UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

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

For the transition period from to

Commission file number: 0-21116

USANA HEALTH SCIENCES, 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, Par Value $0.001 Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark 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. ☒
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
The aggregate market value of common stock held by non-affiliates of the registrant as of July 2, 2005 was approximately $433,062,000.
The number of shares outstanding of the registrant's common stock as of February 24, 2006 was 18,442,698.
Documents incorporated by reference. The registrant incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to the registrant's definitive proxy statement to be filed pursuant to Regulation 14A for the 2006 Annual Shareholders Meeting.

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FORM 10-K
For the Fiscal Year Ended December 31, 2005
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PART I

Item 1. Business

General

USANA Health Sciences, Inc. ("We," "USANA" or the "Company") is a Utah corporation, founded in 1992 by Myron W. Wentz, Ph.D., that develops and manufactures high-quality, science-based nutritional and personal care products, with a commitment to continuous product innovation and sound scientific research. We distribute and sell our products through a network marketing system, a form of direct selling, using independent distributors that we refer to as "Associates." We also sell our products directly to "Preferred Customers" who purchase our products for personal use and are not permitted to resell or distribute the products. As of December 31, 2005, we had approximately 133,000 active Associates and 70,000 active Preferred Customers worldwide, which accounted for 86% and 14% of net sales, respectively, during fiscal year 2005. For purposes of this report, we only count as active those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period.

We maintain executive offices and principal facilities at 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. Our telephone number is (801) 954-7100. We maintain a World Wide Web site at www.usanahealthsciences.com. The information on our Web site should not be considered part of this report on Form 10-K.

Overview of Business Segments

We have two reportable business segments: Direct Selling and Contract Manufacturing.

Direct Selling

The Direct Selling segment represents the Company's principal line of business: developing, manufacturing, and distributing premium, science-based nutritional and personal care products. Under this segment, we sell products from two primary product lines: USANA® Nutritionals, which includes quality supplements and functional foods, and Sensé—beautiful science® (Sensé), a unique line of skin and personal care products. We also offer sales and marketing tools designed to assist our Associates in building their businesses and selling our products, as well as combination packs, which include a variety of products from each product line. In 2005, USANA Nutritionals and Sensé™ product lines represented approximately 82% and 15% of product sales in this segment, respectively. Sales from other items, the majority of which include marketing and sales tools, accounted for the remaining 3% of product sales in this segment during 2005. Our top-selling products as a percent of product sales in this segment during 2005 were: USANA Essentials at 22%, the HealthPak 100™ at 13%, and Proflavanol® at 10%, all of which are part of the USANA Nutritionals product line. Our product lines are focused and compact, with products we believe can provide health benefits to a significant percentage of our customers. Additionally, while not required, our products are designed, manufactured, packaged, and labeled by us at levels that we believe are consistent with pharmaceutical standards.

We distribute and sell our products through a network marketing system using independent distributors that we refer to as "Associates." We also sell products directly to "Preferred Customers" who purchase products for personal use and are not permitted to resell or distribute the products. Associates purchase product not only for their own consumption, but are encouraged to build and manage their own sales force by recruiting, managing, and training others to sell our products. Associates are compensated for a percentage of the sales (purchases) generated by their business group (downline). Associates can also receive compensation on product they sell at retail prices, rather than the wholesale prices at which they purchase product. We consider our high quality products, compact product lines, rewarding compensation

plan, and weekly Associate incentive payments to be attractive components of the USANA network marketing system. We believe that network marketing is an effective way to distribute our products because it allows person-to-person product education, which is not readily available through traditional distribution channels. Additionally, we feel that network marketing appeals to a broad cross-section of people, particularly those seeking to supplement their income, start a home-based business, or pursue entrepreneurial opportunities other than conventional full-time employment.

Our products are distributed and sold in the United States, Canada, and Mexico, which we define as our North American markets; and Australia-New Zealand, Hong Kong, Japan, Taiwan, South Korea, and Singapore, which we define as our Pacific Rim markets. North America is our primary region with sales representing 66.5% of net segment sales in 2005; however, the Pacific Rim markets continue to account for an increasing proportion of total net segment sales. Our Pacific Rim markets contributed to net segment sales in 2005 as follows:

·Australia-New Zealand	14.2%
·Hong Kong	4.0%
·Japan	3.2%
·Taiwan	6.3%
·South Korea	1.5%
·Singapore	4.3%

Net sales reported for each operating region within this segment are determined by the location from which the product shipment originates and are reported for the last three fiscal years, along with other segment financial information, in Note L beginning on page F-24 to the Consolidated Financial Statements. Regional sales are further broken down on pages 36 and 40. This segment contributed $319.6 million, or 97.5%, to consolidated net sales during the year ended December 31, 2005.

Contract Manufacturing

Principal operations for the Contract Manufacturing segment are conducted in a facility located in Draper, Utah, and primarily consist of the manufacture of the Company's Sensé™ line of skin and personal care products. Contract manufacturing services are also provided to a limited number of external customers through this facility. We acquired this facility with the purchase of Wasatch Products Development, Inc. (WPD) in July 2003 as part of a vertical integration strategy that allowed us to bring the production of our Sensé product line in-house.

In October 2005, we completed the acquisition of a manufacturing facility in Tianjin, China for $1.4 million in cash. This facility does not currently manufacture any USANA products.

This segment contributed $8.1 million, or 2.5%, to consolidated net sales during the year ended December 31, 2005. Our contract manufacturing facility located in Draper, Utah accounted for 99.2% of net segment sales during the year, and the manufacturing facility in China accounted for the remaining 0.8% of net segment sales. During the fourth quarter of 2005, our Draper, Utah contract manufacturing facility accounted for 97.3% of net segment sales, and our China manufacturing facility accounted for the remaining 2.7% of net segment sales. Net sales for this segment for the last three fiscal years are reported, along with other segment financial information, in Note L beginning on page F-24 to the Consolidated Financial Statements.

Industry Overview

The nutrition industry includes many small- and medium-sized companies that manufacture and distribute products generally intended to maintain the body's health and general well being. Products within the industry are commonly classified into the following four major categories:

- Nutritional Supplements—products such as vitamins and minerals, specialty supplements, herbs and botanicals, sports performance enhancers, meal replacements, dietary supplements, and compounds derived from the aforementioned;
- Natural and Organic Foods—products such as cereals, milk, non-dairy beverages, and frozen entrees;
- Functional Foods—products with added ingredients or fortification specifically for health or performance purposes; and
- Natural Personal Care—products combining nutrition with skin care.

In their October/November 2004 issue, the *Nutrition Business Journal* ("NBJ") reported that global nutrition industry sales increased 8.4% to over $182 billion for the year 2003. According to NBJ, of that $182 billion, nutritional supplements contributed $61.9 billion, natural & organic foods $38.2 billion, functional foods $65.5 billion, and natural personal care $16.4 billion.

We believe that the following factors drive growth in the nutrition industry:

- The general public's heightened awareness and understanding of the connection between diet and health;
- The aging population in most of our markets, particularly the baby-boomer generation, which tends to use more nutritional supplementation as it ages;
- Rising health care costs and the worldwide trend toward preventive health care; and
- Product introductions in response to new scientific findings.

Nutritional products are distributed through six major sales channels. Each channel has changed in recent years, primarily due to advances in technology and communications that have resulted in improved product distribution and faster dissemination of information. The major sales channels are as follows:

- Mass market retailers, including mass merchandisers, drug stores, supermarkets, and discount stores;
- Natural health food retailers;
- Network marketing;
- Mail order;
- Healthcare professionals and practitioners; and
- The Internet.

We distribute our products through the network marketing channel. According to the World Federation of Direct Selling Associations ("WFDSA"), the direct sales industry currently generates approximately $99 billion annually in worldwide sales with approximately 55 million independent distributors.

According to WFDSA international statistics, the United States remains the largest market for direct sales, with $29.9 billion in annual sales and 13.6 million independent distributors. According to the Direct

Selling Association, wellness products, which include nutritional supplements and functional foods, account for 15.3%, and personal care products account for 29.4%, of U.S. direct sales, respectively.

We believe that we are well positioned to capitalize on growth trends in direct sales, as both a developer and manufacturer of nutritional supplements and personal care products, utilizing our network marketing distribution system.

Operating Strengths

Our principal objective is to be a leading developer, manufacturer, and distributor of science-based nutritional health and skin care products. Our strategy to achieve this objective is to capitalize on our operating strengths, which include our development and sale of science-based products, our strong research and development capability, our in-house manufacturing capacity, our rewarding compensation plan for Associates, and our experienced management team.

Science-based Products. We have developed a very focused and compact line of high-quality health products based upon a combination of published research, *in vitro* and *in vivo* testing, in-house and third-party clinical studies, and sponsored research. Our products are designed, manufactured, packaged, and labeled by us at levels that we believe are consistent with pharmaceutical standards. We also believe that the identification and delivery of essential vitamins, minerals, and other micro-nutrients, as well as macro-nutrients, will help individuals achieve and maintain long-term health. As the manufacturer of most of our products, we control the quality from start to finish, which we believe is a key competitive advantage.

Strong Research and Development. Dr. Wentz directs our research and development efforts, supported by a team of 25 scientists and researchers, including five scientists holding Ph.D. degrees. In our research and development laboratories, our scientists and researchers:

- Investigate *in vitro* and *in vivo* activity of new natural extracts and formulated products;
- Identify and research combinations of nutrients that may be candidates for new products;
- Develop new nutritional ingredients for use in supplements;
- Study the metabolic activity of existing and newly identified nutritional ingredients;
- Enhance existing products, as new discoveries in nutrition and skin care are made; and
- Formulate products to meet regulatory requirements in all of our markets.

In addition, we continue to perform double-blind, placebo-controlled, clinical studies intended to further evaluate the efficacy of our products.

In-house Manufacturing. We now manufacture products that account for approximately 78% of product sales in our Direct Selling segment. We believe that our ability to manufacture our own products is a significant competitive advantage for the following reasons:

- We can better control the quality of raw materials and the purity and potency of finished products;
- We can more reliably monitor the manufacturing process to reduce the risk of product contamination; and
- We believe we can better manage the underlying costs associated with manufacturing our products.

Attractive Associate Compensation Plan and Benefits. We are committed to providing a highly competitive compensation plan to attract and retain Associates, who constitute our sales force. We believe the USANA Associate compensation plan (the "Compensation Plan") is one of the most financially rewarding in the network marketing industry. Associate incentives totaled $128.7 million, or 40.3% of net sales for the Direct Selling segment in 2005. We pay Associate incentives weekly. The Compensation Plan

is a global-seamless plan, meaning that Associates can be compensated each week for their business success in any market in which we conduct business. To support our Associates, we sponsor events throughout the year, which offer information about our products and our 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 USANA management team.

Experienced Management Team. Our management team includes individuals with expertise in various scientific and managerial disciplines, including nutrition, product research and development, international development, marketing, customer network development, information technology, finance, and operations. The current executive management team has been in place for several years and is responsible for supporting growth and international expansion, strengthening our financial condition, and improving our internal controls.

Growth Strategy

We seek to grow our business by pursuing the following strategies:

Attract and Retain Associates and Preferred Customers. We recognize the need to continue to attract and retain Associates. In 2005, we maintained our emphasis on the partnership between the USANA management team and our Associate leaders. Through this partnership, our Associate leaders continued hosting "Health & Freedom" meetings and increased the number of online presentations, both aimed at presenting the business opportunity to potential Associates and providing additional training and resources for existing Associates. In addition to our Annual International Convention, we held several regional events in key growth areas to provide support and training to new Associates in these areas. In the trainings and events held during the year, we focused on the importance of "Delayed Gratification" in our business and the time it takes to build a successful business through training, sponsoring, and acquiring a strong customer base. Additionally, we suggested the use of accolades we have received from various business sources in substantiating our business.

In 2006, we intend to grow our business by continuing to focus on our two core values, "True Health" and "True Wealth." We plan to accomplish this by increasing the number of active Associates and teaching them how to build a strong customer base. By leveraging the current growth we have in our Associate field, we believe we can continue to attract individuals that are interested in joining a winning team and starting a home-based business with USANA. We will emphasize our new RESET™ Weight Management Program, as well as several other contests, incentives, and recognitions that are geared toward those interested in growing their USANA Business to a new level during the year. We will continue to emphasize "Sharing USANA" by educating our Associates on ways they can improve their effectiveness in presenting sales tools and product samples to prospects and the steps they can take to follow-up with prospects. We plan to leverage our many accomplishments, positive press, and break-through technology to demonstrate our competitive advantages within the industry. We also believe that actively promoting the success stories of our Associates in the field will likely increase rank advancements, the number of Associates receiving commissions, and awareness of preventive health. We intend to improve our training and recognition of Associate accomplishments in order to strengthen the commitment and success of our sales force. Moreover, we believe that an increasing interest from business and health care professionals, amateur and professional athletes, clubs, and associations will allow us to reach even more potential customers during 2006.

Enter New Markets. We believe that significant growth opportunities continue to exist in markets where we currently conduct business and in new international markets. New markets are selected following an assessment of several factors, including market size, anticipated demand for USANA products, receptivity to network marketing, and ease of entry, which includes consideration of possible regulatory restrictions on our products or our network marketing system. We have begun to register certain products

with regulatory and government agencies in preparation for further international expansion. Wherever possible, we expect to seamlessly integrate the Compensation Plan in each market to allow Associates to receive commissions for global—not merely local—product sales. The 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 to re-qualify for higher levels of compensation in newly opened markets. We believe this seamless Compensation Plan can significantly enhance our ability to expand internationally, and we intend, where permitted, to integrate future markets into this plan.

Introduce New and Re-formulate Existing Products. Our research and development team is continually researching the latest scientific findings related to nutrition, looking at new technology and attending scientific conferences. If, in the process, we see potential for a new product that provides a true health benefit addressing a particular health issue, and if we believe its benefits can be realized by a significant percentage of our customers, we will generally pursue development of that product. We also upgrade our products every two to five years to incorporate the latest science in nutrition. In 2005, we announced and introduced our new RESET Weight Management Program and accompanying RESET™ kit. We also reformulated our Nutrimeal™ shakes, improving their glycemic index score, as well as their taste. Additionally we created sample packets of our Nutrimeal shakes, which are not only great for sampling, but for convenience as well.

Pursue Strategic Acquisitions. We believe that attractive acquisition opportunities may arise in the future. We intend to pursue strategic acquisition opportunities that would grow our customer base, expand our product lines, enhance our manufacturing and technical expertises, allow vertical integration, or otherwise complement our business or further our strategic goals.

Products

Our primary product lines within the Direct Selling segment consist of USANA® Nutritionals and Sensé™. The USANA® Nutritionals product line is further categorized into three separate classifications: Essentials, Optimizers, and Macro Optimizers.

USANA® Nutritionals

Essentials include core vitamin and mineral supplements that provide a foundation of advanced nutrition for every age group. To help meet the "essential" nutrient needs of children and teens during the years of development, when good nutrition is especially important, USANA offers: Usanimals™, a formulation of vitamins, minerals, and antioxidants, in an easy-to-take chewable tablet for children 13 months to 12 years old, and Body Rox™, a nutritional supplement containing 31 essential vitamins, minerals, antioxidants, and cofactors for adolescents 12 to 18 years old. USANA Essentials for adults is a combination of two products: Mega Antioxidant, a balanced, high-potency blend of 30 vitamins, antioxidants, and other important nutrients to support cellular metabolism and to counteract free-radical damage; and Chelated Mineral, a complete spectrum of essential minerals, in balanced, highly bioavailable forms. The USANA Essentials are also provided in a convenient pillow pack format, HealthPak 100™.

Optimizers are more targeted supplements designed to meet individual health and nutritional needs. Products in this category include Proflavanol®, Poly C®, Procosa® II, CoQuinone® 30, BiOmega-3™, E-Prime™, Active Calcium™, Active Calcium™ Chewable, PhytoEstrin™, Palmetto Plus™, Ginkgo-PS™, Garlic EC™, Visionex®, and OptOmega®.

Macro Optimizers include healthy, low-glycemic functional foods and other related products. Nutrimeal, Fibergy®, SoyaMax™ drink mixes, and Nutrition and Fibergy Bars™ are included in this product category. At our Annual International Convention held in September, we announced and introduced our new RESET Weight Management Program designed to assist in a long-term change in diet,

and accompanying RESET kit. The RESET kit is conveniently packaged in a self-contained box with everything needed to complete a five-day regimen, designed to assist in losing weight and alleviating carbohydrate and sugar cravings. With the introduction of the RESET Weight Management Program, as mentioned above, we also announced the reformulation of our Nutrimeal shakes and created Nutrimeal shake sample packets.

Sensé—beautiful scienceâ

The Sensé product line includes premium, science-based personal care products that support healthy skin and hair by providing advanced topical nourishment, moisturization, and protection. These products are produced with our patent-pending self-preserving technology. This new technology uses a unique blend of botanicals, antioxidants, and active ingredients to keep products fresh, without adding traditional chemical preservatives. Products in this line include Perfecting Essence, Gentle Daily Cleanser, Hydrating Toner, Daytime Protective Emulsion, Eye Nourisher, Night Renewal, Serum Intensive, Rice Bran Polisher, Nutritious Crème Masque, Revitalizing Shampoo, Nourishing Conditioner, Firming Body Nourisher, Energizing Shower Gel, and Intensive Hand Therapy.

All Other

In addition to these principal product lines, we have developed and sell to Associates materials and online tools designed to assist them in building their businesses and selling products. These resource materials or sales tools include product brochures and business forms designed by us and printed by outside publishers. We periodically contract with authors and publishers to produce or provide books, tapes, and other items dealing with health topics and personal motivation, which we then sell to Associates. We also write and develop our own materials for CDs and DVDs, which are produced by our wholly owned subsidiary, FMG Productions. New Associates are required to purchase a starter kit, which contains USANA training materials that assist Associates in starting and growing their businesses. Associates do not earn commissions on the sale of starter kits or sales tools.

The following table summarizes the approximate percentages of total product revenue for the Direct Selling segment that were contributed by our major product lines for the last three fiscal years:

	Sales By Product Line Year Ended		
Product Line	**2003**	**2004**	**2005**
USANA® Nutritionals			
Essentials*	39%	38%	38%
Optimizers	34%	34%	34%
Macro Optimizers	8%	10%	10%
Sensé—beautiful science®	14%	14%	15%
All Other	5%	4%	3%

* The Essentials category under the USANA® Nutritionals product line includes USANA Essentials, HealthPak 100™, Body Rox™, and Usanimals™.

Key Products

The following highlights sales data for our top-selling products as a percentage of Direct Selling segment product sales for the last three fiscal years.

	Year Ended		
	2003	**2004**	**2005**
USANA® Essentials	22%	24%	22%
HealthPack 100™	9%	11%	13%

Proflavanol®	9%	10%	10%

Research and Development

We are committed to providing our customers with advanced health products that reduce the risk of chronic degenerative disease and promote long-term health. We have developed a very compact and focused line of products through our research and development program, which is based upon established research methodologies. Our research facilities are located at our Salt Lake City headquarters, and are equipped to conduct analytical testing of raw ingredients, raw material extraction research, *in vitro* and *in vivo* testing, and human bioavailability studies. Additionally, our scientists are continuously reviewing the latest published research on nutrition, attending scientific conferences, and working in collaboration with a number of outside research institutions and researchers. With the acquisition of our own skin care manufacturing facility in 2003, our research and development expertise also includes formulation development and quality control of skin and personal care products.

We follow pharmaceutical standards established by the U.S. Pharmacopeia in the development and reformulation of our products. Our ingredients are selected to meet a number of criteria, including, but not limited to: safety, potency, purity, stability, bioavailability, natural versus synthetic, and whether the ingredients are reliably available. We control the quality of our products beginning at the development stage, and maintain our quality control through manufacturing, packaging, and labeling. In fiscal years 2003, 2004, and 2005, we expended $1.4 million, $2.0 million, and $2.3 million, respectively, on company-sponsored research and development activities. We intend to continue to dedicate resources at similar levels for the research and development of new products and the reformulation of existing products.

Manufacturing and Quality Assurance

Tablet manufacturing is conducted at our Salt Lake City, Utah manufacturing facility. The production process for tablet-based products includes identifying and evaluating suppliers of raw materials, acquiring raw materials, analyzing raw material quality, weighing or otherwise measuring the raw materials, mixing raw materials into batches, forming the mixtures into tablets, coating and sorting the tablets, analyzing tablet quality, packaging finished products, and analyzing finished product quality.

Our tablet manufacturing process uses automatic and semi-automatic equipment. We conduct sample testing of raw materials and finished products for purity, potency, and composition conforming to strict specifications. Constructed in 1996, the tablet production facility is registered with the U.S. Food and Drug Administration (“FDA”) and Health Canada and has been inspected and certified by the Australian Therapeutic Goods Administration (“TGA”). In the United States, the manufacture of nutritional supplements and related products requires compliance with food-level Good Manufacturing Practice regulations (“GMP’s”). We believe that our processes comply with the FDA’s more demanding drug-level GMP’s. The certification by the TGA also denotes compliance with that agency’s drug-level GMP’s.

In addition to tablet manufacturing, we also manufacture premium personal care products at our Draper, Utah manufacturing facility, which we acquired in July of 2003 as part of a vertical integration strategy to bring the production of our Sensé™ product line in-house. Contract manufacturing services are

also provided to a limited number of third-party customers through this facility. During 2004, we completed construction upgrades to our Draper, Utah manufacturing facility that were designed to conform it to the FDA’s GMP’s. The production process for personal care products includes identifying and evaluating suppliers of raw materials, acquiring raw materials, analyzing raw material quality, weighing or otherwise measuring the raw materials, mixing raw materials into batches, analyzing liquid batch quality, packaging finished products, and analyzing finished product quality.

Our Draper manufacturing facility is registered with the FDA as a pharmaceutical facility, consistent with a facility that manufactures over-the-counter personal care products. The facility has standard kettles and technology for producing batches of personal care items and semi-automatic packaging equipment for packaging the end product. It employs qualified staff to develop, implement, and maintain a quality system that we believe is consistent with requirements under drug-level GMP’s.

We contract with third-party manufacturers and suppliers for the production of some of our products. These third-party suppliers and manufacturers produce and, in most cases, package these products according to formulations developed by or in conjunction with our in-house product development team. Products currently supplied through third parties include gelatin-capsuled supplements, Garlic EC™, OptOmega® , certain powdered drink mixes, and nutrition and fiber bars.

We conduct quality control processes in two in-house laboratories located in Salt Lake City, Utah. In the microbiology laboratory, scientists test for biological contamination of raw materials and finished goods. In the analytical chemistry laboratory, scientists test for chemical contamination and accurate active ingredient levels of raw materials and finished products. Both laboratories conduct stability tests on finished products to determine product shelf life. Our laboratory staff also performs chemical assays on vitamin and mineral constituents under United States Pharmacopoeia methods and other internally validated methods. In addition to the quality control and clinical laboratories, our headquarters facility also houses a laboratory designated for research and development.

