending	
Remainder of 2019	\$ 3,953
2020	6,661
2021	4,204
2022	1,836
2023	1,584
Thereafter	2,618
	<u>\$ 20,856</u>
Less: imputed interest	\$ (1,424)
Present value	<u>\$ 19,432</u>

The future minimum commitments under operating leases at December 29, 2018 having a non-cancelable term in excess of one year as determined prior to the adoption of Topic 842 are as follows:

Year ending	
2019	\$ 9,155
2020	6,146
2021	3,825
2022	1,962
2023	1,464
Thereafter	2,514
	<u>\$ 25,066</u>

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
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NOTE C - 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:

- ① Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- ② 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.
- ③ 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 29, 2018	Fair Value Measurements Using		
		Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 129,449	\$ 129,449	\$ —	\$ —
Foreign currency contracts included in other current liabilities	(309)	—	(309)	—
	<u>\$ 129,140</u>	<u>\$ 129,449</u>	<u>\$ (309)</u>	<u>\$ —</u>

	June 29, 2019	Fair Value Measurements Using		
		Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 150,661	\$ 150,661	\$ —	\$ —
Foreign currency contracts included in other current liabilities	(189)	—	(189)	—
	<u>\$ 150,472</u>	<u>\$ 150,661</u>	<u>\$ (189)</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, property and equipment, and ROU assets 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 29, 2018 and June 29, 2019, there were no non-financial assets measured at fair value on a non-recurring basis.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
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NOTE C - FAIR VALUE MEASURES - CONTINUED

The Company's financial instruments include cash equivalents, securities held-to-maturity, 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.

Securities held-to-maturity consist of corporate bonds and commercial paper. The fair value of corporate bonds and commercial paper are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data, which is considered to be a Level 2 input. The carrying values of these corporate bonds and commercial paper approximate their fair values due to their short-term maturities.

NOTE D - INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities held-to-maturity by major security type and class of security were as follows:

	As of December 29, 2018			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Corporate bonds	\$ 57,554	\$ 1	\$ (46)	\$ 57,509
Commercial Paper	5,985	—	—	5,985
Total HTM Securities	<u>\$ 63,539</u>	<u>\$ 1</u>	<u>\$ (46)</u>	<u>\$ 63,494</u>

	As of June 29, 2019			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Corporate bonds	\$ 2,999	\$ —	\$ —	\$ 2,999
Total securities held-to-maturity	<u>\$ 2,999</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,999</u>

All held-to-maturity securities as of June 29, 2019 mature within one year.

NOTE E - INVENTORIES

Inventories consist of the following:

	December 29, 2018	June 29, 2019
Raw materials	\$ 19,502	\$ 25,345
Work in progress	14,485	13,283
Finished goods	47,961	49,499
	<u>\$ 81,948</u>	<u>\$ 88,127</u>

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NOTE F - REVENUE AND CONTRACT LIABILITIES

Revenue is recognized when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. A majority of the Company's sales are for products sold at a point in time and shipped to customers, for which control is transferred as goods are delivered to the third party carrier for shipment. The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders and payment is required prior to shipment. Contract liabilities, which are recorded within Other current liabilities in the consolidated balance sheets, primarily relate to deferred revenue for product sales for customer payments received in advance of shipment, for outstanding material rights under the initial order program, and for services where control is transferred over time as services are delivered.

Disaggregation of revenue by geographical region and major product line is included in Segment Information in Note K.

The following table provides information about contract liabilities from contracts with customers, including significant changes in the contract liabilities balances during the period.

	December 29, 2018	June 29, 2019
Contract liabilities at beginning of period	\$ 14,417	\$ 15,055
Increase due to deferral of revenue at period end	15,055	13,798
Decrease due to beginning contract liabilities recognized as revenue	(14,417)	(14,546)
Contract liabilities at end of period	<u>\$ 15,055</u>	<u>\$ 14,307</u>

NOTE G - LINE OF CREDIT

The Company has a \$75,000 line of credit with Bank of America ("Bank"). Interest is computed at the Bank's Prime Rate or a LIBOR-plus "Eurodollar" rate, 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, pursuant to a separate pledge agreement with the Bank. On February 19, 2016, the Company entered into an Amended and Restated Credit Agreement with the Bank, which extended the term of the Credit Agreement to April 27, 2021 and increased the Company's consolidated rolling four-quarter adjusted EBITDA covenant to \$100,000 or greater and its ratio of consolidated funded debt to adjusted EBITDA of equal to or less than 2.0 to 1.0 at the end of each quarter.

