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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended January 1, 2000

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ____________

Commission file number: 0-21116

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USANA, INC.
(Exact name of registrant as specified in its charter)

Utah	87-0500306
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3838 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:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, No Par Value

____

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of common stock held by non-affiliates of the registrant as of March 21, 2000 was approximately $30,140,376.

The number of shares outstanding of the registrant's common stock as of March 21, 2000 was 9,890,437.

Documents incorporated by reference. The Company incorporates information required by Part III (Items 10, 11, 12 and 13) of this report by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

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USANA, INC.

FORM 10-K

For the Fiscal Year Ended January 1, 2000

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PART I

Item 1. Business

General

USANA, Inc. ("USANA" or the "Company") develops and manufactures high-quality nutritional, personal care and weight management products. The Company distributes its products through a network marketing system and refers to its distributors as "Associates." As of January 1, 2000, the Company had approximately 113,000 current Associates in the United States, Canada, Australia, New Zealand, Hong Kong, and the United Kingdom (hereinafter includes the Netherlands). The Company defines a current Associate as an Associate that has purchased product from the Company at any time during the most recent twelve-month period. USANA also sells products directly to Preferred Customers, who do not act as distributors of the products. At January 1, 2000, the Company had approximately 46,000 Preferred Customers.

Founded in 1992 by Myron W. Wentz, Ph.D., USANA is committed to continuous product innovation and sound scientific research. The Company's three primary product lines consist of nutritional, personal care and weight management products. Nutritional products accounted for approximately 83% of net sales in 1999. The top-selling products, USANA Essentials and Proflavanol, represented approximately 42% and 16%, respectively, of net sales in 1999. USANA's personal care line includes skin, hair and body, and dental care products. Weight management products include a dietary supplement tablet, food bars, meal entrees, instructional videos and other products developed to provide a comprehensive approach to weight management, proper diet and exercise, nutrition and healthy living. High levels of bioavailability, safety and quality characterize all of the Company's products.

The Company's products are distributed primarily through a network marketing system. The Company believes that network marketing is an effective

way to distribute its products because network marketing allows person-to-person product education, which is not readily available through traditional distribution channels. Network marketing appeals to a broad cross-section of people, particularly those seeking to supplement family income, start a home-based business or pursue entrepreneurial opportunities other than conventional full-time employment. The Company considers its rewarding compensation program and weekly Associate incentive payments to be attractive components of its network marketing system.

The Company introduced its Preferred Customer program in 1997 for customers who want to purchase USANA products for personal use, but do not wish to become Associates. The Preferred Customer program has become an important part of USANA's business. During 1999, Preferred Customer purchases accounted for approximately 11% of net sales.

North America is the primary market for the Company's products. Sales in the United States and Canada collectively represented approximately 75% of net sales in 1999. In February 1998, the Company began operations in Australia-New Zealand, its first market outside North America. Sales in the Australia-New Zealand market represented approximately 20% of net sales in 1999. The Company also commenced operations in the United Kingdom market in December 1998. To manage the combination of low sales and relatively high operating costs in the United Kingdom, the Company made a decision to service the United Kingdom beginning in February 2000 from its headquarters in Salt Lake City, Utah. The Company also opened Hong Kong, its first market in Asia, in November 1999.

The Company's growth strategy is to introduce new products, attract and retain Associates and Preferred Customers, enter new markets and pursue strategic acquisitions. The Company believes it can successfully implement this growth strategy by continuing to capitalize on its operating strengths:

- Science-based products,
- Strong research and development program,
- In-house manufacturing capabilities,
- Attractive Associate compensation plan and benefits, and
- Experienced management team.

During 1999, the Company introduced several new products including Body Rox (Essentials for Teens), Usanimals (Essentials for Kids), Garlic EC, BiOmega-3, E-Prime, Iron 28, ActiCal, PhytoEstrin, Palmetto Plus, Ginkgo-PS, St. John's Wort, SoyaMax, and a new L*E*A*N Team Formula.

Financial Information by Business Segment

The Company is principally engaged in a single line of business, the development, manufacture and distribution of nutritional, personal care and weight management products. The Company's reportable business segments are distinguished by geography and include the United States, Canada, Australia-New Zealand, Hong Kong, and the United Kingdom. Segment information of the Company for each of the last three fiscal years is included in Note L of the Financial Statements.

Industry Overview

The nutritional supplements industry includes many small- and medium-sized companies that manufacture and distribute products generally intended to enhance the body's performance and well being. Nutritional supplements include vitamins, minerals, dietary supplements, herbs, botanicals and compounds derived therefrom.

In their Healthy Living Industry Report dated February 28, 2000, Adams, Harkness & Hill stated that their research suggests the overall market for natural products is approximately $19 billion and growing at a 15% to 20% annual rate.

The Company believes that growth in the nutritional supplement market is driven by several factors including:

- The general public's heightened awareness and understanding of the connection between diet and health,
- The aging population, particularly the baby-boomer generation, which is more likely to consume nutritional supplements,
- Product introductions in response to new scientific research,
- The worldwide trend toward preventive health care, and
- The adoption of the Dietary Supplement Health and Education Act of 1994 ("DSHEA") in the United States.

Nutritional supplements are sold through mass market retailers, including mass merchandisers, drug stores, supermarkets and discount stores, health food stores and direct sales organizations, including network marketing organizations and catalog companies. Direct selling, of which network marketing is a significant segment, has increased in popularity as a distribution channel due primarily to advances in technology and communications resulting in improved product distribution and faster dissemination of information. The distribution of products through network marketing has grown significantly in recent years. The Direct Sellers Association ("DSA") reported that worldwide sales through the network marketing channel were estimated to be $83 billion in 1998 and had over 33 million distributors. According to the "Survey of Attitudes Toward Direct Selling," commissioned by the DSA and conducted and prepared by Wirthlin Worldwide, three product categories experiencing the greatest gains in the direct selling industry since 1976 are food, nutrition and wellness products.

As both a developer and manufacturer of nutritional supplements with a network marketing distribution system, the Company believes it is well positioned to capitalize on the demand for nutritional supplement products and growth trends in direct sales.

Operating Strengths and Growth Strategy

The Company's objective is to be a leading developer, manufacturer and distributor of science-based nutritional products. The Company believes that it will be able to continue to grow by capitalizing on the following operating strengths:

Science-based Products. The Company has developed a line of high-quality nutritional products based upon a combination of published research, in vitro testing, in-house clinical studies and sponsored research. The Company believes that

the identification and delivery of essential vitamins, minerals and other supplements will help individuals achieve and maintain lifelong health.

Strong Research and Development. The Company's research and development effort is directed by Dr. Wentz and is supported by a team of 23 scientists and researchers, including eight scientists holding Ph.D. degrees. In its research and development laboratory, the Company's scientists:

- Investigate in vitro activity of new natural extracts,
- Identify and research combinations of nutrients that may be candidates for new products,
- Study the metabolic activity of existing and newly identified nutritional supplements, and
- Enhance existing products as new discoveries in nutrition are made and as required to enter international markets.

The Company also performs retrospective analyses of anecdotal information provided by consumers of its products. In addition, the Company is currently the sponsor of three double-blind, placebo-controlled clinical studies intended to further investigate the efficacy of its products.

In-house Manufacturing. USANA believes that its ability to manufacture a significant portion of its products is a competitive advantage and contributes to its ability to provide high-quality products for several reasons:

- The Company is able to control the quality of raw materials and the purity and potency of its finished products,
- The Company can monitor the manufacturing process to reduce the risk of product contamination,
- By testing products at several stages in the manufacturing process, the Company can ensure accurate product labeling, and
- The Company believes it can better control the underlying costs associated with manufacturing nutritional supplements.

Attractive Associate Compensation Plan and Benefits. The Company is committed to providing a highly competitive compensation plan to attract and retain Associates, who constitute the sales force of the Company. The Company believes its Associate compensation plan is one of the most financially rewarding in the direct selling industry. Associate incentives were 44.1% of net sales in 1999. The Company pays Associate incentives on a weekly basis and offers its Associates an opportunity to participate in a plan to purchase the Company's common stock through commission check deductions. The Company also provides extensive support services to its Associates by telephone, fax and the Internet. The Company sponsors events throughout the year, which offer information about the Company's products and network marketing system. These meetings are designed to assist Associates in business development and to provide a forum for interaction with successful Associates and the Company's scientists.

Experienced Management Team. The Company's management team includes individuals with expertise in various scientific and managerial disciplines, including nutrition, product research and development, marketing, direct sales, information technology, finance, operations and manufacturing. The current executive management team has been in place for more than three years and has been responsible for strengthening the Company's internal controls, financial condition and infrastructure to support growth and international expansion.

Growth Strategy

The Company intends to pursue its growth objectives by implementing the following growth strategy:

Introduce New Products. The Company utilizes its research and development capabilities to introduce innovative products and to continuously enhance existing products. During 1999, the Company introduced several new products, including 12 nutritional supplements and a new L*E*A*N Team Formula. The Company also introduced Selenium and the L*E*A*N

Team program into its Australia-New Zealand market and Procosamine in its United Kingdom market. The Company introduces new products throughout the year, primarily at Company-sponsored Associate events.

Attract and Retain Associates and Preferred Customers. As of January 1, 2000, the Company had approximately 113,000 current Associates and 46,000 Preferred Customers compared to approximately 116,000 current Associates and 26,000 Preferred Customers one year ago. In February 2000, the Company introduced a value initiative that decreased prices on its products by an average of approximately 24%. With the introduction of the value initiative, the Company believes that it will be more successful in its efforts to attract and retain both Associates and Preferred Customers by offering high quality products and comprehensive customer support services at the lowest prices in the Company's history.

Enter New Markets. The Company believes that, in addition to the North American market, significant growth opportunities exist in international markets. In November 1999, the Company opened operations in Hong Kong. The Company's decision to enter new markets in the future will be based on its

assessment of several factors, including market size, anticipated demand for the Company's products, receptivity to direct sales and ease of entry, including possible regulatory restrictions on the products or marketing system of the Company. The Company has begun to register certain products with regulatory and government agencies in order to position it for further international expansion. The Company seeks to seamlessly integrate its Associate compensation plan in each of its markets to allow Associates to receive commissions for global product sales, rather than merely local product sales. This seamless downline structure is designed to allow an Associate to build a global network by creating downlines across national borders. Associates are not required to establish new downlines or requalify for higher levels of compensation in newly opened markets. The Company believes this seamless compensation plan significantly enhances its ability to expand internationally and intends, where permitted, to integrate future markets into the plan.

Pursue Strategic Acquisitions. The Company believes that attractive acquisition opportunities may arise in the future. The Company intends to pursue strategic acquisition opportunities that would expand its product lines, enhance its manufacturing and technical expertise, allow vertical integration or otherwise complement its business or further its strategic goals.

Products

Product names used in this report are, in certain cases, trademarks and are also the property of the Company, including Poly C(R), CoQuinone(R), Proflavanol(R), Melatonin KL(R), OptOmega(R), Nutrimeal(TM), Fibergy(R), L*E*A*N(TM), VitalZomes(R), Procosamine(TM), Procosa(TM), Forever L*E*A*N(R), Lifemasters(R), USANA TRUE HEALTH(TM), BiOmega-3(TM), Garlic EC(TM), E-Prime(TM), Iron 28(TM), ActiCal(TM), PhytoEstrin(TM), Palmetto Plus(TM), Ginkgo-PS(TM), St. John's Wort(TM), Cranberry Drink(TM), Body Rox(TM) (Essentials for Teens), Usanimals(TM) (Essentials for Kids), and SoyaMax(TM).

The Company's primary product lines consist of nutritional, personal care and weight management products. In each of the last three years, the nutritional product line constituted 80% or more of the Company's net sales. The Company's principal product lines are briefly described below:

Nutritional Products. This product line includes antioxidants, minerals, vitamins, other nutritional supplements, meal replacement drinks, fiber drinks, and food bars. USANA's nutritional supplement products are designed to provide optimal absorption, bioavailability and efficacy. The top-selling products of the Company are the USANA Essentials (comprised of Mega Antioxidant and Chelated Mineral) and Proflavanol, which represented approximately 42% and 16%, respectively, of net sales in 1999. Other products in this line include Body Rox (Essentials for Teens), Poly C, Procosamine, CoQuinone, Melatonin KL, OptOmega, BiOmega-3, Garlic EC, E-Prime, Iron 28, ActiCal, PhytoEstrin, Palmetto Plus, Ginkgo-PS, St. John's Wort, Nutrimeal, Fibergy, Cranberry Drink, Usanimals (Essentials for Kids), and SoyaMax.

Personal Care Products. The personal care product line includes skin, hair and body, and dental care products. The skin care products are designed to provide a total skin protection system. Natural oils and emollients, antioxidants and botanical extracts are key ingredients in USANA's skin care line, consisting of the Antioxidant Skin Care System, Vital Zomes Serum Replenisher, Revitalizing Hydrating Treatment and USANA Sunscreen. The Company has designed hair and body products that generally incorporate pure, natural substances instead of cheaper, synthetic substances. These products include shampoo, conditioner, hand and body lotion, shower gel, and the Dental Care System. The key product in the Dental Care System is the all-natural toothpaste, which contains a unique combination of natural ingredients that have been shown to be effective in reducing bacterial plaque adhesion to tooth enamel. The other products in the Dental Care System are mouthwash, fluoride gel, a toothbrush, dental floss and a tongue scraper.

Weight Management Products. The Company has developed its L*E*A*N Team program to provide a comprehensive approach to weight management, proper diet and nutrition, and healthy living. The program's underlying principles, Lifestyle, Education, Activity and Nutrition, literally spell out the L*E*A*N philosophy. Developed with the assistance of health, nutrition and fitness experts, the USANA L*E*A*N program seeks to use the latest developments in

nutritional science, psychology and exercise physiology to promote lifelong health, fitness and well being. The complete USANA L*E*A*N program is packaged in a custom gym bag and includes:

- A program guide,
- A physical activity guide and instructional videos,
- A motivational audio cassette series,
- A recipe book,
- Calipers to measure body fat,
- L*E*A*N Nutrimeal,
- The New USANA L*E*A*N Formula, a dietary supplement tablet that contains botanical extracts to augment the body's natural weight-loss processes with a new ingredient called Advantra Z,
- Food bars,
- Meal entrees, and
- Aerobic workout videos.

In addition to its three principal product lines, the Company has developed and makes available to Associates a number of materials to assist them in building their business and selling the Company's products. These resource materials or sales aids, which may be purchased from the Company, include product brochures and business forms designed by the Company and printed by outside publishers. From time to time the Company contracts with authors and publishers to provide books, tapes and other items dealing with health and personal motivation. The Company also writes and develops materials for audio and videotapes, which are produced by third parties. Affinity and identity are also furthered through the sale of logo merchandise such as clothing, caps, mugs and other products. Associates do not earn commissions on sales aids, Associate kits or logo merchandise.

Research and Development

The Company is committed to continuous product innovation and improvement through sound scientific research. The mission of the Company's research and development team is to develop superior products that support life-long health. Products are developed and enhanced using a combination of published research, in vitro testing, in-house clinical studies and sponsored research. The Company periodically consults with a panel of physicians who advise the Company on product development. The Company invested $1.2 million in 1997 and $1.4 million in both 1998 and 1999, in research and development activities. The Company intends to continue to use its resources in the research and development of new products and reformulation of existing products.

The Company maintains a research and development program based upon established scientific research methodologies. The modern research facilities located at its Salt Lake City headquarters are equipped to handle analytical testing of new raw ingredients, raw material extraction research, in vitro testing, cell culture procedures and human bioavailability studies. Clinical evaluations are designed and sponsored by the Company. Anecdotal information from customers is reviewed and retrospective analyses are performed on this data. Contract clinical studies are conducted on selected existing products for which the retrospective analysis has demonstrated a positive effect, and also on new products to investigate efficacy. Currently, the Company is sponsoring three double-blind, placebo-controlled clinical studies.

Manufacturing and Quality Assurance

At its Salt Lake City, Utah, manufacturing facility, the Company manufactured products that accounted for approximately 74% of net sales in 1999. The Company's production process includes the following steps:

- Identifying and evaluating suppliers of raw materials,

. Acquiring premium-quality raw materials,

. Weighing or otherwise measuring the raw materials,

. Mixing raw materials into batches,

. Forming the mixtures into tablets,

. Coating and sorting the tablets, and

. Bottling and labeling the finished products.

Most of these processes are performed using automatic and semi-automatic equipment. The Company conducts sample testing of raw materials and finished products for purity, potency and composition conforming to the Company's specifications. Constructed in 1996, USANA's production facility is registered with the Food and Drug Agency ("FDA") and the Canadian Health Protection Branch ("HPB") and is certified by the Australian Therapeutic Goods Administration ("TGA"). Although the Company need only comply with food-level Good Manufacturing Practice regulations ("GMP's") of the FDA, it believes that it is in compliance with that agency's more demanding drug-level GMP's. The certification by the TGA applies to that agency's drug-level GMP's.

The Company also contracts with third-party manufacturers and vendors for the production of some of its products, including most of the products in its personal care and weight management product lines and certain of its nutritional products. These third-party vendors and manufacturers produce and, in most cases, package the Company's products according to formulations developed by or in conjunction with USANA's product development team.

USANA conducts quality assurance in its two laboratories located in Salt Lake City, Utah. The microbiology laboratory serves as the primary quality control facility, where quality assurance personnel test for biological contamination in raw materials and finished goods. In the analytical chemistry laboratory, USANA scientists test for chemical contamination and accurate active ingredient levels of raw materials and finished products and conduct stability tests on finished products. The Company performs chemical assays on vitamins and mineral constituents under United States Pharmacopoeia and other validated methods in its analytical chemistry laboratories.

Most of the raw ingredients used in the manufacture of the Company's products are available from a number of suppliers. The Company has not generally experienced difficulty in obtaining necessary quantities of raw ingredients. When supplies of certain raw materials have tightened, the Company has been able to find alternative sources of raw materials when needed and believes it will be able to do so in the future.

