
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-35024

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

Utah
(State or other jurisdiction
of incorporation or organization)

87-0500306
(I.R.S. Employer
Identification No.)

3838 West Parkway Blvd., Salt Lake City, Utah 84120
(Address of principal executive offices) (Zip Code)

(801) 954-7100
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of November 3, 2023, there were 19,129,806 outstanding shares of the registrant's common stock, \$0.001 par value.

Auditor Name: KPMG LLP

Auditor Location: Salt Lake City, Utah

Auditor Firm ID: 185

USANA HEALTH SCIENCES, INC.
FORM 10-Q
For the Quarterly Period Ended September 30, 2023

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Cautionary Note Regarding Forward-Looking Statements and Certain Risks

This report contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include, but are not limited to, statements regarding future financial results, long-term value creation goals, productivity, raw material prices and related costs, supply chain, asset impairment, litigation, sustainability and environmental, social and governance (“ESG”) efforts, and the impact of COVID-19 on our operations. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely unduly on forward-looking statements.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ materially from those we project or assume in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the Securities and Exchange Commission (“SEC”). Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date hereof. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, the occurrence of unanticipated events or otherwise. Among the important factors that could cause our actual results, performance and achievements to differ materially from estimates or projections contained in our forward-looking statements in this report are the following:

- Our dependence upon the direct selling business model to distribute our products and the activities of our independent Associates;
- Extensive regulation of our business model and uncertainties relating to the interpretation and enforcement of applicable laws and regulations governing direct selling and anti-pyramiding, particularly in the United States and China;
- The operation and expansion of our business in China through our subsidiary, BabyCare Holdings, Ltd. (“BabyCare”), including risks related to (i) operating in China in general, (ii) engaging in direct selling in China, (iii) BabyCare’s business model in China, (iv) new and expanded data privacy and security laws and regulations in China, and (v) changes in the Chinese economy, marketplace or consumer environment;
- Unanticipated effects of changes to our Compensation Plan;
- Challenges associated with our planned expansion into new international markets, delays in commencement of sales or product offerings in such markets, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- Macroeconomic conditions and other factors, including inflationary pressures, slower economic growth or recession, general conditions affecting consumer spending or discretionary income, or disruptions to our supply chain;
- The continuing effects of the COVID-19 pandemic and its impact, which are highly unpredictable and could be significant and could harm our business, operations, and financial results;
- Political events, natural disasters, pandemics, epidemics or other health crises including, and in addition to, COVID-19, or other events that may negatively affect economic conditions, consumer spending or consumer behavior;

- Changes in the legal and regulatory environment including environmental, health and safety regulations, data security and privacy, and trade policies and tariffs, the impact of customs, duties, taxation, and transfer pricing regulations, as well as regulations governing distinctions between and our responsibilities to employees and independent contractors;
- Volatile fluctuation in the value of foreign currencies against the U.S. dollar;
- Noncompliance by us or our Associates with any data privacy or security laws or any security breach by us or a third party involving the misappropriation, loss, destruction or other unauthorized use or disclosure of confidential information;
- Shortages of raw materials, disruptions in the business of our contract manufacturers, significant price increases of key raw materials, and other disruptions to our supply chain;
- Our continued compliance with debt covenants in our Credit Facility;
- Litigation, tax, and legal compliance risk and costs, especially if materially different from the amount we expect to incur or have accrued for, and any disruptions caused by the same;
- Information technology system failures, data security breaches, network disruptions, and cybersecurity attacks; and
- Acquisition, divestiture, and investment-related risks, including risks associated with past or future acquisitions.

Unless otherwise indicated or otherwise required by the context, the terms “we,” “our,” “it,” “its,” “Company,” and “USANA” refer to USANA Health Sciences, Inc. and its wholly owned subsidiaries.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(unaudited)

	As of September 30, 2023	As of December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 307,081	\$ 288,420
Inventories	60,081	67,089
Prepaid expenses and other current assets	23,298	28,873
Total current assets	390,460	384,382
Property and equipment, net	95,159	97,773
Goodwill	16,801	17,368
Intangible assets, net	29,462	32,432
Deferred tax assets	15,135	9,799
Other assets	54,131	54,795
	<u>\$ 601,148</u>	<u>\$ 596,549</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,321	\$ 11,049
Other current liabilities	103,238	132,784
Total current liabilities	112,559	143,833
Deferred tax liabilities	4,747	4,071
Other long-term liabilities	13,448	14,173
Stockholders' equity		
Common stock, \$0.001 par value; Authorized -- 50,000 shares, issued and outstanding 19,122 as of September 30, 2023 and 19,206 as of December 31, 2022	19	19
Additional paid-in capital	62,152	55,604
Retained earnings	428,447	391,636
Accumulated other comprehensive income (loss)	(20,224)	(12,787)
Total stockholders' equity	470,394	434,472
	<u>\$ 601,148</u>	<u>\$ 596,549</u>