Most of the raw ingredients used in the manufacture of our products, for both the Direct Selling and Contract Manufacturing segments, are available from a number of suppliers. We have not generally experienced difficulty in obtaining necessary quantities of raw ingredients. When supplies of certain raw materials have tightened, we have been able to find alternative sources of raw materials, as needed, and believe we will be able to do so in the future, if the need arises.

In 2003 we began experiencing a shortage in supply of one of our raw materials, Coenzyme Q10 (CoQ10). At that time awareness of the benefits derived from CoQ10 had increased dramatically, causing a sharp increase in demand and a subsequent shortage in supply. Although we had qualified multiple sources for this raw ingredient, as a result of the increased demand and shortage in supply, our purchase price on this raw ingredient continued to dramatically increase through 2004 and the first part of 2005. By mid-2005 some

suppliers had re-tooled their manufacturing facilities to increase production capacity of CoQ10, and more competitors entered the market, which has caused supply to increase and purchase prices to decline.

Our Salt Lake City, Utah manufacturing facility has five kitting or dispensing rooms, four large blenders, seven production tablet presses, three coaters, three sorting lines, two bottling lines, and two pillow-pack lines. We currently operate two ten-hour shifts, four days per week. There is, however, no restriction from processes or equipment to add and additional shift for increased capacity. Based on equipment capacity and current product mix, the average manufacturing and packaging utilization rate is at approximately 66% of capacity, assuming two ten-hour shifts, four days per week.

Our Draper, Utah manufacturing facility currently produces an average of 6.8 million filled containers per annum. Assuming two ten-hour shifts per day, four days per week, the facility uses approximately 64% of manufacturing and packaging capacity.

Distribution and Marketing

We distribute products through a network marketing system, which is a form of person-to-person direct selling through a network of vertically organized independent 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, has contributed to the rapid growth of network marketing. The concept of network marketing is based on the strength of personal recommendations that frequently come from friends, neighbors, relatives, and close acquaintances. We believe that network marketing is an effective way to distribute our products because it allows person-to-person product education, which is not as readily available through other distribution channels.

A person who wishes to sell USANA products must join our independent sales force as an Associate. A person becomes an Associate by completing an application under the sponsorship of an existing Associate. The new Associate then becomes part of the sponsoring Associate's downline sales organization. New Associates sign a written contract and agree to adhere to the USANA policies and procedures. New Associates are also required to purchase a starter kit that includes a detailed manual, including our policies and procedures. Starter kits are sold at our cost for a purchase price of approximately $49. We also offer starter kits in an electronic format at a lower price, which are also sold at our cost.

Subject to payment of an annual renewal fee, Associates may continue to distribute products until they voluntarily withdraw or are terminated. Initial training of Associates about the products, the Compensation Plan, network marketing, and about USANA is provided primarily by an Associate's sponsor and others in their sales organization. In addition, we develop and sell training materials and sales tools to assist Associates in building their businesses. We also periodically sponsor and conduct regional, national, and international Associate events and intensive leadership training seminars. Attendance at these sessions is voluntary, and we undertake no generalized effort to provide individualized training to Associates, although experience shows that the most effective and successful Associates participate in training activities. Associates may not sell competitive products to other USANA Associates or solicit USANA Associates to participate in other network marketing opportunities. Our policies and procedures also restrict Associates' advertising and representations or claims concerning USANA products or the Compensation Plan.

The 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 sell USANA products to consumers. We believe this Compensation Plan is distinctive for its weekly distributions and equitable payouts, which are designed to create appropriate incentives for the sale of USANA products. Each Associate must purchase and sell products in order to earn commissions and bonuses. Associates cannot simply recruit others for the purpose of developing a downline and earn income passively, depending solely on the efforts of the downline.

Associates can earn compensation primarily in three ways:

- Generating sales volume points based on their sales activity and the sales activity of their downline sales organization;
- Participating in a leadership bonus pool based on certain performance requirements; and
- Purchasing products at wholesale prices from USANA and selling them to consumers at higher retail prices.

We also offer Associates the opportunity to earn additional compensation through Company-sponsored promotions and contests. Most of our products are assigned sales volume points. Commission

payments to Associates are based on total personal and downline sales volume points, with commissions paid weekly. As an Associate successfully expands his or her downline sales organization and as those in the downline also successfully expand, the Associate can receive higher commissions.

We endeavor to seamlessly integrate this Compensation Plan across all markets in which USANA products are sold, allowing Associates to receive commissions for global—not 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 may expand their downline organizations into new markets without establishing new downlines or requalifying for higher levels of compensation in the newly opened markets. We believe this seamless Compensation Plan significantly enhances our ability to expand internationally, and we intend, where permitted, to continue to integrate new markets into this plan.

Most Associates sell our products on a part-time basis and consume them personally. The sponsoring of new Associates results in the creation of multiple levels within our network marketing structure. Sponsored Associates are referred to as the "downline" of the sponsoring Associate. Downline Associates may also sponsor new Associates, creating additional levels in their network, but also forming a part of the same downline as the original sponsoring Associate. Associates interested in earning additional income who successfully expand their business network or downline can qualify for higher levels of compensation, as well as leadership bonuses, by attaining certain sales volume levels and demonstrating leadership abilities. We do not pay commissions based on recruiting or sponsorship activity.

We also sell directly to customers who purchase products only for personal consumption. This program is our "Preferred Customer" program. Preferred Customers may not resell or distribute the products. We believe this program gives us access to a market that would otherwise be missed, by targeting customers who enjoy USANA products, but who prefer not to maintain a sales, distribution, or other business relationship with USANA. Although our policies prohibit Preferred Customers from engaging in retail sales of products purchased through the program, they may enroll as Associates at any time if they desire. Only Associates are eligible to earn commissions and participate in the Compensation Plan.

Product Returns

Our product return policy allows retail customers to return the unused portion of any product to the Associate who sold them the product for a full cash refund. We reimburse our Associates based on the original form of payment or with product or credit on account upon receipt of proper documentation and the return of the remaining product.

All returned product within the first 30 days following purchase is refunded at 100% of the sales price to all non-Associate customers. This 30-day return policy is offered to Associates only on their first order. All other returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price less a 10% restocking fee. Return of product that was not damaged at the time of receipt by the Associate may result in cancellation of the Associate's distributorship according to the terms of the Associate agreement. During fiscal years 2003, 2004, and 2005 returns as a percentage of net sales were 2.4%, 2.1%, and 1.5%, respectively.

Major Customers

Sales in our Direct Selling segment are made to independent Associates and Preferred Customers. No single customer accounted for 5% or more of net sales in any of the last three fiscal years. Associates are independent contractors and are not agents, employees, or legal representatives of USANA. Our employees and affiliates cannot be Associates, although there is no prohibition on their family members becoming Associates as long as they do not reside in the same household as the employee or affiliate. Associates may sell products only in countries where we have approved the sale of our products.

In the Contract Manufacturing segment, we had two customers in 2005 that each accounted for more than 10% of segment sales.

Compliance by Associates

From time to time Associates fail to adhere to the USANA policies and procedures, including those governing the marketing of our products or making representations regarding the Compensation Plan. We systematically review reports of alleged Associate misbehavior. Infractions of the policies and procedures are reported to a compliance committee that determines what disciplinary action may be warranted in each case. If we determine that an Associate has violated any of the USANA policies and procedures, we may take a number of disciplinary actions. For example, we may impose sanctions, such as warnings, fines or probation. We also may withdraw or deny awards, suspend privileges, withhold commissions until specific conditions are satisfied, or take other appropriate actions at our discretion. More serious infractions may result in termination of the Associate's purchase and distribution rights completely.

Information Technology

We believe that the ability to efficiently manage distribution, compensation, manufacturing, inventory control, and communications functions through the use of sophisticated and dependable information processing systems is critical to our success. To optimally support our customer base and core business processes, our information technology resources consist of a customized, Web-enabled order-entry system and an Enterprise Resource Planning system that operate on an Oracle platform and are fully integrated worldwide. Our information systems are maintained primarily by our in-house staff.

Regulatory Matters

Product Regulation. Numerous governmental agencies in the United States and other countries regulate the manufacturing, packaging, labeling, advertising, promoting, distributing, and the selling of nutrition, health, beauty, and weight management products. In the United States advertisement of our products is regulated by the Federal Trade Commission ("FTC") under the FTC Act and, where such advertising is considered to be product labeling by the FDA, under the Food, Drug, and Cosmetic Act ("FD&C") and regulations promulgated under that act. USANA products are also subject to regulation by, among others, the Consumer Product Safety Commission, the US Department of Agriculture, and the Environmental Protection Agency. The manufacturing, labeling, and advertising of products are also regulated by various governmental agencies in each foreign country in which they are distributed. For example, in Australia we are subject to the Therapeutic Goods Administration and in Japan to the Ministry of Health, Labor and Welfare.

Our largest product group in terms of sales includes products that are regulated as dietary supplements under the FD&C. Dietary supplements are also regulated in the United States under the Dietary Supplement Health and Education Act of 1994 ("DSHEA"). We believe DSHEA provides a favorable regulatory climate to the dietary supplement industry. Some of our powdered drink, food bar, and other nutrition products 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. Although we believe our product claims comply with the law, we may need to revise some product labeling at a future date if labeling requirements change.

Under these regulations, 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.

On March 13, 2003, the FDA announced a proposal for new GMP's specific to dietary supplements. As of December 31, 2005, there has been no update to the FDA's proposal for new dietary supplement GMP's. These GMP's, if promulgated, may be significantly more rigorous than currently applicable GMP's. We believe that we currently manufacture our dietary supplement products according to the standards of the FDA's pharmaceutical-level GMP's. If new GMP's are adopted, however, we may be required to expend additional capital and resources on manufacturing controls in the future in order to comply with the law.

Other products include cosmetics and products that are deemed to be over-the-counter ("OTC") drugs. In general, our cosmetic products are not subject to pre-market approval by the FDA. However, cosmetics are subject to regulation by the FDA under the FD&C 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 (i.e., that are intended to treat or prevent disease or affect the structure or function of the body), such as our sunscreens, are regulated as drugs. OTC drug products may be marketed if they conform to the requirements of the OTC monograph that is applicable to that drug. Drug products not conforming to monograph requirements require an approved New Drug Application ("NDA") before marketing. Under these provisions, if the agency were to find that a product or ingredient of one of our OTC drug products is not generally recognized as safe and effective or is not included in a final monograph applicable to one of our OTC drug products, we will have to reformulate or cease marketing that product until it is the subject of an approved NDA or until the time, if ever, that the monograph is amended to include the product. If such an agency ruling were to become final, we would be required 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, the drug must comply with other requirements under the FDCA, including GMP's, labeling, and the FDCA's misbranding and adulteration provisions.

Advertising of 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 disseminating 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, we are required to have adequate substantiation for all material advertising claims made for our 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 issued a guidance document to assist companies in understanding and complying with the substantiation requirement. We believe that we have organized the documentation to support our advertising and promotional practices in compliance with these guidelines.

The FTC may enforce compliance with the law in a variety of ways, both administratively and judicially, using 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 the agency deems necessary to protect the public. Violation of these orders could result in substantial financial or other penalties. We have not been notified that we were the subject of any action by the FTC, but any action in the future by the FTC could materially adversely affect our ability to successfully market our products.

The events of September 11, 2001 highlighted the need to enhance the security of the U.S. food supply. Congress responded by passing the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 ("Bioterrorism Act"). We expect that several provisions of the Bioterrorism Act will place additional regulatory compliance issues upon us. For example, one provision in the Bioterrorism Act requires the Secretary of Health and Human Services to develop regulations that mandate domestic and foreign facilities that manufacture, process, pack, or hold food for human or animal consumption in the United States to register with the FDA. On November 24, 2003, we fulfilled this requirement by registering with the FDA. Another provision of the Bioterrorism Act mandates that the FDA receive prior notification of all food importation. Although some of our raw materials and certain manufactured product may originate outside of the United States, we procure these items from entities in the United States. From time to time we may bring consumable products that we have sent from our Salt Lake facility to our international locations back into the United States from one or more of these locations. When bringing these products back into the United States from any international location, we are required to comply with this notification requirement.

In markets outside the United States, prior to commencing operations or marketing products, we 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 USANA products for the market or may be unavailable with respect to certain products or product ingredients. We

must also comply with local product labeling and packaging regulations that vary from country to country. Foreign regulatory requirements have not placed a significant burden on our ability to operate in current foreign countries.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business in the future. Future changes could include 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 of these requirements could have a material adverse effect on our business, financial condition, and results of operations.

Network Marketing Regulation. Laws and regulations in each country in which we operate prevent the use of deceptive or fraudulent practices that have sometimes been inappropriately associated with legitimate direct selling and network marketing activities. These laws 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 or solely 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 requiring little or no effort. Generally these laws are directed at ensuring that product sales ultimately are made to consumers and that advancement within sales organizations is based on sales of the enterprise's products, rather than investments in the organizations or other non-retail sales related criteria or activity. Where required by law, we obtain regulatory approval of our network marketing system, or, where approval is not required or available, the favorable opinion of local counsel as to regulatory compliance.

In addition to federal regulation in the United States, each state has enacted its own "Little FTC Act" to regulate sales and advertising. Occasionally we receive requests to supply information regarding our network marketing plan to regulatory agencies. Although we have from time to time modified our network marketing system to comply with interpretations of various regulatory authorities, we believe that our network marketing program is in compliance with laws and regulations relating to network marketing

activities in our current markets. Nevertheless, we remain subject to the risk that, in one or more of our present or future markets, the marketing system or the conduct of certain Associates could be found not to be in compliance with applicable laws and regulations. Failure by an Associate or us to comply with these laws and regulations could have a material adverse effect on our business in a particular market or in general. Any or all of these factors could adversely affect the way we do business and could affect our 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 to our knowledge we have not been the target of an FTC investigation, there can be no assurance that the FTC will not investigate us in the future.

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

Transfer Pricing Regulation. We have adopted transfer prices, which are supported by a formal transfer pricing study for the sale of products to our subsidiaries in accordance with applicable transfer pricing laws. In addition, agreements between the subsidiaries and the parent corporation have been entered into for services and contractual obligations, such as the payment of Associate incentives that are also supported by the same formal transfer pricing study. 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 our standard transfer pricing practices for products, we could become subject to higher taxes and our earnings may be adversely affected if our foreign tax credit was limited on our U.S. tax return. The tax treaties between the United States and most foreign countries provide for competent authority relief to avoid any double taxation. We believe that we operate in compliance with all applicable transfer pricing regulations. However, there can be no assurance that we will continue to be found to be operating in compliance with transfer pricing regulations or that those laws will not be modified, which may require changes in our operating procedures.

Competition

The business of developing and distributing nutritional and personal care products, such as those we sell and distribute, is highly competitive due to the nature of the industry. The nutritional supplement market is characterized by:

- Large selections of essentially similar products that are difficult to differentiate;
- Retail consumer emphasis on value pricing;
- Changing formulations based on evolving scientific research;
- Low barriers to entry 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 our other product lines.

Numerous manufacturers, distributors, and retailers compete for consumers and, in the case of other network marketing companies, for distributors. We compete directly with other entities that develop,

manufacture, market, and distribute products in each of our product lines. We compete with these entities by emphasizing the underlying science, value, and superior quality of our products, as well as the convenience and financial benefits afforded by our network marketing system and Compensation Plan. However, many of our competitors are substantially larger, have greater financial resources, and have broader name recognition than we have. There can be no assurance that we will be able to effectively compete in this intensely competitive environment.

Our markets are highly sensitive to the introduction of new products that may rapidly capture a significant share of those markets. Our product offerings in each product category are relatively few, compared to the wide variety of products offered by many of our competitors, and are often premium priced. As a result, our ability to remain competitive depends in part upon the successful introduction of new products and enhancements of existing products.

We also compete with other network marketing organizations for the time, attention, and commitment of new and current Associates. Our ability to remain competitive in this regard depends, in significant part, on our success in recruiting and retaining Associates. We believe that we offer a rewarding Associate Compensation Plan and attractive Associate benefits and services. To the extent practicable, our Associate Compensation Plan is designed to be seamless, permitting international expansion without re-qualification or re-entry requirements. We also pay Associate incentives weekly, reducing the time an Associate must wait between purchase and sale of products and payment of commissions. However, there can be no assurance that our programs for recruiting and retaining Associates will be successful. The pool of individuals interested in the business opportunities presented by network marketing 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 we believe that we offer an attractive opportunity for our Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

We believe 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 network marketing and nutritional product industry include Herbalife, Inc., Market America, Inc., Nature's Sunshine Products, Inc., Nu Skin Enterprises, Inc., NBTY, Inc., and Schiff Nutrition International, Inc. We believe there are other manufacturers of competing product lines that may launch direct selling enterprises, which will compete with us in certain product lines and for Associates. There can be no assurance that we will be able to successfully meet the challenges posed by this increased competition.

Intellectual Property

Trademarks. We have developed and we use registered trademarks in our business, particularly relating to our corporate and product names. We own 14 trademarks registered with the United States Patent and Trademark Office. We also have one pending application to register a trademark in the United States. 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. We have filed applications and own trademark registrations, and we intend to register additional trademarks in foreign countries where USANA products are or may be sold in the future. Protection afforded to registered trademarks in some jurisdictions may not be as extensive as the protection available in the United States.

We also claim ownership and protection of certain product names, unregistered trademarks, and service marks under common law. Common law trademark rights do not provide 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. We believe these trademarks, whether registered or claimed under common law, constitute valuable assets, adding to recognition of USANA, and the marketing of USANA products. We therefore believe that these proprietary rights have been and will continue to be important in enabling us to compete.

Trade Secrets. We own certain intellectual property, including trade secrets, that we seek to protect, in part, through confidentiality agreements with employees and other parties, although some employees involved in research and development activities have not entered into these agreements. Even where these agreements exist, there can be no assurance that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known to or independently developed by competitors. Our proprietary product formulations are generally considered trade secrets, but are not otherwise protected under intellectual property laws.

Patents. We have two patents, issued in 2002, which will continue in force for 17 years from the date of issue. These patents are process patents and relate to the method of extracting an antioxidant from olives and the waste products of olive oil production. In 2003, we entered into a licensing agreement with a supplier to make olive extract using our patented process. Currently, it is very difficult to determine the exact future benefit of these patents. However, we believe that the patents have the potential to generate additional revenue in the future through new product development and royalties from licensing.

Products within the Contract Manufacturing segment are developed on behalf of customers and are labeled under customer brand names. We currently do not possess intellectual property claims for products in this segment.

We intend to protect our legal rights concerning intellectual property by all appropriate legal action. Consequently, we may become involved from time to time in litigation to determine the enforceability, scope, and validity of any of the foregoing proprietary rights. Any patent litigation could result in substantial cost and divert the efforts of management and technical personnel.

Seasonality

We believe that the impact of seasonality on results of operations is not material for either the Direct Selling or Contract Manufacturing segments.

Backlog

Products sold within the Direct Selling segment are typically shipped within 72 hours after the receipt of the order. As of February 24, 2006, there was no significant backlog in either the Direct Selling or Contract Manufacturing segment.

Working Capital Practices

We maintain sufficient amounts of inventory in stock for our Direct Selling segment in order to provide a high level of service to Associates and Preferred Customers. Substantial inventories are required to meet the needs of our dual role as manufacturer and distributor. Our Contract Manufacturing segment maintains adequate amounts of commodity inventory (that which can be used for various customers) and minimal quantities of specialty inventory (that which is ordered specifically for the needs of individual customers) to meet customer demand. We also watch seasonal commodity markets and may buy ahead of normal demand to hedge against cost and supply risks.

Environment

We are not aware of any instance in which we have contravened federal, state, or local provisions enacted for or relating to protection of the environment or in which we otherwise may be subject under environmental laws to liability for environmental conditions that could materially affect operations.

Employees

As of February 24, 2006, we had 769 employees worldwide, as measured by full time equivalency. Our employees are not currently represented by a collective bargaining agreement, and we have not experienced work stoppages as a result of labor disputes. We believe our relationship with our employees is good.

Additional Available Information

We make available, free of charge at our corporate web site, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. This information may also be obtained from the SEC's on-line database located at www.sec.gov.

Item 1A. Risk Factors

Forward-Looking Statements and Certain Risks

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 relate to our expectations, hopes, beliefs, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases, such as "believe," "expect," "anticipate," "should," "plan," "estimate," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our financial performance, revenue and expense levels in the future, and the sufficiency of our existing assets to fund future operations and capital spending needs. Actual results could differ materially from the anticipated results or other expectations expressed in these forward-looking statements or for the reasons discussed below. The fact that some of the risk factors may be the same or similar to past reports we have filed with the Securities and Exchange Commission means only that the risks are present in multiple periods. We believe that many of the risks detailed here are part of doing business in the industry in which we operate and will likely be present in all periods reported. The fact that certain risks are 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 we assume no obligation to update them or to update the reasons why actual results could differ from those projected in these forward-looking statements. Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include the following:

As a network marketing company, we are dependent upon an independent sales force and we do not have direct control over the marketing of our products. We rely on non-employee, independent Associates to purchase, market, and sell our products. Associates are independent contractors who purchase products directly for their own use or for resale. Associates typically work at the distribution of the products on a part-time basis and may and likely will engage in other business activities, some of which may compete with us. We have a large number of Associates and a relatively small corporate staff to implement our marketing programs and to provide motivational support to our Associates. We undertake minimal effort to provide individual training to Associates. Associates may voluntarily terminate their agreements with us at any time. There is typically significant turnover in Associates from year to year.

Because of this high turnover, we must continually recruit new Associates. Our net sales are directly dependent upon the efforts of these

non-employee, independent Associates. Future growth in sales volume will depend in large part upon our success in increasing the number of new Associates and improving the productivity of Associates.

Our net sales are significantly affected by our success in growing existing markets, as well as opening new markets. If we lose market share in existing markets or are unable to open new markets we might have difficulty achieving our long-term objectives. We experienced revenue growth in 2003 and 2004 due in part to the successful expansion of our operations into Taiwan, South Korea, Singapore and Mexico. North Korea has experienced significant political tension created by North Korean government actions involving its nuclear program. There is no assurance that this situation will not adversely affect our operations in South Korea or that the tensions created by the situation in North Korea will not adversely affect our other operations in neighboring countries, such as Japan, Hong Kong, and Taiwan. If the political situation in North Korea adversely affects the economies or political situation in South Korea or our existing markets in the region, our net sales and profits in fiscal year 2006 may be affected.

In 2005 we planned to open one new market, however, we have not yet received all required local government approvals to commence operations in that market. If we are unable to obtain local government approval, our net sales and profits in fiscal year 2006 may fall short of guidance for the year.

On December 1, 2005, China announced the adoption of new regulations governing direct selling. Single-level compensation models are permissible under the new regulations, however, these regulations prohibit multi-level compensation models as practiced by USANA and many other direct selling companies. If we were to enter the Chinese market we would be required to adjust our compensation and selling model to comply with the specific form of direct selling permissible under the new regulations. These adjustments could require more time and effort to enter the Chinese market than would otherwise be necessary if multi-level compensation models were permissible. Additionally, modifying our successful compensation plan and sales model may create uncertainty regarding our expectations for success after entering the market.