The Company's manufacturing facility currently produces an average of 33 million tablets a month, using approximately 66% of its manufacturing capacity (assuming two eight-hour shifts per day, five days per week). The Company's packaging equipment fills an average of 350,000 bottles a month, using approximately 80% of its packaging capacity (again assuming two eight-hour shifts per day, five days per week). Currently the Company is operating two shifts per day in packaging and manufacturing. This facility also fills tubes with the Company's skin care products. The Company expects that growth in new and existing markets will require additional manufacturing, packaging and warehouse capacity in the next 12 months. There can be no assurance that such growth will occur. However, if it does, then the Company will be required to use cash from operations or obtain financing from available bank lines of credit or the sale of its equity securities to expand its facilities.

Distribution and Marketing

USANA distributes its products primarily through a network marketing system. The Company also sells directly to its Preferred Customers. Network marketing is a form of person-to-person direct selling through a network of vertically organized distributors who purchase products at wholesale prices from the manufacturer and then make retail sales to consumers. The emergence of readily available means of mass communication such as personal computers, facsimiles, low-cost long distance telephone services, satellite conferencing

and the Internet have contributed to the rapid growth of direct selling, including network marketing. Network marketing is gaining in popularity as a viable alternative to traditional retail and mail order marketing. The concept of network marketing is based on the strength of personal recommendations that frequently come from friends, neighbors, relatives and close acquaintances. The Company believes that network marketing is an effective way to distribute its products because it allows person-to-person product education, which is not as readily available through traditional distribution channels.

Customers who desire to sell the Company's products may become Associates by being sponsored into the program by another Associate, thereby becoming part of the sponsoring Associate's downline. The Company believes many of its Associates are attracted to USANA because of the quality of its products and its rewarding compensation plan. New Associates must enter into a written contract, which obligates them to adhere to USANA's policies and procedures. Associates are also required to purchase an Associate kit that includes a detailed manual of the policies and procedures. The cost of this kit is $50, which approximates the Company's costs of producing and distributing the kit. Associates must also pay an annual renewal fee to the Company of $20.

Associates order products directly from the Company, subject to certain limitations and restrictions. For example, an Associate may not purchase more products during any four-week period than the Associate can reasonably expect to sell and personally consume during that same period. An Associates business continues until terminated by the Company or voluntarily canceled by the Associate. Initial training of Associates about the Company, its products, the Associate compensation plan, and how to effectively engage in network marketing is provided primarily by an Associate's sponsor and others in their upline organization. In addition, the Company develops and sells a variety of training materials and sales aids, as well as a detailed policies and procedures manual and description of the Company's Associate compensation plan. The Company sponsors and conducts regional, national and international Associate events and intensive leadership training seminars. Attendance at these sessions is voluntary, and the Company undertakes no generalized effort to provide individualized training to Associates. Associates may not sell competitive products to other USANA Associates or solicit USANA Associates to participate in other network marketing opportunities. The Company also restricts advertising and making representations or claims concerning its products or compensation plan.

The Associate compensation plan provides several opportunities for Associates to earn compensation, provided they are willing to consistently work at building, training and retaining their downline organizations to maintain sales of the Company's products to consumers. The Company believes its Associate compensation plan is distinctive for its equitable Associate payouts, which are designed to create appropriate incentives for sales of USANA products. Each Associate must purchase and sell product in order to earn commissions and bonuses. Associates cannot simply recruit others for the purpose of developing a downline and then earn income passively. Associates can earn compensation in three ways:

- Purchasing products at special distributor prices from the Company and selling them to consumers at higher retail prices,
- Generating sales volume points in their downlines, and
- Participating in a leadership bonus pool paid to Associates who meet certain performance requirements.

The Company seeks to seamlessly integrate its Associate compensation plan across all markets in which its products are sold, in order to allow Associates to receive commissions for global, rather than merely local, product sales. This seamless downline structure is designed to allow an Associate to build a global network by creating downlines across national borders. Associates are not required to establish new downlines or requalify for higher levels of compensation in newly opened markets. The Company believes this seamless compensation plan significantly enhances its ability to expand internationally and the Company intends, where permitted, to integrate any new markets into this plan.

The Company also offers a Preferred Customer program designed for consumers who desire to purchase the Company's products for their personal use, but who choose not to become Associates. The Company believes this program gives it

access to

a market that would otherwise be missed by targeting customers who enjoy USANA products, but prefer a mail order type relationship with the Company. Preferred Customers may not engage in retail sales of products purchased through the program, although they may enroll as Associates at any time if they desire. Preferred Customers are not eligible to earn commissions unless they become Associates.

The Company's product return policy allows retail customers to return the unused portion of any product to the Associate and receive a full cash refund. Any Associate who provides a refund to a customer is reimbursed by the Company with product or credit in his or her account upon providing proper documentation and the remainder of the returned product.

Return of unused and resalable products initiated by a customer will be refunded at 100% of the purchase price to the customer, less a 10% restocking fee for up to one year from the date of purchase. Product that was damaged during shipment to the customer is also 100% refundable. Product returns valued at $100 or more, other than product that was damaged at the time of receipt by an Associate, may result in termination of the distributorship. Returns as a percentage of net sales were 1.3% in 1997, 1.5% in 1998 and 1.7% in 1999.

Substantially all of the Company's sales are made to Preferred Customers and through independent Associates. No single Associate accounted for 5% or more of net sales in any of the last three years. Associates are independent contractors and are not agents, employees, or legal representatives of USANA. Employees and affiliates of the Company cannot be Associates, although there is no prohibition on their family members from becoming Associates as long as they do not reside in the same household. Associates may sell products only in markets where the Company has approved the sale of its products.

The Company systematically reviews reports of alleged Associate misbehavior. If the Company determines that an Associate has violated any of the Associate policies or procedures, it may take a number of disciplinary actions. For example, the Company may terminate the Associate's rights completely or impose sanctions such as warnings, fines, probation, withdraw or deny awards, suspend privileges, withhold commissions until specific conditions are satisfied, or take other appropriate injunctions at the Company's discretion. An in-house compliance officer and a commission auditor also routinely review Associate activities. Infractions of the policies and procedures are reported to a compliance committee that determines what disciplinary action may be warranted in each case.

Information Technology

The Company believes its ability to efficiently manage its distribution, compensation, manufacturing, inventory control and communications functions through the use of sophisticated and dependable information processing systems is critical to its success. The Company's information technology systems are designed and selected in order to facilitate order entry and customer billing, maintain Associate records, accurately track purchases and Associate incentive payments, manage accounting, finance and manufacturing operations, and provide customer service and technical support. The Company's information systems are maintained by in-house staff and outside consultants.

Regulatory Matters

Product Regulation. Manufacturing, packaging, labeling, advertising, promotion, distribution, and sale of the Company's products are subject to regulation by numerous governmental agencies in the United States and other countries. In the United States, the FDA regulates the Company's products under the Food, Drug, and Cosmetic Act ("FDC Act") and regulations promulgated thereunder. The Company's products are also subject to regulation by, among others, the Consumer Product Safety Commission, the US Department of Agriculture, and the Environmental Protection Agency ("EPA"). Advertising of the Company's products is subject to regulation by the Federal Trade Commission ("FTC") under the Federal Trade Commission Act ("FTC Act"). The manufacturing, labeling, and advertising of products are also regulated by various governmental agencies in each foreign country in which the Company distributes its products.

The majority of the Company's products are regulated as dietary supplements under the FDC Act. Dietary supplements are regulated as foods under the Nutrition Labeling and Education Act of 1990 ("NLEA"). The NLEA establishes requirements for ingredient and nutritional labeling and labeling claims for foods. Dietary supplements are also regulated under DSHEA. The Company believes DSHEA is favorable to the dietary supplement industry. Although the Company believes its product claims comply with the law, the Company may need to revise its labeling.

In addition, a dietary supplement that contains a new dietary ingredient (defined as an ingredient not on the market before October 15, 1994) must have a history of use or other evidence of safety establishing that it is reasonably expected to be safe. The manufacturer must notify the FDA at least 75 days before marketing products containing new dietary ingredients and

provide the FDA with the information upon which the manufacturer based its conclusion that the product has a reasonable expectation of safety.

The FDA issued final dietary supplement labeling regulations in 1997 that required a new format for product labels and necessitated revising dietary supplement product labels by March 23, 1999. All companies in the dietary supplement industry were required to comply with these new regulations. The Company updated its product labels in 1997 in response to these new regulations. The FDA also announced that it is considering the adoption of new GMP's specific to dietary supplements. Such GMP's, if promulgated, may be significantly more rigorous than currently applicable GMP's and contain quality assurance requirements similar to the FDA's GMP's for drug products. The Company believes it currently manufactures its dietary supplement products according to the standards of the drug-level GMP's. However, the Company may be required to expend additional capital and resources on manufacturing controls in the future in order to comply with the law.

Other products marketed by the Company include cosmetics, over-the-counter ("OTC") drugs, and medical devices. In general, the Company's cosmetic products currently are not subject to premarket approval by the FDA. However, cosmetics are subject to regulation by the FDA under the FDC Act's adulteration and misbranding provisions. Cosmetics also are subject to specific labeling regulations, including warning statements if the safety of a cosmetic is not adequately substantiated or if the product may be hazardous, as well as ingredient statements and other packaging requirements under the Fair Packaging and Labeling Act. Cosmetics that meet the definition of a drug (e.g., are intended to treat or prevent disease or affect the structure or function of the body), such as the Company's sunscreens and anti-cavity dental treatment gel, are regulated as drugs. OTC drug products may be marketed if they conform to the requirements of any OTC monograph that is applicable to a drug. Drug products not conforming to monograph requirements for OTC drug products require an approved New Drug Application ("NDA") before marketing. The agency has not yet promulgated final monographs for some of the Company's products, such as sunscreens. If the agency finds that a product or ingredient of one of the Company's OTC drug products is not generally recognized as safe and effective or does not include it in a final monograph applicable to one of the Company's OTC drug products, the Company will have to reformulate or cease marketing the product until it is the subject of an approved NDA or until such time, if ever, that the monograph is amended to include the Company's product. For example, the Company's hand and body lotion contains an ingredient, colloidal silver, that is the subject of a proposed rule finding that currently it is not generally recognized as safe and effective for external or internal use. If the rule becomes final, the Company will have to stop marketing the product as currently formulated. Whether or not an OTC drug product conforms to a monograph or is subject to an approved NDA, such a drug must comply with other requirements under the FDC Act including GMP's, labeling, and the FDC Act's misbranding and adulteration provisions.

Most of the Company's medical device products, as currently designed and marketed, do not require premarket approval or clearance by the FDA. The Medical Device Amendments of 1976 to the FDC Act established three regulatory classes for medical devices depending on the degree of control necessary to provide a reasonable assurance of safety and effectiveness. Generally, Class I devices present the least risk to health and Class III devices present the greatest risk to health and the most complex or novel technologies. Some Class I and most Class II devices currently require premarket notification and clearance by the

FDA before marketing under section 510(k) of the FDC Act. Devices for which the FDA has not promulgated a classification regulation also require premarket notification and clearance. Class III devices require premarket approval before commercial distribution, because the FDA either has promulgated a regulation requiring a premarket application for a pre-amendments type of device, or a post-amendments device was not found substantially equivalent to a legally marketed device. The Company's toothbrush and floss are currently regulated as Class I devices and do not require premarket notification or clearance by the agency. The Company's tongue scraper device is as yet unclassified by the FDA and, therefore, the manufacturer received FDA clearance following premarket notification under section 510(k) before marketing. Modifications to the Company's marketed devices will require a premarket notification and clearance under section 510(k) before the changed device can be marketed, if the change or modification could significantly affect safety or effectiveness. All of the Company's devices, unless specifically exempted by regulation, are subject to the FDC Act's general controls, which include, among other things, registration and listing, adherence to Quality System Regulation requirements for manufacturing, Medical Device Reporting, and the potential for voluntary and mandatory recalls.

The Company's advertising of its products is subject to regulation by the FTC under the FTC Act. Section 5 of the FTC Act prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce. Section 12 of the FTC Act provides that the dissemination or the causing to be disseminated of any false advertisement pertaining to drugs or foods, which would include dietary supplements, is an unfair or deceptive act or practice. Under the FTC's Substantiation Doctrine, an advertiser is required to have a "reasonable basis" for all objective product claims before the claims are made. Failure to adequately substantiate claims may be considered either deceptive or unfair practices. Pursuant to this FTC requirement, the Company is required to have adequate substantiation for all material advertising claims made for its products.

In recent years the FTC has initiated numerous investigations of and actions against dietary supplement, weight management, and cosmetic products and companies. The FTC has recently issued a guidance document to assist these companies in understanding and complying with the substantiation requirement. The Company is organizing the documentation to support its advertising and promotional practices in compliance with the guidelines.

The FTC may enforce compliance with the law in a variety of ways, both administratively and judicially. Means available to the FTC include compulsory process, cease and desist orders, and injunctions. FTC enforcement can result in orders requiring, among other things, limits on advertising, corrective advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as deemed necessary. Violation of such orders could result in substantial financial or other penalties. Any such action by the FTC could materially adversely affect the Company's ability to successfully market its products.

In markets outside the United States, prior to commencing operations or marketing its products, the Company may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. Approvals or licensing may be conditioned on reformulation of the Company's products for the market or may be unavailable with respect to certain products or product ingredients. The Company must also comply with local product labeling and packaging regulations that vary from country to country.

The Company cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can it determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on its business in the future. They could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuation of certain products that cannot be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all such requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

Network Marketing Regulation. Other laws and regulations affecting the Company have been enacted to prevent the use of deceptive or fraudulent

practices that have sometimes been inappropriately associated with legitimate direct selling and network marketing activities. These include anti-pyramiding, securities, lottery, referral selling, anti-fraud and business opportunity statutes, regulations and court cases. Illegal schemes, typically referred to as "pyramid," "chain distribution," or "endless chain" schemes, compensate participants primarily for the introduction or enrollment of additional participants into the scheme. Often, these schemes are characterized by large up-front entry or sign-up fees, over-priced products of low value, little or no emphasis on the sale or use of products, high-pressure recruiting tactics and claims of huge and quick financial rewards with little or no effort. Generally these laws are directed at ensuring that product sales ultimately are made to consumers and that advancement within such sales organizations is based on sales of the enterprise's products, rather than investments in such organizations or other non-retail sales related criteria. Where required by law, the Company obtains regulatory approval of its network marketing system, or, where approval is not required or available, the favorable opinion of local counsel as to regulatory compliance.

The Company occasionally receives requests to supply information regarding its network marketing plan to certain regulatory agencies. Although the Company has from time to time modified its network marketing system to comply with interpretations of various regulatory authorities, it believes that its network marketing program presently is in compliance with laws and regulations relating to direct selling activities. Nevertheless, the Company remains subject to the risk that, in one or more of its present or future markets, its marketing system or the conduct of certain of its Associates could be found not to be in compliance with applicable laws and regulations. Failure by the Company or its Associates to comply with these laws and regulations could have an adverse material effect on the Company in a particular market or in general. Any or all of such factors could adversely affect the way the Company does business and could affect the Company's ability to attract potential Associates or enter new markets. In the United States, the FTC has been active in its enforcement efforts against both pyramid schemes and legitimate network marketing organizations with certain legally problematic components, having instituted several enforcement actions resulting in signed settlement agreements and payment of large fines. Although the Company has not been the target of an FTC investigation, there can be no assurance that the FTC will not investigate the Company in the future.

The Company cannot predict the nature of any future law, regulation, interpretation or application, nor can it predict what effect additional governmental legislation or regulations, judicial decisions, or administrative orders, when and if promulgated, would have on its business in the future. It is possible that such future developments may require revisions to the Company's network marketing program. Any or all of such requirements could have a material adverse effect on the Company's business, results of operations and financial condition.

Competition

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

The nutritional supplement market in which the Company's leading products compete is characterized by:

- Large selections of essentially similar products that are difficult to differentiate,
- Retail consumer emphasis on value pricing,

- Constantly changing formulations based on evolving scientific research,

- Low entry barriers resulting from low brand loyalty, rapid change, widely available manufacturing, low regulatory requirements and ready access to large distribution channels, and

- A lack of uniform standards regarding product ingredient sources, potency, purity, absorption rate and form.

Similar factors are also characteristic of products comprising the Company's other product lines. There can be no assurance that the Company will be able to effectively compete in this intensely competitive environment. In addition, nutritional, personal care and weight management products can be purchased in a wide variety of channels of distribution, including retail stores. The Company's product offerings in each product category are relatively few compared to the wide variety of products offered by many of its competitors and are often premium priced. As a result, the Company's ability to remain competitive depends in part upon the successful introduction of new products and enhancements of existing products.

The Company is also subject to significant competition from other network marketing organizations for the time, attention and commitment of new and current Associates. The Company's ability to remain competitive depends, in significant part, on the Company's success in recruiting and retaining Associates. The Company believes that it offers a rewarding Associate compensation plan and attractive Associate benefits and services. To the extent practicable, the Company's Associate compensation plan is designed to be seamless, permitting international expansion without requalification or re-entry requirements. Payments of Associate incentives are made weekly, reducing the time an Associate must wait between purchase and sale of products and payment of commissions. There can be no assurance that the Company's programs for recruiting and retaining Associates will be successful. The Company competes for the time, attention and commitment of its independent distributor force. The pool of individuals interested in the business opportunities presented by direct selling tends to be limited in each market and is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although management believes the Company offers an attractive opportunity for Associates, there can be no assurance that other network marketing companies will not be able to recruit the Company's existing Associates or deplete the pool of potential Associates in a given market.

The Company believes that the leading network marketing company in the world, based on total sales, is Amway Corporation and its affiliates, and that Avon Products, Inc. is the leading direct seller of beauty and related products worldwide. Leading competitors in the nutritional products and nutritional direct selling markets include Herbalife International, Inc., Nature's Sunshine Products, Inc., Rexall Sundown, Inc. and its direct selling division Rexall Showcase International, Inc., Twinlab Corporation, Shaklee Corporation and Nu Skin International, Inc. The Company believes there are other manufacturers of competing product lines that may or will launch direct selling enterprises, which will compete with the Company in certain of its product lines and for distributors. There can be no assurance that the Company will be able to successfully meet the challenges posed by such increased competition.