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net sales	\$ 213,365	\$ 233,300	\$ 699,927	\$ 770,641
Cost of sales	42,529	46,560	134,374	147,460
Gross profit	170,836	186,740	565,553	623,181
Operating expenses:				
Associate incentives	89,926	98,090	298,376	336,914
Selling, general and administrative	63,303	66,020	198,325	201,204
Total operating expenses	153,229	164,110	496,701	538,118
Earnings from operations	17,607	22,630	68,852	85,063
Other income (expense):				
Interest income	2,733	918	6,732	2,330
Interest expense	(43)	(32)	(117)	(160)
Other, net	234	(292)	375	(1,414)
Other income (expense), net	2,924	594	6,990	756
Earnings before income taxes	20,531	23,224	75,842	85,819
Income taxes	9,184	8,295	28,820	29,264
Net earnings	\$ 11,347	\$ 14,929	\$ 47,022	\$ 56,555
Earnings per common share				
Basic	\$ 0.59	\$ 0.78	\$ 2.44	\$ 2.94
Diluted	\$ 0.59	\$ 0.78	\$ 2.43	\$ 2.93
Weighted average common shares outstanding				
Basic	19,245	19,221	19,283	19,263
Diluted	19,372	19,252	19,376	19,325
Comprehensive income:				
Net earnings	\$ 11,347	\$ 14,929	\$ 47,022	\$ 56,555
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(1,933)	(11,677)	(8,236)	(24,040)
Tax benefit (expense) related to foreign currency translation adjustment	185	1,134	799	3,583
Other comprehensive income (loss), net of tax	(1,748)	(10,543)	(7,437)	(20,457)
Comprehensive income	\$ 9,599	\$ 4,386	\$ 39,585	\$ 36,098

The accompanying notes are an integral part of these statements.

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

For the nine months ended October 1, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at January 1, 2022	19,393	\$ 19	\$ 50,010	\$ 344,637	\$ 458	\$ 395,124
Net earnings				56,555		56,555
Other comprehensive income (loss), net of tax					(20,457)	(20,457)
Equity-based compensation expense			9,815			9,815
Common stock repurchased and retired	(288)	—	(3,031)	(22,351)		(25,382)
Common stock issued under equity award plans	93	—				—
Tax withholding for net-share settled equity awards			(4,556)			(4,556)
Balance at October 1, 2022	19,198	\$ 19	\$ 52,238	\$ 378,841	\$ (19,999)	\$ 411,099

For the nine months ended September 30, 2023

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 31, 2022	19,206	\$ 19	\$ 55,604	\$ 391,636	\$ (12,787)	\$ 434,472
Net earnings				47,022		47,022
Other comprehensive income (loss), net of tax					(7,437)	(7,437)
Equity-based compensation expense			10,952			10,952
Common stock repurchased and retired	(180)	—	(1,446)	(10,211)		(11,657)
Common stock issued under equity award plans	96	—				—
Tax withholding for net-share settled equity awards			(2,958)			(2,958)
Balance at September 30, 2023	19,122	\$ 19	\$ 62,152	\$ 428,447	\$ (20,224)	\$ 470,394

The accompanying notes are an integral part of these statements.

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

For the three months ended October 1, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at July 2, 2022	19,196	\$ 19	\$ 49,206	\$ 363,912	\$ (9,456)	\$ 403,681
Net earnings				14,929		14,929
Other comprehensive income (loss), net of tax					(10,543)	(10,543)
Equity-based compensation expense			3,076			3,076
Common stock issued under equity award plans	2	—				—
Tax withholding for net-share settled equity awards			(44)			(44)
Balance at October 1, 2022	19,198	\$ 19	\$ 52,238	\$ 378,841	\$ (19,999)	\$ 411,099

For the three months ended September 30, 2023

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at July 1, 2023	19,298	\$ 19	\$ 59,970	\$ 427,311	\$ (18,476)	\$ 468,824
Net earnings				11,347		11,347
Other comprehensive income (loss), net of tax					(1,748)	(1,748)
Equity-based compensation expense			3,670			3,670
Common stock repurchased and retired	(180)	—	(1,446)	(10,211)		(11,657)
Common stock issued under equity award plans	4	—				—
Tax withholding for net-share settled equity awards			(42)			(42)
Balance at September 30, 2023	19,122	\$ 19	\$ 62,152	\$ 428,447	\$ (20,224)	\$ 470,394