The adjusted EBITDA under the Credit Agreement is modified for certain non-cash expenses. Any existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation under the Credit Agreement. This resulted in a \$6,619 and \$5,890 reduction in the available borrowing limit as of December 29, 2018 and June 29, 2019, respectively, due to existing normal course of business guarantees in certain markets.

There was no outstanding debt on this line of credit at December 29, 2018 or at June 29, 2019. 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.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
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NOTE G - LINE OF CREDIT - CONTINUED

On July 15, 2019, the Company entered into a Third Amendment (the "Third Amendment") to the Amended and Restated Credit Agreement. The Third Amendment established a procedure for the Company to request an increase in the line of credit by an amount not exceeding \$125,000 (up to \$200,000 in the aggregate). The Company may make a maximum of three (3) such requests in increments of at least \$25,000 to the Bank. The Bank, at its election, will notify the Company whether or not it agrees to increase the line of credit and, if so, whether by an amount equal to or less than the amount requested by the Company. The line of credit will be automatically reduced to \$100,000, as of September 30, 2020.

NOTE H - 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.

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 may be 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 has provided 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.

NOTE I - DERIVATIVE FINANCIAL INSTRUMENTS

The Company's risk management strategy includes the select use of derivative instruments to reduce the effects of volatility in foreign currency exchange exposure on operating results and cash flows. In accordance with the Company's risk management policies, the Company does not hold or issue derivative instruments for trading or speculative purposes. The Company recognizes all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. When the Company becomes a party to a derivative instrument and intends to apply hedge accounting, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge, the nature of risk being hedged, and the hedged transaction, which includes designating the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. The Company also documents how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE I - DERIVATIVE FINANCIAL INSTRUMENTS - CONTINUED

The Company periodically uses derivative hedging instruments to hedge its net investment in its non U.S. subsidiaries designed to hedge a portion of the foreign currency exposure that arises on translation of the accounts of the foreign subsidiaries into U.S. dollars. Initially, the Company records derivative assets on a gross basis in its consolidated balance sheets. Subsequently the fair value of derivatives is measured for each reporting period. The effective portion of gains and losses attributable to these net investment hedges is recorded to foreign currency translation adjustment ("FCTA") within accumulated other comprehensive income (loss) ("AOCI") to offset the change in the carrying value of the net investment being hedged, and will subsequently be reclassified to net earnings in the period in which the hedged investment is either sold or substantially liquidated.

As of December 29, 2018, there were no derivatives outstanding for which the Company has applied hedge accounting. During the second quarter of 2019, the Company settled a European option designated as a net investment hedge with a notional amount of \$110,000 and realized a net gain of \$276, which is recorded to FCTA within AOCI. The Company assessed hedge effectiveness under the forward rate method, determining the hedging instrument was highly effective. As of June 29, 2019, there were no derivatives outstanding for which the Company has applied hedge accounting.

NOTE J - COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share ("EPS") 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 EPS based on the time they were outstanding in any period. Diluted EPS are based on shares that are outstanding (computed under basic EPS) and on potentially dilutive shares. Shares that are included in the diluted EPS 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 EPS and diluted EPS for the periods indicated:

	Quarter Ended		Six Months Ended	
	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019
Net earnings available to common shareholders	\$ 33,907	\$ 21,378	\$ 62,853	\$ 45,550
Weighted average common shares outstanding - basic	24,193	23,245	24,134	23,364
Dilutive effect of in-the-money equity awards	648	125	423	284
Weighted average common shares outstanding - diluted	24,841	23,370	24,557	23,648
Earnings per common share from net earnings - basic	\$ 1.40	\$ 0.92	\$ 2.60	\$ 1.95
Earnings per common share from net earnings - diluted	\$ 1.36	\$ 0.91	\$ 2.56	\$ 1.93

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NOTE J - COMMON STOCK AND EARNINGS PER SHARE - CONTINUED

Equity awards consisting of stock-settled stock appreciation rights and restricted stock 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		Six Months Ended	
	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019
	—	392	901	248

There were no shares repurchased during the quarter ended June 30, 2018. During the quarter ended June 29, 2019, the Company repurchased and retired 367 shares for \$27,623 under the Company's share repurchase plan.