Intellectual Property

Trademarks. The Company uses registered trademarks in its business, particularly relating to its corporate and product names. The Company owns 11 trademarks registered with the United States Patent and Trademark Office. The Company has also filed applications to register six additional trademarks. Federal registration of a trademark enables the registered owner of the mark to bar the unauthorized use of the registered mark in connection with a similar product in the same channels of trade by any third party anywhere in the United States, regardless of whether the registered owner has ever used the trademark in the area where the unauthorized use occurs. The Company also has filed applications and owns trademark registrations, and intends to register additional trademarks, in foreign countries where the Company's products are or may be sold in the future. Protection afforded registered trademarks in some

jurisdictions may not be as extensive as the protection available in the United States.

The Company also claims certain product names, unregistered trademarks and service marks under common law. Common law trademark rights do not provide the Company with the same level of protection afforded by registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used. The Company believes its trademarks, whether registered or claimed under common law, constitute valuable assets of the Company, adding to recognition of the Company and the marketing of its products. The Company therefore believes these proprietary rights have been and will continue to be important in enabling the Company to compete in its industry.

Trade Secrets. The Company has certain trade secrets that it seeks to protect, in part, through confidentiality agreements with employees and other parties. Certain of the Company's employees involved in research and development activities have not entered into such agreements. Even where these agreements exist, there can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach or that the Company's trade secrets will not otherwise become known to or independently developed by competitors.

Patents. The Company does not own any patents and has no patent applications pending or plans to seek patent protection of any of its products. The Company believes that patent protection is not generally available for nutritional supplements, the Company's core products. To the extent patents may be obtained for nutritional products, the scope of such patents may not be sufficiently broad to provide meaningful protection against infringement. Labeling regulations require the Company to disclose product ingredients and formulations, which makes enforcement of patents in the nutritional supplements industry difficult. The Company does not believe that the lack of patents in any way will adversely affect the Company's ability to compete in the nutritional supplement, personal care or weight management industries.

The Company intends to protect its legal rights concerning its intellectual property by all appropriate legal action. The Company may become involved from time to time in litigation to determine the enforceability, scope and validity of any of the foregoing proprietary rights. Any such litigation could result in substantial cost to the Company and divert the efforts of its management and technical personnel.

Backlog

The Company typically ships products within 72 hours after the receipt of the order. As of January 1, 2000, there was no significant backlog.

Working Capital Practices

The Company maintains significant amounts of inventory in stock in order to provide a high level of service to its Associates and Preferred Customers. Substantial inventories are required to serve the needs of USANA's dual role as manufacturer and distributor.

Environment

The Company presently is not aware of any instance in which it has contravened federal, state or local provisions enacted for or relating to protection of the environment or in which it otherwise may be subject under such laws to liability for environmental conditions that could materially affect the Company's operations.

Employees

As of March 21, 2000, the Company had approximately 435 employees (as measured by full time equivalency), as follows: 343 in the United States, 51 in Australia-New Zealand, 18 in Canada, and 23 in Hong Kong. Of the Company's employees, 166 are involved in customer service and order entry, 107 in

manufacturing and shipping, 135 in selling and administration and 27 in research and development and quality control. The Company's employees are not represented by a collective bargaining agreement and the Company has experienced no work stoppages as a result of labor disputes. The Company believes its relationship with its employees is good.

Item 2. Properties

The Company's headquarters are located in Salt Lake City, Utah in a 104,000 square foot building on approximately one-half of a 16-acre parcel owned by the Company. Of the 104,000 square feet presently occupied by the Company, approximately 28,000 square feet are used for manufacturing, packaging and distribution; 26,000 square feet are devoted to warehouse space; and the remaining 50,000 square feet are occupied by executive and administrative personnel, Associate services, research and development, and three laboratories. The Company believes that its headquarters and the available property at this site will prove to be adequate for anticipated growth. Administrative space in the building is almost fully utilized and production capacity is currently running at approximately 66% and 80% in the Company's manufacturing and packaging facilities, respectively.

The following table summarizes the Company's facilities as of January 1, 2000. Total monthly lease commitments for these properties average approximately $40,000.

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Approximate Location	Leased/Function	Square Feet	Owned	Expiration Date
Salt Lake City, Utah USA............	Corporate headquarters/manufacturing/warehouse	104,000	Owned	--
Tooele, Utah, USA.................	Call center	11,200	Leased	April 30, 2000
Ontario, Canada..............	Warehouse/distribution center/office	18,000	Leased	March 31, 2003
Sydney, Australia...........	Central office/call center/warehouse/distribution	20,000	Leased	October 30, 2002
Auckland, New Zealand..........	Warehouse/distribution center/office	4,000	Leased	March 1, 2001
Milton Keynes, England.............	Central office/call center/distribution center	23,500	Owned	--
Causeway Bay, Hong Kong...........	Central office/call center	6,900	Leased	May 31, 2002

</TABLE>

The Company is in the process of selling its facility in the United Kingdom. As of March 21, 2000, no offers have been accepted by the Company on this facility. The Company maintains general commercial and casualty insurance on its properties, which it deems to be adequate for its present needs.

Item 3. Legal Proceedings

The Company is party to certain litigation in the United States Federal District Court for the District of Connecticut, which is also affected by two related actions as follows:

The U.S. Lawsuit. On March 6, 1996, International Nutrition Company ("INC") filed a patent infringement action (the "U.S. Lawsuit") against a number of defendants, including USANA, alleging infringement of U.S. patent number 4,698,360 (the "'360 patent"). The complaint, filed in the United States District Court for the District of Connecticut ("District Court"), alleges that USANA's Proflavanol product infringes the '360 patent. The complaint seeks preliminary and permanent injunctions against the manufacture, sale and use of Proflavanol, as well as damages in unspecified amounts, costs and attorneys' fees. If INC were to prevail in its claim for injunctive relief, USANA would be

prohibited from using, selling, offering to sell, manufacturing or importing any infringing product. If liability were established, damages in the case could range from a reasonable royalty to lost profits, and if willfulness is established, could also include treble damages, as well as attorneys' fees. Having conducted a thorough investigation of the '360 patent and the allegations made in the complaint, USANA believes that its manufacture and sale of Proflavanol do not infringe any valid claim of the '360 patent.

Reexamination Proceeding. On April 17, 1996, an unidentified party filed a request (the "Reexamination Proceeding") with the United States Patent and Trademark Office ("PTO") to reexamine the validity of the '360 patent. The request for reexamination was granted and the PTO conducted the Reexamination Proceeding. The U.S. Lawsuit was stayed pending the outcome of the Reexamination Proceeding. On August 22, 1997, the PTO granted a Certificate of Reexamination for the '360 patent, confirming the validity of each of the claims of the patent over the prior art cited as part of the Reexamination Proceeding.

The French Lawsuit. INC claims an ownership interest in the '360 patent by assignment from Societe Civile d'Investigation Pharmacologique d'Acquitane ("SCIPA"), who took a one-half interest in the patent from the inventor, Jack Masquielier. The other half of the '360 patent was conveyed by Mr. Masquelier to a company known as Horphag Research Ltd. ("Horphag"). In October 1995, Horphag sued SCIPA, INC and others in Bordeaux, France (the "French Lawsuit"). In its action, Horphag alleged that SCIPA's transfer of its one-half interest in the '360 patent to INC violated Horphag's right of preemption under French law and the provisions of the agreement by which Horphag and SCIPA acquired their ownership interests in the '360 patent. Horphag's complaint in the French Lawsuit requested that the French court order that the assignment from SCIPA to

INC be declared null and void, and that the court issue an order declaring that INC has no ownership interest in the '360 patent. USANA purchases its raw ingredients for Proflavanol from Indena, a licensee of Horphag.

On March 21, 1997, the District Court ordered that the action not proceed until resolution of the French Lawsuit. On March 25, 1997, the trial court in Bordeaux issued a decision declaring that under French law, INC has no interest in the '360 patent, because of the principle of preemption. Specifically, the French trial court held that SCIPA, through whom INC claims ownership rights in the '360 patent, had an obligation to offer its one-half interest in the patent to Horphag before selling it to INC. Because SCIPA did not offer its interest to Horphag, the French trial court nullified the assignment from SCIPA to INC, finding that SCIPA has again become a joint owner of the '360 patent. INC appealed the decision of the trial court.

On May 28, 1998, the Court of Appeals in Bordeaux affirmed the decision of the trial court that INC has no ownership interest in the '360 patent. Specifically, the decision holds that INC does not now hold and never has held any ownership rights in the '360 patent. The appellate court also found that recent attempts by Mr. Masquelier to assign an interest in the '360 patent to INC were null and void because he had no ownership interest in the '360 patent and therefore could not assign such an interest to INC. The French appellate decision also rejected INC's argument that it purchased an interest in the '360 patent in good faith, without knowledge of Horphag's one-half interest.

On July 10, 1998, USANA filed a motion to dismiss the INC complaint in the U.S. Lawsuit, alleging that based on the decisions of the French courts INC has no standing to sue. Alternatively, USANA alleged that, under U.S. law, even if INC were a co-owner of the '360 patent, it owns at most a one-half interest and cannot bring suit to enforce the patent unless the other co-owner voluntarily agrees to join in such suit as a plaintiff. The other owner of the '360 patent, Horphag, has not voluntarily joined the U.S. Lawsuit as a plaintiff and, in fact, is a defendant in that proceeding. Therefore, USANA believed the litigation must be dismissed.

The District Court ultimately ordered that the motions to dismiss be re-filed as motions for summary judgment, together with statements of uncontested facts.

On March 18, 2000, the District Court granted the motions (including the motion filed by USANA) for summary judgment and ruled that INC's claims for patent infringement dismissed.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The Company's common stock trades on the Nasdaq Stock Market under the symbol "USNA." The following table contains the reported high and low sale prices for the Company's common stock as reported on the Nasdaq Stock Market for the periods indicated:

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<S>	High <C>	Low <C>
1998		
First Quarter	$ 14.50	$ 8.88
Second Quarter	17.25	12.75
Third Quarter	24.13	8.00
Fourth Quarter	14.75	9.31
1999		
First Quarter	$ 18.00	$ 5.88
Second Quarter	11.25	6.75
Third Quarter	9.00	6.25
Fourth Quarter	8.75	3.81

</TABLE>

On March 21, 2000, the high and low sales price of the Company's common stock were $6.00 and $5.75, respectively.

Shareholders

As of March 21, 2000, there were approximately 473 holders of record of the Company's common stock and an estimated 5,400 beneficial owners, including shares of common stock held in street name.

Dividends

The Company has never declared or paid cash dividends on its common stock. The Company currently intends to retain future earnings to fund the development and growth of its business and does not anticipate paying any cash dividends in the foreseeable future. Future cash dividends, if any, will be determined by the Board of Directors and will be based on the Company's earnings, capital, financial condition and other factors deemed relevant by the Board of Directors. The Company's credit facility contains restrictions on the Company's ability to declare cash dividends on its capital stock or redeem or retire such stock without the lender's written consent.

Item 6. Selected Financial Data

The selected consolidated financial data set forth below with respect to the Company's consolidated statements of earnings and consolidated balance sheets for each of the last five fiscal years are derived from the consolidated financial statements of the Company. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited consolidated financial statements and related notes thereto.

<TABLE>
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	Year Ended				
	Dec. 31, 1995	Dec. 28, 1996	Dec. 27, 1997	Jan. 2, 1999	Jan. 1,(1) 2000
	(in thousands, except per share data)				
Consolidated Statement of Earnings Data:					
Net sales	$24,541	$56,700	$85,205	$121,558	$129,386
Cost of sales	5,703	11,596	17,852	25,279	25,452
Gross profit	18,838	45,104	67,353	96,279	103,934
Operating expenses:					
Associate incentives	10,800	25,890	39,536	54,408	57,044
Selling, general and administrative	4,246	10,515	16,040	25,284	31,499
Restructuring and impairment	--	--	--	--	4,400
Research and development	256	798	1,245	1,362	1,377
Total operating expenses	15,302	37,203	56,821	81,054	94,320
Earnings from operations	3,536	7,901	10,532	15,225	9,614
Other income (expense), net	191	247	166	178	(48)
Earnings before income taxes	3,727	8,148	10,698	15,403	9,566
Income taxes	1,422	3,113	4,116	5,906	3,665
Net earnings	$ 2,305	$ 5,035	$ 6,582	$ 9,497	$ 5,901
Earnings per share--diluted	$ 0.20	$ 0.38	$ 0.49	$ 0.68	$ 0.47
Weighted average shares outstanding--diluted	11,589	13,326	13,319	13,929	12,473

</TABLE>

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	As of				
	Dec. 31, 1995	Dec. 28, 1996	Dec. 27, 1997	Jan. 2, 1999	Jan.1,(1) 2000
	(in thousands, except per share data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,976	$ 1,130	$ 2,608	$ 2,617	$ 1,411
Working capital	1,795	458	4,569	7,899	(1,281)
Current assets	5,361	9,040	11,273	16,615	15,048
Total assets	10,174	21,079	26,369	39,426	36,773
Long-term debt, less current maturities	4	--	--	--	7,500
Stockholders' equity	6,555	12,368	19,258	30,086	12,919
Other Data:					
Current Associates (2)	34,000	59,000	84,000	116,000	113,000
Preferred Customers (3)	--	--	9,000	26,000	46,000

</TABLE>

(1) The 1999 fiscal year and the 1997 fiscal year were 52-week years. Fiscal year 1998 was a 53-week year. Fiscal year 1996 began on January 1, 1996 and ended on December 28, 1996. The year 1995 was a calendar year.

(2) The Company defines a current Associate as an Associate who has purchased product from the Company at any time during the most recent twelve-month period. The Company adopted this definition in September 1997. The number of current Associates for prior periods is an estimate.

(3) The Company introduced its Preferred Customer program in the third quarter of 1997. Preferred Customers purchase products from the Company at wholesale

prices for personal use, but do not distribute the products.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this report.

Overview

USANA develops and manufactures high-quality nutritional, personal care and weight management products. The Company distributes its products through a network marketing system. As of January 1, 2000, the Company had approximately 113,000 current Associates in the United States, Canada, Australia, New Zealand, Hong Kong and the United Kingdom. The Company initiated operations in the United Kingdom and Hong Kong markets in December 1998 and November 1999, respectively.

The Company's three primary product lines consist of nutritional, personal care and weight management products. Nutritional products accounted for approximately 83% of the Company's net sales in 1999. The Company's top selling products, USANA Essentials and Proflavanol, represented approximately 42% and 16%, respectively, of net sales in 1999. No other products accounted for more than 10% of net sales during the year. USANA's personal care line includes skin, hair and body, and dental care products. The Company's weight management line includes a dietary supplement in tablet form, food bars, meal entrees, instructional videos and other products developed to provide a comprehensive approach to weight management, proper diet, nutrition and healthy living. During 1999, the Company introduced several new products, Body Rox (Essentials for Teens), Usanimals (Essentials for Kids), Garlic EC, BiOmega-3, E-Prime, Iron 28, ActiCal, PhytoEstrin, Palmetto Plus, Ginkgo-PS, St. John's Wort, SoyaMax, and a new L*E*A*N Team Formula. In addition to its primary product lines, the Company also sells Associate kits and sales aids which accounted for approximately 2.5% of the Company's net sales in 1999.

Net sales are primarily dependent upon the efforts of a network of independent Associates who purchase products and sales materials. The Company also offers a Preferred Customer program specifically designed for customers who desire to purchase USANA's products for personal consumption, but who choose not to become Associates. As of January 1, 2000, the Company had approximately 46,000 Preferred Customers. The Company recognizes revenue when products are shipped and title passes to Associates and Preferred Customers. In 1999, sales in the Company's five primary markets, the United States, Canada, Australia-New Zealand, Hong Kong and the United Kingdom, were 52.4%, 23.0%, 20.3%, 2.2% and 2.1%, respectively, of net sales of the Company. As the Company expands into additional international markets, it expects international operations to account for an increasing percentage of net sales.

Cost of sales primarily consists of expenses related to raw materials, labor, quality assurance and overhead directly associated with the procurement and production of products and sales materials as well as duties and taxes associated with product exports. In 1999, products manufactured by the Company accounted for approximately 74% of its net sales. As international sales increase as a percentage of net sales, the Company expects that its overall cost of sales could increase slightly, reflecting additional duties, freight and other expenses associated with international expansion.

Associate incentives are the Company's most significant expense and represented 44.1% of net sales in 1999. Associate incentives include commissions and leadership bonuses, and are paid weekly based on sales volume points. Most products are assigned a sales volume point value independent of the product's price. Associates earn commissions based on sales volume points generated in their downline. Generally, Associate kits, sales aids and logo merchandise, such as items of clothing and luggage, have no sales volume point value and therefore the Company pays no commissions on the sale of these items.

The Company closely monitors the amount of Associate incentives paid as a percentage of net sales and may from time to time adjust its Associate compensation plan to prevent Associate incentives from having a significant

adverse effect on earnings, while continuing to maintain an appropriate incentive for its Associates. For example, in the third quarter of 1997, the Company introduced a repricing strategy across its product lines that created a spread between the price an Associate pays for the product and the sales volume point value associated with the product. This new price strategy had the effect of reducing the amount of total Associate incentives paid as a percentage of net sales. At the same time, the Company changed its leadership bonus program, increasing the payout from 2.0% to 3.0% of total sales volume points.

Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate events, promotion and advertising, and professional fees along with other marketing and administrative expenses. Wages and benefits represent the largest component of selling, general and administrative expenses. The Company expects to add human resources and associated infrastructure as operations expand. The President, Chief Executive Officer and Chairman of the Board of Directors of the Company, Dr. Wentz, does not receive a salary, and the Company does not anticipate that Dr. Wentz will take a salary for the foreseeable future. However, if Dr. Wentz were to take a salary, selling, general and administrative expenses would increase. Depreciation and amortization expense has increased as a result of substantial investments in computer and telecommunications equipment and systems to support international expansion. The Company anticipates that additional capital investments will be required in future periods to promote and support growth in sales and the increasing size of the Associate and Preferred Customer base.

Research and development expenses include costs incurred in developing new products, supporting and enhancing existing products and reformulating products for introduction in international markets. The Company capitalizes product development costs after market feasibility is established. These costs are amortized as cost of sales over an average of 12 months, beginning with the month the products become available for sale.

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31.