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Cash flows from operating activities		
Net earnings	\$ 47,022	\$ 56,555
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	9,790	10,101
Right-of-use asset amortization	5,734	6,057
(Gain) loss on sale of property and equipment	12	138
Equity-based compensation expense	10,952	9,815
Deferred income taxes	(4,218)	(8,314)
Changes in operating assets and liabilities:		
Inventories	3,403	14,241
Prepaid expenses and other assets	5,116	1,160
Accounts payable	(2,357)	(2,742)
Other liabilities	(30,836)	(23,572)
Net cash provided by (used in) operating activities	44,618	63,439
Cash flows from investing activities		
Proceeds from the settlement of net investment hedges	3,775	4,555
Payments for net investment hedge	(1,271)	—
Payments to acquire businesses	—	(6,532)
Proceeds from sale of property and equipment	13	4
Purchases of property and equipment	(7,170)	(7,115)
Net cash provided by (used in) investing activities	(4,653)	(9,088)
Cash flows from financing activities		
Repurchase of common stock	(11,599)	(25,382)
Borrowings on line of credit	750	11,000
Payments on line of credit	(750)	(11,000)
Payments related to tax withholding for net-share settled equity awards	(2,958)	(4,556)
Payments for contingent consideration	(338)	—
Net cash provided by (used in) financing activities	(14,895)	(29,938)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(6,567)	(17,702)
Net increase (decrease) in cash, cash equivalents, and restricted cash	18,503	6,711
Cash, cash equivalents, and restricted cash at beginning of period	291,320	243,653
Cash, cash equivalents, and restricted cash at end of period	\$ 309,823	\$ 250,364
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	\$ 307,081	\$ 246,879
Restricted cash included in other assets	2,742	3,485
Total cash, cash equivalents, and restricted cash	\$ 309,823	\$ 250,364
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 5	\$ 47
Income taxes	35,958	39,204
Cash received during the period for:		
Income tax refund	1,164	96
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease obligations	4,963	5,108
Accrued purchases of property and equipment	1,384	204
Contingent consideration given to acquire businesses	—	886
Accrued excise tax for repurchase of common stock	58	—

The accompanying notes are an integral part of these statements.

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

NOTE A – ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

USANA Health Sciences, Inc. is a global direct-selling, personal health and wellness company that develops and manufactures high quality, science-based nutritional and personal care products. The Condensed Consolidated Financial Statements (the “Financial Statements”) include the accounts and operations of the Company, which are grouped and presented in two geographic regions: (1) Asia Pacific, and (2) Americas and Europe. Asia Pacific is further divided into three sub-regions: (i) Greater China, (ii) Southeast Asia Pacific, and (iii) North Asia. The countries included in these regions and sub-regions are described below:

- (1) Asia Pacific -
 - (i) Greater China - Hong Kong, Taiwan, and China. The Company’s business in China is conducted by BabyCare Holdings, Ltd., the Company’s wholly-owned subsidiary.
 - (ii) Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia.
 - (iii) North Asia – Japan and South Korea.
- (2) Americas and Europe – United States, Canada, Mexico, Colombia, and Europe (the United Kingdom, France, Germany, Spain, Italy, Romania, Belgium, and the Netherlands).

The condensed consolidated balance sheet as of December 31, 2022, derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial information of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the SEC. Accordingly, certain information and disclosures that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Company’s management, the accompanying interim condensed consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company’s financial position as of September 30, 2023, and results of operations and cash flows for the three and nine months ended September 30, 2023 and October 1, 2022.

The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022. The results of operations for the three and nine months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2023.

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

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

Recent Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. ASU 2021-08 requires an acquirer to recognize and measure contract assets and contract liabilities (deferred revenue) acquired in a business combination in accordance with Revenue from Contracts with Customers (Topic 606). Under this approach, the acquirer applies the revenue model as if it had originated the contracts. This is a departure from the current requirement to measure contract assets and contract liabilities at fair value at the acquisition date. ASU 2021-08 is effective for annual periods beginning after December 15, 2022 and interim periods within those annual periods. ASU 2021-08 should be applied prospectively to business combinations occurring on or after the date of adoption. Evaluation of this new standard is dependent on multiple circumstances including the timing and complexity of completed business combinations. The Company adopted ASU 2021-08 during the first quarter of 2023 and the adoption of the standard did not have an impact on its condensed consolidated financial statements.

No other recent accounting pronouncements had, or are expected to have, a material impact on the Company's condensed consolidated financial statements.

NOTE B – FAIR VALUE MEASURES

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

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable and are used to measure fair value in situations where there is little, if any, market activity for the asset or liability at the measurement date.

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

NOTE B – FAIR VALUE MEASURES - CONTINUED

As of September 30, 2023, and December 31, 2022, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	September 30, 2023	Fair Value Measurements Using		
		Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 243,577	\$ 243,577	\$ —	\$ —
Foreign currency contracts included in other current liabilities	(66)	—	(66)	—
Deferred compensation liabilities included in other long-term liabilities	(2,580)	—	(2,580)	—

	December 31, 2022	Fair Value Measurements Using		
		Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 211,539	\$ 211,539	\$ —	\$ —
Foreign currency contracts included in other current liabilities	(3,150)	—	(3,150)	—
Deferred compensation liabilities included in other long-term liabilities	(1,632)	—	(1,632)	—
Contingent consideration included in other current liabilities of (\$338) and other long-term liabilities of (\$548)	(886)	—	—	(886)

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

The majority of the Company's non-financial assets, which include long-lived assets, are not required to be carried at fair value on a recurring basis. However, if an impairment charge is required, a non-financial asset would be written down to fair value. As of September 30, 2023 and December 31, 2022, there were no non-financial assets measured at fair value on a non-recurring basis.