If the number or productivity of independent Associates does not increase, our revenue will not increase. To increase revenue, we must increase the number and/or the productivity of our Associates. We can provide no assurances that the number of Associates will increase or remain constant, or that their productivity will increase. We experienced a 33.3%, 29.5%, and 16.7% increase in active Associates during 2003, 2004, and 2005 respectively. The number of active Associates may not increase and could decline in the future. Associates may terminate their services at any time, and, like most direct selling companies, we experience a high turnover among Associates from year to year. We cannot accurately predict any fluctuation in the number and productivity of Associates because we primarily rely upon existing Associates to sponsor and train new Associates and to motivate new and existing Associates. Operating results could be adversely affected if our existing and new business opportunities and products do not generate sufficient economic incentive or interest to retain existing Associates and to attract new Associates.

The violation of marketing or advertising laws by Associates in connection with the sale of our products or the promotion of our Compensation Plan could adversely affect our business. New Associates sign a written contract and agree to adhere to the USANA policies and procedures. Although these policies and procedures prohibit Associates from making certain claims regarding products or income potential from the distribution of the products, Associates may from time to time, without our knowledge and in violation of our policies, create promotional materials or otherwise provide information that does not accurately describe our marketing program. They also may make statements regarding potential earnings, product claims, or other matters in violation of our policies or applicable laws and regulations concerning these matters. These violations may result in legal action against us by regulatory

agencies or state attorneys general. Legal actions against Associates or others associated with us could lead to increased regulatory scrutiny of our business, including our network marketing system. We take what we believe 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 our Compensation Plan are observed. There can be no assurance, however, that our efforts in this regard will be sufficient to accomplish this objective. Publicity resulting from these Associate activities can also make it more difficult for us to attract and retain Associates and may have an adverse effect on our business, financial condition, and results of operations.

Network marketing is subject to intense government scrutiny and regulation, which adds to the expense of doing business and the possibility that changes in the law might adversely affect our ability to sell some of our products in certain markets. Network marketing systems such as ours 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. We are subject to the risk that, in one or more of our present or future markets, our marketing system could be found not to comply with these laws and regulations or may be prohibited. Failure to comply with these laws and regulations or such a prohibition could have a material adverse effect on our business, financial condition, and results of operations. Further we may simply be prohibited from distributing products through a network-marketing channel in some foreign countries, or be forced to alter our Compensation Plan.

Our business is subject to the effects of adverse publicity and negative public perception. Our ability to attract and retain Associates and to sustain and enhance sales through our Associates can be affected by adverse publicity or negative public perception regarding our industry, our competition, or our business generally. 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 our products or ingredients specifically, and regulatory investigations, regardless of whether those investigations involve us or our Associates or the business practices or products of our competitors or other network marketing companies. There can be no assurance that we 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 our business, financial condition, and results of operations.

The loss of key management personnel would adversely affect our business. Our Founder, Chairman and CEO, Dr. Wentz, is a highly visible spokesman for our products and our business, and our message is based in large part on the vision and reputation of Dr. Wentz, which helps distinguish us from our competitors. The loss or limitation of Dr. Wentz as the lead spokesman for our mission,

business and products could have a material adverse effect upon our business, financial condition, and results of operations. In addition, our executive officers, including executive vice presidents, are primarily responsible for our day-to-day operations, and we believe our success depends in part on our ability to retain our executive officers, to compensate our executive officers at attractive levels, and to continue to attract additional qualified individuals to our management team. We cannot guarantee continued service by our key executive officers. We do not maintain key man life insurance on any of our executive officers, nor do we have an employment agreement with any of our executive officers. The loss or limitation of the services of any of our executive officers or the inability to attract additional qualified management personnel could have a material adverse effect on our business, financial condition, and results of operations.

The beneficial ownership of a significant percentage of our common stock gives Dr. Wentz effective control and limits the influence of other shareholders on important policy and management issues. Gull Holdings, Ltd., an entity that is solely owned and controlled by Dr. Wentz, owned 45.01% of our outstanding common stock at December 31, 2005. By virtue of this stock ownership, Dr. Wentz is able to exert significant influence over the election of the members of our Board of Directors and our business

affairs. This concentration of ownership could also have the effect of delaying, deterring, or preventing a change in control that might otherwise be beneficial to shareholders. In addition, Dr. Wentz also currently serves on the Board of Directors. There can be no assurance that conflicts of interest will not arise with respect to this directorship or that conflicts will be resolved in a manner favorable to other shareholders of the Company.

Our products and manufacturing activities are subject to extensive government regulation, which could limit or prevent the sale of our products in some markets. The manufacture, packaging, labeling, advertising, promotion, distribution, and sale of our products are subject to regulation by numerous national and local governmental agencies in the United States and other countries. Failure to comply with FDA regulatory requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any action of this type by the FDA could materially adversely affect our ability to successfully market our products. In addition, if the FTC has reason to believe the law is being violated (e.g., we do 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 these orders could result in substantial financial or other penalties. Any action by the FTC could materially adversely affect our ability to successfully market our products.

In markets outside the United States, prior to commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. For example, our manufacturing facility has been registered with the FDA and Health Canada and is certified by Australia's TGA. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We 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 our products are sold.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our 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 and reporting, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on us.

As we continue to expand into international markets, our business becomes increasingly subject to political and economic risks. Changes in these markets could adversely affect our business. We commenced operations in Australia and New Zealand in February 1998, in the United Kingdom in December 1998, and in Hong Kong in November 1999. In 2000, we began limited business activity in Japan and launched more formal operations there in October 2001. In October 2002, we began business operations in Taiwan. We ceased operations in the United Kingdom at the end of the first quarter of 2000. We commenced operations in South Korea and Singapore in July and November 2003, respectively, and opened operations in Mexico during March 2004. We believe that our ability to achieve future growth is dependent in part on our ability to continue our international expansion efforts. However, there can be no assurance that we will be able to grow in our existing international markets, enter new international markets on a timely basis, or that new markets will be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any foreign market. Also, before marketing commences it is difficult to assess the extent to which our products and sales techniques will be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those

encountered elsewhere. We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. No assurance can be given that we will be able to successfully reformulate our products in any of our 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 our business, financial condition, and results of operations. There can be no assurance that we will be able to obtain and retain necessary permits and approvals or that we will have sufficient capital to finance our expansion efforts in a timely manner. In many market areas, other network marketing companies already have significant market penetration, the effect of which could be to desensitize the local Associate population to a new opportunity, such as USANA, or to make it more difficult for us to recruit qualified Associates. There can be no assurance that, even if we are able to

commence operations in foreign countries, there will be a sufficiently large population of persons inclined to participate in our network marketing system. We believe our future success will depend in part on our ability to seamlessly integrate our Compensation Plan across all markets in which our products are sold. There can be no assurance that we will be able to further develop and maintain a seamless compensation program.

An increase in the amount of incentives paid to Associates would reduce profitability. The payment of Associate incentives is a significant expense. These incentives include commissions, leadership bonuses, and certain awards and prizes. From time to time we have changed our Compensation Plan to better manage these incentives as a percentage of net sales. For example, during the third quarter of 1997, we introduced a broad re-pricing strategy across our 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, we changed our leadership bonus program, increasing the payout from 2.0% to 3.0% of total sales volume points. In February 2000, we introduced a broad re-pricing initiative, reducing the average price of our products by approximately 24%. This initiative decreased the amount of incentives as a percentage of net sales. Management closely monitors the amount of Associate incentives paid as a percentage of net sales and may adjust our 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 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. An increase in incentive payments to Associates as a percentage of net sales would reduce our profitability.

We are subject to risks associated with our reliance upon information technology systems. Our success is dependent on the accuracy, reliability, and proper use of sophisticated and dependable information processing systems and management information technology. Our 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. Although off-site data back-up is maintained, it is possible that an interruption in these systems could have a material adverse effect on our business, financial condition, and results of operations.

The loss of a significant Associate or downline organization could adversely affect our business. We rely on the successful efforts of certain Associates. Our 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 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, the

costs associated with training new Associates, and other related expenses may adversely affect our business, financial condition, and results of operations. Moreover, our ability to continue to attract and retain Associates can be affected by a number of factors, some of which are beyond our control, 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;
- Public perceptions about the value and efficacy of nutritional, personal care, or weight management products generally; and
- Other competing network marketing organizations entering into the marketplace that may recruit our existing Associates or reduce the potential pool of new Associates.

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

Our business is subject to the risks associated with intense competition from larger, wealthier, and more established competitors. We face intense competition in the business of distributing and marketing nutritional supplements, vitamins and minerals, personal care products, and other nutritional products as described in greater detail in "Business—Competition." Numerous manufacturers, Associates, and retailers compete actively for consumers and, in the case of other network marketing companies, for Associates. There can be no assurance that we will be able to compete in this intensely competitive environment. In addition, nutrition and personal care products can be purchased in a wide variety of channels of distribution, including retail stores. Our product offerings in each product category are also relatively small compared to the wide variety of products offered by many other companies.

We are also subject to significant competition from other network marketing organizations for the time, attention, and commitment of new and existing Associates. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining Associates. There can be no assurance that our 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 we believe we offer an attractive opportunity for Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

Taxation and transfer pricing considerations affect our operations. Our principal domicile is the United States. The following table summarizes 2005 sales data as a percentage of consolidated net sales and the associated statutory income tax rates for each of our geographic regions (sales data for the United States region includes 2.5% of net consolidated sales contributed by the Contract Manufacturing segment):

Region	% Net Sales	Tax Rate
United States	44.0%	37.5%
Canada	19.0%	36.0%
Australia / New Zealand	13.8%	30.0% / 33.0%
Hong Kong	3.9%	17.5%
Japan	3.1%	46.3%
Taiwan	6.2%	25.0%
South Korea	1.5%	18.0%
Singapore	4.2%	20.0%
Mexico	4.3%	30.0%

In many countries, including the United States, we are subject to transfer pricing and other tax regulations designed to ensure appropriate levels of income are reported as earned by our U.S. and foreign entities and are taxed accordingly. Although we believe that we are in compliance with all applicable regulations and restrictions, we are subject to the risk that taxing authorities could audit our transfer pricing and related practices and assert that additional taxes are owed. Under tax treaties, we are eligible to receive foreign tax credits in the United States for foreign taxes actually paid abroad. At this time there are no major audits in progress. In the event future audits or assessments are concluded adversely to us, we may or may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Currently, we are utilizing all foreign tax credits in the year in which they arise. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of any foreign tax credits in the future. As a result, adverse outcomes in these matters could have a material impact on our financial condition and operating results.

Exchange rate fluctuations affect our foreign operations and could reduce our net sales and earnings. Over the past several years, a significant amount of our net sales have been generated outside the United States. We intend to continue to expand our foreign operations, exposing us 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 we have operations. Since a significant portion of our sales is in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Further, if exchange rates fluctuate dramatically, it may become uneconomical for us to establish or continue activities in certain countries. For instance, changes in currency exchange rates may affect the relative prices at which we and our foreign competitors sell similar products in the same market. As our business expands outside the United States, an increasing share of our net sales and cost of sales will be transacted in currencies other than the U.S. dollar. Accounting practices require that our non-U.S. financial results be converted to U.S. dollars for reporting purposes. Consequently, our reported net earnings 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 by our foreign subsidiaries are transacted in U.S. dollars. As operations expand in countries where foreign currency transactions may be made, our operating results will be increasingly subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact of these changes on our 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 our sales to customers outside the United States. We enter into forward and option foreign exchange contracts to manage currency

fluctuations on certain commitments denominated in foreign currency, including intercompany cash transfers. We generally do not use derivative instruments for speculative purposes. There can be no assurance that foreign currency contract transactions will protect operating results and cash flows from potentially adverse effects of currency exchange fluctuations. Those adverse effects would also adversely affect our business, financial condition, and results of operations.

Disruptions to shipping channels that we use to distribute our products to international warehouses may adversely affect our margins and profitability in those markets. In 2004 the financial press reported congestion at West Coast ports caused by increasing cargo volumes, a lack of capacity on the railroads, and a shortage of manpower. We felt the effects in our container shipments to Australia, which required additional use of airfreight to meet demand. Port congestion has since been relieved. Although there was no significant port congestion this year through the months when retailers prepare for the holidays, we continue to watch for signs of upcoming congestion. Congestion to ports can affect previously negotiated contracts with shipping companies resulting in unexpected increases in shipping costs. Our freight forwarders will continue to exercise flexibility in the selection of ports and carriers to provide the best service.

The inability to obtain adequate supplies of raw materials for products at favorable prices, or at all, could have a material adverse effect on our business, financial condition, and results of operations. We depend on outside suppliers for raw materials. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. Normally, materials used in manufacturing our products are purchased on account or by purchase order. We have very few long-term agreements for the supply of these materials. There is a risk that any of our suppliers or manufacturers could discontinue selling their products to us. Although we believe that we could establish alternate sources for most of our 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. In certain situations, we may be required to alter our products or to substitute different products from another source. In addition, we rely on third-party manufacturers for several of our products, including our food bars and certain drink mixes. We have 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 us in the quantities requested or at prices we are willing to pay. Because we do not control the actual production of these raw materials, we are also subject to delays caused by interruption in production of materials based on conditions not within our control, including weather, crop conditions, transportation interruptions, strikes by supplier employees, and natural disasters or other catastrophic events.

Shortages of raw materials used in certain of our products may temporarily adversely affect our margins and our profitability related to the sale of those products. Many nutritional supplement companies that manufacture products containing Coenzyme Q10 (CoQ10) have experienced a shortage in supply of this raw material component during the year 2005. The sharp increase in demand, which began in 2003, caused a shortage in supply while suppliers worked to re-tool their manufacturing facilities to increase production capacity in order to meet the growing demand. Certain of our nutritional products were affected by this raw material shortage. We have identified multiple sources to supply quality raw ingredients; however, quantities of materials acquired during this shortage were purchased at higher prices, which negatively impacted gross margins for those products affected. By mid-2005 some suppliers had re-tooled their manufacturing facilities to increase production capacity of CoQ10, and more competitors entered the market to produce it, which has caused supply to increase and purchase prices to decline.

Nutritional supplement products may be supported by only limited availability of conclusive clinical studies. Our 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 our products contain innovative ingredients or combinations of ingredients. Although we believe all of our 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. We conduct research and test the formulation and production of our products, but we have performed or sponsored only limited clinical studies. Furthermore, because we are highly dependent on consumers' perception of the efficacy, safety, and quality of our products, as well as similar products distributed by other companies, we could be adversely affected in the event those 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 our products or a competitor's similar products.

As a manufacturer we may be subject to product liability claims. As a manufacturer and a distributor of products for human consumption and topical application, we could become exposed to product liability claims and litigation. Additionally, the manufacture and sale of these products involves the risk of injury to consumers as a result of tampering by unauthorized third parties or product contamination. To date, we have not been party to any product liability litigation, although certain individuals have asserted that they have suffered adverse consequences as a result of using our nutritional products. These matters historically have been settled to our satisfaction and have not resulted in material payments. We are aware of no instance in which any of our products are or have been defective in any way that could give rise to material losses or expenditures related to product liability claims. Although we maintain product liability insurance, which we believe to be adequate for our needs, there can be no assurance that we will not be subject to claims in the future or that our insurance coverage will be adequate or that we will be able to maintain adequate insurance coverage.

Our business is subject to particular intellectual property risks. Most of our products are not protected by patents. The labeling regulations governing our 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 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, we maintain an active research and development program that is devoted to developing better, purer, and more effective formulations of our nutritional or other products. We protect our investment in research, as well as the techniques we use to improve the purity and effectiveness of our products, by relying on trade secret laws. We have also entered into confidentiality agreements with certain of our employees involved in research and development activities. Additionally, we endeavor to seek, to the fullest extent permitted by applicable law, trademark and trade dress protection for our products, which protection has been sought in the United States, Canada, and many of the other countries in which we are either presently operating or plan to commence operations in the near future. Notwithstanding our efforts as described above, there can be no assurance that these efforts to protect our trade secrets and trademarks will be successful. Nor can there be any assurance that third parties will not assert claims against us for infringement of the proprietary rights of others. If an infringement claim is asserted, we may be required to obtain a license of such rights, pay royalties on a retrospective or prospective basis, or terminate our manufacturing and marketing of our products that are 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 our business, financial condition, and operating results. There can be no assurance that third-party claims will not in the future adversely affect our business, financial condition, and results of operations.

Our manufacturing activity is subject to certain risks. We manufacture approximately 78% of the products sold to our customers. As a result, we are dependent upon the uninterrupted and efficient operation of our manufacturing facilities in Salt Lake City, Utah. Those operations are subject to 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 our facility would not have a material adverse effect on our business, financial condition, and results of operations. We are 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. Our 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 and could have a material adverse effect on our business, financial condition, and results of operations. Environmental laws and regulations require us 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 our processes. Violations of those requirements could result in financial penalties and other enforcement actions, and could require us to halt one or more portions of our 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 our business, financial condition, and results of operations.

Our stock price has been volatile and subject to various market conditions. There can be no assurance that an active market in our stock will be sustained. The trading price of our common stock has been subject to wide fluctuations. The price of our common stock may fluctuate in the future in response to quarter-to-quarter variations in operating results, material announcements by us or our competitors, governmental regulatory action, conditions in the nutritional supplement industry, or other events or factors, many of which are beyond our control. In addition, the stock market has historically experienced significant price and volume fluctuations, which have particularly affected the market prices of many dietary and nutritional supplement companies and which have, in certain cases, not had a strong correlation to the operating performance of these companies. Our operating results in future quarters may be below the expectations of securities analysts and investors. If that were to occur, the price of our common stock would likely decline, perhaps substantially.

We may incur liability under our "Athlete Guarantee" program, if and to the extent participating athletes make a successful claim against USANA for testing positive for certain banned substances while taking USANA nutritional supplements. USANA believes that its nutrition supplement products are free from substances that have been banned by world-class training and competitive athletic programs. The Company further believes that while its products promote good health, they are not otherwise considered to be "performance enhancing" as that term has been used in defining substances that are banned from use in international competition by the World Anti-Doping Agency ("WADA"). For many years, USANA has been a sponsor of Olympic athletes and professional competitors around the world. These athletes have been tested on many occasions and have never tested positive for banned substances as a result of taking USANA nutritional products. To back up its claim that athletes who use the Company's products as part of their training regimen will not be consuming banned substances, the Company has offered to enter into agreements with select athletes in Canada, which state that, during the term of the agreement, should the athlete test positive for a banned substance included in the WADA, and should such positive result be the result of taking USANA nutritional products, USANA would compensate that athlete up to one million Canadian dollars based on the athlete's personal level of competition, endorsement, and other income, as well as other factors. To mitigate potential exposure under these agreements, we:

- Designate lots identified as dedicated to the program and retain additional samples;
- Store designated lot samples externally with a third party; and

- Establish a chain of custody that requires signatures on behalf of USANA and the third party to transfer possession of the product lots and that restricts access by USANA employees after the transfer.

This program is open only to elite world-class athletes in Canada and all applicants are subject to screening and acceptance by the Company in its sole discretion. Contracts are tailored to fit the athlete's individual circumstances and the amount of the Company's exposure is limited based on the level of sponsorship of the participating athlete. Although the Company believes that the pool of current and potential participants in the program is very small, there is no guarantee that an athlete accepted in the program will not successfully make a claim against the guarantee, which would require that the Company pay the athlete under the terms of its agreement with that athlete. The Company currently has no insurance to protect it from potential claims under this program.

Item 1B. Unresolved Staff Comments

We received no written comments from the Commission staff regarding periodic or current reports under the Act in the 180 days previous to December 31, 2005.

Item 2. Properties

Our corporate headquarters building is located in Salt Lake City, Utah in a 192,000 square foot facility on a company-owned 16-acre parcel. The allocation of this space at our corporate headquarters is as follows: approximately 56,000 square feet for manufacturing, packaging, and distribution; approximately 65,000 square feet of warehouse space; and approximately 71,000 square feet occupied by executive and administrative personnel, customer service, research and development, and three laboratories. We own our corporate headquarters facility, as well as the production studio and office space purchased in connection with our acquisition of FMG.

We lease properties used primarily as regional offices and distribution warehouses located in Canada, Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, Singapore, and Mexico. We also lease office space in China. Our primary facility in the Contract Manufacturing segment is located in Draper, Utah. We also now have a manufacturing facility in China. We lease our contract manufacturing facility located in Draper, Utah and own the manufacturing facility in China.

In 2006 we will begin construction of an addition to our corporate headquarters building, which will be occupied by executive and administrative personnel, and will include additional warehouse space. We hope to have this construction complete by the end of 2006. Aside from the strain we feel on office space for executive and administrative personnel, we believe that all other facilities are suitable for their respective uses and are, in general, adequate for our present and near-term future needs. Current monthly lease commitments for the properties under lease total approximately $258,000. All properties are part of the Direct Selling segment with the exception of the Draper, Utah and China facilities that are used by the Contract Manufacturing segment.

Item 3. Legal Proceedings

From time to time, we become a party to lawsuits and claims that arise in the ordinary course of business relating to employment, intellectual property, and other matters. We believe that such current claims, individually or in the aggregate, will not result in a material adverse effect on our business, financial position, or results of operations.

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

No matters were submitted to a vote of shareholders during the quarter ended December 31, 2005.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on The NASDAQ National Market System[â] under the symbol "USNA." The following table contains the reported high and low sale prices for our common stock as reported on The NASDAQ National Market System for the periods indicated:

2004	High	Low
First Quarter	$36.59	$22.89
Second Quarter	$32.47	$23.07
Third Quarter	$35.75	$25.81
Fourth Quarter	$36.50	$27.77

2005	High	Low
First Quarter	$52.93	$32.60
Second Quarter	$48.48	$40.07
Third Quarter	$54.10	$41.87
Fourth Quarter	$48.50	$37.30

On February 24, 2006, the high and low sales prices of our common stock as reported by NASDAQ were $42.32 and $41.87, respectively.

Shareholders

As of February 24, 2006, we had approximately 500 holders of record of our common stock.

Dividends

We have never declared or paid cash dividends on our common stock. Future cash dividends, if any, will be determined by the Board of Directors and will be based on earnings, available capital, our financial condition, and other factors deemed relevant by the Board of Directors.

Share Repurchases

Purchases made during the quarter ended December 31, 2005 and for each fiscal month therein are summarized in the following table:

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*
October 2, 2005 through November 5, 2005(fiscal October)	503	$43.42	503	$ 3,159
November 6, 2005 through December 3,				

2005 (fiscal November)	202	$41.26	202	$44,824
December 4, 2005 through December 31, 2005 (fiscal December)	103	$39.07	103	$40,800
Total	808	$42.33	808	

* At the beginning of the fourth quarter, the Company had $24,999 remaining under the share repurchase plan. Following repurchases totaling near the approved amount, the Board of Directors approved an additional $50,000 for share repurchases as announced in a publicly issued press release in November, 2005. There currently is no expiration date on the approved repurchase amount.