Results Of Operations

The following table summarizes operating results as a percentage of net sales, respectively, for the periods indicated:

<TABLE>
<CAPTION>

	Year Ended		
	Dec. 27, 1997	Jan. 2, 1999	Jan. 1, 2000
<S>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%
Cost of sales	21.0	20.8	19.7
Gross profit	79.0	79.2	80.3
Operating expenses:			
Associate incentives	46.4	44.8	44.1
Selling, general and administrative	18.8	20.8	24.3
Restructuring and impairment	--	--	3.4
Research and development	1.5	1.1	1.1
Earnings from operations	12.3	12.5	7.4
Other income	0.2	0.2	0.0
Earnings before income taxes	12.5	12.7	7.4
Income taxes	4.8	4.9	2.8
Net earnings	7.7%	7.8%	4.6%

</TABLE>

Years Ended January 1, 2000 and January 2, 1999

Net Sales. Net sales increased 6.4% to $129.4 million in 1999, an increase of $7.8 million from $121.6 million in 1998. The increase in net sales is primarily a result of introducing two new markets - the United Kingdom in December 1998 and Hong Kong in November 1999. Sales growth can also be attributed to a 77% increase in the Company's Preferred Customer base. As of January 1, 2000, the Company had approximately 46,000 Preferred Customers compared to approximately 26,000 Preferred Customers at January 2, 1999. Approximately 90% of the increase in Preferred Customers took place in the North American and Australia-New Zealand markets. As of January 1, 2000, the Company had approximately 113,000 current Associates compared to 116,000 current Associates at January 2, 1999.

The following tables illustrate the growth (decline) in sales and customers by market for the years ended January 2, 1999 and January 1, 2000:

<TABLE>
<CAPTION>

SALES BY MARKET
(in thousands)

	Year Ended					
Market	January 2, 1999		January 1, 2000		Growth (Decline)over Prior Year	% Growth
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States............	$ 69,822	57.5%	$ 67,742	52.4%	$(2,080)	(3.0%)
Canada...................	32,739	26.9	29,765	23.0	(2,974)	(9.1%)
Australia-New Zealand.....	18,659	15.3	26,260	20.3	7,601	40.7%
United Kingdom...........	338	0.3	2,690	2.1	2,352	695.9%
Hong Kong................	-	-	2,929	2.2	2,929	-
Consolidated.............	$121,558	100.0%	$129,386	100.0%	$ 7,828	6.4%

</TABLE>

CURRENT ASSOCIATES BY MARKET

<TABLE>
<CAPTION>

Market	As of January 2, 1999		As of January 1, 2000		Growth (Decline) over Prior Year	% Growth
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States.................	59,000	50.9%	51,000	45.1%	(8,000)	(13.6%)
Canada........................	32,000	27.5	26,000	23.0	(6,000)	(18.8%)
Australia-New Zealand.........	24,000	20.7	27,000	23.9	3,000	12.5%
United Kingdom................	1,000	0.9	3,000	2.7	2,000	200.0%
Hong Kong.....................	-	-	6,000	5.3	6,000	-
Consolidated..................	116,000	100.0%	113,000	100.0%	(3,000)	(2.6%)

</TABLE>

PREFERRED CUSTOMERS BY MARKET

<TABLE>
<CAPTION>

Market	As of January 2, 1999		As of January 1, 2000		Growth over Prior Year	% Growth
<S>	<C>	<C>	<C>	<C>	<C>	<C>
United States.............	16,000	61.5%	25,000	54.3%	9,000	56.3%
Canada....................	8,000	30.8	11,000	23.9	3,000	37.5%
Australia-New Zealand......	2,000	7.7	8,000	17.4	6,000	300.0%
United Kingdom............	-	-	1,000	2.2	1,000	-
Hong Kong.................	-	-	1,000	2.2	1,000	-
Consolidated..............	26,000	100.0%	46,000	100.0%	20,000	76.9%

</TABLE>

TOTAL CUSTOMERS BY MARKET

<TABLE>
<CAPTION>

Market	As of January 2, 1999		As of January 1, 2000		Growth (Decline) over Prior Year	% Growth
United States	75,000	52.8%	76,000	47.8%	1,000	1.3%
Canada	40,000	28.2	37,000	23.3	(3,000)	(7.5%)
Australia-New Zealand	26,000	18.3	35,000	22.0	9,000	34.6%
United Kingdom	1,000	0.7	4,000	2.5	3,000	300.0%
Hong Kong	-	-	7,000	4.4	7,000	-
Consolidated	142,000	100.0%	159,000	100.0%	17,000	12.0%

</TABLE>

Cost of Sales. Cost of sales increased 0.7% to $25.5 million in 1999, an increase of $173,000 from $25.3 million in 1998. As a percentage of net sales, cost of sales decreased to 19.7% in 1999 from 20.8% in 1998. The decrease in cost of sales as a percentage of net sales can be attributed to:

. A change in sales mix to fewer Associate kits, sales aids and logo merchandise, which are sold at a reduced gross profit margin compared to other USANA products, and

. Increased production and procurement efficiencies.

Associate Incentives. Associate incentives increased 4.8% to $57.0 million in 1999, an increase of $2.6 million from $54.4 million in 1998. As a percentage of net sales, Associate incentives decreased to 44.1% in 1999 from 44.8% in 1998. The decrease in Associate incentives relative to net sales can be attributed to:

. Continued efforts at managing pricing of the Company's products, which has created a spread between the wholesale price of the products and the related sales volume points,

. The introduction of the new level in the Associate compensation plan in early 1999, and

. Inefficiencies in the Associate network in the United Kingdom and Hong Kong.

The new level, or position, in the Associate compensation plan represents the earliest level in the Company's network marketing system eligible to receive incentives. The Company believes this new level will assist in Associate retention efforts by paying these Associates earlier on reduced downline requirements; however, this level does pay at a lower rate than other levels in the Company's network marketing system.

Selling, general and administrative. Selling, general and administrative expenses increased 24.6% to $31.5 million in 1999, an increase of $6.2 million from $25.3 million in 1998. As a percent of net sales, selling, general and administrative expenses increased to 24.3% in 1999 from 20.8% in 1998. The increase in selling, general and administrative expenses can be attributed to:

. Higher relative costs associated with operations in the United Kingdom,

. Increased spending on sales and marketing efforts,

. Increased costs including, but not limited to, employee compensation as a result of building the Company's infrastructure to meet strategic objectives, and

. Increased depreciation and amortization expense as a result of substantial investments in current and prior periods in computer and

telecommunications equipment to support growth and international expansion.

Restructuring. The Company recorded a restructuring charge and reserve totaling $2.7 million ($1.7 million or $0.13 per share, after tax) in the third quarter of 1999. The restructuring charge includes the impact of a substantial reduction in United Kingdom operations, liquidation of associated assets in the United Kingdom and reduction of staff outside of the United Kingdom. Charges incorporated into the Company's restructuring initiative include $900,000 for non-voluntary employee termination benefits, $1.4 million for the liquidation of associated assets used in United Kingdom operations and $400,000 for other exit costs.

The Company expects that all activities associated with the Company's restructuring initiative will be completed by the end of the third quarter of 2000. As of January 1, 2000, approximately $448,000 was charged against the restructuring reserve.

Impairment. In accordance with Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company wrote off the remaining book value of its former custom network marketing system (legacy system) totaling $1.7 million ($1.0 million, or $0.09 per share, after tax) in the third quarter of 1999. This charge was the result of the Company's decision to move to a new custom network marketing computer system ("System"). Conversion from the legacy system to the new System has been taking place since the time the impairment was recognized. The future benefits of the legacy system to the Company are minimal and immaterial and could have been removed from operations at the time the impairment was recognized.

Research and Development. Research and development expenses remained flat at $1.4 million for 1999 and 1998. As a percentage of net sales, research and development remained flat at 1.1% for 1999 and 1998. Although current research and development spending is flat, the Company continues to keep abreast of the latest research in nutrition and degenerative diseases and is committed to developing new products, reformulating existing products and maintaining its involvement in numerous clinical studies.

Net Earnings. Net earnings decreased 37.9% to $5.9 million in 1999, a decrease of $3.6 million from $9.5 million in 1998. The $4.4 million restructuring and impairment charge ($2.7 million, or $0.22 per share, after tax) was the primary contributor to the substantial decrease in net earnings in 1999 when compared to 1998. Additionally, the substantial increase in selling, general and administrative contributed to decreased net earnings in 1999. Diluted earnings per share decreased to $0.47 for 1999, a decrease of $0.21 from $0.68 in 1998.

Years Ended January 2, 1999 and December 27, 1997

Net Sales. Net sales increased 42.7% to $121.6 million in 1998, an increase of $36.4 million from $85.2 million in 1997. Approximately 90% of the growth in net sales for this period was attributable to increases in total unit sales. The increase in unit sales is primarily the result of a 38.1% increase in the Company's Associate base and continued growth in its Preferred Customer program, which was introduced in the third quarter of 1997. As of January 2, 1999, the Company had approximately 116,000 current Associates compared to approximately 84,000 current Associates at December 27, 1997. Approximately 75% of the growth in the Associate base can be associated with the opening of the Australia-New Zealand market in February 1998. As of January 2, 1999, the Company had approximately 26,000 Preferred Customers. Successful regional conventions, new product introductions and the product price increase in the third quarter of 1997 also contributed to sales growth in 1998.

The following tables illustrate the growth (decline) in sales and customers by market for the years ended December 27, 1997 and January 2, 1999:

SALES BY MARKET

<TABLE>
<CAPTION>

(in thousands)

Year Ended

Market	December 27, 1997		January 2, 1999		Growth over Prior Year	% Growth
United States............	$58,975	69.2%	$ 69,822	57.5%	$10,847	18.4%
Canada...................	26,230	30.8	32,739	26.9	6,509	24.8%
Australia-New Zealand.....	-	-	18,659	15.3	18,659	-
United Kingdom...........	-	-	338	0.3	338	-
Consolidated.............	$85,205	100.0%	$121,558	100.0%	$36,353	42.7%

</TABLE>

CURRENT ASSOCIATES BY MARKET

<TABLE>
<CAPTION>

Market	As of December 27, 1997		As of January 2, 1999		Growth over Prior Year	% Growth
United States............	56,000	66.7%	59,000	50.9%	3,000	5.4%
Canada...................	28,000	33.3	32,000	27.5	4,000	14.3%
Australia-New Zealand.....	-	-	24,000	20.7	24,000	-
United Kingdom...........	-	-	1,000	0.9	1,000	-
Consolidated.............	84,000	100.0%	116,000	100.0%	32,000	38.1%

</TABLE>

PREFERRED CUSTOMERS BY MARKET

<TABLE>
<CAPTION>

Market	As of December 27, 1997		As of January 2, 1999		Growth over Prior Year	% Growth
United States.................	6,000	66.7%	16,000	61.5%	10,000	166.7%
Canada........................	3,000	33.3	8,000	30.8	5,000	166.7%
Australia-New Zealand..........	-	-	2,000	7.7	2,000	-
United Kingdom................	-	-	-	-	-	-
Consolidated..................	9,000	100.0%	26,000	100.0%	17,000	188.9%

</TABLE>

TOTAL CUSTOMERS BY MARKET

<TABLE>
<CAPTION>

Market	As of December 27, 1997		As of January 2, 1999		Growth over Prior Year	% Growth
United States.................	62,000	66.7%	75,000	52.8%	13,000	21.0%
Canada........................	31,000	33.3	40,000	28.2	9,000	29.0%
Australia-New Zealand..........	-	-	26,000	18.3	26,000	-
United Kingdom................	-	-	1,000	0.7	1,000	-
Consolidated..................	93,000	100.0%	142,000	100.0%	49,000	52.7%

</TABLE>

Cost of Sales. Cost of sales increased 41.6% to $25.3 million in 1998, an increase of $7.4 million from $17.9 million in 1997. As a percentage of net sales, cost of sales decreased slightly to 20.8% in 1998 from 21.0% in 1997. The decrease in cost of sales as a percentage of net sales can be attributed primarily to the price increase introduced in the third quarter of 1997 and volume-based efficiencies in production and procurement activities. These

factors were partially offset by additional costs such as freight and duties associated with exporting products to Australia-New Zealand and the United Kingdom, and a change in the sales mix to include a higher percentage of Associate kits, which have a significantly lower gross profit margin. When a new market is opened, the Company initially experiences a higher demand for Associate kits in that market.

Associate Incentives. Associate incentives increased 37.6% to $54.4 million in 1998, an increase of $14.9 million from $39.5 million in 1997. As a percentage of net sales, Associate incentives decreased to 44.8% in 1998 from 46.4% in 1997. The decrease in Associate incentives as a percentage of net sales can be attributed primarily to the implementation of the Company's repricing strategy and a change in the sales mix that resulted from increased demand for Associate kits in the Australia-New Zealand market. The decrease in Associate incentives as a percentage of net sales was partially offset by an increase in the Company's leadership bonus program from 2.0% to 3.0% of the sales volume points generated.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 57.6% to $25.3 million in 1998, an increase of $9.3 million from $16.0 million in 1997. As a percentage of net sales, selling, general and administrative expenses increased to 20.8% in 1998 from 18.8% in 1997. The increase in selling, general and administrative expenses can be attributed to several factors:

- Higher variable expenses such as increases in customer service staffing levels and discount fees on credit cards in association with growth in sales and the increased number of Associates and Preferred Customers,

- Increased depreciation and amortization expense of approximately 1% as a percentage of net sales as a result of substantial investments in current and prior periods in computer and telecommunications equipment to support growth and international expansion,

- Increased costs including, but not limited to, employee compensation as a result of building the Company's infrastructure to meet strategic objectives, and

- Higher relative costs associated with international expansion, primarily related to commencing operations in Australia-New Zealand and the United Kingdom.

Research and Development Expenses. Research and development expenses increased 9.4% to $1.4 million in 1998, an increase of $0.2 million from $1.2 million in 1997. The modest increases in research and development expenses in 1998 were primarily the result of new product development, ongoing clinical studies and the reformulation of existing products.

Net Earnings. Net earnings increased 44.3% to $9.5 million in 1998, an increase of $2.9 million from $6.6 million in 1997. The increase in net earnings is primarily the result of higher sales. Net earnings reflect the combined effect of decreased cost of sales, decreased Associate incentives, and increased selling, general and administrative expenses relative to net sales, which resulted in a 7.8% profit margin in 1998 compared to 7.7% in 1997. Diluted earnings per share increased 38.8% to $0.68 in 1998, an increase of $0.19 from $0.49 in 1997.

Quarterly Financial Information and Seasonality

The table below sets forth unaudited quarterly operating results for each of the Company's last eight fiscal quarters as well as certain of the data expressed as a percentage of net sales for the periods indicated. This information has been prepared by the Company on a basis consistent with the Company's Consolidated Financial Statements and includes all adjustments, consisting only of normal recurring adjustments, that management considers necessary for a fair presentation of the data. The Company's quarterly results are not necessarily indicative of future results of operations. This information should be read in conjunction with the Consolidated Financial Statements of the Company and Notes thereto included elsewhere in this report.

The Company believes that the impact of seasonality on its results of operations is not material, although historically growth has been slower in the fourth quarter of each year. This could change as new markets are opened and become a more significant part of the Company's business. In addition, the significant growth experienced by the Company since its inception has made it difficult to accurately determine seasonal trends.

<TABLE>
<CAPTION>

	Quarter Ended							
	Mar. 28, 1998	June 27, 1998	Sep. 26, 1998	Jan. 2,(1) 1999	April 3, 1999	July 3, 1999	Oct. 2, 1999	Jan. 1, 2000
	(in thousands, except per share data)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Statements of Earnings Data:								
Net sales	$26,164	$30,913	$32,123	$32,358	$31,323	$32,478	$32,359	$33,226
Cost of sales	5,486	6,408	6,725	6,660	6,383	6,340	6,316	6,413
Gross profit	20,678	24,505	25,398	25,698	24,940	26,138	26,043	26,813
Operating expenses:								
Associate incentives	11,762	13,930	14,312	14,404	13,909	14,437	14,286	14,412
Selling, general and administrative	5,433	6,318	6,705	6,828	7,244	7,741	8,405	8,109
Restructuring and impairment	--	--	--	--	--	--	4,400	--
Research and development	354	373	405	230	356	329	343	349
Total operating expenses	17,549	20,621	21,422	21,462	21,509	22,507	27,434	22,870
Earnings (loss) from operations	3,129	3,884	3,976	4,236	3,431	3,631	(1,391)	3,943
Other income (expense), net	46	21	113	(2)	34	(10)	197	(269)
Earnings (loss) before income taxes	3,175	3,905	4,089	4,234	3,465	3,621	(1,194)	3,674
Income taxes (benefit)	1,239	1,501	1,559	1,607	1,337	1,377	(444)	1,395
Net earnings (loss)	$ 1,936	$ 2,404	$ 2,530	$ 2,627	$ 2,128	$ 2,244	$ (750)	$ 2,279
Earnings (loss) per share--diluted	$ 0.14	$ 0.17	$ 0.18	$ 0.19	$ 0.16	$ 0.17	$ (0.06)	$ 0.22
Weighted average shares outstanding--Diluted	13,771	14,064	14,190	13,901	13,557	13,252	12,473	10,368

</TABLE>

<TABLE>
<CAPTION>

	Quarter Ended							
	Mar. 28, 1998	June 27, 1998	Sep. 26, 1998	Jan. 2,(1) 1999	April 3, 1999	July 3, 1999	Oct. 2, 1999	Jan. 1, 2000
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
As a Percentage of Net Sales:								
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	21.0	20.7	20.9	20.6	20.4	19.5	19.5	19.3
Gross profit	79.0	79.3	79.1	79.4	79.6	80.5	80.5	80.7
Operating expenses:								
Associate incentives	45.0	45.1	44.6	44.5	44.4	44.5	44.1	43.4
Selling, general and administrative	20.8	20.4	20.9	21.1	23.1	23.8	26.0	24.4
Restructuring and impairment	--	--	--	--	--	--	13.6	--
Research and development	1.4	1.2	1.3	0.7	1.1	1.0	1.1	1.1
Total operating expenses	67.2	66.7	66.8	66.3	68.7	69.3	84.8	68.8
Earnings (loss) from operations	11.8	12.6	12.3	13.1	11.0	11.2	(4.3)	11.9
Other income (expense), net	0.2	0.1	0.4	0.0	0.1	0.0	0.6	(0.8)
Earnings (loss) before income taxes	12.0	12.7	12.7	13.1	11.1	11.1	(3.7)	11.1
Income taxes (benefit)	4.7	4.9	4.8	5.0	4.3	4.2	(1.4)	4.2

Net earnings (loss)..........................	7.3%	7.8%	7.9%	8.1%	6.8%	6.9%	(2.3)%	6.9%

</TABLE>

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(1) The quarter ended January 2, 1999 was a 14 week quarter. All other quarters in the table represent 13 week quarters.