As of September 30, 2023 and December 31, 2022, the Company's financial instruments include cash equivalents and restricted cash. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature.

The contingent consideration liability was (i) a contingent part of the purchase price payable by the Company to acquire substantially all of the assets of a business owned by the seller in July 2022, and (ii) based on the achievement of certain milestones by the business over a three-year period, and the seller's continued employment with the business. During the nine months ended September 30, 2023, the employee resigned from the business, which consequently terminated the employment relationship and the remaining contingent consideration of \$548 was forfeited. This non-cash gain on contingent consideration is included in the change in "Other liabilities" line item on the Company's condensed consolidated statements of cash flows.

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

NOTE C – INVENTORIES

Inventories consist of the following:

	September 30, 2023	December 31, 2022
Raw materials	\$ 20,886	\$ 21,776
Work in progress	3,899	4,285
Finished goods	35,296	41,028
Inventories	\$ 60,081	\$ 67,089
Noncurrent inventories	\$ 3,720	\$ 3,479

As of September 30, 2023, noncurrent inventories consisted of \$2,323 of raw materials and \$1,397 of finished goods inventory. As of December 31, 2022, noncurrent inventories consisted of \$1,711 of raw materials and \$1,768 of finished goods inventory. Noncurrent inventories are included in the “Other assets” line item on the Company’s condensed consolidated balance sheets. Noncurrent inventory is anticipated to be consumed beyond our normal operating cycle, but prior to obsolescence.

NOTE D – INVESTMENT IN EQUITY SECURITIES

As of September 30, 2023 and December 31, 2022, the carrying amount of equity securities without readily determinable fair value was \$20,000 and is included in the “Other assets” line item on the Company’s condensed consolidated balance sheets.

During the three months ended September 30, 2023, no observable price changes occurred. During the nine months ended September 30, 2023, the Company evaluated an observable price change related to equity securities without readily determinable fair values. No adjustment to the carrying value of the securities was necessary based on the observable price change. During the three and nine months ended October 1, 2022, no observable price changes occurred. Additionally, no impairment of securities was recorded for the three and nine months ended September 30, 2023, and October 1, 2022.

NOTE E – REVENUE AND CONTRACT LIABILITIES

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

Other revenue includes fees, which are paid by the customer at the beginning of the service period, for access to online customer service applications and annual account renewal fees for Associates, for which control is transferred over time as services are delivered and are recognized as revenue on a straight-line basis over the term of the respective contracts.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
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NOTE E – REVENUE AND CONTRACT LIABILITIES - CONTINUED

The following table presents Other Revenue for the periods indicated:

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Other Revenue	\$ 715	\$ 894	\$ 2,196	\$ 2,689

Disaggregation of revenue by geographic region and major product line is included in Segment Information in [Note K](#).

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

	September 30, 2023	December 31, 2022
Contract liabilities at beginning of period	\$ 20,875	\$ 19,635
Increase due to deferral of revenue at end of period	10,384	20,875
Decrease due to beginning contract liabilities recognized as revenue	(19,734)	(19,635)
Contract liabilities at end of period	\$ 11,525	\$ 20,875

NOTE F - INTANGIBLE ASSETS

The Company performed its annual goodwill impairment test during the third quarter of 2023. The Company performed a qualitative assessment of each reporting unit and determined that it was not more-likely-than-not that the fair value of any reporting unit was less than its carrying amount. As a result, no impairment of goodwill was recognized.

The Company also performed its annual indefinite-lived intangible asset impairment test during the third quarter of 2023. The Company performed a qualitative assessment of the indefinite-lived intangible asset and determined that it was not more-likely-than-not that the fair value of the indefinite-lived intangible asset was less than the carrying amount. As a result, no impairment of the indefinite-lived intangible asset was recognized.

NOTE G – LINE OF CREDIT

On August 25, 2020, the Company as borrower, and certain of its material subsidiaries as guarantors, entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") with Bank of America, N.A. ("Bank of America") as Administrative Agent, Swingline Lender and Letter of Credit Issuer, and the other lenders party thereto. On August 10, 2022, the Company entered into the Second Amendment to the Second Amended and Restated Credit Agreement ("Restated Credit Agreement"), which replaces the Eurodollar Rate, and LIBOR terms and provisions with the Bloomberg Short-Term Bank Yield Index rate ("BSBY").

The Credit Agreement provides for a revolving credit limit for loans to the Company up to \$75,000 (the "Credit Facility"). In addition, at the option of the Company, and subject to certain conditions, the Company may request to increase the aggregate commitment under the Credit Facility up to an additional \$200,000.

There was no outstanding debt balance on the Credit Facility as of September 30, 2023 and December 31, 2022. The obligations of the Company under the Credit Agreement are secured by the pledge of the capital stock of certain subsidiaries of the Company, pursuant to a Security and Pledge Agreement.