Item 6. Selected Financial Data

The selected consolidated financial data set forth below with respect to the consolidated statements of earnings and consolidated balance sheets for each of the last five fiscal years are derived from our audited consolidated financial statements for the relevant periods. 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 that are included in this report.

	Fiscal Year*				
	2001	2002	2003	2004	2005
	(in thousands, except per share data)				
Consolidated Statements of Earnings Data:					
Net sales	$114,280	$133,776	$200,013	$272,824	$327,742
Cost of sales	32,802	33,392	44,422	66,822	78,016
Gross profit	81,478	100,384	155,591	206,002	249,726
Operating expenses:					
Associate incentives	43,912	51,174	78,675	104,433	128,698
Selling, general, and administrative	32,286	35,382	44,413	54,692	60,326
Research and development	1,080	1,035	1,384	2,031	2,339
Total operating expenses	77,278	87,591	124,472	161,156	191,363
Earnings from operations	4,200	12,793	31,119	44,846	58,363
Other income (expense), net	(692)	(221)	192	233	487
Earnings before income taxes	3,508	12,572	31,311	45,079	58,850
Income taxes	1,309	4,069	10,494	14,302	19,856
Net earnings	$ 2,199	$ 8,503	$ 20,817	$ 30,777	$ 38,994
Earnings per share:					
Basic	$ 0.11	$ 0.45	$ 1.09	$ 1.61	$ 2.07
Diluted	$ 0.11	$ 0.41	$ 0.98	$ 1.51	$ 1.98
Weighted average shares outstanding:					
Basic	19,356	18,884	19,018	19,163	18,873
Diluted	19,412	20,647	21,319	20,415	19,721
Dividends per share	—	—	—	—	—

	As of				
	Dec. 29, 2001	Dec. 28, 2002	Jan. 3, 2004	Jan. 1, 2005	Dec. 31, 2005
	(in thousands, except other data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,465.00	$ 6,686.00	$18,965.00	$15,067.00	$10,579.00
Working capital	$ 350.00	$ 1,228.00	$18,330.00	$18,073.00	$15,274.00
Current assets	$14,189.00	$18,907.00	$38,249.00	$40,823.00	$41,830.00
Total assets	$35,354.00	$39,113.00	$65,127.00	$71,664.00	$73,708.00
Long-term debt, less current maturities	$ 6,000.00	$ 2,572.00	$ —	$ —	$ —
Stockholders' equity	$14,527.00	$18,093.00	$44,371.00	$47,843.00	$45,738.00
Other Data:					
Active Associates	56,000	66,000	88,000	114,000	133,000
Active Preferred Customers	41,000	45,000	51,000	63,000	70,000
Total Active Customers	97,000	111,000	139,000	177,000	203,000

* The Company's fiscal year ends on the Saturday closest to December 31. The 2001, 2002, 2004, and 2005 fiscal years were 52-week years. Fiscal year 2003 was a 53-week year.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto appearing elsewhere in this report.

Overview

We develop and manufacture high-quality nutritional and personal care products that are distributed through a network marketing system. Net sales are primarily dependent upon the efforts of a network of independent Associates who purchase products and sales materials. We also sell products directly to Preferred Customers who purchase products for personal use and are not permitted to resell or distribute the products. As of December 31, 2005, we had approximately 133,000 active Associates and approximately 70,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period.

As discussed more fully in Note L of the audited consolidated financial statements included in this report, we have two reportable segments: Direct Selling and Contract Manufacturing. The Direct Selling segment constitutes our principal line of business: developing, manufacturing, and distributing premium, science-based nutritional and personal care products through a network marketing system. The Contract Manufacturing segment exists primarily to manufacture and package the Company's SenséÔ product line of skin and personal care products, but also includes contract manufacturing services provided to a limited number of third-party customers.

We recognize revenue when products are shipped and title passes to our customers. In 2005, sales in the nine markets within our Direct Selling segment contributed to consolidated net sales as follows:

North America	
United States	41.5%
Canada	19.0%
Mexico	4.3%
North America Total	64.8%
Pacific Rim	
Australia-New Zealand	13.8%
Hong Kong	3.9%
Japan	3.1%
Taiwan	6.2%
South Korea	1.5%
Singapore	4.2%
Pacific Rim Total	32.7%
Segment Total	97.5%

Sales from the Contract Manufacturing segment accounted for the remaining 2.5% of consolidated net sales in 2005.

As we expand our business into additional international markets, we expect 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 costs that are directly associated with the production and distribution of products and sales materials, as well as duties and taxes associated with product exports. As international sales increase as a

percentage of net sales, cost of sales could increase slightly, reflecting additional duties, freight, and other expenses associated with international growth.

Associate incentive expenses are incurred only by the Direct Selling segment and represent the most significant expense for this segment at 40.3% of net segment sales in 2005. Associate incentives include commissions and leadership bonuses that are paid weekly, based on sales volume points. Certain promotions and contests are also reported as Associate incentives. Products are assigned a sales volume point value that is independent of the product's price. Associates earn commissions based on sales volume points generated in their downline sales organization. Starter kits and sales tools have no sales volume point value, and commissions are not paid on the sale of these items.

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. Significant depreciation and amortization expense is incurred as a result of continued investments in computer and telecommunications equipment and systems to support international expansion. We anticipate that significant additional capital investments will be required in future periods to promote and support anticipated growth in sales and the increasing size of our customer base.

Research and development expenses include costs incurred in developing new products, enhancing existing products, and formulating products for introduction into international markets.

Results of Operations

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

	Fiscal Year		
	2003	2004	2005
Consolidated Statements of Earnings Data:			
Net sales	100.0%	100.0%	100.0%

Cost of sales	22.2	24.5	23.8
Gross profit	77.8	75.5	76.2
Operating expenses:			
Associate incentives	39.3	38.3	39.3
Selling, general, and administrative	22.2	20.0	18.4
Research and development	0.7	0.7	0.7
Total operating expenses	62.2	59.0	58.4
Earnings from operations	15.6	16.5	17.8
Other income, net	0.1	0.1	0.2
Earnings before income taxes	15.7	16.6	18.0
Income taxes	5.3	5.2	6.1
Net earnings	10.4%	11.4%	11.9%

Fiscal Year 2005 compared to Fiscal Year 2004

Net Sales. Net sales increased 20.1% to $327.7 million in 2005, an increase of $54.9 million, from $272.8 million in 2004. During 2005, net sales in the Direct Selling segment increased by $57.1 million, while net sales in the Contract Manufacturing segment declined $2.2 million from 2004.

The following table summarizes the growth in net sales by segment and geographic region for the fiscal years ended January 1, 2005 and December 31, 2005:

Net Sales By Segment and Region
(in thousands)

Segment / Region	Year Ended 2004		2005		Change from Prior Year	Percent Change
Direct Selling						
North America						
United States	$113,579	41.6%	$136,123	41.5%	$22,544	19.8%
Canada	52,552	19.3%	62,193	19.0%	9,641	18.3%
Mexico	8,296	3.0%	14,060	4.3%	5,764	69.5%
North America Total	174,427	63.9%	212,376	64.8%	37,949	21.8%
Pacific Rim						
Australia-New Zealand	35,684	13.1%	45,367	13.8%	9,683	27.1%
Hong Kong	11,117	4.0%	12,622	3.9%	1,505	13.5%
Japan	9,218	3.4%	10,323	3.1%	1,105	12.0%
Taiwan	16,009	5.9%	20,225	6.2%	4,216	26.3%
South Korea	5,742	2.1%	4,882	1.5%	(860)	(15.0)%
Singapore	10,316	3.8%	13,811	4.2%	3,495	33.9%
Pacific Rim Total	88,086	32.3%	107,230	32.7%	19,144	21.7%
Segment Total	262,513	96.2%	319,606	97.5%	57,093	21.7%
Contract Manufacturing	10,311	3.8%	8,136	2.5%	(2,175)	(21.1)%
Consolidated	$272,824	100.0%	$327,742	100.0%	$54,918	20.1%

The increase in net sales contributed by the Direct Selling segment can be primarily attributed to the following factors:

- A 16.7% increase in the active Associate base and an 11.1% increase in the active Preferred Customer base for the year ended 2005;
- A $5.8 million increase in Mexico due to a full year of operations; and
- Stronger foreign currencies relative to the U.S. dollar, which positively affected the translation of sales in foreign currencies by $7.8 million.

The decrease in net sales of our Contract Manufacturing segment can be attributed to an increased focus on the manufacture of our SenséÔ line and a decreased emphasis on our third-party business.

The Company follows the practice of providing guidance concerning anticipated net sales. Management currently anticipates annual net sales to grow between 15% and 20% for fiscal year 2006. We expect our sales increase will come from our Direct Selling segment.

The following tables summarize the growth in active customers for the Direct Selling segment by geographic region as of the dates indicated:

Active Associates By Region
(rounded to the nearest thousand)

Region	As of January 1, 2005		As of December 31, 2005		Change from Prior Year	Percent Change
North America						
United States	43,000	37.7%	51,000	38.3%	8,000	18.6%
Canada	22,000	19.3%	23,000	17.3%	1,000	4.5%
Mexico	7,000	6.1%	8,000	6.0%	1,000	14.3%
North America Total	72,000	63.1%	82,000	61.6%	10,000	13.9%
Pacific Rim						
Australia-New Zealand	14,000	12.3%	17,000	12.8%	3,000	21.4%
Hong Kong	5,000	4.4%	4,000	3.0%	(1,000)	(20.0)%
Japan	4,000	3.5%	5,000	3.8%	1,000	25.0%
Taiwan	9,000	7.9%	13,000	9.8%	4,000	44.4%
South Korea	2,000	1.8%	2,000	1.5%	—	0.0%
Singapore	8,000	7.0%	10,000	7.5%	2,000	25.0%
Pacific Rim Total	42,000	36.9%	51,000	38.4%	9,000	21.4%
Total	114,000	100.0%	133,000	100.0%	19,000	16.7%

We believe that various factors contributed to the increase in the number of active Associates during 2005, including enthusiasm surrounding the new self-preserving SenséÔ product line, ongoing communication with Associate leaders in the field, and company-sponsored events and promotions to motivate Associates.

Active Preferred Customers By Region
(rounded to the nearest thousand)

Region	As of January 1, 2005		As of December 31, 2005		Change from Prior Year	Percent Change
North America						
United States	38,000	60.3%	44,000	62.9%	6,000	15.8%
Canada	17,000	27.0%	18,000	25.7%	1,000	5.9%
Mexico	1,000	1.6%	1,000	1.4%	—	0.0%
North America Total	56,000	88.9%	63,000	90.0%	7,000	12.5%
Pacific Rim						
Australia-New Zealand	5,000	7.9%	6,000	8.6%	1,000	20.0%
Hong Kong	1,000	1.6%	**	0.0%	(1,000)	(100.0)%
Japan	1,000	1.6%	1,000	1.4%	—	0.0%
Taiwan	**	0.0%	**	0.0%	—	N/A
South Korea	**	0.0%	**	0.0%	—	N/A
Singapore	**	0.0%	**	0.0%	—	N/A
Pacific Rim Total	7,000	11.1%	7,000	10.0%	—	0.0%
Total	63,000	100.0%	70,000	100.0%	7,000	11.1%

** Active Preferred Customer count is less than 500.

Total Active Customers By Region
(rounded to the nearest thousand)

Region	As of January 1, 2005		As of December 31, 2005		Change from Prior Year	Percent Change
North America						
United States	81,000	45.8%	95,000	46.8%	14,000	17.3%
Canada	39,000	22.0%	41,000	20.2%	2,000	5.1%
Mexico	8,000	4.5%	9,000	4.4%	1,000	12.5%
North America Total	128,000	72.3%	145,000	71.4%	17,000	13.3%
Pacific Rim						
Australia-New Zealand	19,000	10.8%	23,000	11.3%	4,000	21.1%
Hong Kong	6,000	3.4%	4,000	2.0%	(2,000)	(33.3)%
Japan	5,000	2.8%	6,000	3.0%	1,000	20.0%
Taiwan	9,000	5.1%	13,000	6.4%	4,000	44.4%
South Korea	2,000	1.1%	2,000	1.0%	—	0.0%
Singapore	8,000	4.5%	10,000	4.9%	2,000	25.0%
Pacific Rim Total	49,000	27.7%	58,000	28.6%	9,000	18.4%
Total	177,000	100.0%	203,000	100.0%	26,000	14.7%

Gross Profit. Consolidated gross profit increased to 76.2% of net sales in 2005 from 75.5% in 2004. This improvement in consolidated gross profit can primarily be attributed to a decrease in the impact that the Contract Manufacturing segment had on the total,

and to a lesser extent, modest leverage benefits gained on a rising sales base.

Gross profit in the Direct Selling segment increased modestly in 2005 to 78.3% of net segment sales, compared to 78.0% in 2004. This modest improvement can primarily be attributed to leverage benefits on semi-variable costs realized on a rising sales base.

The Contract Manufacturing segment generated no gross profit from its third-party customers for the year 2005, compared to gross profit of 12.5% in 2004. The decline in gross profit margin from third-party customers can primarily be attributed to production inefficiencies in the segment's third-party business. The Contract Manufacturing business was acquired primarily as a means to produce the Company's SenséÔ product line, not for the third-party business.

We anticipate improvement to the gross profit margins in each of our business segments throughout 2006 due to lower expected costs on certain raw materials and improved production efficiency.

Associate Incentives. Expenses related to Associate incentives are only incurred by the Direct Selling segment and represent the most significant cost as a percentage of net sales for this segment. Associate incentives increased to 40.3% of net segment sales in 2005, compared to 39.8% in 2004. The increase in Associate incentives relative to net segment sales can be attributed to a higher payout rate of base commissions generated, as well as an increase in promotions during 2005.

In the third quarter of 2005 we began an initiative to increase rewards to our top-performing Associates through contests, promotions, and other incentives designed to assist them in growing their respective businesses. We anticipate that this initiative will result in Associate incentives increasing to approximately 41% of net sales in our Direct Selling segment in 2006.

Selling, General, and Administrative. Selling, general, and administrative expenses decreased to 18.4% of net sales in 2005 from 20.0% in 2004. The decrease, as a percentage of net sales, can be attributed to leverage gained on the increase in sales during 2005.

In absolute terms, our selling, general and administrative expenses increased $5.6 million from 2004 to 2005, which was attributable to an increase in spending in many of our markets to support growing sales and an increasing number of Associates.

We believe that for the first time in several years, selling, general, and administrative expenses will increase as a percentage of net sales in 2006 when compared to 2005. A portion of the selling, general, and administrative expenses to support our growing sales and Associate base operate in a step function such that incremental costs are expected to be incurred at a rate faster than the top line is anticipated to grow. Additionally, we will begin expensing equity compensation during 2006 of which the vast majority will be included in selling, general, and administrative expenses.

Income Taxes. Income taxes totaled 33.7% of earnings before income taxes in 2005, compared with 31.7% in 2004. The increase in the effective tax rate for 2005 can be attributed to the first 20% phase out of the Extraterritorial Income Exclusion, which was only partially offset by a new 3% deduction for Qualified Production Activities. Additionally, in 2004 we received a favorable settlement from a foreign tax audit that was not repeated in 2005.

We expect the effective tax rate for 2006 will be approximately 35.5% due to an additional 20% phase out of the Extraterritorial Income Exclusion benefit to a total 40% phase out, with no increases in the current 3% deduction of Qualified Production Activities Income.

Net Earnings. Net earnings increased 26.7% to $39.0 million in 2005, an increase of $8.2 million, from $30.8 million in 2004. The increase in net earnings can be primarily attributed to increased net sales and improved operating margins.

Diluted earnings per share improved to $1.98 in 2005, an increase of $0.47, from $1.51 in 2004. We expect earnings per share for fiscal year 2006 to grow between 15% and 20%, excluding the expensing of equity compensation required under SFAS No. 123(R) for the first time in 2006. We anticipate implementation of SFAS No. 123(R) will decrease 2006 earnings per share by approximately $0.14.

Fiscal Year 2004 compared to Fiscal Year 2003

Net Sales. Net sales increased 36.4%, or $72.8 million, to $272.8 million for 2004, from $200.0 million in 2003. This increase consisted of $64.3 million associated with our Direct Selling segment and $8.5 million associated with our Contract Manufacturing segment acquired in July 2003.

The following table summarizes the growth in net sales by segment and geographic region for the fiscal years ended January 3, 2004 and January 1, 2005.

Net Sales By Segment and Region
(in thousands)

Segment / Region	Year Ended 2003		Year Ended 2004		Change from Prior Year	Percent Change
Direct Selling						
North America						
United States	$ 91,033	45.5%	$113,579	41.6%	$22,546	24.8%
Canada	44,187	22.1%	52,552	19.3%	8,365	18.9%

Mexico	—	0.0%	8,296	3.0%	8,296	N/A
North America Total	135,220	67.6%	174,427	63.9%	39,207	29.0%
Pacific Rim						
Australia-New Zealand	29,508	14.8%	35,684	13.1%	6,176	20.9%
Hong Kong	8,850	4.4%	11,117	4.0%	2,267	25.6%
Japan	6,537	3.3%	9,218	3.4%	2,681	41.0%
Taiwan	13,619	6.8%	16,009	5.9%	2,390	17.5%
South Korea	3,515	1.8%	5,742	2.1%	2,227	63.4%
Singapore	920	0.5%	10,316	3.8%	9,396	1,021.3%
Pacific Rim Total	62,949	31.6%	88,086	32.3%	25,137	39.9%
Segment Total	198,169	99.2%	262,513	96.2%	64,344	32.5%
Contract Manufacturing	1,844	0.8%	10,311	3.8%	8,467	459.2%
Consolidated	$200,013	100.0%	$272,824	100.0%	$72,811	36.4%

The increase in net sales contributed by the Direct Selling segment can be primarily attributed to the following factors:

- An 18% increase in the number of active Associates and a 22% increase in the number of active Preferred Customers for the year ended 2004 in markets that were open the full year in both 2004 and 2003;
- A $2.2 million and $9.4 million increase in South Korea and Singapore, respectively, due to a full year of operations; and
- Stronger foreign currencies relative to the U.S. dollar, which positively affected the translation of sales in foreign markets by $9.1 million.

We commenced operations in Mexico in March 2004, which contributed $8.3 million to net sales for 2004.

Total sales reported in 2003 included one additional week worth of sales totaling approximately $4.0 million (fiscal year 2003 was a 53-week year and fiscal year 2004 was a 52-week year).

The increase in net sales contributed by the Contract Manufacturing segment can be primarily attributed to the following factors:

- A full year of operations for the segment that commenced in July 2003;
- A significant increase in sales to the segment's primary customer during 2004; and
- New contracts added during 2004.

The following tables summarize the growth in active customers for the Direct Selling segment by geographic region as of the dates indicated:

Active Associates By Region
(rounded to the nearest thousand)

Region	As of January 3, 2004		As of January 1, 2005		Change from Prior Year	Percent Change
North America						
United States	35,000	39.8%	43,000	37.7%	8,000	22.9%
Canada	19,000	21.6%	22,000	19.3%	3,000	15.8%
Mexico	—	0.0%	7,000	6.1%	7,000	N/A
North America Total	54,000	61.4%	72,000	63.1%	18,000	33.3%
Pacific Rim						
Australia-New Zealand	13,000	14.8%	14,000	12.3%	1,000	7.7%
Hong Kong	4,000	4.5%	5,000	4.4%	1,000	25.0%
Japan	3,000	3.4%	4,000	3.5%	1,000	33.3%
Taiwan	8,000	9.1%	9,000	7.9%	1,000	12.5%
South Korea	4,000	4.5%	2,000	1.8%	(2,000)	(50.0)%
Singapore	2,000	2.3%	8,000	7.0%	6,000	300.0%
Pacific Rim Total	34,000	38.6%	42,000	36.9%	8,000	23.5%
Total	88,000	100.0%	114,000	100.0%	26,000	29.5%

We believe that various factors contributed to the increase in the 2004 active Associate base, including new market openings, on-going communication with Associate leaders in the field, improved infrastructure to enhance the Associate service level, and company-sponsored events and promotions to motivate Associates.

Active Preferred Customers By Region
(rounded to the nearest thousand)

Region	As of January 3, 2004		As of January 1, 2005		Change from Prior Year	Percent Change
North America						
United States	31,000	60.8%	38,000	60.3%	7,000	22.6%

Canada	15,000	29.4%	17,000	27.0%	2,000	13.3%
Mexico	—	0.0%	1,000	1.6%	1,000	N/A
North America Total	46,000	90.2%	56,000	88.9%	10,000	21.7%
Pacific Rim						
Australia-New Zealand	4,000	7.8%	5,000	7.9%	1,000	25.0%
Hong Kong	1,000	2.0%	1,000	1.6%	—	0.0%
Japan	**	0.0%	1,000	1.6%	1,000	N/A
Taiwan	**	0.0%	**	0.0%	—	N/A
South Korea	**	0.0%	**	0.0%	—	N/A
Singapore	**	0.0%	**	0.0%	—	N/A
Pacific Rim Total	5,000	9.8%	7,000	11.1%	2,000	40.0%
Total	51,000	100.0%	63,000	100.0%	12,000	23.5%

** Active Preferred Customer count is less than 500.

Total Active Customers By Region
(rounded to the nearest thousand)

Region	As of January 3, 2004		As of January 1, 2005		Change from Prior Year	Percent Change
North America						
United States	66,000	47.5%	81,000	45.8%	15,000	22.7%
Canada	34,000	24.5%	39,000	22.0%	5,000	14.7%
Mexico	—	0.0%	8,000	4.5%	8,000	N/A
North America Total	100,000	72.0%	128,000	72.3%	28,000	28.0%
Pacific Rim						
Australia-New Zealand	17,000	12.2%	19,000	10.8%	2,000	11.8%
Hong Kong	5,000	3.6%	6,000	3.4%	1,000	20.0%
Japan	3,000	2.1%	5,000	2.8%	2,000	66.7%
Taiwan	8,000	5.8%	9,000	5.1%	1,000	12.5%
South Korea	4,000	2.9%	2,000	1.1%	(2,000)	(50.0)%
Singapore	2,000	1.4%	8,000	4.5%	6,000	300.0%
Pacific Rim Total	39,000	28.0%	49,000	27.7%	10,000	25.6%
Total	139,000	100.0%	177,000	100.0%	38,000	27.3%

Gross Profit. Consolidated gross profit decreased to 75.5% of net sales in 2004 from 77.8% in 2003. The Direct Selling segment's gross profit remained relatively constant at 78.0% of net segment sales in 2004, compared to 78.3% in 2003. Gross profit in our Contract Manufacturing segment decreased to 12.5% of net segment sales from 28.8% in 2003.