The Company may experience variations on a quarterly basis in its results of operations, in response to, among other things:

. The timing of Company-sponsored Associate events,

. New product introductions,

. The opening of new markets,

. The timing of holidays, especially in the fourth quarter, which may reduce the amount of time Associates spend selling the Company's products or recruiting new Associates,

. The adverse effect of Associates' or the Company's failure, or allegations of their failure, to comply with applicable governmental regulations,

. The negative impact of changes in or interpretations of regulations that may limit or restrict the sale of certain of the Company's products,

. The operation of its network marketing system,

. Fluctuations in currency exchange rates,

. The recruiting and retention of Associates,

. The integration and operation of new information technology systems,

. The inability of the Company to introduce new products or the introduction of new products by the Company's competitors,

. Availability of raw materials,

. General conditions in the nutritional supplement, personal care and weight management industries or the network marketing industry and

. Consumer perceptions of the Company's products and operations.

Because the Company's products are ingested by consumers or applied to their bodies, the Company is highly dependent upon consumers' perception of the safety, quality and efficacy of its products. As a result, substantial negative publicity, whether founded or unfounded, concerning one or more of the Company's products or other products similar to the Company's products could adversely affect the Company's business, financial condition and results of operations.

As a result of these and other factors the Company's quarterly revenues, expenses and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance. There can be no assurance that the Company will be able to increase its revenues in future periods or be able to sustain its level of revenue or its rate of revenue growth on a quarterly or annual basis. Furthermore, no assurances can be given that the Company's revenue growth rate in new markets where operations have not commenced will follow this pattern. Due to the foregoing factors, the Company's future results of operations could be below the expectations of public market analysts and investors. In such event, the market price of the common stock of the Company would likely be materially adversely affected.

Liquidity and Capital Resources

The Company has financed its growth primarily with cash flows from operations. In 1999, the Company generated net cash from operations of $15.0 million compared to $10.6 million in 1998. Cash and cash equivalents decreased to $1.4 million at January 1, 2000 from $2.6 million at January 2, 1999. Checks written in excess of cash in bank totaled $1.4 million at January 1, 2000.

On January 1, 2000, the Company had negative net working capital of $1.3 million compared to positive net working capital of $7.9 million at January 2, 1999. The change in net working capital in 1999 was primarily the result of redeeming common stock and advancing funds to a related party, which totaled $23.6 million during the year. This use of working capital for long-term purposes is expected to provide earnings per share benefits in future periods. Furthermore, the Company has substantial, unused availability under its line of credit.

The Company does not extend credit to its customers, but requires payment prior to shipping, which eliminates significant receivables.

The Company invested $4.9 million in property and equipment in 1999 compared to $11.3 million in 1998. Inventory decreased to $9.9 million at January 1, 2000 compared to $10.5 at January 2, 1999.

On September 21, 1999, the Company completed the repurchase of 2.65 million shares of its common stock from Gull Holdings, Ltd. ("Gull"). An earlier purchase of 300,000 shares was made on May 24, 1999, under an agreement entered into on April 28, 1999. The series of related transactions reduced the ownership of Gull from 58.2% to 45.7%, of the issued and outstanding capital stock of the Company as of January 1, 2000. These transactions reduced the issued and outstanding shares of the company by 22.6%. Gull is an Isle of Man company owned and controlled by Myron W. Wentz, Ph.D., the founder, Chairman, President and CEO of the Company. The transactions were privately negotiated, reviewed by the Audit Committee of the Board of Directors and approved by the independent directors of the Company. The aggregate purchase price of the 2.95 million shares was $24 million and was financed by existing cash balances and borrowings of approximately $18 million under a new credit agreement with Bank of America in the form of a $10 million term loan and a $15 million revolving line of credit. The Company expects to retire debt related to this transaction before the end of fiscal year 2001.

During 1999, the Company entered into agreements with Bank of America that made available $25 million in secured credit facilities ("Credit Facilities"). A $10 million five-year term loan and a $15 million three-year revolving line of credit comprise these facilities. At January 1, 2000, the Company had $13.6 million available under the line of credit, which expires September 1, 2002. The interest rate is computed at the bank's prime rate or the London Interbank Offered Rate (LIBOR) base rate adjusted by features specified in the Credit Facilities. The Company may choose to borrow at the bank's publicly announced Reference Rate plus a margin per annum as specified in the Credit Facilities or, at the option of the Company, loans within the approved commitment may be available in minimum amounts of $100,000 or more for specific periods ranging from one to six months, at LIBOR plus a margin as specified in the Credit Facilities. Receivables, inventories and equipment secure the Credit Facilities. The Credit Facilities contain restrictive covenants requiring the Company to maintain certain financial ratios. The Company was in compliance with these covenants on January 1, 2000. As of January 1, 2000, $9.5 million was outstanding on the five-year term loan and $1.4 million was outstanding on the line of credit.

A significant percentage of the Company's net sales are generated from the sale of products outside the United States. The Company intends to continue to expand its foreign operations. The foreign operations of the Company expose it to risks associated with changes in social, political and economic conditions inherent in foreign operations, including changes in the laws

and policies that govern foreign investment in countries where it has operations as well as, to a lesser extent, changes in U.S. laws and regulations relating to foreign trade and investment. In addition, the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates, which may favorably or adversely affect reported earnings and, accordingly, the comparability of period-to-period results of operations. Changes in currency exchange rates may affect the relative prices at

which the Company and foreign competitors sell their products in the same market. Sales outside the United States represented 12.3%, 21.1%, 30.8%, 42.5% and 47.6% of the Company's net sales in 1995, 1996, 1997, 1998, and 1999, respectively. The Company enters into forward and option contracts to hedge certain commitments denominated in foreign currency, including intercompany cash transfers. Transaction hedging activities seek to protect operating results and cash flows from the potentially adverse effects of currency exchange fluctuations.

The Company believes that its current cash balances, the available line of credit and cash provided by operations will be sufficient to cover its needs in the ordinary course of business for the next 12 months. In the event the Company experiences an adverse operating environment or unusual capital expenditure requirements, additional financing may be required. However, no assurance can be given that additional financing, if required, would be available on favorable terms. The Company may also require or seek additional financing, including through the sale of its equity securities to finance future expansion into new markets, finance capital acquisitions associated with the growth of the Company and for other reasons. Any financing which involves the sale of equity securities or instruments convertible into such securities could result in immediate and possibly significant dilution to existing shareholders.

Year 2000 Issues

During 1999, the Company's systems that were not Year 2000 compliant were brought into compliance. Amounts spent on bringing non-compliant systems into compliance totaled less than $100,000. Subsequent to December 31, 1999, the Company has not experienced any significant Year 2000 problems.

Notwithstanding the foregoing, there can be no assurance the Company will not experience operational difficulties as a result of ongoing Year 2000 issues, either arising out of internal operations or caused by third-party service providers, which individually or collectively could have an adverse impact on business operations and require the Company to incur unanticipated expenses to remedy any problems.

Inflation

The Company does not believe that inflation has had a material impact on its historical operations or profitability.

Outlook

Management believes net sales will increase medium- to long-term as a result of a value initiative that the Company introduced in February 2000. The value initiative incorporated the following changes:

- Reduced prices, on average, by 24%

- Reduced the price of the Company's top selling product, the Essentials, by 35%

- Offered a 10% discount for all customers who are active on the Company's autoship program, and

- Decreased the ratio of sales volume points to the wholesale price of the products.

Although it may take some time to generate enough volume to compensate for the new lower prices, management believes the better value, in the form of lower prices, and moving customers to its autoship program, will benefit both the Company and its customers as follows:

- The Company is expected to benefit by improving customer loyalty and retention.

- Preferred Customers will benefit by taking advantage of the Company's quality products at the new lower prices.

- Management believes that Associates will have an easier time recruiting Preferred Customers and other Associates at the new lower

prices. Additionally, the expected improvements in loyalty and retention should assist the Associates with their business opportunity under the Company's Associate compensation plan.

Associate incentives as a percentage of net sales are expected to decline as a result of the decrease in the ratio of sales volume points to wholesale prices. Cost of sales is expected to rise as a percentage of sales proportional to the decline in Associate incentives as a result of the new lower prices.

Selling, general and administrative expenses are expected to increase substantially in the short-term in order to promote and support the Company's new value initiative. As unit volume increases, management believes that selling, general and administrative expenses should decrease as a percentage of sales.

Research and development costs are expected to be in line with historical levels.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The Company conducts its business in several countries and intends to continue to expand its foreign operations. The net sales are affected by fluctuations in interest rates, currency exchange rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, the operations of the Company are exposed to significant risks associated with changes in social, political and economic conditions inherent in foreign operations, including changes in the laws and policies that govern foreign investment in countries where it has operations as well as, to a lesser extent, changes in U.S. laws and regulations relating to foreign trade and investment.

Fluctuations in foreign currency exchange rates may favorably or adversely affect the Company's reported earnings and, accordingly, the comparability of its period-to-period results of operations. Changes in currency exchange rates may affect the relative prices at which the Company sells its products. When the value of the U.S. dollar is high in comparison with other currencies in which sales are made, this will have a negative impact on net sales. Additionally, if the dollar weakens against currencies in which the Company incurs or is required to pay expenses, this will have a negative impact on net sales.

To protect against these risks, the Company enters into forward and option contracts to hedge certain commitments denominated in foreign currency, including intercompany cash transfers. Transaction hedging activities seek to protect operating results and cash flows from the potentially adverse effects of currency exchange fluctuations. The Company believes that its cash management and investment policies have minimized these risks. However, there can be no assurance that these practices will be successful in eliminating all or substantially all of the risks encountered by the Company in connection with its foreign currency transactions.

Forward-Looking Statements and Certain Risks Affecting the Company

The statements contained in this Report that are not purely historical are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act. These statements regard the Company's expectations, hopes, beliefs, commitments, intentions and strategies regarding the future. They may be identified by the use of words or phrases such as "believes," "expects," "anticipates," "should," "plans," "estimates," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding the Company's financial performance, revenue and expense levels in the future and the sufficiency of its existing assets to fund future operations and capital spending needs. Actual results could differ materially from the anticipated results or other expectations expressed in such forward-looking statements or for the reasons discussed below. The fact that some of the risk factors may be the same or similar to the Company's past reports filed with the Securities and Exchange Commission means only that the risks are present in multiple periods. The Company believes that many of the risks detailed here are part of doing business in the industry in which the Company operates and competes and will likely be present in all periods reported. The fact that certain risks are endemic to the industry does not lessen their significance. The forward-looking statements contained in this report are made as of the date of this report and the Company assumes no obligation to update them

or to update the reasons why actual results could differ from those projected in such forward-looking statements. Among others, risks and uncertainties that may affect the business, financial condition, performance, development, and results of operations of the Company include the following:

The Company relies on non-employee, independent Associates to purchase, market and sell its products. The Company's Associates are independent contractors who purchase products directly from the Company for their own use or for resale. Associates typically work at the distribution of the Company's products on a part-time basis and may and likely will engage in other business activities, some of which may compete with the Company. The Company has a large number of Associates and a relatively small corporate staff to implement its marketing programs and provide motivational support to its Associates. The Company undertakes no effort to provide individual training to its Associates. Associates may voluntarily terminate their agreements with the Company at any time. There is typically significant turnover in distributors from year to year. Because of this high turnover, the Company must continually recruit new Associates. The Company's net sales are directly dependent upon the efforts of these non-employee, independent distributors and future growth in sales volume will depend in large part upon the Company's success in increasing the number of new Associates and improving productivity of its Associates. Consequently, the loss of a key Associate or group of Associates, large turnovers or decreases in the size of the Associate force, seasonal or other decreases in purchase volume, sales volume reduction and the costs associated with training new Associates and other related expenses may adversely affect the Company's business, financial condition and results of operations. Moreover, the Company's ability to continue to attract and retain Associates can be affected by a number of factors, some of which are beyond the control of the Company, including:

. General business and economic conditions,

. Public perceptions about network marketing programs,

. High-visibility investigations or legal proceeding against network marketing companies by federal or state authorities or private citizens, and

. Public perceptions about the value and efficacy of nutritional, personal care or weight management products generally.

There can be no assurance that the Company will be able to continue to attract and retain Associates in numbers sufficient to sustain the Company's future growth or to maintain present growth levels, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company does not directly control the independent acts of its Associates. The Company's Associates are required to sign and adhere to the Company's Associate Application and Agreement, which obligates them to abide by USANA policies and procedures. Although these policies and procedures prohibit Associates from making certain claims regarding the Company's products or income potential from the distribution of those products, Associates may from time to time create promotional materials or otherwise provide information that does not accurately describe the Company's marketing program. They also may make statements regarding potential earnings, product claims or other matters in violation of the Company's policies or applicable laws and regulations concerning these matters. Such violations may result in legal action by regulatory agencies. Future legal actions against Associates or others associated with the Company could lead to increased regulatory scrutiny of the Company and its network marketing system. The Company takes what it believes to be commercially reasonable steps to monitor Associate activities to guard against misrepresentation and other illegal or unethical conduct by Associates and to assure that the terms of its compensation plan are observed. There can be no assurance, however, that the Company's efforts in this regard will be sufficient to accomplish this objective. Publicity resulting from such Associate activities can also make it more difficult for the Company to attract and retain Associates and may have an adverse effect on the Company's business, financial condition and results of operations.

Network marketing is subject to intense government scrutiny and regulation.

Network marketing systems such as the Company's are frequently subject to laws and regulations directed at ensuring that product sales are made to consumers of the products and that compensation, recognition and advancement within the marketing organization are based on the sale of products rather than investment in the sponsoring company. In the United States, these laws and regulations include the federal and state securities laws, the regulation of the offer and sale of franchises and business opportunities, regulations and statutes administered by the FTC and various state anti-pyramid and business opportunity laws that target direct selling businesses that promise quick rewards for little or no effort, require high entry costs, use high pressure recruiting methods or do not involve legitimate products. Similar laws govern the Company's activities in foreign countries where it presently has operations or may

have operations in the future. The Company is subject to the risk that, in one or more of its present or future markets, its marketing system could be found not to comply with these laws and regulations or may be prohibited. Failure by the Company to comply with these laws and regulations or such a prohibition could have a material adverse effect on the Company's business, financial condition and results of operations. Further the Company may simply be prohibited from distributing its products through a network-marketing channel in some foreign countries.

The Company's business is subject to the effects of adverse publicity and negative public perception. The Company's ability to attract and retain Associates and to sustain and enhance sales through its Associates can be affected by adverse publicity or negative public perception regarding the Company or its competitors. This negative public perception may include publicity regarding the legality of network marketing, the quality or efficacy of nutritional supplement products or ingredients in general or the Company's products or ingredients specifically, and regulatory investigations of the Company or its competitors or other network marketing companies and their products, or Associate actions. There can be no assurance that the Company will not be subject to adverse publicity or negative public perception in the future or that such adverse publicity will not have a material adverse effect on the Company's business, financial condition and results of operations.

The Company relies heavily on its key management personnel. The Company depends on the services of its founder, Dr. Wentz, who serves as President, Chief Executive Officer and Chairman of the Board, and its other executive officers. Dr. Wentz is a highly visible spokesman for the Company and its products, and the Company believes its success depends in large part on the continued visibility and reputation of Dr. Wentz, which helps distinguish the Company from its competitors. Dr. Wentz is not a permanent resident of the United States and will likely spend no more than four months per year in the United States, however he intends to devote a majority of his time to the Company's business and expects to travel outside the United States to direct and promote the Company's international expansion. The loss or limitation of Dr. Wentz's services as the lead spokesman for the Company and its products, as a key developer of those products or as an executive officer of the Company could have a material adverse effect upon the Company's business, financial condition and results of operations.

The Company's executive officers other than Dr. Wentz are primarily responsible for the Company's day-to-day operations, and the Company believes its success depends in part on its ability to retain its executive officers and to continue to attract additional qualified individuals to its management team. The Company does not maintain a key man life insurance policy on Dr. Wentz or any of its other officers, nor does it have an employment agreement with any of its officers other than Gilbert A. Fuller, Senior Vice President and Chief Financial Officer, which expires in May 2000. The loss or limitation of the services of any of the Company's executive officers or the inability of the Company to attract additional qualified management personnel could have a material adverse effect on the Company's business, financial condition and results of operations.

The ownership of a significant amount of the Company's common stock gives Dr. Wentz effective control of the Company. Gull Holdings, Ltd., which is solely owned and controlled by Dr. Wentz, owned approximately 46% of the Company's outstanding common stock at January 1, 2000. This ownership percentage may increase as the Company completes a public share repurchase program during the current fiscal year. Consequently, Dr. Wentz has effective control of the

Company, including the ability to elect a majority of the Board of Directors of the Company. Similarly, Dr. Wentz is in a position to effectively control decisions to adopt, amend or repeal the Company's Articles of Incorporation and Bylaws and prevent a takeover of the Company by one or more third parties, or sell or otherwise transfer his stock to a third party, which could deprive the Company's stockholders of a premium that might otherwise be realized by them in connection with an acquisition of the Company.

The products and manufacturing activities of the Company are subject to extensive government regulation. The manufacture, packaging, labeling, advertising, promotion, distribution and sale of the Company's products are subject to regulation by numerous national and local governmental agencies in the United States and other countries. In the United States, the FDA regulates the Company's products under the FDC Act and regulations promulgated thereunder. The Company's products also are subject to regulation by, among others, the Consumer Product Safety Commission, the United States Department of Agriculture and the EPA. Advertising and other forms of promotion and methods of marketing of the Company's products under the FTC Act are regulated by the FTC. Various state and local agencies as well as those of each foreign country in which the Company distributes products also regulate the manufacture, labeling and advertising of the Company's products.