During the six months ended June 30, 2018 and June 29, 2019, the Company repurchased and retired 39 shares and 651 shares for \$2,943 and \$57,623, 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 June 29, 2019, the remaining authorized repurchase amount under the stock repurchase plan was \$122,377. There is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Subsequent to June 29, 2019, and through August 2, 2019, the Company repurchased and retired 726 shares of common stock for \$49,326 at an average market price of \$67.97 per share.

NOTE K - SEGMENT INFORMATION

USANA operates as a direct selling company that develops, manufactures, and distributes high-quality nutritional and personal care/skincare products that are sold through a global network marketing system of independent distributors ("Associates"). The Company 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, foods, and personal care/skincare products for the periods indicated.

	Quarter Ended		Six Months Ended	
	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019
USANA [®] Nutritionals	82%	83%	82%	84%
USANA Foods	9%	9%	9%	8%
Personal care/Skincare	8%	7%	8%	7%
All Other	1%	1%	1%	1%

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
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NOTE K - SEGMENT INFORMATION - CONTINUED

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

- ⊙ Asia Pacific -
 - ⊙ Greater China - Hong Kong, Taiwan and China. The Company's business in China is conducted by BabyCare Holding, Ltd. ("BabyCare"), a wholly-owned subsidiary;
 - ⊙ 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, Germany⁽¹⁾, Spain⁽¹⁾, Italy⁽¹⁾, Romania⁽¹⁾, Belgium, and the Netherlands

(1) The Company commenced operations in Germany, Spain, Italy, and Romania near the end of the second quarter of 2018.

Selected Financial Information

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

	Quarter Ended		Six Months Ended	
	June 30,	June 29,	June 30,	June 29,

	2018	2019	2018	2019
Net Sales to External Customers				
Asia Pacific				
Greater China	\$ 167,841	\$ 128,946	\$ 325,649	\$ 273,099
Southeast Asia Pacific	54,771	53,960	110,999	108,475
North Asia	18,986	22,575	37,070	44,803
Asia Pacific Total	241,598	205,481	473,718	426,377
Americas and Europe	59,862	50,535	119,740	102,629
Consolidated Total	<u>\$ 301,460</u>	<u>\$ 256,016</u>	<u>\$ 593,458</u>	<u>\$ 529,006</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		Six Months Ended	
	June 30, 2018	June 29, 2019	June 30, 2018	June 29, 2019
Net sales:				
China	\$ 151,110	\$ 112,775	\$ 291,702	\$ 240,147
			As of	
			December 29, 2018	June 29, 2019
Long-lived assets:				
China			\$ 89,509	\$ 92,934
United States			\$ 49,195	\$ 51,675

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our Unaudited Condensed Consolidated Financial Statements and Notes thereto that are contained in this report, with a narrative from the perspective of management regarding the results of operations of USANA Health Sciences, Inc. and subsidiaries ("USANA", the "Company", "we", "us", or "our"). The following discussion and analysis of our financial condition and results of operations is presented in five sections:

- ① Overview
- ① Customers
- ① Results of Operations
- ① Liquidity and Capital Resources
- ① 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 29, 2018, 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, personal care and skincare products that we distribute internationally through a network marketing system, which is a form of direct selling. We use this distribution method because we believe it is more conducive to meeting our vision as a company, which is to improve 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 collectively in this report as "active Customers." Our Associates also sell products to retail customers and 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 June 29, 2019, we had approximately 555,000 active Customers worldwide. For purposes of this report, we only count as "active" those Customers of both types who have purchased products 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:

- ① Asia Pacific:
 - ① Greater China - Hong Kong, Taiwan, and China. Our business in China is conducted by BabyCare, Ltd. our wholly-owned subsidiary;
 - ① Southeast Asia Pacific - Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia;
 - ① North Asia - Japan and South Korea
- ① Americas and Europe - United States, Canada, Mexico, Colombia, the United Kingdom, France, Germany⁽¹⁾, Spain⁽¹⁾, Italy⁽¹⁾, Romania⁽¹⁾, Belgium, and the Netherlands

(1) We commenced operations in Germany, Spain, Italy, and Romania near the end of the second quarter of 2018.