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NOTE G – LINE OF CREDIT - CONTINUED

Interest on revolving borrowings under the Credit Facility is computed at BSBY, adjusted by features specified in the Credit Agreement. The covenants require the Company's rolling four-quarter consolidated EBITDA (as defined in the Credit Agreement) to be \$100,000 or greater and its ratio of consolidated funded debt to consolidated EBITDA to be equal to or less than 2.0 to 1.0 at the end of each quarter. The Credit Agreement does not include any restrictions on the payment of cash dividends or share repurchases by the Company. Consolidated EBITDA and consolidated funded debt are non-GAAP terms.

The Company will be required to pay any balance on this Credit Facility in full at the time of maturity in August 2025.

NOTE H – CONTINGENCIES

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

NOTE I – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the nine months ended September 30, 2023, the Company entered into and settled a European option with a notional amount of \$1,343. During the nine months ended October 1, 2022, the Company entered into and settled a forward contract with a notional amount of \$98,930. Both the European option and forward contract were designated as net investment hedges. No settlements occurred during the three months ended September 30, 2023 and October 1, 2022. For the nine months ended September 30, 2023 and October 1, 2022, the Company realized gains of \$2,504 and \$4,555, respectively, recorded to FCTA within AOCI. The Company assessed the hedge effectiveness under the forward rate method, determining the hedging instruments were highly effective.

As of September 30, 2023, there were no derivatives outstanding for which the Company has applied hedge accounting.

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(unaudited)

NOTE J – COMMON STOCK AND EARNINGS PER SHARE

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

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

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net earnings available to common shareholders	\$ 11,347	\$ 14,929	\$ 47,022	\$ 56,555
Weighted average common shares outstanding - basic	19,245	19,221	19,283	19,263
Dilutive effect of in-the-money equity awards	127	31	93	62
Weighted average common shares outstanding - diluted	19,372	19,252	19,376	19,325
Earnings per common share from net earnings - basic	\$ 0.59	\$ 0.78	\$ 2.44	\$ 2.94
Earnings per common share from net earnings - diluted	\$ 0.59	\$ 0.78	\$ 2.43	\$ 2.93

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

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
	315	439	322	328

During the three months ended September 30, 2023, the Company repurchased and retired 180 shares for \$11,657 including accrued excise tax of \$58. There were no shares repurchased during the three months ended October 1, 2022.

During the nine months ended September 30, 2023 and October 1, 2022, the Company repurchased and retired 180 shares and 288 shares for \$11,657 and \$25,382, respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

As of September 30, 2023, the remaining authorized repurchase amount under the stock repurchase plan was \$71,182. There is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

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

The Company primarily operates as a global direct-selling nutrition, personal health and wellness company that develops and manufactures high quality, science-based nutritional, and personal care products.

The Company’s operating segments are identified according to how business activities are managed and evaluated by the chief operating decision maker (“CODM”), our CEO. The CODM manages the business, allocates resources, makes operating decisions, and evaluates performance for a geographic region or market based on net sales. The Company aggregates its direct-selling operating segments (“Direct-selling”) into one reportable segment, as management believes that the Company’s Direct-selling segments exhibit similar long-term financial performance and have similar economic characteristics. The CODM does not evaluate operating segments using asset information, accordingly, the Company does not report asset information by segment.

As a result of the Company’s acquisitions during 2022, the Company has operating segments that are not material to the Company’s net sales. These operating segments are included as a component of (“All other”) and are included for purposes of reconciliation of net sales to the Company’s Condensed Consolidated Statements of Comprehensive Income.

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net Sales:				
Direct-selling	\$ 211,932	\$ 230,996	\$ 695,607	\$ 768,337
All other	1,433	2,304	4,320	2,304
Consolidated Total	\$ 213,365	\$ 233,300	\$ 699,927	\$ 770,641

No single Associate accounted for 10% or more of net sales for the periods presented. The table below summarizes the approximate percentage of total product revenue for our Direct-selling segment that has been contributed by the Company’s nutritionals, food, and personal care and skincare products for the periods indicated.

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
USANA® Nutritionals	86 %	86 %	87 %	86 %
USANA Foods ⁽¹⁾	7 %	7 %	7 %	7 %
Personal care and Skincare	6 %	6 %	5 %	6 %
All Other	1 %	1 %	1 %	1 %

(1) Includes the Company’s Active Nutrition line.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
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(unaudited)

NOTE K – SEGMENT INFORMATION - CONTINUED

Selected Financial Information

Financial information, presented by geographic region is listed below:

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net Sales to External Customers				
Asia Pacific				
Greater China	\$ 106,609	\$ 109,682	\$ 359,178	\$ 384,196
Southeast Asia Pacific	39,151	47,308	124,774	149,880
North Asia	24,244	25,667	79,381	84,409
Asia Pacific Total	170,004	182,657	563,333	618,485
Americas and Europe	43,361	50,643	136,594	152,156
Consolidated Total	<u>\$ 213,365</u>	<u>\$ 233,300</u>	<u>\$ 699,927</u>	<u>\$ 770,641</u>

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

	Quarter Ended		Nine Months Ended	
	September 30, 2023	October 1, 2022	September 30, 2023	October 1, 2022
Net sales:				
China	\$ 94,674	\$ 97,443	\$ 322,589	\$ 346,086
South Korea	\$ 23,745	\$ 25,099	\$ 77,537	\$ 82,439
United States	\$ 22,981	\$ 26,942	\$ 72,647	\$ 79,803
			As of	
			September 30, 2023	December 31, 2022
Long-lived assets:				
United States			\$ 89,026	\$ 89,150
China			\$ 76,104	\$ 83,938

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is designed to provide an understanding of USANA’s financial condition, results of operations and cash flows by reviewing certain key indicators and measures of performance.