Failure of the Company to comply with applicable FDA regulatory requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any such action by the FDA could materially adversely affect the Company's ability to successfully market its products. In addition, if the FTC has reason to believe the law is being violated (e.g., the Company does not possess adequate substantiation for product claims), it can initiate an enforcement action. The FTC has a variety of processes and remedies available to it for enforcement, both administratively and judicially, including compulsory process authority, cease and desist orders and injunctions. FTC enforcement could result in

orders requiring, among other things, limits on advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as may be deemed necessary. Violation of such orders could result in substantial financial or other penalties. Any such action by the FTC could materially adversely affect the Company's ability to successfully market its products.

In markets outside the United States, prior to commencing operations or marketing its products, the Company may be required to obtain approvals, licenses or certifications from a country's ministry of health or comparable agency. For example, the Company's manufacturing facility has been registered with the FDA and the Canadian HPB and is certified by Australia's TGA. Approvals or licensing may be conditioned on reformulation of the Company's products or may be unavailable with respect to certain products or product ingredients. The Company must also comply with product labeling and packaging regulations that vary from country to country. These activities are also subject to regulation by various agencies or the countries in which the Company's products are sold.

The Company cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can it determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on its business in the future. They could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all such requirements could have a material adverse effect on the Company.

The Company's business expansion into foreign markets is subject to risks. The Company commenced operations in Australia and New Zealand in February 1998, in the United Kingdom in December 1998 and in Hong Kong in November 1999. The Company believes that its ability to achieve future growth is dependent in part on its ability to continue its international expansion efforts. However, there can be no assurance that the Company will be able to grow in its existing international markets, enter new international markets on a timely basis or that new markets will be profitable. The Company must overcome significant regulatory and legal barriers before it can begin marketing in any foreign market. Also, before marketing commences it is difficult to assess the extent to which the Company's products and sales techniques will be accepted or successful in any

given country. In addition to significant regulatory barriers, the Company may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. The Company may be required to reformulate certain of its products before commencing sales in a given country. Once the Company has entered a market, it must adhere to the regulatory and legal requirements of that market. No assurance can be given that the Company will be able to successfully reformulate its products in any of the Company's current or potential international markets to meet local regulatory requirements or attract local customers. The failure to do so would have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to obtain and retain necessary permits and approvals or that it will have sufficient capital to finance its expansion efforts in a timely manner. In many market areas, network marketing companies other than the Company already have significant market penetration, the effect of which could be to desensitize the local Associate population to a new opportunity such as the Company, or to make it more difficult for the Company to recruit qualified Associates. There can be no assurance that, even if the Company is able to commence operations in foreign countries, there will be a sufficiently large population of persons inclined to participate in a network marketing system such as the Company's. The Company believes its future success will depend in part on its ability to seamlessly integrate its Associate compensation plan across all markets in which the Company's products are sold. There can be no assurance that the Company will be able to further develop and maintain a seamless compensation program.

The increase in Associate incentives expense reduces profitability. Since its inception, the Company generally has experienced increases, as a percentage of net sales, in the amount of incentives, including commissions and leadership bonuses, paid to its Associates. From time to time the Company has changed its Associate compensation plan to better manage these incentives. For example, during the third quarter of 1997, the Company introduced a broad repricing strategy across its product lines, creating a spread between the price the Associate pays for the product and the sales volume point value associated with the product. At the same time, the Company changed its leadership bonus program, increasing the payout from 2.0% to 3.0% of total sales volume points. In February 2000, the Company introduced a broad repricing initiative reducing the average price of its products by approximately 24%. Management closely monitors the amount of Associate incentives paid as a percentage of net sales and may adjust its Associate compensation plan to prevent Associate incentives from having a significant adverse effect on earnings. There can be no assurance that these changes or future changes to the Associate compensation plan or product pricing will be successful in maintaining the level of Associate incentives expense as a percentage of net sales. Furthermore, these changes may make it difficult to recruit and retain qualified and motivated Associates.

The Company relies on and is subject to risks associated with information technology systems. The Company's success is dependent on the accuracy, reliability and proper use of sophisticated and dependable information processing systems and management information technology. The Company's information technology systems are designed and selected in order to

facilitate order entry and customer billing, maintain Associate and Preferred Customer records, accurately track purchases and incentive payments, manage accounting, finance and manufacturing operations, generate reports and provide customer service and technical support. Any interruption in these systems could have a material adverse effect on the Company's business, financial condition and results of operations. The Company recognizes the need to regularly upgrade its management information systems to most effectively manage its operations and Associate data base.

The Company relies on the successful efforts of certain Associates. The Company's Associate compensation plan is designed to permit Associates to sponsor new Associates, creating multiple "business centers," or levels in the marketing structure. Sponsored Associates are referred to as "downline" Associates within the sponsoring Associate's "downline network." If these downline Associates in turn sponsor new Associates, additional business centers are created, with the new downline Associates becoming part of the original sponsor's downline network. As a result of this network marketing system, Associates develop business relationships with other Associates. The Company believes its revenue is generated by thousands of Associates. However, the loss of a high-level sponsoring Associate, together with a group of leading

Associates in that person's downline, or the loss of a significant number of Associates for any reason, would have a material adverse effect on the Company's business, financial condition and results of operations.

The business of the Company is subject to the risks associated with intense competition from larger, wealthier and more established competitors. The Company faces intense competition in the business of distributing and marketing nutritional supplements, vitamins and minerals, personal care products, weight management items, and other nutritional products. Numerous manufacturers, distributors and retailers compete actively for consumers and, in the case of other network marketing companies, for Associates. The Company competes directly with other entities that manufacture, market and distribute products in each of its product lines. The Company competes by emphasizing the underlying science, value and high quality of its products as well as the convenience and financial benefits afforded by its network marketing system. However, many of the Company's competitors are substantially larger than the Company and have greater financial resources and broader name recognition. The Company's markets are highly sensitive to the introduction of new products that may rapidly capture a significant share of such markets. The nutritional supplement market in which the Company's leading products compete is characterized by:

- A large selection of essentially similar products that are difficult to differentiate,

- Retail consumer emphasis on value pricing,

- Constantly changing formulations based on evolving scientific research,

- Low entry barriers resulting from low brand loyalty, rapid change, widely available manufacturing outsourcing, low regulatory requirements, and ready access to large distribution channels, and

- A lack of uniform standards regarding product ingredient source, potency, purity, absorption rate and form.

Similar factors are also characteristic of products comprising the Company's other product lines. There can be no assurance that the Company will be able to compete in this intensely competitive environment. In addition, nutrition, personal care and weight management products can be purchased in a wide variety of channels of distribution including retail stores. The Company's product offerings in each product category are also relatively small compared to the wide variety of products offered by many other companies. As a result, the Company's ability to remain competitive depends in part upon the successful introduction of new products.

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

The Company believes that the leading network marketing company in terms of global sales is Amway Corporation and its affiliates and that Avon Products is the leading direct seller of beauty and related products worldwide. Leading competitors in the nutritional products and nutritional direct selling markets include Herbalife International, Inc., Nature's Sunshine Products,

Inc., Rexall Sundown, Inc. and its direct selling division Rexall Showcase International, Inc., Twinlab Corporation, Shaklee Corporation and NuSkin International, Inc. The Company believes there are other manufacturers of competing product lines that may or will launch direct selling enterprises, which will compete with the Company in certain of its product lines and for

Associates. There can be no assurance that the Company will be able to successfully meet the challenges posed by this increased competition.

The Company's foreign expansion subjects it to the increased expense and risks associated with foreign duties and import restrictions. At present, most of the Company's products are manufactured in the United States and are exported to the countries in which they ultimately are sold. The countries in which the Company operates may impose various legal restrictions on imports. In most cases, permits or licenses are required to import particular types of goods, including products of the type sold by the Company. Duties of varying amounts are imposed based on the values or quantities of the goods imported. In certain countries and jurisdictions, nutritional and other products are subject to significant import duties. Certain products that the Company exports from the United States, notably products in the personal care line are subject to foreign health and safety regulations. Certain nutritional products may also be subject to governmental regulations regarding food and drugs, which regulations may limit the Company's ability to sell some of its products in some countries and jurisdictions. To date, the Company has not experienced any difficulty in obtaining or maintaining import licenses, but there can be no assurance that it will be able to maintain these licenses or obtain the necessary licenses to enter new markets. In addition, new regulations may be adopted or any of the existing regulations could be changed at any time in a manner that could have a material adverse effect on the Company's business, financial condition and results of operations. Duties on imports could be changed in a manner that would be materially adverse to the Company's sales and its competitive position compared to locally produced goods. In addition, import restrictions in certain countries and jurisdictions may prevent the importation of U.S.-manufactured products altogether.

Foreign operations are affected by taxation and transfer pricing considerations. The Company's principal domicile is the United States, where it is incorporated. Sales in the United States, Canada, Australia-New Zealand, the United Kingdom and Hong Kong represented 52.4%, 23.0%, 20.3%, 2.1% and 2.2% of total sales in 1999, respectively. The Company is subject to income taxes at an effective rate of 39%, 45%, 36%, 33%, 31% and 16% in the United States, Canada, New Zealand, Australia, the United Kingdom and Hong Kong, respectively. Under tax treaties, the Company is eligible to receive foreign tax credits in the United States for taxes actually paid abroad. As the Company's operations expand outside the United States, taxes paid to foreign taxing authorities may exceed amounts of the credits available to the Company, resulting in the Company's paying a higher overall effective tax rate on its worldwide operations. The Company has adopted transfer pricing agreements with its subsidiaries to regulate intercompany transfers, which agreements are subject to transfer pricing laws that regulate the flow of funds between the subsidiaries and the Company for product purchases, management services and contractual obligations such as the payment of Associate incentives. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge these agreements or require changes in the Company's transfer pricing practices, the Company could become subject to higher taxes and its earnings would be adversely affected. The Company believes that it operates in compliance with all applicable foreign exchange control and transfer pricing laws. However, there can be no assurance that the Company will continue to be found to be operating in compliance with foreign exchange control and transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes in the Company's operating procedures.

Foreign operations are affected by exchange rate fluctuations. Sales outside the United States represented 12.3%, 21.1%, 30.8%, 42.5% and 47.6% of the Company's net sales in 1995, 1996, 1997, 1998, and 1999, respectively. The Company intends to continue to expand its foreign operations, exposing the Company to risks of changes in social, political and economic conditions in foreign countries, including changes in the laws and policies that govern foreign investment in countries where it has operations. Since a significant portion of the Company's sales are in foreign countries, exchange rate fluctuations may have a significant effect on the Company's sales and gross margins. Further, if exchange rates fluctuate dramatically, it may become uneconomical for the Company to establish or continue activities in certain countries. For instance, changes in currency exchange rates may affect the relative prices at which the Company and foreign competitors sell their products in the same market. As the Company's business expands outside the United States, an increasing share of its net sales and cost of sales will be transacted in currencies other than the U.S. dollar. Accounting practices require that the Company's non-U.S. sales and selling, general and administrative expenses be

converted to U.S. dollars for reporting purposes. Consequently, the reported net earnings of the Company in future periods may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. Product purchases from the Company by its foreign subsidiaries are transacted in U.S. dollars. As operations expand in countries where foreign currency transactions may be made, the Company's operating results will be increasingly subject to the risks of exchange rate fluctuations and the Company may not be able to accurately estimate the impact of such changes on its future business, product pricing, results of operations or financial condition. In addition, the value of the U.S. dollar in-relation to other currencies may also adversely affect the Company's sales to customers outside the United States. The Company enters into forward foreign exchange contracts to hedge

certain commitments denominated in foreign currency, including intercompany cash transfers. The Company generally does not use derivative instruments to manage currency fluctuations. There can be no assurance that such hedging transactions will protect operating results and cash flows from potentially adverse effects of currency exchange fluctuations. Such adverse effects would also adversely affect the Company's business, financial condition and results of operations.

The Company depends on outside suppliers for raw materials. The Company acquires all of its raw materials for the manufacture of its products from third-party suppliers. Normally, materials used in manufacturing the Company's products are purchased on account or by purchase order. The Company has very few long-term agreements for the supply of such materials. There is a risk that any of the Company's suppliers or manufacturers could discontinue selling their products to the Company. Although the Company believes that it could establish alternate sources for most of its products, any delay in locating and establishing relationships with other sources could result in product shortages and back orders for the products, with a resulting loss of net sales. For example, since the fourth quarter of fiscal year 1996 and continuing intermittently during 1997 and 1998, the Company experienced difficulty in obtaining sufficient quantities of natural Vitamin E powder, an ingredient required for the manufacture of several of its products. As a consequence, the Company was required to alter its products and to substitute different products from another source. In addition, the Company relies on third-party manufacturers for several of its products, including its food bars and drink mixes. The Company has in the past discontinued or temporarily stopped sales of certain products manufactured by third parties while those products were on back order. There can be no assurance that suppliers will provide the raw materials needed by the Company in the quantities requested or at a price the Company is willing to pay. Because the Company does not control the actual production of these raw materials, it is also subject to delays caused by interruption in production of materials based on conditions not within its control, including weather, crop conditions, transportation interruptions, strikes by supplier employees and natural disasters or other catastrophic events. The inability of the Company to obtain adequate supplies of raw materials for its products at favorable prices, or at all, could have a material adverse effect on the Company's business, financial condition and results of operations.

Nutritional supplement products may be supported by only limited availability of conclusive clinical studies. The Company's products include nutritional supplements that are made from vitamins, minerals, herbs and other substances for which there is a long history of human consumption. Some of the Company's products contain innovative ingredients or combinations of ingredients. Although the Company believes all of its products to be safe when taken as directed, there is little long-term experience with human consumption of certain of these product ingredients or combinations of ingredients in concentrated form. The Company conducts research tests the formulation and production of its products, but the Company has performed or sponsored only limited clinical studies. Furthermore, because the Company is highly dependent on consumers' perception of the efficacy, safety and quality of its products, as well as similar products distributed by other companies, the Company could be adversely affected in the event such products should prove or be asserted to be ineffective or harmful to consumers or in the event of adverse publicity associated with illness or other adverse effects resulting from consumers' use or misuse of the Company's products or similar products.

Manufacturers such as the Company may be subject to product liability claims. As a manufacturer and distributor of products for human consumption and

topical application, the Company could become exposed to product liability claims and litigation to prosecute such claims. Additionally, the manufacture and sale of such products involves the risk of injury to consumers as a result of tampering by unauthorized third parties or product contamination. To date, the Company has not been party to any product liability litigation, although certain individuals have asserted that they have suffered adverse consequences as a result of using the Company's nutritional products. These matters historically have been settled to the satisfaction of the Company and have not to date resulted in material payments by the Company. The Company is aware of no instance in which any of its products are or have been defective in any way that could give rise to material losses or expenditures related to product liability claims. Although the Company maintains product liability insurance which it believes to be adequate for its needs, there can be no assurance that the Company will not be subject to claims in the future or that its insurance coverage will be adequate or that it will be able to maintain adequate insurance coverage.

The Company's business is subject to particular intellectual property risks. The Company owns no patents, has filed no patent applications and does not intend in the immediate future to file a patent application covering any of the formulations of its nutritional or other products. The labeling regulations governing the Company's nutritional supplements require that the ingredients of such products be precisely and accurately indicated on product containers. Accordingly, patent protection for nutritional supplements often is impractical, if not impossible, given the large number of manufacturers who produce nutritional supplements having many active ingredients in common. Additionally, the nutritional supplement industry is characterized by rapid change and frequent reformulations of products as the body of scientific research and literature refines current understanding of the application and efficacy of certain substances and interactions among various substances. In this respect, the Company maintains an active research and development program that is devoted to developing better, purer and more effective

formulations of its nutritional or other products. The labeling regulations governing the Company's nutritional supplements require that the ingredients of such products be precisely and accurately indicated on product containers. Accordingly, patent protection for nutritional supplements often is impractical, if not impossible, given the large number of manufacturers who produce nutritional supplements having many active ingredients in common. Additionally, the nutritional supplement industry is characterized by rapid change and frequent reformulations of products as the body of scientific research and literature refines current understanding of the application and efficacy of certain substances and interactions among various substances. In this respect, the Company maintains an active research and development program that is devoted to developing better, purer and more effective formulations of its nutritional products. The Company protects its investment in research, as well as the techniques it uses to improve the purity and effectiveness of its products by relying on trade secret laws, although it has not to date entered into confidentiality agreements with certain of its employees involved in research and development activities. Additionally, the Company endeavors to seek, to the fullest extent permitted by applicable law, trademark and trade dress protection for its products, which protection has been sought in the United States, Canada and many of the other countries in which the Company is either presently operating or plans to commence operations in the near future. The Company's research and development efforts may at some future time result in patentable products, in which case patents would be sought; however, no assurance can be given that patents would be obtained. Notwithstanding the Company's efforts as described above, there can be no assurance that such efforts to protect its trade secrets and trademarks will be successful. Nor can there be any assurance that third parties will not assert claims against the Company for infringement of the proprietary rights of others. If an infringement claim is asserted, the Company may be required to obtain a license of such rights, pay royalties on a retrospective or prospective basis or terminate its manufacturing and marketing of its products alleged to have infringed. Litigation with respect to such matters could result in substantial costs and diversion of management and other resources and could have a material adverse effect on the Company's business, financial condition and operating results. There can be no assurance, however, that third-party claims will not in the future adversely affect the Company's business, financial condition and results of operations.

The Company's manufacturing activity is subject to certain risks. The

Company's results of operations are dependent upon the continued operation of its manufacturing facility in Salt Lake City, Utah. The operation of a nutritional supplement manufacturing facility involves many risks, including power failures, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, natural or other disasters and the need to comply with the requirements or directives of government agencies, including the FDA. There can be no assurance that the occurrence of these or any other operational problems at the Company's facility would not have a material adverse effect on the Company's business, financial condition and results of operations. The Company is subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, manufacture, use and disposal of chemicals, solid and hazardous waste and other toxic and hazardous materials. The Company's manufacturing operations presently do not result in the generation of material amounts of hazardous or toxic substances. Nevertheless, complying with new or more stringent laws or regulations, or more vigorous enforcement of current or future policies of regulatory agencies, could require substantial expenditures by the Company and could have a material adverse effect on its business, financial condition and results of operations. Environmental laws and regulations require the Company to maintain and comply with a number of permits, authorizations and approvals and to maintain and update training programs and safety data regarding materials used in its processes. Violations of those requirements could result in financial penalties and other enforcement actions, and could require the Company to halt one or more portions of its operations until a violation is cured. The combined costs of curing incidents of non-compliance, resolving enforcement actions that might be initiated by government authorities or satisfying business requirements following any period affected by the need to take such actions could have a material adverse effect on the Company's business, financial condition and results of operations.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Supplementary Data of the Company required by this Item are set forth at the pages indicated at Item 14.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information for this Item is incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 11. Executive Compensation

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

Item 13. Certain Relationships and Related Transactions

Incorporated by reference to the Company's definitive proxy statement to be filed pursuant to Regulation 14A.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed as part of this Form:

1. Financial Statements

<TABLE>
<S> <C>

Report of Independent Auditors....................................	F-1
Consolidated Balance Sheets......................................	F-2
Consolidated Statements of Earnings...............................	F-3
Consolidated Statements of Stockholders' Equity....................	F-4
Consolidated Statements of Cash Flows.............................	F-5
Notes to the Consolidated Financial Statements....................	F-7

</TABLE>

2. Supplementary Data

Quarterly Financial Data (unaudited) (included in the Notes to the Consolidated Financial Statements)

3. Financial Statement Schedules.
[Those that are required are included in the Consolidated Financial Statements or Notes thereto.]