During 2004, we continued to encounter higher purchase prices for one of our raw materials, Coenzyme Q10 (CoQ10), due to a persistent shortage in supply. Additionally, we increased our provision for inventory valuation to account for obsolescence of our old Sensé™ inventory. These factors that contributed to a lower gross profit margin were partially offset by improved production efficiencies achieved in 2004.

The relatively lower gross profit margin in our Contract Manufacturing segment during 2004 was primarily a result of two factors:

· Construction upgrades to our manufacturing facility in Draper, Utah during the first quarter of 2004 and

· Higher than anticipated demand, resulting in additional production and distribution costs, such as expediting freight.

Associate Incentives. Expenses related to Associate incentives are incurred only by the Direct Selling segment and represent the most significant cost as a percent of net sales for the segment. Associate incentives remained relatively constant at 39.8% of net segment sales in 2004 compared to 39.7% in 2003.

Selling, General, and Administrative. Selling, general, and administrative expenses decreased to 20.0% of net sales in 2004 from 22.2% in 2003. The decrease as a percentage of net sales can be primarily attributed to leverage gained on the increase in net sales during 2004.

While selling, general, and administrative expenses decreased as a percentage of net sales from 2003 to 2004, in absolute terms, these expenses increased $10.3 million or 23.1% in 2004, virtually all of which can be attributed to the Direct Selling segment. The absolute increase in selling, general, and administrative expenses contributed by the Direct Selling segment can be primarily attributed to the following factors:

· An increase in spending in many of our markets to support a growing Associate base and related sales;

- Increased spending in our newest markets of South Korea, Singapore, and Mexico, totaling approximately $3.9 million due to a full year of operations; and
- Higher translated U.S. dollar of foreign currency expenses, totaling $1.1 million, as a result of a weaker U.S. dollar.

Income Taxes. As a result of a favorable revision to the calculation of the Research and Experimentation Credit and a favorable settlement of a foreign tax audit during 2004, we generated significant tax benefits, yielding an effective tax rate of 31.7%, compared to 33.5% in 2003.

Net Earnings. Net earnings increased to 11.4% of net sales in 2004 from 10.4% in 2003. The increase in net earnings can primarily be attributed to increased net sales, improved operating margins, and a lower effective income tax rate.

Diluted earnings per share were $1.51 for 2004, an increase of $0.53 from diluted earnings of $0.98 per share in 2003. Favorable tax results mentioned above positively impacted diluted earnings per share for 2004 by $0.03.

Quarterly Financial Information

The following tables set forth unaudited quarterly operating results for each of the last eight fiscal quarters, as well as percentages of net sales for certain data for the periods indicated. This information has been prepared on a basis consistent with the consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments that management considers necessary for a fair presentation of the data. Quarterly results are not necessarily indicative of future results of operations. This information should be read in conjunction with the audited consolidated financial statements and notes thereto that are included elsewhere in this report.

	Quarter Ended							
	April 3, 2004	July 3, 2004	Oct. 2, 2004	Jan. 1, 2005	April 2, 2005	July 2, 2005	Oct. 1, 2005	Dec. 31, 2005
	(in thousands, except per share data)							
Consolidated Statements of Earnings Data:								
Net sales	$61,775	$67,246	$68,673	$75,130	$76,578	$82,015	$82,225	$86,924
Cost of sales	15,058	16,195	16,732	18,837	18,010	19,499	19,760	20,747
Gross profit	46,717	51,051	51,941	56,293	58,568	62,516	62,465	66,177
Operating expenses:								
Associate incentives	23,612	25,556	26,210	29,055	29,550	31,911	32,545	34,692
Selling, general, and administrative	13,262	13,656	13,141	14,633	14,849	15,168	14,756	15,553
Research and development	578	607	450	396	599	689	551	500
Total operating expenses	37,452	39,819	39,801	44,084	44,998	47,768	47,852	50,745
Earnings from operations	9,265	11,232	12,140	12,209	13,570	14,748	14,613	15,432
Other income (expense), net	149	(1)	(513)	598	165	(67)	172	217
Earnings before income taxes	9,414	11,231	11,627	12,807	13,735	14,681	14,785	15,649
Income taxes	3,201	3,818	3,631	3,652	4,807	5,138	4,743	5,168
Net earnings	$ 6,213	$ 7,413	$ 7,996	$ 9,155	$ 8,928	$ 9,543	$10,042	$10,481
Earnings per share:								
Basic	$ 0.32	$ 0.39	$ 0.42	$ 0.48	$ 0.47	$ 0.50	$ 0.53	$ 0.56
Diluted	$ 0.30	$ 0.36	$ 0.39	$ 0.46	$ 0.45	$ 0.48	$ 0.51	$ 0.54
Weighted average shares outstanding:								
Basic	19,377	19,199	19,052	19,025	19,068	18,948	18,867	18,609
Diluted	20,853	20,523	20,296	19,990	19,971	19,821	19,755	19,336

	Quarter Ended							
	April 3, 2004	July 3, 2004	Oct. 2, 2004	Jan. 1, 2005	April 2, 2005	July 2, 2005	Oct. 1, 2005	Dec. 31, 2005
Consolidated Statements of Earnings 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	24.4	24.1	24.4	25.1	23.5	23.8	24.0	23.9
Gross profit	75.6	75.9	75.6	74.9	76.5	76.2	76.0	76.1
Operating Expenses:								
Associate Incentives	38.2	38.0	38.2	38.7	38.6	38.9	39.6	39.9
Selling, general and administrative	21.5	20.3	19.1	19.5	19.4	18.5	17.9	17.9
Research and development	0.9	0.9	0.7	0.5	0.8	0.8	0.7	0.6
Total operating expenses	60.6	59.2	58.0	58.7	58.8	58.2	58.2	58.4
Earnings from operations	15.0	16.7	17.7	16.2	17.7	18.0	17.8	17.7
Other income (expense), net	0.2	(0.0)	(0.7)	0.8	0.2	(0.1)	0.2	0.2
Earnings before income taxes	15.2	16.7	17.0	17.0	17.9	17.9	18.0	17.9
Income taxes	5.2	5.7	5.3	4.9	6.3	6.3	5.8	5.9
Net earnings	10.0%	11.0%	11.7%	12.1%	11.6%	11.6%	12.2%	12.0%

We may experience variations in the results of operations from quarter to quarter as a result of factors that include the following:

- The recruiting and retention of Associates;
- The opening of new markets;
- The timing of company-sponsored Associate events;
- Fluctuations in currency exchange rates;
- New product introductions;
- The timing of holidays, which may reduce the amount of time Associates spend selling products or recruiting new Associates;
- The negative impact of changes in or interpretations of regulations that may limit or restrict the sale of certain products in some countries;
- The adverse effect of a failure by us or an Associate, or allegations of a failure, to comply with applicable governmental regulations;
- The integration and operation of new information technology systems;
- The inability to introduce new products or the introduction of new products by competitors;
- Entry into one or more of our markets by 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 our products and operations.

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

As a result of these and other factors, 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 we will be able to increase revenues in future periods or be able to sustain the level of revenue or rate of revenue growth on a quarterly or annual basis that we have sustained in the past. Due to the foregoing factors, future results of operations could be below the expectations of public market analysts and investors. If that occurred, the market price of our common stock would likely be materially adversely affected.

Liquidity and Capital Resources

We continue to finance our growth with cash flows from operations. In 2005, net cash flows from operating activities totaled $48.0 million, compared to $38.2 million in 2004. Cash and cash equivalents decreased to $10.6 million at December 31, 2005, from $15.1 million at January 1, 2005. Additionally, net working capital decreased to $15.3 million at December 31, 2005, compared to $18.1 million at January 1, 2005.

The decrease in cash and cash equivalents and net working capital during 2005 is due to $49.2 million used to purchase shares under the Company's share repurchase plan. During the fiscal year ended

December 31, 2005, directors, officers, and employees exercised stock options, resulting in cash proceeds and tax benefits to the Company of $3 million and $5.7 million, respectively.

The Company has continued to grow significantly over the last several years and is in need of additional administrative and warehouse space, as well as additional parking space. To address this need, the Company will be expanding its corporate headquarters and anticipates the facility expansion will require an investment of approximately nine million dollars during 2006.

As of December 31, 2005, our credit facilities consisted of a $10 million line of credit, with no amounts outstanding. As of December 31, 2005, the Company was not in compliance with one of the covenants relating to tangible net worth. The Company has since amended the Agreement with its bank, and the tangible net worth covenant has been removed from the credit agreement.

We believe that current cash balances, cash provided by operations, and amounts available under the line of credit are sufficient to cover our capital needs in the ordinary course of business for the foreseeable future. If we experience 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. We might also require or seek additional financing for the purpose of expanding new markets, growing our existing markets, and for other reasons. Such financing may include the sale of additional equity securities. Any financing which involves the sale of equity securities or instruments convertible into equity securities could result in immediate and possibly significant dilution to existing shareholders.

Contractual Obligations and Commercial Contingencies

The following table summarizes our expected contractual obligations and commitments subsequent to December 31, 2005:

Payments Due By Period
(in thousands)

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases	$16,410	$ 3,207	$ 9,643	$3,560	$ —
Capital Commitments	9,539	9,539	—	—	—
Other Commitments	3,940	1,949	1,706	285	—
Total Contractual Obligations	$29,889	$14,695	$11,349	$3,845	$ —

Obligations for "Operating Leases" in the above table contain the assumption that, in the normal course of business, any operating leases that expire within the time frame represented will be renewed or replaced by leases on other properties, assuming operations continue and will extend, at a maximum, through 2010.

Included in "Capital Commitments" in the above table is a planned addition to our corporate headquarters building of office space for executive and administrative personnel, warehouse space, and additional parking space for our employees. We expect this construction to be complete by the end of 2006, at an estimated total cost of approximately $9 million.

Inflation

We do not believe that inflation has had a material impact on our historical operations or profitability.

Critical Accounting Policies and Estimates

Our consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Our significant accounting policies are described in Note A to the consolidated financial statements. The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Those estimates and assumptions are derived and continually evaluated based on historical experiences, current facts and circumstances, and changes in the business environment. However, actual results may sometimes differ materially from estimates under different conditions. Critical accounting policies and estimates are defined as both those that are material to the portrayal of our financial condition and results of operations and as those that require management's most subjective judgments. We believe our most critical accounting policies and estimates are as described in this section.

Revenue Recognition. In accordance with Staff Accounting Bulletin 104 ("SAB 104") "Revenue Recognition", revenue is recognized at the point of shipment of the merchandise, at which point the risks and rewards of ownership have passed to the customer. SAB 104 specifies that revenue is realizable when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured. For our Direct Selling segment, we require cash or credit card payment prior to shipping and do not extend credit to customers. Under the guidelines of Emerging Issues Task Force No 00-10 ("EITF 00-10") "Accounting of Shipping and Handling Fees and Costs," amounts billed to customers for shipping and handling are classified as revenue. Payments received for unshipped products are recorded as deferred revenue and are included in other current liabilities. A reserve for product returns and allowances is provided for and is founded on historical experience. Additionally, we collect an annual renewal fee from our Associates that is deferred when collected and recognized as income on a straight-line basis over a subsequent twelve-month period.

Allowance for Inventory Valuation. Inventories are stated at the lower of cost or market, using the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. An allowance for inventory valuation is maintained and is based on the difference between the cost of the inventory and its estimated market value. To estimate the allowance, various assumptions are made in regard to excess or slow moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could result in additional reserves. A history of the allowance for inventory valuation for each of the last three fiscal years is provided in Note C of the audited consolidated financial statements included in this report.

Valuation of Goodwill and Impairment Analysis. Goodwill represents the excess of purchase price paid over the fair market value of identifiable net assets of companies acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized; however, it is tested at least annually for impairment or more frequently if events or changes in circumstances indicate impairment. We engage an independent third party to conduct the annual impairment test of goodwill. We determine the fair market value of reporting units acquired using widely accepted valuation methods, including both a market approach and an income approach. The market approach involves judgment when considering the appropriateness of comparable entities and use of related multiples to determine fair market value, in terms of operating activities, size, and scope. The income approach requires the use of estimates and assumptions in projecting future operating results and related cash flows. Based on the valuation conducted as part of the impairment test, if a significant downward revision were made in estimates and assumptions that resulted in a fair market value for the reporting unit that was less than its carrying value, an impairment loss for goodwill would be necessary to reduce the carrying amount of goodwill related to the entity. There were no changes in the carrying amount of goodwill by acquired subsidiary for the year

ended December 31, 2005 as shown in Note F of the audited consolidated financial statements included in this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We conduct business in several countries and intend to continue to expand our foreign operations. Net sales, earnings from operations, and net earnings are affected by fluctuations in currency exchange rates, interest rates, and other uncertainties inherent in doing business and selling product in more than one currency. In addition, our operations are exposed 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 we have operations, as well as, to a lesser extent, changes in United States laws and regulations relating to foreign trade and investment.

Foreign Currency Risks. Sales outside the United States represented 53.7%, 54.6%, and 56.0% of net sales in 2003, 2004, and 2005, respectively. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency is considered the functional currency of each international subsidiary, with all revenue and expenses being translated at weighted average exchange rates for reported periods. In general, our reported sales and earnings are affected positively by a weakening U.S. dollar and negatively by a strengthening of the U.S. dollar in relation to the foreign currencies for the countries in which our products are sold. Changes in currency exchange rates affect the relative prices at which we sell our products. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition.

We seek to reduce exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts. We do not use derivative financial instruments for trading or speculative purposes. Our strategy in this regard includes entering into foreign currency exchange contracts to manage currency fluctuations of expected net cash flow from certain of our international markets, which are primarily represented by intercompany cash transfers. During the fiscal year ended December 31, 2005, we entered into option contracts to offset our exposure to the Canadian Dollar, Australian Dollar, New Zealand Dollar, New Taiwan Dollar, and Mexican Peso. For additional disclosure regarding outstanding foreign currency forwards and options, see Note J of the audited consolidated financial statements included in this report. There can be no assurance that our practices will be successful in eliminating all or substantially all of the risks encountered in connection with our foreign currency transactions.

Following are the average exchange rates of foreign currency units to one U.S. dollar for each of our foreign markets for the years ended 2003, 2004, and 2005:

	Year ended		
	2003	2004	2005
Canadian Dollar	1.40	1.30	1.21
Australian Dollar	1.54	1.36	1.31
New Zealand Dollar	1.72	1.51	1.42
Hong Kong Dollar	7.80	7.80	7.78
Japanese Yen	115.93	108.10	109.95
New Taiwan Dollar	34.36	33.34	32.13
Korean Won(1)	1,179.52	1,144.07	1,023.94
Singapore Dollar(2)	1.72	1.69	1.66
Mexican Peso(3)	*	11.35	10.89
Chinese Yuan(4)	*	*	8.08

(1) The 2003 Korean Won exchange rate represents the average for the first six months of South Korea operations that commenced in July 2003.

(2) The 2003 Singapore Dollar exchange rate represents the average for the first two months of Singapore operations that commenced in November 2003.

(3) The 2004 Mexican Peso exchange rate represents the average for the first ten months of Mexican operations that commenced in March 2004.

(4) The 2005 Chinese Yuan exchange rate represents the average for the first three months of operations of our Chinese manufacturing facility acquired in October 2005.

* Market was not in operation during year indicated.

Interest Rate Risks. As of December 31, 2005, we had no outstanding debt, and, therefore, we currently have no direct exposure to interest rate risk.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Supplementary Data required by this Item are set forth at the pages indicated at Item 15.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a- 15(e) under the Securities Exchange Act of 1934, as amended). Based on the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of USANA Health Sciences, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rule 13a- 15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on its assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Grant Thornton, LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Grant Thornton's attestation report on management's assessment of the Company's internal control over financial reporting appears elsewhere in this report under the heading "Report of Independent Certified Public Accountants".

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Stockholders
USANA Health Sciences, Inc. and Subsidiaries

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that USANA Health Sciences, Inc. and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that USANA Health Sciences, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, USANA Health Sciences, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of USANA Health Sciences, Inc. and Subsidiaries as of January 1, 2005 and December 31, 2005, and the related consolidated statements of earnings, statements of stockholders' equity and comprehensive income, and cash flows for each of the three years ended December 31, 2005 and our report dated February 15, 2006 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
February 15, 2006

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

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

Item 13. Certain Relationships and Related Transactions

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

Item 14. Principal Accounting Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

1. *Financial Statements*

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

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

3. *Exhibits.*

Exhibit Number	Description
3.1	Articles of Incorporation [Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
3.2	Bylaws [Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
3.3	Amended and restated Articles of Incorporation of the Company filed June 27, 2000 [Incorporated by reference to Report on Form 10-Q for the period ended July 1, 2000]
4.1	Specimen Stock Certificate for Common Stock, no par value [Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
10.1	Amended and Restated Long-Term Stock Investment and Incentive Plan [Incorporated by reference to Report on Form 10-Q for the period ended June 27, 1998]*
10.2	2002 USANA Health Sciences, Inc. Stock Option Plan [Incorporated by reference to Registration Statement on Form S-8, filed July 18, 2002]*
10.3	Credit Agreement by and between Bank of America, N.A. and USANA Health Sciences, Inc. [Incorporated by reference to Report on Form 10-Q for the period ended July 3, 2004]
10.4	Form of employee or director non-statutory stock option agreement under the 2002 Stock Option Plan [Filed herewith]*
10.5	Form of employee incentive stock option agreement under the 2002 Stock Option Plan [Filed herewith]*
11.1	Computation of Net Income per Share (included in Notes to Consolidated Financial Statements)
14	Code of Ethics of USANA Health Sciences, Inc. [Posted on the Company's internet web site at www.usanahealthsciences.com]
21	Subsidiaries of the Registrant, as of February 24, 2006 [Filed herewith]
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 [Filed herewith]
31.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 [Filed herewith]
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 [Filed herewith]
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 [Filed herewith]

* Denotes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of 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.

USANA HEALTH SCIENCES, INC.

By: /s/ MYRON W. WENTZ
Myron W. Wentz, PhD,
Chairman and Chief Executive Officer

Date: March 6, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MYRON W. WENTZ Myron W. Wentz, PhD	Chairman and Chief Executive Officer (Principal Executive Officer)	March 6, 2006
/s/ DAVID A. WENTZ David A. Wentz	President	March 6, 2006
/s/ RONALD S. POELMAN Ronald S. Poelman	Director	March 6, 2006
/s/ ROBERT ANCIAUX Robert Anciaux	Director	March 6, 2006
/s/ JERRY G. MCCLAIN Jerry G. McClain	Director	March 6, 2006
/s/ GILBERT A. FULLER Gilbert A. Fuller	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 6, 2006

REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
USANA Health Sciences, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of USANA Health Sciences, Inc. and Subsidiaries (the Company) as of January 1, 2005 and December 31, 2005 and the related consolidated statements of earnings, stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. 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 the auditing standards of the Public Company Accounting Oversight Board (United States). 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 Health Sciences, Inc. and Subsidiaries as of January 1, 2005 and December 31, 2005 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of USANA Health Sciences, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2005, based on the criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2006, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
February 15, 2006.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	January 1, 2005	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$15,067	$10,579
Inventories, net	17,722	22,223
Prepaid expenses and other current assets	5,808	6,024
Deferred income taxes	2,226	3,004
Total current assets	40,823	41,830
Property and equipment, net	23,194	23,302
Goodwill	5,690	5,690
Other assets	1,957	2,886
	$71,664	$73,708
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 5,106	$ 4,955
Other current liabilities	17,644	21,601
Total current liabilities	22,750	26,556
Long-term liabilities	1,071	1,414
Stockholders' equity		
Common stock, $0.001 par value; authorized 50,000 shares, issued and outstanding 18,953 as of January 1, 2005 and 18,343 as of December 31, 2005	19	18
Additional paid-in capital	11,853	9,161
Retained earnings	34,496	35,720
Accumulated other comprehensive income	1,475	839
Total stockholders' equity	47,843	45,738
	$71,664	$73,708

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

	Year ended		
	2003	2004	2005

Net sales	$200,013	$272,824	$327,742
Cost of sales	44,422	66,822	78,016
Gross profit	155,591	206,002	249,726
Operating expenses:			
Associate incentives	78,675	104,433	128,698
Selling, general, and administrative	44,413	54,692	60,326
Research and development	1,384	2,031	2,339
Total operating expenses	124,472	161,156	191,363
Earnings from operations	31,119	44,846	58,363
Other income (expense):			
Interest income	124	572	561
Interest expense	(49)	—	(12)
Other, net	117	(339)	(62)
Other income	192	233	487
Earnings before income taxes	31,311	45,079	58,850
Income taxes	10,494	14,302	19,856
Net earnings	$ 20,817	$ 30,777	$ 38,994
Earnings per common share			
Basic	$ 1.09	$ 1.61	$ 2.07
Diluted	$ 0.98	$ 1.51	$ 1.98
Weighted average common shares outstanding			
Basic	19,018	19,163	18,873
Diluted	21,319	20,415	19,721

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended January 3, 2004; January 1, 2005; and December 31, 2005

(in thousands)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 28, 2002	18,273	$18	$ 3,666	$ 14,520	$ (111)	$ 18,093
Comprehensive income						
Net earnings for the year	—	—	—	20,817	—	20,817
Foreign currency translation adjustment, net	—	—	—	—	1,341	1,341
Comprehensive income						22,158
Common stock retired	(472)	—	(1,835)	(6,402)	—	(8,237)
Common stock issued under stock option plan, including tax benefit of $8,853	1,669	1	12,356	—	—	12,357
Balance at January 3, 2004	19,470	19	14,187	28,935	1,230	44,371
Comprehensive income						
Net earnings for the year	—	—	—	30,777	—	30,777
Foreign currency translation adjustment, net	—	—	—	—	245	245
Comprehensive income						31,022
Common stock retired	(1,204)	(1)	(9,724)	(25,216)	—	(34,941)
Common stock issued under stock option plan, including tax benefit of $5,973	687	1	7,390	—	—	7,391
Balance at January 1, 2005	18,953	19	11,853	34,496	1,475	47,843
Comprehensive income						
Net earnings for the year	—	—	—	38,994	—	38,994
Foreign currency translation adjustment, net	—	—	—	—	(636)	(636)
Comprehensive income						38,358
Common stock retired	(1,160)	(1)	(11,428)	(37,770)	—	(49,199)
Common stock issued under stock option plan, including tax benefit of $5,775	550	—	8,736	—	—	8,736
Balance at December 31, 2005	18,343	$18	$ 9,161	$ 35,720	$ 839	$ 45,738

The accompanying notes are an integral part of these statements.