The MD&A is presented in six sections as follows:

- Overview
- Products
- Customers
- Non-GAAP Financial Measures
- Results of Operations
- Liquidity and Capital Resources

This discussion and analysis from management's perspective should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and Notes thereto that are contained in this quarterly report, as well as Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2022 (“[2022 Form 10-K](#)”), filed with the SEC on February 28, 2023, and our other filings, including the Current Reports on Form 8-K, that have been filed with the SEC through the date of this report. Forward-looking statements in Part I, Item 2 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled “Cautionary Note Regarding Forward-Looking Statements and Certain Risks” on page 1 and the risk factors provided in Part II, Item 1A for discussion of these risks and uncertainties).

Overview

We develop and manufacture high quality, science-based nutritional and personal care and skincare products that are distributed internationally primarily through direct selling. We use this distribution method because we believe it is more conducive to meeting our vision as a company, which is to improve the overall health and nutrition of individuals and families around the world. Our customer base is primarily comprised of two types of customers: “Associates” and “Preferred Customers,” referred to together as “active Customers.” Our Associates also sell our products to retail customers. Associates share in our company vision by acting as independent distributors of our products in addition to purchasing our products for their personal use. Preferred Customers purchase our products strictly for personal use and are not permitted to resell or to distribute the products. We only count as active Customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period. As of September 30, 2023, we had approximately 464,000 active Customers worldwide.

We have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies. Our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, our operating results are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. During the nine months ended September 30, 2023, net sales outside of the United States represented 89.6% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

Products

The following table summarizes the approximate percentage of total product revenue for our Direct-selling segment that has been contributed by our major product lines and our top-selling products for the current and prior-year periods as indicated:

	Nine Months Ended	
	September 30, 2023	October 1, 2022
Product Line		
USANA® Nutritionals		
Optimizers	71%	69%
Essentials/CellSentials(1)	16%	17%
USANA Foods(2)	7%	7%
Personal care and Skincare	5%	6%
All Other	1%	1%
Key Product		
USANA® Essentials/CellSentials	10%	11%
Proflavanol®	10%	10%
Probiotic	10%	10%

(1) Represents a product line consisting of multiple products, as opposed to the actual USANA® Essentials / CellSentials product.

(2) Includes our Active Nutrition line.

Customers

Because we sell our products to a customer base of independent Associates and Preferred Customers, we increase our sales by increasing the number of our active Customers, the amount they spend on average, or both. Our primary focus continues to be increasing the number of active Customers. We believe this focus is consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for approximately 52% of Direct-selling segment sales during the nine months ended September 30, 2023, with the remainder of our sales being to Preferred Customers. Increases or decreases in product sales are typically the result of variations in the volume of product sold relating to fluctuations in the number of active Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial indicator to evaluate our operational performance.

The table below summarizes the changes in our active Customer base by geographic region, rounded to the nearest thousand as of the dates indicated:

	Total Active Customers by Region				Change from Prior Year	Percent Change
	As of September 30, 2023		As of October 1, 2022			
Asia Pacific:						
Greater China	230,000	49.6 %	213,000	44.9 %	17,000	8.0 %
Southeast Asia Pacific	83,000	17.9 %	95,000	20.1 %	(12,000)	(12.6 %)
North Asia	49,000	10.5 %	54,000	11.4 %	(5,000)	(9.3 %)
Asia Pacific Total	362,000	78.0 %	362,000	76.4 %	—	— %
Americas and Europe	102,000	22.0 %	112,000	23.6 %	(10,000)	(8.9 %)
	464,000	100.0 %	474,000	100.0 %	(10,000)	(2.1 %)

Non-GAAP Financial Measures

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

In analyzing business trends and performance, management uses “constant currency” net sales, “local currency” net sales, and other currency-related financial information terms to discuss our financial results in a way we believe is helpful in understanding the impact of fluctuations in foreign-currency exchange rates and facilitating period-to-period comparisons of results of operations and providing investors an additional perspective on trends and underlying business results. Changes in our reported revenue and profits in this report include the impacts of changes in foreign currency exchange rates. As additional information to the reader, we provide constant currency assessments in the tables and the narrative information in this MD&A to remove or quantify the impact of the fluctuation in foreign exchange rates and utilize constant currency results in our analysis of performance. Our constant currency financial results are calculated by translating the current period’s financial results at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount to the prior-year period’s financial results.