4. Exhibits.

Form 10-K

For Year Ended January 1, 2000

Exhibit Index

Exhibit Number	Description
3.1	Articles of Incorporation [Incorporated by reference to the Company's Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
3.2	Bylaws [Incorporated by reference to the Company's Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
4.1	Specimen Stock Certificate for Common Stock, no par value [Incorporated by reference to the Company's Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
10.1	Business Loan Agreement by and between Bank of America National Trust and Savings Association, d/b/a Seafirst Bank ("Seafirst Bank") and the Company [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
10.2	Loan Modification Agreement by and between Seafirst Bank and the Company [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
10.3	Employment Agreement dated June 1, 1997 by and between the Company and Gilbert A. Fuller [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
10.4	Amended and Restated Long-Term Stock Investment and Incentive Plan [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
10.5	Promissory Note and Redemption Agreement dated April 28, 1999 [Incorporated by reference to the Company's Report on Form 10-Q for the period ended April 3, 1999]
10.6	Stock Pledge Agreement dated April 28, 1999 [Incorporated by reference to the Company's Report on Form 10-Q for the period ended April 3, 1999]
10.7	Redemption Agreement dated July 30, 1999 [Incorporated by reference to the Company's Report on Form 8-K, filed September 24, 1999]

10.8 Term Note dated September 20, 1999 [Incorporated by reference to the Company's Report on Form 8-K, filed September 24, 1999]

10.9 Revolving Note dated September 20, 1999 [Incorporated by reference to the Company's Report on Form 8-K, filed September 24, 1999]

10.10 Credit Agreement dated September 20, 1999 [Incorporated by reference to the Company's Report on Form 8-K, filed September 24, 1999]

11.1 Computation of Net Income per Share (included in Notes to Consolidated Financial Statements)

21 Subsidiaries of the Company

27.1 Financial Data Schedule

99.1 Press Release dated September 21, 1999. [Incorporated by reference to the Company's Report on Form 8-K, filed September 24, 1999]

(a) Reports on Form 8-K.

The Company filed a Form 8-K on September 24, 1999 to report the redemption of 2.65 million shares from a company owned and controlled by its founder, Chairman, President and CEO, Myron Wentz.

SIGNATURES

In accordance with Section 13 or 15(d) 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, on this 29th day of March, 2000:

USANA, INC.

By: /s/ Myron W. Wentz

Myron W. Wentz, PhD,
President and Chairman

Date: March 29, 2000

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ Myron W. Wentz - ------------------------------------- Myron W. Wentz, PhD	Chairman, President (Principal Executive Officer)	March 29, 2000
/s/ Ronald S. Poelman - --------------------------------------- Ronald S. Poelman	Director	March 29, 2000
/s/ Robert Anciaux - --------------------------------------- Robert Anciaux	Director	March 29, 2000
/s/ Ned M. Weinshenker - ---------------------------------------	Director	March 29, 2000

Ned M. Weinshenker, PhD

/s/ David A. Wentz Director March 29, 2000
- ---------------------------------------
David A. Wentz

/s/ Gilbert A. Fuller Senior Vice President And Chief March 29, 2000
- ---------------------------------------
Gilbert A. Fuller Financial Officer (Principal
Financial Officer and Principal
Accounting Officer)
</TABLE>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
USANA, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of USANA, Inc. and Subsidiaries (the Company) as of January 2, 1999 and January 1, 2000 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended January 1, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of USANA, Inc. and Subsidiaries as of January 2, 1999 and January 1, 2000 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended January 1, 2000, in conformity with generally accepted accounting principles.

/s/ Grant Thornton LLP

Salt Lake City, Utah

February 1, 2000

USANA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

<TABLE>
<CAPTION>

<S>	January 2, 1999 <C>	January 1, 2000 <C>
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,617	$ 1,411

Receivables, net (Notes D and E)	294	534
Income taxes receivable	-	302
Current maturities of notes receivable (Note D)	16	5
Inventories, net (Notes B and E)	10,543	9,855
Prepaid expenses	1,912	1,536
Deferred income taxes (Note H)	1,233	1,405
Total current assets	16,615	15,048
Property and Equipment, net (Notes C, E and G)	22,751	21,528
Notes Receivable, less current maturities (Note D)	5	-
Other Assets	55	197
	$ 39,426	$ 36,773
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Checks written in excess of cash in bank	$ -	$ 1,416
Current maturities of long-term debt (Note E)	-	2,000
Accounts payable	4,211	4,060
Other current liabilities (Note F)	4,505	5,201
Line of credit (Note E)	-	1,400
Restructuring provision (Note G)	-	2,252
Total current liabilities	8,716	16,329
Deferred Income Taxes (Note H)	624	25
Long-term Debt, less current maturities (Note E)	-	7,500
Commitments and Contingencies (Note J)	-	-
Stockholders' Equity (Notes I, K, N and O)		
Common stock, no par value; authorized 50,000 shares; issued and outstanding 13,047 shares at January 2, 1999 and 10,169 shares at January 1, 2000	9,131	2,877
Retained earnings	21,668	10,078
Note receivable - related party	(531)	-
Accumulated other comprehensive loss	(182)	(36)
Total stockholders' equity	30,086	12,919
	$ 39,426	$ 36,773

</TABLE>

The accompanying notes are an integral part of this statement.

USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

<TABLE>
<CAPTION>

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
<S>	<C>	<C>	<C>
Net sales	$ 85,205	$ 121,558	$ 129,386
Cost of sales	17,852	25,279	25,452

Gross profit	67,353	96,279	103,934
Operating expenses			
Associate incentives (Note I)	39,536	54,408	57,044
Selling, general and administrative	16,040	25,284	31,499
Restructuring and impairment (Note G)	-	-	4,400
Research and development	1,245	1,362	1,377
Total operating expenses	56,821	81,054	94,320
Earnings from operations	10,532	15,225	9,614
Other income (expense)			
Interest income	157	259	240
Interest expense	(16)	(8)	(316)
Other, net	25	(73)	28
Total other income (expense)	166	178	(48)
Earnings before income taxes	10,698	15,403	9,566
Income taxes (Note H)	4,116	5,906	3,665
Net earnings	$ 6,582	$ 9,497	$ 5,901
Earnings per common share (Note N)			
Basic	$ 0.52	$ 0.73	$ 0.49
Diluted	$ 0.49	$ 0.68	$ 0.47
Weighted average common and dilutive common equivalent shares outstanding			
Basic	12,741	12,937	12,158
Diluted	13,319	13,929	12,473

</TABLE>

The accompanying notes are an integral part of this statement.

USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 27, 1997, January 2, 1999 and January 1, 2000

(in thousands)

<TABLE>
<CAPTION>

	Common stock Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive income (loss)	Other	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 28, 1996	12,702	$ 6,769	$ 5,589	$ 10	$ -	$ 12,368
Comprehensive income						
Net earnings for the year	-	-	6,582	-	-	6,582
Foreign currency translation adjustment	-	-	-	(90)	-	(90)
Comprehensive income						6,492
Common stock issued under stock option plan, including tax benefit of $232	110	398	-	-	-	398
Balance at December 27, 1997	12,812	7,167	12,171	(80)	-	19,258

Comprehensive income						
Net earnings for the year	-	-	9,497	-	-	9,497
Foreign currency translation adjustment	-	-	-	(102)	-	(102)
Comprehensive income						9,395
Advances to related party	-	-	-		(531)	(531)
Common stock issued under stock option plan, including tax benefit of $816	235	1,964	-	-	-	1,964
Balance at January 2, 1999	13,047	9,131	21,668	(182)	(531)	30,086
Comprehensive income						
Net earnings for the year	-	-	5,901	-	-	5,901
Foreign currency translation adjustment	-	-	-	146	-	146
Comprehensive income						6,047
Common stock retired and advances to related party (Note I)	(2,950)	(6,596)	(17,491)	-	531	(23,556)
Common stock issued under stock option plan, including tax benefit of $132	72	342	-	-	-	342
Balance at January 1, 2000	10,169	$ 2,877	$ 10,078	$ (36)	$ -	$ 12,919

</TABLE>

The accompanying notes are an integral part of this statement.

USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

<TABLE>
<CAPTION>

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
<S>	<C>	<C>	<C>
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities			
Net earnings	$ 6,582	$ 9,497	$ 5,901
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	2,216	3,377	4,489
Loss on sale of property and equipment	-	30	15
Provision for losses on receivables	139	307	76
Provision for inventory obsolescence	220	792	685
Deferred income taxes	(217)	(160)	(771)
Loss on restructuring and impairment	-	-	4,400
Changes in assets and liabilities			
Receivables	(182)	(494)	(362)
Income taxes receivable	405	-	(283)
Inventories	(336)	(4,988)	33
Prepaid expenses and other assets	(1,617)	(596)	500
Accounts payable	(1,497)	1,014	(172)
Other current liabilities	1,351	1,869	896
Restructuring provision	-	-	(448)

Total adjustments	482	1,151	9,058
Net cash provided by operating activities	7,064	10,648	14,959
Cash flows from investing activities			
Receipts on notes receivable	27	30	16
Increase in notes receivable	-	(5)	-
Increase in notes receivable - related party	-	(531)	-
Purchase of property and equipment	(5,299)	(11,273)	(4,927)
Proceeds from sale of property and equipment	1,110	86	25
Net cash used in investing activities	(4,162)	(11,693)	(4,886)

</TABLE>

(Continued)

USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(in thousands)

<TABLE>
<CAPTION>

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
<S>	<C>	<C>	<C>
Cash flows from financing activities			
Checks written in excess of cash in bank	-	-	1,416
Net proceeds from sale of common stock	166	1,148	210
Common stock retired and advances to related party	-	-	(23,556)
Proceeds from the issuance of long-term debt	-	-	10,000
Increase in line of credit	(1,500)	-	1,400
Principal payments of long-term debt	-	-	(500)
Net cash (used in) provided by financing activities	(1,334)	1,148	(11,030)
Effect of exchange rate changes on cash	(90)	(94)	(249)
Net increase (decrease) in cash and cash equivalents	1,478	9	(1,206)
Cash and cash equivalents at beginning of year	1,130	2,608	2,617
Cash and cash equivalents at end of year	$ 2,608	$ 2,617	$ 1,411
Supplemental disclosures of cash flow information			
Cash paid during the year for			
Interest	$ 16	$ 8	$ 287
Income taxes	3,889	5,506	4,545

</TABLE>

Non-cash investing and financing activities

During 1999, the Company repurchased shares of common stock from a related party for $23,556 and settlement of a $531 note owed to the Company from the related party.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follow.

1. Financial statement presentation

The accounting and reporting policies of USANA, Inc. and Subsidiaries (the Company) conform with generally accepted accounting principles and general practices in the manufacturing industry.

2. Principles of consolidation

The consolidated financial statements include the accounts and operations of USANA, Inc. and its wholly-owned subsidiaries in Canada, Australia, New Zealand, the United Kingdom and Hong Kong. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. Business activity

The Company develops and manufactures nutritional, personal care and weight management products which are sold through a network marketing system throughout the United States, Canada, Australia, New Zealand, and the United Kingdom (hereinafter includes the Netherlands). Direct selling in Hong Kong began in 1999.

4. Fiscal year

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 1999 and 1997 were 52-week years. Fiscal 1998 was a 53-week year.

5. Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

6. Internal software development costs

Software development costs for internally used software are capitalized beginning when adequate funds are committed and technological feasibility for the project is established up to the time the product is ready for use. Amortization of capitalized costs begins when the software is ready for its intended use and after substantially all tests to determine whether the software is operational have been completed. Internally developed software is amortized over 3-5 years.

7. Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

8. Depreciation and amortization

Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service lives. Leasehold improvements are amortized over the shorter of the life of the respective lease or the service life of the improvements. The straight-line method of depreciation and amortization is followed for financial reporting purposes. Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in earnings. The Company capitalizes assets with a cost in excess of one thousand dollars.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Revenue recognition and deferred revenue

The Company receives payment for the sale of products at the time Associates and Preferred Customers place orders. Sales are recorded when the product is shipped and title passes to the customer. Payments received for unshipped products are recorded as deferred revenue and are included in other current liabilities.

10. Income taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial statement and tax bases of assets and liabilities as measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. An allowance against deferred tax assets is recorded in whole or in part when it is more likely than not that such tax benefits will not be realized.

11. Product return policy

Returned product that is unused and resalable will be refunded up to one year from the date of purchase at 100 percent of the sales price to the customer less a 10 percent restocking fee. Returned product that was damaged during shipment to the customer is 100 percent refundable. Return of product other than that which was damaged at the time of receipt by an Associate constitutes potential cancellation of the distributorship. Product returns have not been significant.

12. Research and development

Research and development costs have been charged to expense as incurred.

13. Earnings per share

Basic earnings per common share (EPS) are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on shares outstanding (computed as under basic EPS) and potentially dilutive common shares. Potential common shares included in the diluted earnings per share calculation include in the money stock options granted but not exercised.

14. Fair value of financial instruments

The carrying value of the Company's cash and cash equivalents, notes receivable, accounts receivable, payables and line of credit approximate carrying values due to the short-term maturity of the instruments.

15. Translation of foreign currencies

The foreign subsidiaries' asset and liability accounts, which are originally recorded in the appropriate local currency, are translated for consolidated financial reporting purposes, into U.S. dollar amounts at period-end exchange rates. Revenue and expense accounts are translated at the weighted-average rates for the period. Foreign currency translation adjustments are accumulated as a component of comprehensive income.

16. Common stock

The Company follows the practice of recording amounts received upon the exercise of options by crediting common stock. No charges are reflected in the consolidated statements of earnings as a result of the grant or exercise of stock options. The Company realizes an income tax benefit from the exercise of certain stock options. This benefit results in a decrease in current income taxes payable and an increase in the common stock amount. Common stock and stock options have been adjusted to reflect a two-for-one stock split effective August 3, 1998.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

17. Segment information

The Company's operations involve a single industry segment; the development, manufacturing and distribution of nutritional, personal care and weight management products. The Company operates in various geographic segments. No Associate accounted for more than ten percent of net sales for the years ended December 27, 1997, January 2, 1999 and January 1, 2000.

18. Recently issued accounting pronouncements not yet adopted
----

SFAS 133, as modified by SFAS 137, "Accounting for Derivative Investments and Hedging Activities - Deferral of the Effective Date of FASB Statement 133", requires entities to recognize all derivatives in their financial statements as either assets or liabilities measured at fair value. SFAS 133 also specifies new methods for accounting for hedging transactions, prescribes the items and transactions that may be hedged, and specifies detailed criteria to be met to qualify for hedge accounting.

SFAS 133, as modified by SFAS 137, is effective for fiscal years beginning after June 15, 2000. The Company does not believe that the adoption of SFAS 133 will have a material impact on its financials statements.

19. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

20. Foreign currency contracts

Gains and losses on forward and option contracts that qualify as hedges are deferred and recognized as an adjustment of the carrying amount of the hedged asset, or liability, or identifiable foreign currency firm commitment. Gains and losses on foreign currency exchange and option contracts that do not qualify as hedges are recognized in income based on the fair market value of the contracts.

21. Certain reclassifications

Certain nonmaterial reclassifications have been made to the 1997 and 1998 financial statements to conform to the 1999 presentation.

NOTE B - INVENTORIES

Inventories consist of the following:

<TABLE>
<CAPTION>

	January 2, 1999	January 1, 2000
Raw materials	$ 3,043	$ 2,344
Work in progress	1,534	1,945
Finished goods	6,592	6,388
	11,169	10,677
Less allowance for inventory obsolescence	626	822
	$ 10,543	$ 9,855

</TABLE>

NOTE B - INVENTORIES - CONTINUED

The history of allowance for inventory obsolescence is as follows:

<TABLE>
<CAPTION>

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
Balance at beginning of year	$ -	$ 220	$ 626
Provisions	220	792	685
Write-offs	-	(386)	(489)
Balance at end of year	$ 220	$ 626	$ 822

</TABLE>

NOTE C - PROPERTY AND EQUIPMENT

Cost of property and equipment and their estimated useful lives is as follows:

<TABLE>

<CAPTION>

	Years	January 2, 1999	January 1, 2000
<S>	<C>	<C>	<C>
Building	40	$ 7,414	$ 7,422
Laboratory and production equipment	5-7	2,697	2,926
Computer equipment and software	3-5	11,075	11,629
Furniture and fixtures	3-5	2,024	2,132
Automobiles	3-5	320	323
Leasehold improvements	3-5	461	769
Land improvements	15	542	542
		24,533	25,743
Less accumulated depreciation and amortization		5,681	9,158
		18,852	16,585
Land		2,548	2,548
Deposits and projects in process		1,351	2,395
		$ 22,751	$ 21,528

</TABLE>

NOTE D - RECEIVABLES

Receivable consist of the following:

<TABLE>
<CAPTION>

	January 2, 1999	January 1, 2000
<S>	<C>	<C>
Receivables	$ 542	$ 764
Less allowance for doubtful accounts	248	230
	$ 294	$ 534

</TABLE>

NOTE D - RECEIVABLES - CONTINUED

The history of the allowance for doubtful accounts is as follows:

<TABLE>
<CAPTION>

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
<S>	<C>	<C>	<C>
Balance at beginning of year	$ -	$ 139	$ 248
Provisions	139	307	76
Write-offs	-	(198)	(94)
Balance at end of year	$ 139	$ 248	$ 230

</TABLE>

Notes receivable consists of the following:

<TABLE>

<CAPTION>

<S>	January 2, 1999 <C>	January 1, 2000 <C>
10% note receivable from a company, due over three years, collateralized by equipment	$ 16	$ -
Non-interest bearing note receivable from an employee of the Company, unsecured, due in May 2000.	5	5
	21	5
Less current maturities	16	5
	$ 5	$ -

</TABLE>

NOTE E - LONG TERM DEBT AND LINE OF CREDIT

During 1999, the Company entered into agreements with a financial institution to provide up to $25,000 in secured credit facilities ("Credit Facilities") consisting of a $10,000 5-year term loan and a $15,000 3-year revolving line of credit.