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

	Year ended		
	2003	2004	2005
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities			
Net earnings	$ 20,817	$ 30,777	$ 38,994
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	3,877	4,840	5,904
(Gain) loss on sale of property and equipment	(28)	—	10
Allowance for inventory valuation	1,207	1,732	1,830
Deferred income taxes	(179)	(29)	(631)
Changes in operating assets and liabilities:			
Inventories	(4,456)	(4,832)	(6,420)
Prepaid expenses and other assets	(1,731)	(2,457)	(1,625)
Accounts payable	1,707	(208)	(107)
Other current liabilities	14,264	8,360	10,063
Total adjustments	14,661	7,406	9,024
Net cash provided by operating activities	35,478	38,183	48,018
Cash flows from investing activities			
Acquisitions, net of cash acquired	(5,341)	(2,140)	(1,406)
Purchases of property and equipment	(4,564)	(6,952)	(4,311)
Proceeds from sale of property and equipment	48	29	19
Net cash used in investing activities	(9,857)	(9,063)	(5,698)

(Continued)

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

	Year ended		
	2003	2004	2005
Cash flows from financing activities			
Proceeds from stock options exercised	$ 3,504	$ 1,418	$ 2,961
Retirement of common stock	(8,237)	(34,941)	(49,199)
Principal payments of long-term debt	(6,000)	—	—
Decrease in line of credit	(2,913)	—	—
Payments on capital lease obligations	(91)	—	—
Net cash used in financing activities	(13,737)	(33,523)	(46,238)
Effect of exchange rate changes on cash and cash equivalents	395	505	(570)
Net increase (decrease) in cash and cash equivalents	12,279	(3,898)	(4,488)
Cash and cash equivalents, beginning of year	6,686	18,965	15,067
Cash and cash equivalents, end of year	$ 18,965	$ 15,067	$ 10,579
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 69	$ —	$ 11
Income taxes	2,023	8,984	15,156

Non-cash activities

During 2003, the Company acquired a contract manufacturing facility for $5,016 in cash. In conjunction with the acquisition, certain liabilities were assumed, including $200 in income tax liabilities of the selling shareholders and $125 for professional fees directly associated with the acquisition.

During 2004, the Company acquired FMG Productions, LLC for $2,140 in cash, which included $80 for professional fees directly associated with the acquisition.

The accompanying notes are an integral part of these statements.

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

NOTE A—SUMMARY OF 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 Health Sciences, Inc. and Subsidiaries (the Company) conform with accounting principles generally accepted in the United States of America (US GAAP) and general practices in the manufacturing industry.

2. *Principles of consolidation*

The consolidated financial statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly owned subsidiaries in each of its two business segments. Direct Selling is the Company's primary business segment and includes subsidiaries in North America, which includes the United States, Canada, Mexico, and direct sales to the United Kingdom and the Netherlands, and in the Pacific Rim, which includes Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, and Singapore. The Company has a relatively small amount of revenue coming through its Contract Manufacturing segment. Principle operations for the Contract Manufacturing segment are conducted in a facility located in Draper, Utah. The recently acquired facility located in Tianjin, China is also part of the Contract Manufacturing segment. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. *Business activity*

In its Direct Selling segment, the Company develops and manufactures nutritional and personal care products that are distributed through a network marketing system throughout the United States, Canada, Mexico, the United Kingdom, the Netherlands, Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, and Singapore. The Contract Manufacturing segment conducts operations at the Company's Draper, Utah facility and at the recently acquired facility located in Tianjin, China.

4. *Fiscal year*

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 2004 and 2005 were 52-week years. Fiscal year 2003 was a 53-week year and covered the period December 29, 2002 to January 3, 2004 (hereinafter 2003). Fiscal year 2004 covered the period January 4, 2004 to January 1, 2005 (hereinafter 2004). Fiscal year 2005 covered the period January 2, 2005 to December 31, 2005 (hereinafter 2005).

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

after substantially all tests to determine whether the software is operational have been completed. Internally developed software is amortized over the lesser of expected useful life or three to five years.

7. *Inventories*

Inventories consist of raw materials and finished goods and 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 useful 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.

9. *Revenue recognition and deferred revenue*

The Company receives payment, primarily via credit card in the Direct Selling segment, for the sale of products at the time 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. A reserve for product returns and allowances is provided for and is founded on historical experience. Additionally, the Company collects an annual renewal fee from Associates that is deferred on receipt and recognized as income on a straight-line basis over a subsequent twelve-month period.

10. *Goodwill*

Goodwill represents the excess of purchase price paid over the fair market value of identifiable net assets of companies acquired. The Company has adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” in connection with the goodwill resulting from the acquisitions of Wasatch Products Development, Inc., effective July 2003, and FMG Productions, LLC, effective February 2004. In accordance with SFAS No. 142, goodwill is not amortized; however, it is tested at least annually for impairment.

11. *Income taxes*

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the more likely than not criteria for recognition.

12. *Product return policy*

All returned product within the first 30 days of purchase will be refunded at 100 percent of the sales price to all non-Associate customers. This 30-day return policy is offered to Associates only on their first order. All other 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, less a 10 percent restocking fee. Returned product that was damaged during shipment to the customer is 100 percent refundable. Return of product by an Associate, other than that which was damaged at the time of receipt, may constitute cancellation of the distributorship according to the terms of the Associate Agreement. Returns as a percentage of net sales were 2.4% in 2003, 2.1% in 2004, and 1.5% in 2005.

13. *Research and development*

Research and development costs are charged to expense as incurred.

14. *Advertising*

Advertising costs are charged to expense as incurred.

15. *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 that are included in the diluted earnings per share calculation include in-the-money stock options that have been granted but have not been exercised.

16. *Fair value of financial instruments*

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

17. *Translation of foreign currencies*

The Company's 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 other comprehensive income.

18. *Common stock*

The Company follows the practice of recording amounts received upon the exercise of options by crediting common stock and additional paid in capital. No charges have been 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 additional paid in capital. The Company has a stock repurchase

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

plan in place that has been authorized by the Board of Directors. As of December 31, 2005, $40,800 was available to repurchase shares under this plan.

19. *Segment information*

The Company's operations involve two reportable business segments; Direct Selling and Contract Manufacturing. The Direct Selling segment constitutes our principal line of business: developing, manufacturing, and distributing nutritional and personal care products through a network marketing system. Operations within this segment are further distinguished by geography, which historically included seven regions. To simplify the presentation of selected financial information, these regions have been aggregated into two geographic regions. Operating activities for the Contract Manufacturing segment primarily include the manufacture of the Company's Sensé™ line of skin and personal care products, but also include contract manufacturing services provided to a limited number of external customers. No Associate within the Direct Selling segment accounted for more than 10% of net segment sales for the years ended 2003, 2004, or 2005. In the Contract Manufacturing segment, we had two customers that each accounted for more than 10% of net segment sales in 2005.

20. *Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Significant estimates for the Company include obsolescence, sales returns, and goodwill. Actual results could differ from those estimates.

21. *Foreign currency contracts*

Derivative instruments are carried at fair value. 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, 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.

22. *Stock-Based Compensation*

The Company has applied the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123," for the years ended 2003, 2004, and 2005. Issued in December 2002, SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS No. 148, the Company continued through December 31, 2005 to account for stock options under APB Opinion No. 25, under which no compensation has been recognized.

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition

(in thousands, except per share data)

provisions of SFAS No. 123, as amended by SFAS No. 148 to stock-based compensation:

	Year ended		
	2003	2004	2005
Net earnings			
As reported	$20,817	$30,777	$38,994
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	$ (544)	$ (1,637)	$ (7,614)
Net earnings			
Pro forma	$20,273	$29,140	$31,380
Earnings per share—basic			
As reported	$ 1.09	$ 1.61	$ 2.07
Pro forma	$ 1.07	$ 1.52	$ 1.66
Earnings per share—diluted			
As reported	$ 0.98	$ 1.51	$ 1.98
Pro forma	$ 0.95	$ 1.43	$ 1.59

Weighted average assumptions used to determine the Black-Scholes fair value for options granted during the years ended as indicated:

	Year ended		
	2003	2004	2005
Expected volatility	77%	75%	70%
Risk free interest rate	3.67%	3.93%	4.41%
Expected life	10 yrs.	9.1 yrs.	8.6 yrs.
Expected dividend yield	0%	0%	0%
Weighted average fair value of options granted *	$12.52	$29.3	$39.94

* All options during the years indicated have been granted at the market value on the date of grant, which is established by averaging the closing price of the Company's common stock over the five trading days preceding the date of grant.

Option pricing models require the input of highly subjective assumptions, including the expected stock price volatility. Additionally, 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 that can materially affect the fair value estimate. Management believes the best assumptions available were used to value the options and that the resulting option values were reasonable as of the dates the options were granted.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23. *Recent Accounting Pronouncements*

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material (spoilage) to be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company will be required to adopt the provisions of SFAS No. 151 for its fiscal year beginning January 1, 2006. Management believes the provisions of this Standard currently have no material effect on our financial position or results of operations.

In December 2004, the FASB issued FSP No. 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004", effective for tax years beginning in 2005 that provides guidance on the application of SFAS No. 109 to the tax deduction on qualified production activities provided by the American Jobs Creation Act of 2004. FSP 109-1 states that the qualified production activities deduction should be accounted for as a special deduction in accordance with SFAS No. 109, whereby the deduction is contingent upon the future performance of specific activities, including wage levels. The FASB also concluded that the special deductions should be considered with measuring deferred taxes and assessing a valuation allowance. A deduction resulting from the application of FSP 109-1 was used to lower the Company's effective tax rate for 2005. See Note I for additional information. In December 2004, the FASB issued FSP No. 109-2,"Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP No. 109-2 provides accounting and disclosure guidance related to the Jobs Act provision, which addresses the limited time 85% dividends received deduction on the repatriation of certain foreign earnings. The Company has evaluated the impact of the repatriation provisions of the Jobs Act provision and expects these provisions will not have any impact on the Company's financial statements as the Company utilizes the "Check the Box" election for its foreign subsidiaries.

In December 2004, the FASB issued SFAS No. 123(R), "Share Based Payment," which will require the Company to measure and

(in thousands, except per share data)

record in its consolidated financial statements, the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. SFAS No. 123(R) eliminates the use of APB Opinion No. 25. On April 14, 2005, the S.E.C. adopted a new rule, SAB No. 107, amending the effective date for SFAS No. 123(R). Under the effective date provisions included in SFAS No. 123(R), the Company would have been required to implement SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. SAB No. 107 allows the Company to implement SFAS No. 123(R) at the beginning of the next fiscal year that begins after June 15, 2005. None of the accounting provisions of SFAS No. 123(R) are affected by SAB No. 107.

The Company will adopt SFAS No. 123(R) in 2006 using the modified prospective method. The precise impact of the adoption of SFAS No. 123(R) will have on the Company cannot be predicted at this

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

time because it will depend on various factors, including the number of awards granted and their related fair value at the date of grant. The fair value of stock options used to compute the pro forma disclosures is estimated using the Black-Scholes model. This model requires the input of subjective assumptions, including the expected volatility of the underlying stock. Projected data related to the expected volatility and expected life of stock options is based upon historical and other information. Had the Company adopted SFAS No. 123(R) in prior periods, the impact of such accounting pronouncement would have approximated that which is described in the above SFAS No. 148 pro forma table.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS No. 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

NOTE B—ACQUISITIONS

2005 Acquisitions

In October 2005, the Company acquired a manufacturing facility in Tianjin, China for $1,406 in cash. The purchase was made through a newly formed wholly owned subsidiary of the Company, which will operate the business formerly conducted by the seller. The seller will continue to operate this facility now owned by USANA.

The assets acquired were recorded at estimated fair values as of the date of the acquisition as determined by the Company's management and are summarized below:

	At October 2, 2005
Assets acquired	
Inventories	$ 45
Property and equipment	1,165
Intangible asset	196
Total assets acquired	1,406
Net assets acquired	$ 1,406

In accordance with SFAS No. 141, we have recognized a contract-based intangible asset in relation to employment contracts with the previous owners of the facility. The intangible asset will be amortized over the life of the contracts, which is 36 months from the date of acquisition.

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

NOTE B—ACQUISITIONS (Continued)

2004 Acquisitions

In February 2004, the Company completed the acquisition of the net assets of FMG Productions, LLC (FMG), a Utah limited liability company that produces video and audio promotional and training materials for large companies and sales organizations, including the Company. The aggregate investment was $2,140, including $2,060 in cash and $80 for professional fees that were directly associated with the acquisition. The purchase was made through a newly formed wholly owned subsidiary of the Company, which will operate the business formerly conducted by FMG. The former employees of FMG, including its founders and primary creative directors will continue to operate the business now owned by USANA. The Company expects to realize benefits from this acquisition primarily through the motivation and training of its independent Associates.

The assets acquired and liabilities assumed were recorded at estimated fair values as of the date of the acquisition as determined by the Company's management and are summarized below:

	At February 1, 2004
Assets acquired	
Accounts receivable	$ 133
Property and equipment	790
Goodwill	1,423
Total assets acquired	2,346
Liabilities assumed	
Accounts payable	23
Deferred revenue	94
Other liabilities	89
Total liabilities assumed	206
Net assets acquired	$ 2,140

Goodwill in this acquisition has been recognized for the amount of $1,423, which is the excess of the purchase price paid over the fair market value of the net assets acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized; however, it is tested at least annually for impairment.

2003 Acquisitions

Effective July 1, 2003, the Company acquired Wasatch Products Development, Inc., a contract manufacturing facility specializing in the manufacture of skin and personal care products, to obtain benefits in the form of reduced cost of sales and enhanced quality control for its Sensé™ product line. The aggregate investment was $5,341, including $5,016 in cash, $125 for professional fees that were directly associated with the acquisition, and $200 in income tax liabilities of the selling shareholders prior to the sale.

NOTE B—ACQUISITIONS (Continued)

This acquisition was accounted for in accordance with SFAS No. 141, "Business Combinations" and, as such, the results of operations for WPD have been included in the consolidated financial statements since the effective date of the acquisition. This acquisition contributed $1,844, $10,311, and $8,072 in sales for fiscal years 2003, 2004, and 2005, respectively. Additional segment financial information can be found in Note L beginning on page F-20 to the Consolidated Financial Statements. The Company obtained an independent appraisal of the fair values of identified intangible assets and, based on the results of the analysis, concluded that the fair value is effectively nil. The assets acquired and liabilities assumed were recorded at estimated fair values as of the date of the acquisition as determined by the Company's management and are summarized below:

	At July 1, 2003
Assets acquired	
Accounts receivable	$ 356
Inventories	509
Property and equipment	978
Goodwill	4,267
Total assets acquired	6,110
Liabilities assumed	
Accounts payable	707

(in thousands, except per share data)

Other liabilities	60
Total liabilities assumed	769
Net assets acquired	$5,341

Goodwill in this acquisition was recognized for the amount of $4,267, which represents the excess of the purchase price paid over the fair market value of the net assets acquired. In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” goodwill is not amortized; however, it is tested at least annually for impairment.

NOTE C—INVENTORIES

Inventories consist of the following:

	January 1, 2005	December 31, 2005
Raw materials	$ 8,846	$11,878
Work in progress	3,123	3,533
Finished goods	7,897	9,482
	19,866	24,893
Less allowance for inventory valuation	2,144	2,670
	$17,722	$22,223

NOTE C—INVENTORIES (Continued)

The history of the allowance for inventory valuation is as follows:

	Year ended		
	2003	2004	2005
Balance at beginning of year	$ 1,723	$ 1,489	$ 2,144
Provisions	1,207	1,732	1,830
Write-offs	(1,441)	(1,077)	(1,304)
Balance at end of year	$ 1,489	$ 2,144	$ 2,670

NOTE D—PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	January 1, 2005	December 31, 2005
Prepaid expenses	$1,599	$2,038
Miscellaneous receivables, net	3,734	3,537
Other current assets	475	449
	$5,808	$6,024

NOTE E—PROPERTY AND EQUIPMENT

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

	Years	January 1, 2005	December 31, 2005
Building	40	$ 9,400	$10,377
Laboratory and production equipment	5-7	8,706	9,706
Sound and video library	5	600	600
Computer equipment and software	3-5	22,580	23,083
Furniture and fixtures	3-5	2,530	2,654
Automobiles	3-5	206	248
Leasehold improvements	3-5	2,568	2,709
Land improvements	15	931	931
		47,521	50,308
Less accumulated depreciation and amortization		26,459	29,605
		21,062	20,703
Land		1,899	2,064
Deposits and projects in process		233	535
		$23,194	$23,302

(in thousands, except per share data)

NOTE F—GOODWILL

Goodwill represents the excess of the purchase price paid of acquired entities over the fair market value of the net assets acquired. As of December 31, 2005, goodwill totaled $5,690, comprising $4,267 that

NOTE F—GOODWILL (Continued)

was associated with the July 1, 2003 acquisition of WPD and $1,423 that was associated with the February 1, 2004 acquisition of FMG. No events have occurred subsequent to either acquisition that have resulted in an impairment of the original goodwill amounts that were initially recorded from the transactions. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill must be tested at least annually and if the carrying amount of goodwill exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess.

During June 2005, an independent third party conducted the annual impairment test of goodwill related to the acquisition of WPD. The fair market value of the net assets of WPD was estimated using widely accepted valuation methods, including both a market approach and an income approach. In determining the fair market value as part of the impairment test, certain assumptions were used to project future results that management believes are reasonable, given current facts and circumstances. Based upon the results of the independent appraisal, the fair market value of the net assets of WPD has been determined to be in excess of the carrying amount of the net assets, and, therefore, no impairment loss for goodwill has been recognized.

There were no changes in the carrying amount of goodwill by acquired subsidiary for the year ended December 31, 2005:

	WPD	FMG	Consolidated Total
Balance at January 1, 2005	$4,267	$1,423	$5,690
Goodwill acquired	—	—	—
Impairment adjustments	—	—	—
Balance at December 31, 2005	$4,267	$1,423	$5,690

NOTE G—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 five-year term loan and a $15,000 three-year revolving line of credit. The Credit Facilities were amended in March 2001. The March 2001 amendment reduced the revolving line of credit to $12,500 and did not require the Company to make quarterly principal payments on the term loan until March 2002. In 2002, the Credit Facilities were amended. Together, these reduced the revolving line of credit to $10,000 and extended the related expiration date to September 1, 2004, which allowed the Company to repurchase shares of its stock in the open market, provided for the possibility to declare dividends, and modified the fixed charge coverage ratio and tangible net worth covenants. Additional amendments to the Credit Facilities were enacted in 2003. Collectively, the 2003 amendments increased the capital expenditure limitation that provided for the acquisition of Wasatch Products Development, Inc. and permitted the Company to purchase additional shares of its stock in the open market.

In June 2004, the Company entered into a new Agreement with a financial institution to provide a $10,000 two-year revolving line of credit. This Agreement replaced the Credit Agreement of 1999 and all of the subsequent amendments associated with the 1999 agreement. The term of the Agreement extends

NOTE G—LONG TERM DEBT AND LINE OF CREDIT (Continued)

through May 30, 2006. The Company is currently in the process of securing an Agreement to replace this Agreement.

At December 28, 2002, the Company had $6,000 outstanding on the term loan. During the first quarter of 2003, all outstanding amounts on the term loan were paid in full. At December 31, 2005, there were no outstanding term loan amounts.

At December 31, 2005, there were no outstanding balances associated with the line of credit. The Company, therefore, had the entire $10,000 available under the line of credit, which expires May 30, 2006. The interest rate is computed at the bank's Prime Rate or LIBOR,

(in thousands, except per share data)

adjusted by features specified in the Credit Agreement. The Company may choose to borrow at the bank's publicly announced Prime Rate, plus a margin per annum as specified in the Credit Agreement, 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 three months at LIBOR, plus a margin specified in the Credit Agreement.

The collateral for this revolving line of credit is the pledge of the capital stock of certain subsidiaries of the Company. The credit agreement contains restrictive covenants requiring the Company to maintain certain financial ratios. As of December 31, 2005, the Company was not in compliance with one of the covenants relating to tangible net worth. The Company has since amended the Agreement with its bank and the tangible net worth covenant has been removed.

NOTE H—OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	January 1, 2005	December 31, 2005
Associate incentives	$ 2,379	$ 3,528
Accrued employee compensation	4,696	6,257
Income taxes	1,901	2,429
Sales taxes	1,986	2,354
Associate promotions	429	616
Deferred revenue	1,825	1,903
Provision for returns and allowances	1,284	943
Accrued loss on foreign currency forwards	425	—
All other	2,719	3,571
	$17,644	$21,601

NOTE I—INCOME TAXES

Income tax expense (benefit) consists of the following:

	Year ended		
	2003	2004	2005
Current			
Federal and State	$ 9,334	$14,202	$19,232
Foreign	1,382	171	1,209
	10,716	14,373	20,441
Deferred			
Federal and State	(134)	(18)	81
Foreign	(88)	(53)	(666)
	$10,494	$14,302	$19,856

The income tax provision, reconciled to the tax computed at the federal statutory rate of 35 percent for 2003, 2004, and 2005 is as follows:

	Year ended		
	2003	2004	2005
Federal income taxes at statutory rate	$10,959	$15,777	$20,598
Reduction of effective rate to 34% for tax return	(313)	—	—
State income taxes, net of federal tax benefit	998	1,275	1,576
Difference between U.S. statutory rate and foreign rate	3	(19)	29
Foreign taxes net of foreign tax credit	(22)	149	86
Extraterritorial income exclusion	(1,224)	(1,731)	(1,875)
Manufacturing deduction	—	—	(343)
R&D tax credit	(25)	(321)	(418)
Prior period—foreign country tax settlement	—	(481)	—
All other, net	118	(347)	203
	$10,494	$14,302	$19,856

(in thousands, except per share data)

NOTE I—INCOME TAXES (Continued)

Deferred tax assets and liabilities consist of the following:

	January 1, 2005	December 31, 2005
Current deferred tax assets (liabilities)		
Inventory capitalization	$ 281	$ 429
Intercompany sales	195	128
Deferred revenue	256	325
Vacation accrual	217	254
Inventory reserve	813	1,001
Allowance for bad debts	156	95
Sales returns and allowances	484	344
Foreign net operating loss carryforward	—	93
All other, net	(176)	335
	$ 2,226	$ 3,004
Long-term deferred tax assets (liabilities)		
Accumulated depreciation/amortization	$(1,073)	$ (790)
Accumulated other comprehensive income	—	(481)
All other, net	2	7
	$(1,071)	$(1,264)

The opportunity for utilization of the foreign net operating loss carryforward in the above table will expire in ten years. Management believes it likely that the Company will generate sufficient taxable income in this carryforward period to realize the benefit of this deferred tax asset.

During 2005, the Company recorded a deferred tax liability of $481, as noted in the above table, in connection with the recording of currency translation.

NOTE J—COMMITMENTS AND CONTINGENCIES

1. Operating leases

With the exception of the Company's headquarters, our facilities are generally leased. Each of the facility lease agreements is a non-cancelable operating lease and expires prior to or during year 2011. The Company utilizes equipment under non-cancelable operating leases, expiring through 2011. The minimum rental commitments under operating leases at December 31, 2005 are as follows:

Year ending	
2006	3,207
2007	3,202
2008	3,226
2009	3,215
2010	3,208
Thereafter	352
	$16,410

NOTE J—COMMITMENTS AND CONTINGENCIES (Continued)

The above amounts contain the assumption that, in the normal course of business, any operating leases that expire within the time frame represented will be renewed or replaced by leases on other properties, assuming operations continue and will extend, at a maximum, through 2010.