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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:

Product Line	Six Months Ended	
	June 30, 2018	June 29, 2019
USANA[®] Nutritionals		
Essentials/CellSentials*	17%	19%
Optimizers	65%	65%
USANA Foods	9%	8%
Personal care/Skincare	8%	7%
All Other	1%	1%
Key Product		
USANA [®] Essentials/CellSentials	11%	12%
Proflavanol [®]	11%	11%
BiOmega-3 [™]	14%	14%

*Represents a product line consisting of multiple products, as opposed to the actual Essentials / CellSentials product.

We believe that our ability to attract and retain active Customers is positively influenced by a number of factors, including our high-quality product offerings and the general public's heightened awareness and understanding of the connection between diet and long-term health. Additionally, we believe that our Associate compensation plan and the general public's growing desire for a secondary source of income and small business ownership are key to our ability to attract and retain Associates. We periodically make changes to our Compensation Plan in an effort to ensure that it is among the most competitive plans 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. Additionally, the initiatives we are executing under our customer experience, social media, and social sharing strategies are designed to promote active Customer growth.

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 are intended to support our Associates in building and maintaining a successful home-based business. 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 six months ended June 29, 2019, net sales outside of the United States represented 90.5% 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.

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Customers

Because we sell our products to a customer base of independent Associates and Preferred Customers, we increase our sales by increasing the number of our active Customers, the amount they spend on average, or both. Our primary focus continues to be increasing the number of active Customers. We believe this focus is consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for approximately 61% of product sales during the six months ended June 29, 2019; 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 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.

The tables below summarize the changes in our active Customer base by geographic region, rounded to the nearest thousand as of the dates indicated.

	Total Active Customers by Region				Change from Prior Year	Percent Change
	As of June 30, 2018		As of June 29, 2019			
Asia Pacific:						
Greater China	317,000	53.1%	278,000	50.1%	(39,000)	(12.3%)
Southeast Asia Pacific	105,000	17.6%	108,000	19.4%	3,000	2.9%
North Asia	37,000	6.2%	47,000	8.5%	10,000	27.0%
Asia Pacific Total	459,000	76.9%	433,000	78.0%	(26,000)	(5.7%)
Americas and Europe	138,000	23.1%	122,000	22.0%	(16,000)	(11.6%)
	597,000	100.0%	555,000	100.0%	(42,000)	(7.0%)

Non-GAAP Financial Measures

We believe that presentation of certain non-GAAP financial information is meaningful and useful in understanding the activities and business metrics of our operations. We believe that these non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. We provide non-GAAP financial information for informational purposes only. Readers should consider the information in addition but not instead of or superior to, our consolidated financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of those measures for comparative purposes.

In this report, we use “constant currency” net sales, “local currency” net sales, earnings, diluted EPS and other currency-related financial information terms that are non-GAAP financial measures to discuss our financial results in a way we believe is helpful in understanding the impact of fluctuations in foreign-currency exchange rates and facilitating period-to-period comparisons of our results of operations and thus providing investors an additional perspective on trends and underlying business results. Changes in our reported revenue and profits in this report include the impacts of changes in foreign currency exchange rates. As additional information to the reader, we provide constant currency assessments in the tables and the narrative information in this MD&A to remove or quantify the impact of the fluctuation in foreign exchange rates and utilize constant currency results in our analysis of performance. Our 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 to the prior-year period’s financial results. The GAAP reconciliations of these non-GAAP measures are contained in the tables and in the Notes to the Condensed Consolidated Financial Statements.

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Results of Operations

Summary of Financial Results

Net sales for the second quarter of 2019 decreased 15.1% to \$256.0 million, a decrease of \$45.4 million, compared with the second quarter of 2018. This decrease was due primarily to (i) the continuing challenging consumer environment in China, which negatively impacted our ability to sell products and acquire new customers in this market, and (ii) the unfavorable impact of a strengthening U.S. dollar, which impacted net sales by \$12.4 million during the quarter.