The term loan payable requires quarterly principal payments of $500 and quarterly interest payments at the London Interbank Offered Rate (LIBOR) plus 2.0% (6.0% at January 1, 2000). At January 1, 2000, interest rates on the term loan payable were 7.995% for $500 and 7.9425% for $9,000 using five and six-month LIBOR, respectively, as the base. The term loan matures in September 2004.

Maturities of long-term debt are as follows:

<TABLE>

Fiscal year ending <S>	<C>
2000	$ 2,000
2001	2,000
2002	2,000
2003	2,000
2004	1,500
Thereafter	-
	$ 9,500

</TABLE>

NOTE E - LONG TERM DEBT AND LINE OF CREDIT - CONTINUED

At January 1, 2000, the Company had $13,600 available under the line of credit, which expires September 1, 2002. The interest rate is computed at the bank's prime rate or LIBOR adjusted by features specified in the Credit Facilities. The Company may choose to borrow at the bank's publicly announced Reference Rate plus a margin per annum as specified in the Credit Facilities or, at the option of the Company, loans within the approved commitment may be available in minimum amounts of $100 or more for specific periods ranging from one to six months, at LIBOR plus a margin specified in the Credit Facilities.

Receivables, inventories and equipment secure the Credit Facilities. The Credit Facilities contain restrictive covenants requiring the Company to

maintain certain financial ratios. As of January 1, 2000, the Company was in compliance with these covenants. As of January 1, 2000, $9,500 was due on the 5-year term loan and $1,400 million was outstanding on the line of credit.

NOTE F - OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

<TABLE>
<CAPTION>

	January 2, 1999	January 1, 2000
<S>	<C>	<C>
Associate incentives	$ 1,140	$ 1,201
Accrued compensation	964	772
Sales taxes	845	692
Income taxes	429	564
Accrued Associate promotions	130	478
Deferred revenue	34	35
All other	963	1,459
	$ 4,505	$ 5,201

</TABLE>

NOTE G - RESTRUCTURING AND IMPAIRMENT

Restructuring

The Company recorded a restructuring charge and reserve totaling $2,700 ($1,700 after tax, or $0.13 per share) in the third quarter of 1999. The restructuring charge includes the impact of a substantial reduction in United Kingdom operations, liquidation of associated assets in the United Kingdom and reduction of staff outside of the United Kingdom. Charges incorporated into the Company's restructuring initiative includes $900 for non-voluntary employee termination benefits, $1,400 for the liquidation of associated assets used in United Kingdom operations and $400 for other exit costs.

The Company expects that all activities associated with the Company's restructuring initiative will be completed by the end of the third quarter of 2000. As of January 1, 2000, approximately $448 was charged against the restructuring reserve.

NOTE G - RESTRUCTURING AND IMPAIRMENT - CONTINUED

Impairment

In accordance with Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company wrote off the remaining book value of its former custom network marketing system (legacy system) totaling $1,700 ($1,000 after tax, or $0.09 per share) in the third quarter of 1999. This charge was the result of the Company's decision to move to a new custom network marketing computer system ("System"). Conversion from the legacy system to the new System has been taking place since the time the impairment was recognized. The future benefits of the legacy system to the Company are minimal and immaterial and could have been removed from operation at the

time the impairment was recognized.

NOTE H - INCOME TAXES

Income tax expense (benefit) consists of the following:

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
Current			
Federal and State	$ 3,866	$ 5,343	$ 3,680
Foreign	467	723	756
	4,333	6,066	4,436
Deferred			
Federal and State	(217)	(152)	(935)
Foreign	-	(8)	164
	$ 4,116	$ 5,906	$ 3,665

The income tax provision reconciled to the tax computed at the federal statutory rate of 34 percent for 1997 and 35 percent for 1998 and 1999 is as follows:

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
Federal income taxes at statutory rate	$ 3,637	$ 5,391	$ 3,347
State income taxes, net of federal tax benefit	369	517	370
Difference between U.S. statutory rate and foreign rate	110	141	(23)
All other	-	(143)	(29)
	$ 4,116	$ 5,906	$ 3,665

NOTE H - INCOME TAXES - CONTINUED

Deferred tax assets and liabilities consist of the following:

	January 2, 1999	January 1, 2000
Deferred tax assets		
Inventory capitalization	$ 290	$ 142
Intercompany sales	929	31

Accrued restructuring provision	-	856
All other	14	376
	$ 1,233	$ 1,405
Deferred tax liabilities		
Accumulated depreciation	(358)	(188)
Foreign tax credit carryforward	-	600
All other	(266)	(437)
	$ (624)	$ (25)

</TABLE>

No valuation allowance was provided for the foreign tax credit carryforward of $600 because management believes it is more likely than not that, based on projected future cash flows, these amounts will be recovered prior to expiration in five years.

NOTE I - RELATED PARTY TRANSACTIONS

During fiscal 1998, the Company purchased certain assets and incurred certain expenses on behalf of an officer of the Company. In consideration of these purchases the officer promised to pay to the Company, on demand, the principal amount of $531 plus interest at 7.75 percent per annum. During fiscal 1999, the Company repurchased 2,950 shares from the officer for $24,087, less the $531 owed to the Company.

Several family members of an officer of the Company are Associates of the Company. In the fiscal year ended January 1, 2000, Associate incentives paid to these distributorships totaled $1,115. The officer of the Company has no ownership in and does not receive compensation from these distributorships. The individuals involved in these distributorships do not receive preferential treatment over any Associate of the Company.

NOTE J - COMMITMENTS AND CONTINGENCIES

1. Operating leases

The Company currently conducts its Canadian, Australian, New Zealand and Hong Kong operations in leased facilities. Each of the lease agreements are noncancelable operating leases and expire through 2003. The minimum rental commitments under operating leases at January 1, 2000 are as follows:

<TABLE>
<CAPTION>

Fiscal year ending	
<S>	<C>
2000	$ 484
2001	492
2002	299
2003	17
2004	-
Thereafter	-
	$ 1,292

</TABLE>

NOTE J - COMMITMENTS AND CONTINGENCIES - CONTINUED

1. Operating leases (Continued)

The leases generally provide that property taxes, insurance, and maintenance expenses are obligations of the Company. It is expected that in the normal course of business, operating leases that expire will be renewed or replaced by leases on other properties. The total rent expense for the years ended December 27, 1997, January 2, 1999 and January 1, 2000 was approximately $373, $657 and $545.

2. Contingencies

The Company is involved in various lawsuits and disputes arising in the normal course of business. In the opinion of management, based upon advice of counsel, the ultimate outcome of these lawsuits will not have a material impact on the Company's financial position or results of operations.

3. Employee Benefit Plan

The Company has an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers employees who are at least 18 years of age and have been employed by the Company longer than three months. The Company makes matching contributions of $.50 on each $1.00 of contribution up to six percent of the participating employees compensation. In addition, the Company may make a discretionary contribution based on earnings. The Company's matching contributions vest at 25 percent per year beginning with the first year. Total contributions by the Company to the plan for the years ended December 27, 1997, January 2, 1999 and January 1, 2000 were $133, $172 and $281, respectively.

4. Foreign currency contracts

In order to reduce the impact of changes in foreign exchange rates on consolidated results of operations and future foreign currency denominated cash flows, the Company was a party to various forward exchange contracts at January 1, 2000. These contracts help the Company manage currency movements affecting existing foreign currency denominated assets, liabilities and firm commitments.

At January 1, 2000, the Company had approximately $94 recorded in unamortized option contracts. Total open foreign currency forward exchange contracts at January 1, 2000, are described in the table below:

<TABLE>
<CAPTION>

	Contract Amount		
	Foreign currency	U.S.	Weighted Average Maturities (in months)
<S>	<C>	<C>	<C>
Canadian Dollar	$ 3,275	$ 2,250	3.3
Australian Dollar	$ 11,813	$ 7,818	6.4

</TABLE>

NOTE K - STOCK OPTIONS

On June 23, 1998, the Company's Board of Directors approved the combination of the 1995 Long-term Stock Investment and Incentive Plan and the 1995 Directors' Stock Option Plan without increasing the aggregate number of shares available for issuance under the combined plans. The Amended and Restated Long-Term Stock Investment and Incentive Plan (the Plan) reserved 4,000 shares under the Plan. Accordingly, the Board of Directors has approved the granting of options under the Plan as follows:

NOTE K - STOCK OPTIONS - CONTINUED

As of January 1, 2000, Company directors, officers and key employees have been granted options to acquire 3,032 shares of common stock that vest periodically through June 2004. The options have been granted at prices ranging from $1.53 to $15.48 per share, which were the market prices of the Company's shares on the dates granted. During 1997, exercise prices on certain options were changed to $7.83 per share. The options expire upon the earlier of an expiration date fixed by the committee responsible for administering the Plan or ten years from the date of grant.

The Company has adopted only the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Therefore, the Company continues to account for stock based compensation under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the stock based compensation been determined consistent with SFAS 123, the Company's net earnings and earnings per share would have been changed to the following pro forma amounts:

<TABLE>
<CAPTION>

		Year ended		
		December 27, 1997	January 2, 1999	January 1, 2000
<S>		<C>	<C>	<C>
Net earnings	As reported	$ 6,582	$ 9,497	$ 5,901
	Pro forma	$ 5,541	$ 8,224	$ 4,558
Earnings per share - basic	As reported	$ 0.52	$ 0.73	$ 0.49
	Pro forma	$ 0.43	$ 0.64	$ 0.37
Earnings per share - diluted	As reported	$ 0.49	$ 0.68	$ 0.47
	Pro forma	$ 0.42	$ 0.59	$ 0.37

</TABLE>

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions; expected volatility of 62 percent for 1997, 60 percent for 1998 and 62 percent for 1999; average risk-free interest rate of 6.13 percent for 1997, 5.67 percent for 1998 and 5.50 percent for 1999; average expected life is equal to the actual life for 1997, 1998 and 1999. Dividends were assumed not to be paid during the period of calculation. The weighted-average fair value of options granted was $8.41, $11.42 and $9.34 in 1997, 1998 and 1999, respectively.

Option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Also, the Company's employee stock options have characteristics significantly different from those of traded options including long-vesting schedules, and changes in the subjective input assumptions can materially affect the fair value estimate. Management believes the best assumptions available were used to value the options and the resulting option values are reasonable.

NOTE K - STOCK OPTIONS - CONTINUED

Changes in the Company's stock options are as follows:

<TABLE>
<CAPTION>

<S>	Shares <C>	Exercise price <C>	Weighted-average exercise price <C>
Outstanding at December 29, 1996	2,057	$1.53 - 10.52	$ 6.66
Granted	190	7.83 - 8.75	8.41
Exercised	(109)	1.53	1.53
Canceled or expired	(160)	1.53 - 7.83	5.77
Outstanding at December 27, 1997	1,978	1.53 - 8.75	5.49
Granted	310	8.90 - 15.48	11.42
Exercised	(235)	1.53 - 7.83	4.89
Canceled or expired	(107)	7.83	7.83
Outstanding at January 2, 1999	1,946	1.53 - 15.48	6.74
Granted	125	7.83 - 10.62	9.34
Exercised	(73)	1.53 - 7.83	2.87
Canceled or expired	(14)	7.83 - 10.62	8.63
Outstanding at January 1, 2000	1,984	$1.53 - 15.48	$ 7.03
Exercisable at January 1, 2000	936	$1.53 - 15.48	$ 6.71

</TABLE>

Additional information about stock options outstanding and exercisable at January 1, 2000 is summarized as follows:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of exercise prices <S>	Number outstanding <C>	Weighted-average remaining contractual life <C>	Weighted-average exercise price <C>	Number exercisable <C>	Weighted-average exercise price <C>
$ 1.53	312	5.4 years	$ 1.53	87	$ 1.53
4.85 - 5.97	357	5.9 years	4.98	268	4.94
7.83 - 8.90	1,044	6.2 years	8.08	534	7.94
9.94 - 12.75	191	7.9 years	10.66	31	10.71
13.70 - 15.48	80	8.5 years	15.25	16	15.25
	1,984			936	

</TABLE>

NOTE L - SEGMENT INFORMATION

The Company's chief operating decision makers utilize information about geographic operations in determining the allocation of resources and in assessing the performance of the Company. Management considers the geographic segments of the Company to be the only reportable operating segments.

The accounting policies used to develop segment information correspond to those described in the summary of significant accounting policies. Segment profit or loss is based on profit or loss from operations before income taxes and includes a management fee charged by the domestic operation to each of the foreign entities. All other intersegment transactions are eliminated from the following segment information. Interest revenues and expenses, income taxes, and equity in the earnings of subsidiaries, while significant, are not included in the Company's determination of segment profit or loss in assessing the performance of a segment.

Revenues from external customers for each of the geographic segments is attributed to the identified countries based on the Company's familiarity with its customer base.

Financial information summarized by geographic segment for the years ended December 27, 1997, January 2, 1999 and January 1, 2000 is listed below:

<TABLE>
<CAPTION>

<S>	Revenues from External Customers <C>	Earnings before Income Taxes <C>	Long-lived Assets <C>	Total Assets <C>
Year ended December 27, 1997:				
Domestic	$ 58,975	$ 7,458	$14,789	$23,809
Canada	26,230	3,240	70	1,381
Australia - New Zealand	-	-	237	1,179
United Kingdom	-	-	-	-
Hong Kong	-	-	-	-
All Others	-	-	-	-
Totals	$ 85,205	$10,698	$15,096	$26,369
Year ended January 2, 1999:				
Domestic	$ 69,822	$ 7,981	$20,477	$29,744
Canada	32,739	6,156	246	3,014
Australia - New Zealand	18,659	1,423	1,077	3,850
United Kingdom	338	(144)	1,011	2,812
Hong Kong	-	(13)	-	-
All Others	-	-	-	6
Totals	$121,558	$15,403	$22,811	$39,426
Year ended January 1, 2000:				
Domestic	$ 67,742	$ 3,320	$19,289	$28,052
Canada	29,765	4,816	269	1,606
Australia - New Zealand	26,260	3,582	884	2,838
United Kingdom	2,690	(2,649)	707	2,079
Hong Kong	2,929	538	576	2,186
All Others	-	(41)	-	12
Totals	$129,386	$ 9,566	$21,725	$36,773

</TABLE>

NOTE M - QUARTERLY FINANCIAL RESULTS (Unaudited)

Summarized quarterly financial information for fiscal years 1998 and 1999 is as follows:

<TABLE>
<CAPTION>

	First	Second	Third	Fourth
<S>	<C>	<C>	<C>	<C>
1998 quarter				
Net sales	$ 26,164	$ 30,913	$ 32,123	$ 32,358
Gross profit	$ 20,678	$ 24,505	$ 25,398	$ 25,698
Net earnings	$ 1,936	$ 2,404	$ 2,530	$ 2,627
Earnings per share:				
Basic	$ 0.15	$ 0.19	$ 0.19	$ 0.20
Diluted	$ 0.14	$ 0.17	$ 0.18	$ 0.19

<CAPTION>

	First	Second	Third	Fourth
<S>	<C>	<C>	<C>	<C>
1999 quarter				
Net sales	$ 31,323	$ 32,478	$ 32,359	$ 33,226
Gross profit	$ 24,940	$ 26,138	$ 26,043	$ 26,813
Net earnings	$ 2,128	$ 2,244	$ (750)	$ 2,279
Earnings per share:				
Basic	$ 0.16	$ 0.17	$ (0.06)	$ 0.22
Diluted	$ 0.16	$ 0.17	$ (0.06)	$ 0.22

</TABLE>

NOTE N - EARNINGS PER SHARE

<TABLE>
<CAPTION>

	Year ended		
	December 27, 1997	January 2, 1999	January 1, 2000
<S>	<C>	<C>	<C>
Earnings available to common shareholders	$ 6,582	$ 9,497	$ 5,901
Basic EPS			
Shares			
Common shares outstanding entire period	12,702	12,812	13,047
Weighted average common shares:			
Issued during period	39	125	36
Canceled during period	-	-	(925)
Weighted average common shares outstanding during period	12,741	12,937	12,158
Earnings per common share - basic	$ 0.52	$ 0.73	$ 0.49

</TABLE>

NOTE N - EARNINGS PER SHARE - CONTINUED

Diluted EPS	Year ended December 27, 1997	Year ended January 2, 1999	Year ended January 1, 2000
Shares			
Weighted average common shares outstanding during period - basic	12,741	12,937	12,158
Dilutive effect of stock options	578	992	315
Weighted average common shares outstanding during period - diluted	13,319	13,929	12,473
Earnings per common share - diluted	$ 0.49	$ 0.68	$ 0.47

NOTE O - SUBSEQUENT EVENTS

Subsequent to year-end, the Company announced that its board of directors approved an open market share repurchase program that will include up to one million shares of its outstanding common stock.

EXHIBIT 21

SUBSIDIARIES

Set forth below is a list of all active subsidiaries of the Registrant, the state or other jurisdiction of incorporation or organization of each, and the names under which subsidiaries do business.

Name	Jurisdiction of Incorporation
USANA Canada Co.	Canada
USANA Australia Pty, Ltd.	Australia
USANA New Zealand Limited	New Zealand
USANA (UK) Limited	United Kingdom
USANA Trading Company, Inc.	Barbados
USANA Hong Kong Limited	Hong Kong

Each subsidiary listed above is doing business under its corporate name.

<TABLE> <S> <C>

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<MULTIPLIER> 1,000
<CURRENCY> U.S. DOLLARS

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</TABLE>