Results of Operations

Summary of Financial Results

Net sales for the third quarter of 2023 decreased 8.5% to \$213.4 million, a decrease of \$19.9 million, compared with the prior-year quarter. The decrease in net sales was primarily the result of a 2.1% decline in active Customers compared to the prior-year quarter, partially offset by modest price increases. Additionally, unfavorable changes in currency exchange rates negatively impacted net sales by an estimated \$4.7 million.

Net earnings for the third quarter of 2023 were \$11.3 million, a decrease of 24.0% compared with \$14.9 million during the prior-year quarter. The decrease in net earnings was the result of decreased sales and higher relative operating expenses combined with an increase in effective tax rate.

Quarters Ended September 30, 2023 and October 1, 2022

Net Sales

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

	Net Sales by Region (in thousands) Quarter Ended				Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact				
	September 30, 2023		October 1, 2022									
Asia Pacific												
Greater China	\$	106,609	50.0 %	\$	109,682	47.0 %	\$	(3,073)	(2.8 %)	\$	(5,377)	2.1 %
Southeast Asia Pacific		39,151	18.3 %	\$	47,308	20.3 %		(8,157)	(17.2 %)		(532)	(16.1 %)
North Asia		24,244	11.4 %	\$	25,667	11.0 %		(1,423)	(5.5 %)		487	(7.4 %)
Asia Pacific Total		170,004	79.7 %		182,657	78.3 %		(12,653)	(6.9 %)		(5,422)	(4.0 %)
Americas and Europe		43,361	20.3 %		50,643	21.7 %		(7,282)	(14.4 %)		745	(15.9 %)
	\$	213,365	100.0 %	\$	233,300	100.0 %	\$	(19,935)	(8.5 %)	\$	(4,677)	(6.5 %)

Asia Pacific: The decline in this region is largely the result of lower active Customer counts in the Southeast Asia Pacific and North Asia sub-regions, partially offset by an increase in active Customer counts in Greater China, as well as modest price increases throughout the region. The increase in constant currency net sales in Greater China was primarily the result of a sales increase in China, where local currency net sales increased 2.7%, due to an 8.8% increase in active Customers. The decrease in constant currency net sales in Southeast Asia Pacific is largely the result of sales declines in the Philippines and Australia, which had local currency net sales declines of 38.1%, and 12.0%, due to a 33.3%, and 6.3% decrease in active Customers, respectively. The decrease in constant currency net sales in North Asia was primarily the result of a 7.2% decrease in local currency net sales in South Korea due to a 7.7% decrease in active Customers.

Americas and Europe: The decrease in this region is largely the result of lower active Customer counts in the region, partially offset by modest price increases. The decrease in constant currency net sales is largely the result of sales declines in the United States and Canada, which had local currency net sales declines of 20.0%, and 10.1%, due to a 14.0%, and 11.1% decrease in active Customers, respectively.

Gross Profit

Gross profit increased 10 basis points to 80.1% of net sales, up from 80.0% in the prior-year quarter. The increase can primarily be attributed to decreased scrap and freight charges as well as modest price increases. These increases were partially offset by unfavorable changes in currency exchange rates, higher material costs, and loss of leverage on lower sales.

Associate Incentives

Associate incentives increased 10 basis points to 42.1% of net sales, up from 42.0% in the prior-year quarter. The relative increase can primarily be attributed to changes in market sales mix, and increased spending on Associate related incentive trips in certain markets. These increases were partially offset by modest price changes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 140 basis points relative to net sales and decreased \$2.7 million in absolute terms. The relative increase is largely due to a loss of leverage on lower year-over-year net sales offset in part by a decline in variable selling, general and administrative costs. The decreased expense in absolute terms can be primarily attributed to lower costs on meetings and events held during the current quarter.

Income Taxes

Income taxes increased to 44.7% of pre-tax earnings, up from 35.7% of pre-tax earnings in the prior-year quarter as a result of an increase to the year-to-date effective tax rate estimate. This increase can primarily be attributed to an unfavorable change in the mix of taxable income by market.

Diluted Earnings per Share

Diluted EPS decreased 24.4% to \$0.59 as compared to \$0.78 reported in the prior-year quarter. This decrease can be attributed to lower net earnings.

Nine Months Ended September 30, 2023 and October 1, 2022
Net Sales

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

	Net Sales by Region (in thousands)				Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
	September 30, 2023		October 1, 2022					
Asia Pacific								
Greater China	\$ 359,178	51.3 %	\$ 384,196	49.9 %	\$ (25,018)	(6.5 %)	\$ (21,146)	(1.0 %)
Southeast Asia Pacific	124,774	17.8 %	149,880	19.4 %	(25,106)	(16.8 %)	(4,230)	(13.9 %)
North Asia	79,381	11.4 %	84,409	11.0 %	(5,028)	(6.0 %)	(2,343)	(3.2 %)
Asia Pacific Total	563,333	80.5 %	618,485	80.3 %	(55,152)	(8.9 %)	(27,719)	(4.4 %)
Americas and Europe	136,594	19.5 %	152,156	19.7 %	(15,562)	(10.2 %)	204	(10.4 %)
	<u>\$ 699,927</u>	<u>100.0 %</u>	<u>\$ 770,641</u>	<u>100.0 %</u>	<u>\$ (70,714)</u>	<u>(9.2 %)</u>	<u>\$ (27,515)</u>	<u>(5.6 %)</u>