We expected to begin to see a more typical consumer environment in China during the second quarter. We also anticipated that our planned promotional activity would generate meaningful incremental sales and customer growth in China and accelerate our momentum in this important market. During the second quarter, however, consumer sentiment towards the health products and direct selling industries remained low and did not rebound as we expected. While the promotions and incentives we offered have historically generated meaningfully sales and customer growth in China, the contribution of our promotional activity during the second quarter was significantly lower than we anticipated. Consequently, net sales for the China market, and our consolidated business, came in below our expectations and we now believe it could take several more months for consumer sentiment to improve in China.

We believe the recent industry events and market conditions in China represent a short-term trend in our business and remain optimistic about our long-term growth potential in China and other markets around the world. We continue to execute our 2019 strategy, which includes introducing new products and planned promotional activity in the second half of the year across our markets. We have tailored our plan to ensure that we have strategic offerings in the appropriate markets at the appropriate times to generate momentum in the business.

Net earnings for the second quarter of 2019 were \$21.4 million, a decrease of 37.0% compared with \$33.9 million during the prior-year period. The decrease in net earnings was the result of lower net sales, and higher relative operating expenses.

Quarters Ended June 30, 2018 and June 29, 2019

Net Sales

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

	Net Sales by Region (in thousands)						Percent change excluding currency impact					
	June 30, 2018		June 29, 2019		Change from prior year	Percent change		Currency impact on sales				
Asia Pacific												
Greater China	\$	167,841	55.6%	\$	128,946	50.3%	\$	(38,895)	(23.2%)	\$	(8,170)	(18.3%)
Southeast Asia Pacific		54,771	18.2%		53,960	21.1%		(811)	(1.5%)		(1,818)	1.8%
North Asia		18,986	6.3%		22,575	8.8%		3,589	18.9%		(1,731)	28.0%
Asia Pacific Total		241,598	80.1%		205,481	80.2%		(36,117)	(14.9%)		(11,719)	(10.1%)
Americas and Europe		59,862	19.9%		50,535	19.8%		(9,327)	(15.6%)		(659)	(14.5%)
	\$	301,460	100.0%	\$	256,016	100.0%	\$	(45,444)	(15.1%)	\$	(12,378)	(11.0%)

Asia Pacific: The decrease in constant currency net sales in Greater China was largely the result of a sales decline in China, where local currency net sales decreased 20.2%. Net sales in Southeast Asia Pacific increased 1.8% in constant currency, which was driven by growth in Malaysia, Thailand, and the Philippines. This growth was offset, in part, by local currency declines in several markets, including Australia, New Zealand and Singapore. Growth in North Asia was driven by our performance in South Korea, where local currency net sales increased 30.2% and the number of active Customers increased 28.6%.

Americas and Europe: Net sales in this region declined 14.5% in constant currency during the current-year quarter, as a result of an 11.6% decrease in active Customers in this region. During the second quarter, we introduced several new incentives in the U.S. market on a trial basis and have now started offering these trial incentives in other markets in this region. During the third quarter of

2019, we plan to introduce additional incentives in this region, also on a trial basis. While these incentives are designed to generate customer growth, they are being introduced incrementally and will take time for adoption by Associates and customers in the market. If these incentives are successful in generating customer growth, we will consider offering them in our other markets.

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Gross Profit

Gross profit decreased 160 basis points to 81.8% of net sales for the second quarter of 2019, from 83.4% in the prior year quarter. This decrease can be attributed to (i) an unfavorable change in current exchange rates, (ii) leverage lost on fixed period costs associated with lower sales, (iii) lower conversion costs as a result of lower production levels, and (iv) changes in market sales mix. These decreases were partially offset by lower scrap costs and 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 our other international subsidiaries.

Associate Incentives

Associate incentives decreased 40 basis points to 43.6% of net sales for the second quarter of 2019, compared with 44.0% in the prior year. The relative decrease can be attributed to annual price adjustments and changes in market sales mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were up 370 basis points, to 26.1% of net sales, but down \$0.7 million in absolute terms. The relative increase was primarily due to leverage lost due to lower net sales compared to the prior-year quarter.