These leases generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. The

(in thousands, except per share data)

total rent expense for the years ended 2003, 2004, and 2005 was approximately $2,787, $3,240, and $3,230, respectively.

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 cents on each one dollar of contribution up to six percent of the participating employees' compensation, subject to the limits of ERISA. 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. Contributions made by the Company to the plan in the United States for the years ended 2003, 2004, and 2005 were $256, $289, and $363, respectively. The 401(k) match balances for 2003, 2004, and 2005 were decreased by $18, $30, and $36, respectively, due to the application of prior year forfeitures of the unvested match balances of terminated employees. The Company also made matching contributions to similar employee benefit plans in markets outside the United States.

4. Foreign currency contracts

In order to reduce the impact of changes in foreign exchange rates on consolidated results of operations and foreign currency denominated cash flows, the Company was a party to various currency option contracts at December 31, 2005. These contracts help the Company manage currency movements affecting existing foreign currency denominated assets, liabilities, and firm commitments.

The fair value of the Company's foreign currency option contracts has been estimated based on year-end quoted market prices, and the resulting asset and expense has been recognized in the Company's consolidated financial statements. The notional contract amount, fair value, and unrealized loss on outstanding foreign currency contracts as of December 31, 2005 are as follows:

	Contract Amount	Fair Value	Gain/ (Loss)
Foreign currency contracts	$37	$10	$(27)

NOTE J—COMMITMENTS AND CONTINGENCIES (Continued)

5. Commitments

During 2005, the Company entered into commitments in the form of deposits on projects in process for property, plant, and equipment. As of December 31, 2005, the collective outstanding balance on all such commitments totaled $9,500, which includes $9,000 for the addition to our corporate building of office space for executive and administrative personnel, as well as additional parking space for employees. All of these commitments are scheduled for completion during 2006.

NOTE K—STOCK OPTIONS

In 1995, the Company adopted the 1995 Long-Term Stock Investment and Incentive Plan and the 1995 Directors' Stock Option Plan. The Company subsequently combined these plans under one plan, the Amended and Restated Long-Term Investment and Incentive Plan (1998 Plan). Under the 1998 Plan, 8,000 shares have been reserved for grant. During the life of the Plan and as of December 31, 2005, Company directors, officers, and key employees have been granted options under the 1998 Plan to acquire 2,845 shares of common stock that vest periodically through June 2006. These options have been granted at prices ranging from $0.76 to $4.38 per share, which were the market prices of the Company's shares on the dates granted. No options were granted at prices that were either lower or higher than the market price of the Company's shares on the dates granted. As of December 31, 2005, 22 shares were available to exercise.

In 2002, the Company adopted the 2002 USANA Health Sciences, Inc. Stock Plan (2002 Plan). Under the 2002 Plan, 7,000 shares have been reserved for grant. Company directors, officers, and key employees have been granted options under the 2002 Plan to acquire 4,097 shares of common stock that vest periodically through December 2010. These options have been granted at prices ranging from $0.74 to $47.23 per share, which were the market prices of the Company's shares on the dates granted. No options were granted at prices that were either lower or higher than the market price of the Company's shares on the dates granted. The Compensation Committee of the Board of Directors establishes the prices at which options are granted by averaging the closing price of the Company's common stock over the five trading days preceding the date of grant. As of December 31, 2005, grants for 618 shares were exercisable under the 2002 Plan. With the adoption of the 2002 Plan, the Board determined that no new awards would be granted under the prior plans. As of December 31, 2005, 2,583 shares were available for grant under the 2002 Plan.

The options under both plans expire upon the earlier of an expiration date fixed by the Compensation Committee of the Board of Directors or ten years from the date of grant. Unless otherwise stated in an option agreement, vested options will remain exercisable for 90 days after the participant terminates service with the Company or one of its subsidiaries.

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

NOTE K—STOCK OPTIONS (Continued)

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

	Shares	Exercise price	Weighted-average exercise price
Outstanding at December 28, 2002	3,992	0.74 - 5.06	1.68
Granted	220	7.90 - 19.42	12.52
Exercised	(1,669)	0.74 - 4.38	2.10
Canceled or expired	(78)	0.83 - 3.20	2.30
Outstanding at January 3, 2004	2,465	0.74 - 19.42	2.34
Granted	495	27.69 - 32.36	29.30
Exercised	(688)	0.74 - 15.45	2.06
Canceled or expired	(340)	0.83 - 9.44	2.33
Outstanding at January 1, 2005	1,932	0.74 - 32.36	9.35
Granted	396	39.18 - 47.23	39.94
Exercised	(551)	0.74 - 30.36	5.38
Canceled or expired	(4)	1.61	1.61
Outstanding at December 31, 2005	1,773	0.74 - 47.23	17.43
Exercisable at January 3, 2004	382	$ 0.74 - 5.06	$ 1.84
Exercisable at January 1, 2005	303	$ 0.74 - 19.42	$ 1.49
Exercisable at December 31, 2005	640	$ 0.74 - 47.23	$20.28

Additional information about stock options outstanding and exercisable at December 31, 2005 is summarized as follows:

Options Outstanding				Options Exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 0.74 - $ 3.92	819	6.1 years	$ 0.94	309	$ 0.90
7.90 - 32.36	558	7.2 years	$25.65	35	$ 27.98
39.18 - 47.23	396	8.5 years	$39.94	296	$ 39.62
$ 0.74 - $47.23	1,773	7.0 years	$17.43	640	$ 20.28

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

NOTE L—SEGMENT INFORMATION

The Company's operations are distinguished by regions served and method of distribution employed. Two reportable business segments are recognized by the Company: Direct Selling and Contract Manufacturing. These operating segments are evaluated regularly by management in determining the allocation of resources and in assessing the performance of the Company. Management evaluates performance based on net sales and the amount of operating income or loss. Segment profitability is based on profit or loss from operations before income taxes. All intercompany transactions, intercompany profit, currency gains and losses, interest income and expense, and income taxes are excluded in the Company's determination of segment profit or loss.

Direct Selling

The Direct Selling segment is the Company's principal line of business: developing, manufacturing, and distributing nutritional and personal care products. Products are distributed through a network marketing system using independent distributors referred to as "Associates." Products are also sold directly to "Preferred Customers" who purchase products for personal use and are not permitted to resell or distribute the products.

Historically, information for the Direct Selling segment was reported for seven operating geographic regions. To simplify the

(in thousands, except per share data)

presentation of segment information, the previous geographic regions have been aggregated into two geographic regions: North America and Pacific Rim. North America includes the United States, Canada, and Mexico. Pacific Rim includes Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, and Singapore.

The reported segment profitability within the Direct Selling segment is representative of what is controllable within that region by local management and is not necessarily indicative of actual profit or loss generated by a fully burdened region. However, the presentation of the data is consistent with how management evaluates each region and respective markets within that region.

Contract Manufacturing

Operating activities for the Contract Manufacturing segment primarily exist for the production of the Company's Sensé™ line of skin and personal care. In addition to the production of the Sensé product line, contract manufacturing services are provided to a limited number of external customers. This segment includes operations located in Draper, Utah and at the facility in Tianjin, China, which was acquired in October of 2005. Manufacturing and packaging activities for the Company's Sensé products began at the Draper, Utah facility during the fourth quarter of 2003.

We had one external customer that accounted for more than ten percent of segment third-party sales for the third and fourth quarters of 2003. In 2004 and 2005 we had one and two external customers, respectively, that each accounted for more than ten percent of segment third-party sales.

NOTE L—SEGMENT INFORMATION (Continued)

Financial information summarized by operating segment and geographic region for the years ended 2003, 2004, and 2005 is listed below:

	Net Sales from External Customers	Intersegment Revenues	Earnings before Income Taxes	Long-lived Assets	Total Assets
Year ended 2003:					
Direct Selling					
North America	$135,220	$ 37,350	$ 19,562	$18,035	$41,226
Pacific Rim	62,949	3,598	11,461	3,295	13,978
Segment Total	198,169	40,948	31,023	21,330	55,204
Contract Manufacturing(2)	1,844	54	113	5,565	8,233
Reportable Segments Total	200,013	41,002	31,136	26,895	63,437
Unallocated and Other(1)	—	(41,002)	175	(17)	1,690
Consolidated Total	$200,013	$ —	$ 31,311	$26,878	$65,127
Year ended 2004:					
Direct Selling					
North America(3)	$174,427	$ 47,096	$ 19,593	$21,889	$45,591
Pacific Rim	88,086	3,719	17,687	2,829	13,452
Segment Total	262,513	50,815	37,280	24,718	59,043
Contract Manufacturing(2)	10,311	2,353	756	6,193	11,741
Reportable Segments Total	272,824	53,168	38,036	30,911	70,784
Unallocated and Other(1)	—	(53,168)	7,043	(70)	880
Consolidated Total	$272,824	$ —	$ 45,079	$30,841	$71,664
Year ended 2005:					
Direct Selling					
North America(3)	$212,376	$ 65,875	$ 33,264	$21,142	$44,156
Pacific Rim	107,230	5,438	25,698	2,679	12,305
Segment Total	319,606	71,313	58,962	23,821	56,461
Contract Manufacturing(2)	8,136	5,794	470	7,746	14,188
Reportable Segments Total	327,742	77,107	59,432	31,567	70,649
Unallocated and Other(1)	—	(77,107)	(582)	311	3,059
Consolidated Total	$327,742	$ —	$ 58,850	$31,878	$73,708

(1) "Unallocated and Other" includes certain corporate items and eliminations that are not allocated to the operating segments.

(2) Reportable business activities for the Contract Manufacturing segment commenced July 1, 2003.

(3) Includes results from the FMG subsidiary acquired in February 2004 and operations in Mexico initiated in March 2004.

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

NOTE M—RELATED PARTY TRANSACTIONS

The Company's Founder and Chairman of the Board, Dr. Myron W. Wentz, is the sole beneficial owner of the single largest shareholder of the Company, Gull Holdings, Ltd. Gull Holdings, Ltd. owned 45.01% of the Company's issued and outstanding shares as of December 31, 2005. Dr. Wentz devotes much of his personal time, expertise, and resources to a number of business and professional activities outside of the Company.

The most significant of these is the ownership and operation of Sanoviv. Dr. Wentz describes Sanoviv as a unique, fully integrated health and wellness center. Sanoviv is located near Rosarito, Mexico, and is owned in equal shares by Dr. Wentz and his son, David, President of the Company. Dr. Wentz is the sole administrator of Sanoviv. Prior to July 2002, the Company periodically advanced funds to pay expenses incurred by Dr. Wentz for Sanoviv. The Company has also provided certain services for Sanoviv. These advanced expenses and the value of the services rendered by the Company totaled approximately $111 in 2003, $9 in 2004, and $31 in the year ended December 31, 2005. Each year, these expenses were billed to and reimbursed by Dr. Wentz. Since July 2002, as a result of the passage of the Sarbanes-Oxley Act of 2002, Dr. Wentz has arranged to have a deposit on account to avoid having a loan with the Company. As of December 31, 2005, there were no outstanding amounts due to the Company from Sanoviv or Dr. Wentz. The Company has no commitment or obligation to continue to provide additional funding or support to Sanoviv.

Denis E. Waitley, Ph.D., a director of the Company, has served as a consultant to and spokesperson for USANA since September 1996. During 2003, 2004, and 2005 the Company paid Dr. Waitley consulting fees and royalties totaling $153, $150, and $158 respectively. The consulting contract between the Company and Dr. Waitley pays him $150 per year and expires in September 2008.

Dr. Fred Cooper served in non-executive full and part-time positions and was a consultant to the Company on various special projects during the period from late 1997 until the time of his promotion as an executive officer in July 2003. The promotion of Dr. Cooper to the position of Vice President of Operations was approved by the Board of Directors in October 2003 as part of a plan to restructure and streamline the reporting and management responsibilities of executive management of the Company. With this promotion, Dr. Cooper was considered by the Board to be an "executive officer" for purposes of Section 16 of the Securities Exchange Act of 1934.

Until December 27, 2003, Dr. Cooper owned and controlled iCentris, an entity engaged in the business of designing and servicing specialized computer programs and software for network marketing. In the fourth quarter of 2001, the Company implemented an iCentris-designed and installed order-entry system, known as Odyssey. Additional enhancements and improvements were added to Odyssey by iCentris during fiscal years 2002 and 2003.

At the request of the Company, Dr. Cooper divested himself of all ownership and involvement with iCentris in December 2003, following his appointment and promotion to Vice President of Operations. David Wentz, the Company's President and a member of the Board of Directors during fiscal years 2000 through 2003 was a director of iCentris until November 2003, representing the interests of USANA, but at no time did Mr. Wentz have any beneficial ownership or pecuniary interest in iCentris.

iCentris also provided support for the Odyssey system as installed, including enhancements and additional modules that have been added since the original installation in 2001. In addition, iCentris

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

NOTE M—RELATED PARTY TRANSACTIONS (Continued)

provided on-line business services, including web hosting and Internet-based downline management services for USANA Associates who contract for such services through the Company. Under the latter contracts, the Company paid to iCentris a percentage of the revenue generated from the sale of the business services to Associates. The Company paid iCentris for system development, support, and maintenance, totaling $1,079 for 2003. As Dr. Cooper divested his interest in iCentris in December 2003, the Company no longer considers iCentris to be a related party in 2004 and 2005 as defined by SFAS No. 57, "Related Party Disclosures."

The Company believes that the amounts paid to iCentris were fair and did not exceed what it would have been required to pay to an unrelated party for the same services or products pursuant to bids obtained prior to awarding the contract to iCentris.

NOTE N—QUARTERLY FINANCIAL RESULTS (Unaudited)

Summarized quarterly financial information for fiscal years 2004 and 2005 is as follows:

(in thousands, except per share data)

2004	First	Second	Third	Fourth
Net sales	$61,775	$67,246	$68,673	$75,130
Gross profit	$46,717	$51,051	$51,941	$56,293
Net earnings	$ 6,213	$ 7,413	$ 7,996	$ 9,155
Earnings per share:(1)				
Basic	$ 0.32	$ 0.39	$ 0.42	$ 0.48
Diluted	$ 0.30	$ 0.36	$ 0.39	$ 0.46

2005	First	Second	Third	Fourth
Net sales	$76,578	$82,015	$82,225	$86,924
Gross profit	$58,568	$62,516	$62,465	$66,177
Net earnings	$ 8,928	$ 9,543	$10,042	$10,481
Earnings per share:(1)				
Basic	$ 0.47	$ 0.50	$ 0.53	$ 0.56
Diluted	$ 0.45	$ 0.48	$ 0.51	$ 0.54

(1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts does not necessarily equal the total for the year.

NOTE O—EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of shares outstanding for each period. Weighted average shares redeemed during fiscal years 2003, 2004, and 2005 have been included in the calculation of weighted average shares outstanding for basic earnings per share. Diluted earnings per common share are based on shares outstanding (computed under EPS) and potentially dilutive shares.

NOTE O—EARNINGS PER SHARE (Continued)

Shares included in diluted earnings per share calculations include stock options that are in the money but have not yet been exercised.

	Year ended		
	2003	2004	2005
Earnings available to common shareholders	$20,817	$30,777	$38,994
Basic EPS			
Shares			
Common shares outstanding entire period	18,273	19,470	18,953
Weighted average common shares:			
Issued during period	960	265	270
Canceled during period	(215)	(572)	(350)
Weighted average common shares outstanding during period	19,018	19,163	18,873
Earnings per common share—basic	$ 1.09	$ 1.61	$ 2.07
Diluted EPS			
Shares			
Weighted average common shares outstanding during period—basic	19,018	19,163	18,873
Dilutive effect of in-the-money stock options	2,301	1,252	848
Weighted average common shares outstanding during period—diluted	21,319	20,415	19,721
Earnings per common share—diluted	$ 0.98	$ 1.51	$ 1.98

Options to purchase 195 and 17 shares of stock were not included in the computation of EPS for the years ended 2004 and 2005, respectively, due to their exercise price being greater than the average market price of the shares.

Exhibit 10.4

USANA HEALTH SCIENCES, INC.

EMPLOYEE STOCK OPTION AGREEMENT

Optionee:
Date of Grant:
Number of Covered Shares:
Exercise Price Per Share:
Expiration Date:

This Stock Option Agreement ("Agreement") is entered into as of the day of , between USANA HEALTH SCIENCES, INC., a Utah corporation (the "Company"), and ("Optionee").

WHEREAS, the Company has adopted the 2002 USANA Health Sciences, Inc. Stock Option Plan (the "Plan") and has approved the granting to certain employees of the Company of stock options to purchase common stock of the Company, par value $.001 per share ("Common Stock"); and

WHEREAS, Optionee is employed by the Company in a key executive capacity, or is engaged by the Company as an officer and/or employee, and the Company desires that Optionee remain in such employ and desires to secure or increase Optionee's stock ownership of the Company in order to increase Optionee's incentive and personal interest in the welfare of the Company.

NOW, THEREFORE, in consideration of the premises, covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto have agreed and do hereby agree as follows:

1. Grant of Options. On the terms and conditions set forth in this Agreement, including but not limited to the substitution provisions of Section 27 below, the Company hereby grants to Optionee nonqualified stock options (the "Options") to purchase all or any part of an aggregate amount of ( ) shares of the Common Stock of the Company at a purchase price of $ per share.

2. Term of Options; Vesting. Except as otherwise provided in Sections 5 and 11 below, the Options shall be fully vested on the Date of Grant and shall remain exercisable until ( ) years after the Date of Grant (the "effective term"), at which time the Options shall terminate and not be exercisable thereafter.

3. Exercise of Options. The Options or any portion thereof may be exercised by Optionee paying the purchase price of any shares with respect to which the Options are being exercised by cash, certified check or cashier's check (but no personal checks unless otherwise approved by the Committee). Except as otherwise provided by the Committee before the Option is exercised, (i) all or a portion of the Exercise Price may be paid by Optionee by delivery of shares of Common Stock already owned by Optionee for at least six (6) months and acceptable to the Committee having an aggregate Fair Market Value (as of the date of exercise) that is equal to the amount of cash that would otherwise be required; (ii) Optionee may pay the Exercise Price by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise; or (iii) Optionee may pay the Exercise Price by a reduction in the amount of any

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Company liability to the Optionee. In each case Optionee's payment shall be delivered with a written notice of exercise which shall:

a. State the number of shares being exercised, the name, address and social security number of each person for whom the stock certificate or certificates for such shares of the Common Stock are to be registered;

b. Contain any representations and agreements as to Optionee's investment intent with respect to the shares exercised as may be satisfactory to the Company's counsel; and

c. Be signed by the person or persons entitled to exercise the Options and, if the Options are being exercised by any person or persons other than Optionee, be accompanied by proof satisfactory to counsel for the Company of the right of such person or persons to exercise the Options.

In addition, unless the shares to be acquired by Optionee have been registered under the Securities Act of 1933, as amended, upon and effective as of the date of exercise of the Option under this Agreement, Optionee agrees, represents and warrants that Optionee (i) is acquiring the shares of Common Stock for investment with no present intention of distributing or selling such shares or any interest therein except as permitted under this Agreement; (ii) is not only an employee but also a director or executive officer of the Company experienced in making risky investments and has the capacity to protect his interests in connection with making his decision to exercise the Option; (iii) is well-informed or capable of asking questions of the Company's officials to make himself well-informed concerning the nature of his investment decision to exercise the Option and of the true financial status of the Company; and (iv) has obtained, analyzed and retained (or elected not to retain) copies of the Company's current financial statements. Further, as a condition to the exercise of the Options, the Company may require the person exercising the Options to make any representation and warranty to the Company that may be required by any applicable law or regulation.

4. Stock Settlement Feature. Notwithstanding anything contained herein to the contrary, the Committee in its sole discretion may, at any time prior to an exercise of the Options and with written notice to the Optionee, elect to settle an exercise of the Options by the Optionee in whole or in part through the stock settlement feature described in this Section. To the extent that the Committee elects the stock settlement feature:

a. The provisions of Section 3 relating to the payment of the purchase price shall not be applicable; and

b. In lieu of delivering the shares of Common Stock for which the Options are being exercised, the Company shall deliver the number of shares of Common Stock to the Optionee, subject to the provisions of Section 10 hereof, equal to the result of dividing the Cash Amount (as defined below) by the Fair Market Value of one share of Common Stock on the date of exercise of the Options. The "Cash Amount" is equal to the result of multiplying (A) the number of shares of Common Stock for which the Options are being exercised that are settled by the stock settlement feature by (B) the difference between (x) the Fair Market Value of one share of Common Stock on the date of exercise of the Options and (y) the Exercise Price. Any shares of Common Stock delivered above shall be subject to the restrictions of Section 9 hereof. Notwithstanding the foregoing, this Section shall not be effective until the date that Financial Standards Board Statement No. 123 (revised 2004) is applicable to the financial statements of the Company.

5. Termination of Employment or Death.

a. In the event Optionee's employment shall be involuntarily terminated by the Company without cause, the Optionee may exercise the Options, provided such exercise occurs both within the remaining effective term of the Options and ninety (90) days after the date of termination by the Company.

b. In the event Optionee dies while employed by the Company or dies within ninety (90) days after termination of employment with the Company (whether such termination preceding death was by reason of Retirement or Disability, involuntary termination without cause, or voluntary termination (but not termination For Cause)), the Options granted hereunder to Optionee shall be exercisable within three (3) years after the date of Optionee's death. The legal representative, if any, of Optionee's estate, or otherwise the appropriate legatees or distributees of Optionee's estate, may exercise the Option on behalf of Optionee.

c. In the event Optionee's employment shall terminate on account of Retirement or Disability, the Options held by Optionee may be exercised by Optionee, provided such exercise occurs within the remaining effective term of the Options.

d. In the event Optionee shall have an Involuntary Termination of Employment "For Cause" (as defined in Section 12(d)(ii) of the Plan), no exercise period shall exist and Optionee shall forfeit the Options as of the date of termination.

e. For purposes of this Agreement, termination of employment shall be considered to occur when an employee is no longer an employee of the Company or any Subsidiary. Whether an authorized leave of absence or absence on military or government service shall constitute termination of employment for purposes of this Agreement shall be determined by the Committee. Retirement shall be considered to mean retirement as defined in the Plan.

6. Transfer of Options. Unless the Company, upon advice of its securities counsel, directs otherwise, the Options may not be assigned or transferred in any manner except upon the death of Optionee by will or by the laws of descent and distribution. During the lifetime of Optionee, the Options shall be exercisable only by Optionee.

7. Reservation of Shares. The Company, during the term hereof, will at all times reserve and keep available, and will seek or obtain from any regulatory body having jurisdiction any requisite authority in order to issue and sell such number of shares of its Common Stock as shall be sufficient to satisfy the requirements hereof. The inability of the Company to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of stock hereunder shall relieve the Company of any liability in respect of the nonissuance or sale of such stock as to which such requisite authority shall not have been obtained.