Diluted Earnings Per Share

Diluted EPS decreased 33.1% in the second quarter of 2019 when compared with the prior-year quarter. This decrease was due to lower net earnings as a result of lower net sales. This decrease in diluted EPS was offset, in part, by a lower diluted share count.

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Six Months Ended June 30, 2018 and June 29, 2019

Net Sales

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

	Net Sales by Region (in thousands) Six Months Ended						Percent change excluding currency impact	
	June 30, 2018		June 29, 2019		Change from prior year	Percent change		Currency impact on sales
Asia Pacific								
Greater China	\$ 325,649	54.9%	\$ 273,099	51.6%	\$ (52,550)	(16.1%)	\$ (16,422)	(11.1%)
Southeast Asia Pacific	110,999	18.7%	108,475	20.5%	(2,524)	(2.3%)	(4,384)	1.7%
North Asia	37,070	6.2%	44,803	8.5%	7,733	20.9%	(2,805)	28.4%
Asia Pacific Total	473,718	79.8%	426,377	80.6%	(47,341)	(10.0%)	(23,611)	(5.0%)
Americas and Europe	119,740	20.2%	102,629	19.4%	(17,111)	(14.3%)	(2,072)	(12.6%)
	<u>\$ 593,458</u>	<u>100.0%</u>	<u>\$ 529,006</u>	<u>100.0%</u>	<u>\$ (64,452)</u>	<u>(10.9%)</u>	<u>\$ (25,683)</u>	<u>(6.5%)</u>

Asia Pacific: The decrease in constant currency net sales in Greater China was largely the result of a sales decline in Mainland China, where local currency net sales decreased 12.3%. Net sales in Southeast Asia Pacific increased 1.7% in constant currency, which was driven by growth in Malaysia, Thailand, and the Philippines. This growth was offset, in part, by local currency declines in several markets, including Australia and Singapore. Growth in South Korea, where local currency net sales increased 30.2% and the number of active Customers increased 28.6%.

Americas and Europe: Net sales in this region declined 12.6% in constant currency during the current-year quarter. An 11.6% decrease in active Customers was the primary driver of the decline in net sales. During the current-year quarter, we introduced several new incentives in the U.S. market on a trial basis and have now started offering these trial incentives in other markets in this region. During the second half of 2019, we plan to introduce additional incentives in this region, also on a trial basis. While these incentives are designed to generate customer growth, they are being introduced incrementally and will take time for adoption by Associates and customers in the market. If these incentives are successful in generating customer growth, we will consider offering them in our other markets.

Gross Profit

Gross profit decreased 80 basis points to 82.5% of net sales for the first six months of 2019, from 83.3% in the prior year. This decrease can be attributed to (i) unfavorable change in currency exchange rates, (ii) leverage lost on fixed period costs, and (iii) unfavorable changes in sales mix by market. These decreases were partially offset by lower scrap costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were up 260 basis points, to 25.8% of net sales, but down \$1.3 million in absolute terms. The relative increase was primarily due to leverage lost due to lower net sales compared to the prior-year quarter.

Income Taxes

Income taxes were 33.8% of earnings in the first six months of 2019 compared with 34.2% of earnings in the prior year. The lower effective tax rate for the first quarter compared with the same period of the prior-year is primarily due to favorable movements in our excess foreign tax credit position.

Diluted Earnings Per Share

Diluted EPS decreased 24.6% in the first six months of 2019 when compared with the same period of the prior year. This decrease was due to lower net earnings as a result of lower net sales. This decrease in diluted EPS was offset, in part, by a lower diluted share count.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements using both net cash flow from operations and

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drawing periodically on 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. In China, however, our compliance with Chinese accounting and tax regulations promulgated by the State Administration of Foreign Exchange ("SAFE") results in transfer and remittance of our profits and dividends from China to the United States on a delayed basis. If SAFE or other Chinese regulators introduce new regulations, or change existing regulations which allow foreign investors to remit profits and dividends earned in China to other countries, our ability to remit profits or pay dividends from China may be limited in the future.

We have typically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$20.7 million in the first six months of 2019. Items increasing cash flows from operations in the first six months of 2019 include: (i) net earnings, and (ii) adjustments of non-cash items. These increases were partially offset by cash paid to reduce accrued employee compensation costs and accrued Associate incentives.

Net cash flow from operating activities totaled \$57.2 million in the first the six months of 2018. Items increasing cash flows from operations in the first six months of 2018 include: (i) net earnings, and (ii) adjustments of non-cash items. These increases were partially offset by (i) cash used on inventories primarily attributed to our new Celavive® line, and (ii) tax payments.

Cash and cash equivalents and securities held-to-maturity at June 29, 2019, totaled \$234.4 million of which, \$137.7 million was held as cash and cash equivalents and \$3.0 million as securities held-to-maturity in the United States. Of the remaining \$93.7 million held by our international subsidiaries, \$62.1 million was concentrated in China. Cash and cash equivalents and securities held-to-maturity at December 29, 2018, totaled \$277.9 million of which, \$23.3 million was held as cash and cash equivalents and \$63.5 million as securities held-to-maturity in the United States. Of the remaining \$191.1 million held by our international subsidiaries, \$157.3 million was held in China. Net working capital decreased to \$220.0 million at June 29, 2019, from \$243.6 million at December 29, 2018. Net working capital was reduced by \$6.8 million due to the adoption of the new lease standard under Topic 842. (See, Note B to the Condensed Consolidated Financial Statements included in Item 1, Part I of this report.)

Line of Credit

Information with respect to our line of credit may be found in Note G to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Share Repurchase

Information with respect to share repurchases may be found in Note J to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report and Part II, Item 2 of this report, under the heading "Purchases of Equity Securities by the Issuer and Affiliated Purchasers".

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Off-Balance Sheet Arrangements

None.

Summary

We believe our current cash balances and investments, 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 to us 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.

Critical Accounting Policies

There were no changes during the quarter to our critical accounting policies as disclosed in our Form 10-K for the year ended

December 29, 2018 (the "2018 Form 10-K"). Our significant accounting policies are disclosed in Note A to our Consolidated Financial Statements filed with our 2018 Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information presented for the year ended December 29, 2018.

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 (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting 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 our disclosure controls and procedures were effective as of June 29, 2019.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended June 29, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 H to the Condensed Consolidated Financial Statements included in Item 1 Part I of this report on Form 10-Q.

Item 1A. Risk Factors

Our 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 our other filings with the SEC, including the 2018 Form 10-K filed with the SEC on February 26, 2019. The risk factors identified in our 2018 Form 10-K and our Form 10-Q for the quarter-ended March 30, 2019, have not changed in any material respect.

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

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our share repurchase plan has been ongoing since the fourth quarter of 2000, with the Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. At June 29, 2019, the authorized amount available for repurchases under the plan was \$122.4 million.

Repurchases are made from time to time at management's discretion in accordance with applicable federal securities laws. Repurchases may occur through open market purchases, pursuant to a Rule 10b5-1 trading plan, or in other transactions as permitted by the rules of the SEC. There is no requirement for future share repurchases, and there is no expiration date of the repurchase plan.

The following table summarizes information relating to purchases made by or on behalf of the Company of shares of the Company's common stock during the quarter ended June 29, 2019.

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 April (Mar. 31, 2019 through May 4, 2019)	0	\$0.00	0	\$150,000
Fiscal May (May 5, 2019 through Jun. 1, 2019)	205	\$75.49	205	\$134,520
Fiscal June (Jun. 2, 2019 through Jun. 29, 2019)	162	\$74.61	162	\$122,377
	<u>367</u>		<u>367</u>	

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

None.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

Exhibits marked with an asterisk (*) are filed herewith.

Exhibit Number	Description
10.19	Third Amendment To Amended and Restated Credit Agreement, dated as of April 27, 2011 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2019 Exhibit 10.1, File No. 01-35024)
31.1	*Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	*Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	*Certification of Principal Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	*Certification of Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
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

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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.

Date: August 6, 2019

USANA HEALTH SCIENCES, INC.

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

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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: August 6, 2019

/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: August 6, 2019

/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 June 29, 2019 as filed August 6, 2019 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: August 6, 2019

/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 June 29, 2019 as filed August 6, 2019 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: August 6, 2019

/s/ G. Douglas Hekking

G. Douglas Hekking

Chief Financial Officer

(Principal Accounting and Financial Officer)