8. Application of Section 16(b). The parties acknowledge that, if the Company has a class of securities required to be registered pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"), and if Optionee is an officer, director or ten percent (10%) shareholder of the Company, the grant to Optionee of Options hereunder, or the Optionee's sale of shares underlying the Options, may, unless the Plan is qualified under Rule 16b-3 of the SEC, subject Optionee to liability under the insider trading prohibitions of Section 16(b) of the Exchange Act, if Optionee purchases or sells Common Stock of the Company within six months before or after the grant of the Options, or within six months before or after the sale of the shares underlying the Options. This acknowledgment is for

informational purposes only and is not to be construed as increasing, limiting or describing the rights and obligations of the parties hereunder.

9. Restriction on Option Exercise. Notwithstanding any contrary provision hereof, the Options may not be exercised by Optionee unless the shares to be acquired by Optionee have been registered under the Securities Act of 1933 (the "Act"), and any other applicable securities laws of any other state, or the Company receives an opinion of counsel (which may be counsel for the

Company) reasonably acceptable to the Company stating that the exercise of the Options and the issuance of shares pursuant to the exercise is registered or exempt from such registration requirements. Optionee shall represent that unless and until the shares have been registered under the Act and applicable state securities laws: (1) Optionee is acquiring the shares for investment purposes only and without the intent of making any sale or disposition thereof; (2) Optionee has been advised and understands that the shares have not been registered for sale pursuant to federal and state securities laws and are "restricted securities" under such laws; and (3) Optionee acknowledges that the shares will be subject to stop transfer instructions and bear the following legend:

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION OR THE AVAILABILITY OF AN EXEMPTION FROM SUCH REGISTRATION. NO OFFER, SALE OR TRANSFER MAY TAKE PLACE WITHOUT PRIOR WRITTEN APPROVAL OF THE COMPANY BEING AFFIXED HERETO. IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT, SUCH APPROVAL SHALL BE GRANTED ONLY IF THE COMPANY HAS RECEIVED AN OPINION OF SHAREHOLDER'S COUNSEL AT SHAREHOLDER'S EXPENSE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT THIS CERTIFICATE MAY BE LAWFULLY TRANSFERRED PURSUANT TO AN EXEMPTION FROM REGISTRATION.

10. Withholding of Taxes. The Options may not be exercised unless Optionee has paid or has made provision satisfactory to the Company for payment of, federal, state and local income taxes, or any other taxes (other than stock transfer taxes) which the Company may be obligated to collect as a result of the issue or transfer of Common Stock upon such exercise of the Options. In its sole discretion, and at the request of Optionee, the Company may permit Optionee (other than an Optionee who would be subject to Section 16(b) of the Exchange Act) to satisfy the obligation imposed by this Section, in whole or in part, by instructing the Company to withhold up to that number of shares otherwise issuable to Optionee with a fair market value equal to the amount of tax to be withheld.

11. Mergers, Reorganizations, and Certain Other Changes. In the event of the Company's liquidation, reorganization, separation, merger or consolidation into, or acquisition of property or stock by another corporation, or sale of substantially all assets to another corporation, the rights of Optionee with respect to the Options granted hereunder shall be governed by the Committee, as provided in the Plan.

12. Antidilution. The aggregate number of shares of Common Stock available for issuance under the Options, and the price per share, shall all be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock subsequent to the date of this Agreement

resulting from a recapitalization, reorganization, merger, consolidation or similar transaction as provided in the Plan.

13. No Rights as a Stockholder. Optionee or a permitted transferee of the Options shall have no rights as a stockholder with respect to any shares covered by the Options until the date as of which stock is issued following exercise of such Options. Except as provided in this Agreement, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or any other distributions for which the record date is prior to the date as of which such stock is issued.

14. No Employment Rights. This Agreement is not an employment agreement or contract and does not grant any employment rights to Optionee.

15. Other Provisions. The Company may, as a condition precedent to the exercise of the Options, require Optionee (including, in the event of Optionee's death, his legal representatives, legatees or distributees) to enter into such agreements or to make such representations as may be required to make lawful the exercise of the Options and the ultimate disposition of the shares acquired by such exercise.

16. Notices. Any notice which either of the parties hereto is required or permitted to give to the other must be in writing and may be given by personal delivery, electronic or facsimile transmission, or by mailing the same by registered or certified mail, return receipt requested, to the party to which or to whom the notice is directed, at the address each party designates in writing. Any notice mailed to such address shall be effective when deposited in the mail, duly addressed and postage prepaid, notwithstanding failure by the addressee thereof to receive the mailed notice.

17. Governing Law. All transactions contemplated hereunder and all rights of the parties hereto shall be governed as to validity, construction, enforcement and in all other respects by the laws and decisions of the State of Utah.

18. Titles. The titles of the sections of this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions hereof.

19. Amendment. This Agreement shall not be modified or amended except by written agreement signed by all of the parties hereto.

20. Attorney's Fees and Costs of Enforcement. If any party to this Agreement shall incur any costs resulting from enforcement of this Agreement, the defaulting party shall be liable to the prevailing party for such costs. Costs, as used herein, shall include costs of enforcement, interpretation, or collection, including without limitation, reasonable attorney's fees, court costs, collection charges, travel and other related or similar expenses.

21. Severability of Provisions. Any provision of this Agreement that is invalid, prohibited, or unenforceable in any jurisdiction, shall not invalidate the remainder of the provision or the remaining provisions of the Agreement.

22. Entire Agreement. Subject to the Plan, a copy of which in its present form is available from the Secretary of the Company, this Agreement contains all of the representations, declarations and statements from either party to the other and expresses the entire understanding between

the parties with respect to the transactions provided for herein. All prior memoranda, letters, statements and agreements concerning this subject matter, if any, are merged in and replaced by this Agreement.

23. Pronouns, Number and Gender. Wherever necessary to implement the intent of the parties hereto, references herein to the singular shall be interpreted as the plural, and vice versa, and the feminine, masculine or neuter gender shall be treated as one of the other genders.

24. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

25. Defined Terms. The capitalized terms contained in this Agreement but not otherwise defined herein shall have the same meanings given to them in the Plan.

26. Counterparts. This Agreement may be executed in one or more counterparts, each of which may be deemed an original, but all of which together shall constitute one and the same instrument.

27. Company Right to Substitute Award. Notwithstanding anything to the contrary herein, the Company, in its sole discretion, shall have the right to cancel in whole or in part the Options granted to Optionee hereunder, provided that the Company shall substitute therefore and grant to Optionee, alternative options, or other equity or cash compensation or award, as may be permitted under the Company's then current omnibus equity incentive compensation plan, as may be substantially equal in value to the Options (or cancelled portion thereof) originally granted to Optionee hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

COMPANY: **USANA HEALTH SCIENCES, INC.**,
a Utah corporation

By:
Name:
Title:

OPTIONEE: _____
(Signature)

_____
(Printed Name)

Exhibit 10.5

USANA HEALTH SCIENCES, INC.

EMPLOYEE INCENTIVE STOCK OPTION AGREEMENT

Optionee:
Date of Grant:
Number of Covered Shares:
Exercise Price Per Share:
Expiration Date:

This Incentive Stock Option Agreement ("Agreement") is entered into as of the day of , between USANA HEALTH SCIENCES, INC., a Utah corporation (the "Company"), and ("Optionee").

WHEREAS, the Company has adopted the 2002 USANA Health Sciences, Inc. Stock Plan (the "Plan") and has approved the granting to certain employees of the Company of incentive stock options to purchase common stock of the Company, par value $.001 per share ("Common Stock"); and

WHEREAS, Optionee is employed by the Company in a key executive capacity, or is engaged by the Company as an officer and/or employee, and the Company desires that Optionee remain in such employ and desires to secure or increase Optionee's stock ownership of the Company in order to increase Optionee's incentive and personal interest in the welfare of the Company.

NOW, THEREFORE, in consideration of the premises, covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto have agreed and do hereby agree as follows:

1. Grant of Options. On the terms and conditions set forth in this Agreement, including but not limited to the substitution provisions of Section 26 below, the Company hereby grants to Optionee incentive stock options as that term is used in Section 422 of the Code (the "ISOs") to purchase all or any part of an aggregate amount of ( ) shares of the Common Stock of the Company at a purchase price of $ per share. However, to the extent that the Fair Market Value of Common Stock with respect to which ISOs are exercisable for the first time during any calendar year (under the Plan and all other stock option plans of the Company) exceeds $100,000, such portion in excess of $100,000 shall be treated as a nonqualified stock option ("NSO"). The ISOs and the NSOs are collectively referred to herein as the "Options".

2. Term of Options; Vesting Schedule. Except as otherwise provided in Sections 4 and 10 below, the Options shall vest and become exercisable pursuant to the following vesting schedule, and shall remain exercisable until ( ) years and ( ) days after the date of this Agreement (/ / , the "effective term"), at which time the Options shall terminate and not be exercisable thereafter:

a. Options to purchase ( ) of the total number of shares subject to Options granted shall vest and become exercisable / / , provided Optionee satisfactorily completes ( ) months of service (as determined by the Company's Board of Directors).

b. Options to purchase ( ) of the total number of shares subject to Options granted shall vest and become exercisable / / , / / , / / , and / / , provided Optionee satisfactorily completes an additional ( )

months of service each year.

3. Exercise of Options. The Options or any portion thereof may be exercised by Optionee paying the purchase price of any shares with respect to which the Options are being exercised by cash, certified check or cashier's check (but no personal checks unless otherwise approved by the Committee). Except as otherwise provided by the Committee before the Option is exercised, (i) all or a portion of the Exercise Price may be paid by Optionee by delivery of shares of Common Stock already owned by Optionee for at least six (6) months and acceptable to the Committee having an aggregate Fair Market Value (as of the date of exercise) that is equal to the amount of cash that would otherwise be required; (ii) Optionee may pay the Exercise Price by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise; or (iii) Optionee may pay the Exercise Price by a reduction in the amount of any Company liability to the Optionee. In each case Optionee's payment shall be delivered with a written notice of exercise which shall:

a. State the number of shares being exercised, the name, address and social security number of each person for whom the stock certificate or certificates for such shares of the Common Stock are to be registered;

b. Contain any representations and agreements as to Optionee's investment intent with respect to the shares exercised as may be satisfactory to the Company's counsel; and

c. Be signed by the person or persons entitled to exercise the Options and, if the Options are being

exercised by any person or persons other than Optionee, be accompanied by proof satisfactory to counsel for the Company of the right of such person or persons to exercise the Options.

In addition, unless the shares to be acquired by Optionee have been registered under the Securities Act of 1933, as amended, upon and effective as of the date of exercise of the Option under this Agreement, Optionee agrees, represents and warrants that Optionee (i) is acquiring the shares of Common Stock for investment with no present intention of distributing or selling such shares or any interest therein except as permitted under this Agreement; (ii) is not only an employee but also a director or executive officer of the Company experienced in making risky investments and has the capacity to protect his interests in connection with making his decision to exercise the Option; (iii) is well-informed or capable of asking questions of the Company's officials to make himself well-informed concerning the nature of his investment decision to exercise the Option and of the true financial status of the Company; and (iv) has obtained, analyzed and retained (or elected not to retain) copies of the Company's current financial statements. Further, as a condition to the exercise of the Options, the Company may require the person exercising the Options to make any representation and warranty to the Company that may be required by any applicable law or regulation.

4. Termination of Employment or Death.

a. In the event Optionee's employment shall be involuntarily terminated by the Company without cause, the Options shall only be exercisable for those portions of the Options which have completely vested as of the date of Involuntary Termination of Employment, provided such exercise occurs both within the remaining effective term of the Options and ninety (90) days after the date of termination by the Company.

b. In the event Optionee dies while employed by the Company or dies within ninety (90) days after termination of employment with the Company, whether by reason of

Retirement or Disability, involuntary termination without cause, or voluntary termination (but not termination For Cause), the Options granted hereunder to Optionee shall be exercisable within three (3) years after the date of Optionee's death, but the Options may not be exercised for more than the number of Shares, if any, as to which the Options were exercisable by Optionee immediately prior to the date of his death or, if sooner, the date of termination of employment. The legal representative, if any, of Optionee's estate, or otherwise the appropriate legatees or distributees of Optionee's estate, may exercise the Option on behalf of Optionee.

c. In the event Optionee's employment shall terminate on account of Retirement or Disability, the Options held by Optionee, to the extent exercisable through the date of such retirement or disability, may be exercised by Optionee, provided such exercise occurs within both the remaining effective term of the Options and three (3) years from the date of termination of employment.

d. In the event of Optionee's Voluntary Termination of Employment, Optionee may exercise the Options provided such exercise occurs within both the remaining effective term of the Options and ninety (90) days from the date of termination, but the Options may not be exercised for more than the number of shares, if any, as to which the Options were exercisable by Optionee immediately prior to such termination of employment.

e. In the event Optionee shall have an Involuntary Termination of Employment "For Cause" (as defined in Section 12(d)(ii) of the Plan), no exercise period shall exist and Optionee shall forfeit the Options as of the date of termination.

f. To the extent not then exercisable in accordance with this Section, the Options shall terminate on the date Optionee's employment terminates with the Company.

g. For purposes of this Agreement, termination of employment shall be considered to occur when an employee is no longer an employee of the Company or any Subsidiary. Whether an authorized leave of absence or absence on military or government service shall constitute termination of employment for purposes of this Agreement shall be determined by the Committee. Retirement shall be considered to mean retirement as defined in the Plan.

5. Transfer of Options. Unless the Company, upon advice of its securities counsel, directs otherwise, the Options may not be assigned or transferred in any manner except upon the death of Optionee by will or by the laws of descent and distribution. During the lifetime of Optionee, the Options shall be exercisable only by Optionee.

6. Reservation of Shares. The Company, during the term hereof, will at all times reserve and keep available, and will seek or obtain from any regulatory body having jurisdiction any requisite authority in order to issue and sell such number of shares of its Common Stock as shall be sufficient to satisfy the requirements hereof. The inability of the Company to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of stock hereunder shall relieve the Company of any liability in respect of the nonissuance or sale of such stock as to which such requisite authority shall not have been obtained.

7. Application of Section 16(b). The parties acknowledge that, if the Company has a class of securities required to be registered pursuant to the Securities Exchange Act of 1934, and if Optionee is an officer, director or ten percent (10%) shareholder of the Company, the grant to Optionee of Options hereunder, or the Optionee's sale of shares underlying the Options, may, unless the Plan is qualified under Rule 16b-3 of the SEC, subject Optionee to liability under the insider trading prohibitions of Section 16(b) of the Securities Exchange Act of 1934, if Optionee purchases or sells Common Stock of

the Company within six months before or after the grant of the Options, or within six months before or after the sale of the shares underlying the Options. This acknowledgment is for informational purposes only and is not to be construed as increasing, limiting or describing the rights and obligations of the parties hereunder.

8. Restriction on Option Exercise. Notwithstanding any contrary provision hereof, the Options may not be exercised by Optionee unless the shares to be acquired by Optionee have been registered under the Securities Act of 1933 (the "Act"), and any other applicable securities laws of any other state, or the Company receives an opinion of counsel (which may be counsel for the Company) reasonably acceptable to the Company stating that the exercise of the Options and the issuance of shares pursuant to the exercise is registered or exempt from such registration requirements. Optionee shall represent that unless and until the shares have been registered under the Act and applicable state securities laws: (1) Optionee is acquiring the shares for investment purposes only and without the intent of making any sale or disposition thereof; (2) Optionee has been advised and understands that the shares have not been registered for sale pursuant to federal and state securities laws and are "restricted securities" under such laws; and (3) Optionee acknowledges that the shares will be subject to stop transfer instructions and bear the following legend:

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY OTHER STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION OR THE AVAILABILITY OF AN EXEMPTION FROM SUCH REGISTRATION. NO OFFER, SALE OR TRANSFER MAY TAKE PLACE WITHOUT PRIOR WRITTEN APPROVAL OF THE COMPANY BEING AFFIXED HERETO. IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT, SUCH APPROVAL SHALL BE GRANTED ONLY IF THE COMPANY HAS RECEIVED AN OPINION OF SHAREHOLDER'S COUNSEL AT SHAREHOLDER'S EXPENSE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT THIS CERTIFICATE MAY BE LAWFULLY TRANSFERRED PURSUANT TO AN EXEMPTION FROM REGISTRATION.

9. Withholding of Taxes. The Options may not be exercised unless Optionee has paid or has made provision satisfactory to the Company for payment of, federal, state and local income taxes, or any other taxes (other than stock transfer taxes) which the Company may be obligated to collect as a result of the issue or transfer of Common Stock upon such exercise of the Options. In its sole discretion, and at the request of Optionee, the Company may permit Optionee (other than an Optionee who would be subject to Section 16(b) of the Exchange Act) to satisfy the obligation imposed by this Section, in whole or in part, by instructing the Company to withhold up to that number of shares otherwise issuable to Optionee with a fair market value equal to the amount of tax to be withheld.

10. Mergers, Reorganizations, and Certain Other Changes. In the event of the Company's liquidation, reorganization, separation, merger or consolidation into, or acquisition of property or stock by another corporation, or sale of substantially all assets to another corporation, the rights of Optionee with respect to the Options granted hereunder shall be governed by the Committee, as provided in the Plan.

11. Antidilution. The aggregate number of shares of Common Stock available for issuance under the Options, and the price per share, shall all be proportionately adjusted for any increase

or decrease in the number of issued shares of Common Stock subsequent to the date of this Agreement resulting from a recapitalization, reorganization, merger, consolidation or similar transaction as provided in the Plan.

12. No Rights as a Stockholder. Optionee or a permitted transferee of the Options shall have no rights as a stockholder with respect to any shares covered by the Options until the date as of which stock is issued following exercise of such Options. Except as provided in this Agreement, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or any other distributions for which the record date is prior to the date as of which such stock is issued.

13. No Employment Rights. This Agreement is not an employment agreement or contract and does not grant any employment rights to Optionee.

14. Other Provisions. The Company may, as a condition precedent to the exercise of the Options, require Optionee (including, in the event of Optionee's death, his legal representatives, legatees or distributees) to enter into such agreements or to make such representations as may be required to make lawful the exercise of the Options and the ultimate disposition of the shares acquired by such exercise.

15. Notices. Any notice which either of the parties hereto is required or permitted to give to the other must be in writing and may be given by personal delivery, electronic or facsimile transmission, or by mailing the same by registered or certified mail, return receipt requested, to the party to which or to whom the notice is directed, at the address each party designates in writing. Any notice mailed to such address shall be effective when deposited in the mail, duly addressed and postage prepaid, notwithstanding failure by the addressee thereof to receive the mailed notice.

16. Governing Law. All transactions contemplated hereunder and all rights of the parties hereto shall be governed as to validity, construction, enforcement and in all other respects by the laws and decisions of the State of Utah.

17. Titles. The titles of the sections of this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions hereof.

18. Amendment. This Agreement shall not be modified or amended except by written agreement signed by all of the parties hereto.

19. Attorney's Fees and Costs of Enforcement. If any party to this Agreement shall incur any costs resulting from enforcement of this Agreement, the defaulting party shall be liable to the prevailing party for such costs. Costs, as used herein, shall include costs of enforcement, interpretation, or collection, including without limitation, reasonable attorney's fees, court costs, collection charges, travel and other related or similar expenses.

20. Severability of Provisions. Any provision of this Agreement that is invalid, prohibited, or unenforceable in any jurisdiction, shall not invalidate the remainder of the provision or the remaining provisions of the Agreement.

21. Entire Agreement. Subject to the Plan, a copy of which in its present form is available from the Secretary of the Company, this Agreement contains all of the representations, declarations and statements from either party to the other and expresses the entire understanding between

the parties with respect to the transactions provided for herein. All prior memoranda, letters, statements and agreements concerning this subject matter, if any, are merged in and replaced by this Agreement.

22. Pronouns, Number and Gender. Wherever necessary to implement the intent of the parties hereto, references herein to the singular shall be interpreted as the plural, and vice versa, and the feminine, masculine or neuter gender shall be treated as one of the other genders.

23. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

24. Defined Terms. The capitalized terms contained in this Agreement but not otherwise defined herein shall have the same meanings given to them in the Plan.

25. Counterparts. This Agreement may be executed in one or more counterparts, each of which may be deemed an original, but all of which together shall constitute one and the same instrument.

26. Company Right to Substitute Award. Notwithstanding anything to the contrary herein, the Company, in its sole discretion, shall have the right to cancel in whole or in part the Options granted to Optionee hereunder, provided that the Company shall substitute therefore and grant to Optionee, alternative options, or other equity or cash compensation or award, as may be permitted under the Company's then current omnibus equity incentive compensation plan, as may be substantially equal in value to the Options (or cancelled portion thereof) originally granted to Optionee hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

COMPANY: **USANA HEALTH SCIENCES, INC.**,
a Utah corporation

By:
Name:
Title:

OPTIONEE:

_____
(Signature)

_____
(Printed Name)

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 as of February 24, 2006.

Name	Jurisdiction of Incorporation
USANA Canada Co.	Canada
USANA Australia Pty, Ltd.	Australia
USANA Health Sciences (NZ) Corporation	New Zealand
USANA Hong Kong Limited	Hong Kong
USANA Japan, Inc.	Japan
USANA Health Sciences Korea Ltd.	South Korea
USANA Health Sciences Singapore Pte, Ltd.	Singapore
USANA Mexico S.A. de C.V.	Mexico
USANA Health Sciences Tianjin Co. Ltd	People’s Republic of China
Wasatch Product Development, Inc.	Utah
FMG Productions, Inc.	Utah

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

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Nos. 333-02934, 333-02860, 333-96645 and 333-128103) on Form S-8, of our reports dated February 15, 2006, relating to the consolidated financial statements and management's report on internal control over financial reporting appearing in this Annual Report on Form 10-K of USANA Health Sciences, Inc. for the year ended December 31, 2005.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
March 1, 2006

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Myron W. Wentz, Chief Executive Officer of USANA Health Sciences, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of USANA Health Sciences, Inc. (the "Registrant");

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and

d) disclosed in this Annual Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: March 6, 2006

/s/ Myron W. Wentz
Myron W. Wentz, PhD
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Gilbert A. Fuller, Chief Financial Officer of USANA Health Sciences, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of USANA Health Sciences, Inc. (the "Registrant");

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and

   d) disclosed in this Annual Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: March 6, 2006

/s/ Gilbert A. Fuller
Gilbert A. Fuller
Chief Financial Officer
(Principal Accounting and Financial Officer)

EXHIBIT 32.1

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

The undersigned hereby certifies that the Annual Report on Form 10-K of USANA Health Sciences, Inc. for the year ended December 31, 2005 as filed March 6, 2006 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: March 6, 2006

/s/ Myron W. Wentz
Myron W. Wentz, PhD
Chairman and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

The undersigned hereby certifies that the Annual Report on Form 10-K of USANA Health Sciences, Inc. for the year ended December 31, 2005 as filed March 6, 2006 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: March 6, 2006

/s/ Gilbert A. Fuller
Gilbert A. Fuller
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)