Asia Pacific: The decrease in constant currency net sales in Greater China was primarily the result of a sales decline in China and Taiwan where local currency net sales decreased 0.6% and 5.3%, respectively. There were local currency declines in all markets in the Southeast Asia Pacific sub-region, most notable in the Philippines, Australia, and Malaysia, which had local currency net sales declines of 26.3%, 11.7%, and 4.5%, respectively. The decrease in constant currency net sales in North Asia was primarily the result of a local currency sales decline of 3.5% in South Korea.

Americas and Europe: There were local currency sales declines in all markets in this region. The decrease in constant currency net sales is largely the result of sales declines in the United States and Canada, which had local currency net sales declines of 14.4%, and 8.0%, respectively.

Gross Profit

Gross profit decreased 10 basis points to 80.8% of net sales, down from 80.9% for the nine months ended October 1, 2022. The decrease in gross profit margin can be attributed to increases in material costs, unfavorable changes in currency exchange rates, and loss of leverage on lower net sales, partially offset by decreased inventory valuation adjustments, and the impact of modest price increases.

Associate Incentives

Associate incentives decreased 110 basis points to 42.6% of net sales, down from 43.7% for the nine months ended October 1, 2022. The relative decrease can primarily be attributed to decreases in promotional and program incentives. Additionally, price increases modestly contributed to the decrease in associate incentives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 220 basis points relative to net sales and decreased \$2.9 million in absolute terms. The relative increase can be attributed to leverage lost on lower net sales offset in part by a decline in variable selling, general and administrative costs. The decreased expense in absolute terms can be primarily attributed to a decrease in variable operating expenses.

Income Taxes

Income taxes increased to 38.0% of pre-tax earnings, up from 34.1% of pre-tax earnings for the nine months ended October 1, 2022. The effective tax rate increase is due primarily to an unfavorable change in the mix of pre-tax income by market.

Diluted Earnings per Share

Diluted EPS decreased 17.1% to \$2.43 as compared to \$2.93 reported for the nine months ended 2022. This decrease can be attributed to lower net earnings.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using net cash flow from operations and by drawing on our line of credit. Our principal source of liquidity is our operating cash flow. Although we are required to maintain cash deposits with banks in certain of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. In China, however, our compliance with Chinese accounting and tax regulations promulgated by the State Administration of Foreign Exchange (“SAFE”) results in transfer and remittance of our profits and dividends from China to the United States on a delayed basis. If SAFE or other Chinese regulators introduce new regulations or change existing regulations which allow foreign investors to remit profits and dividends earned in China to other countries, our ability to remit profits or pay dividends from China to the United States may be limited in the future.

We believe our current liquidity is adequate to meet our cash requirements and sustain our operations through cash flow from operations. Maintaining a capital structure that emphasizes sufficient liquidity and adaptability in the prevailing economic climate is our top priority. We actively assess potential acquisition opportunities and investments in complementary ventures. While we continuously aim to preserve ample liquidity and ensure business continuity amid uncertainties, we also explore initiatives such as stock repurchases. These strategic decisions have the potential to impact our liquidity, enabling us to navigate these challenging times effectively.

Cash and Cash Equivalents

Cash and cash equivalents increased to \$307.1 million as of September 30, 2023, from \$288.4 million as of December 31, 2022. Cash flow provided by operating activities was \$44.6 million partially offset by cash used in financing activities of \$14.9 million, and cash used in investing activities of \$4.7 million.

The table below presents concentrations of cash and cash equivalents by market for the periods indicated:

	Cash and cash equivalents (in millions)	
	As of September 30, 2023	As of December 31, 2022
United States	182.1	114.1
China	85.9	129.8
All other markets	39.1	44.5
Total Cash and cash equivalents	<u>\$ 307.1</u>	<u>\$ 288.4</u>

Cash Flows Provided by Operations

As discussed above, our principal source of liquidity comes from our net cash flow from operations. Net cash flow provided by operating activities was \$44.6 million for the first nine months of 2023. Net earnings combined with adjustments of non-cash items contributed positively to our net cash flow provided by operating activities, partially offset by cash used to pay accrued associate incentives and the 2022 annual employee bonus.

Net cash flow provided by operating activities was \$63.4 million for the first nine months of 2022. Net earnings combined with adjustments of non-cash items contributed positively to our net cash flows provided by operating activities, partially offset by cash used to pay the 2021 annual employee bonus, and a reduction in trade payables.

Line of Credit

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

Share Repurchase

Information with respect to share repurchases may be found in [Note J](#) to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Summary

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

Critical Accounting Policies

There were no changes during the quarter to our critical accounting policies as disclosed in our 2022 Form 10-K. Our significant accounting policies are disclosed in [Note A](#) to our Consolidated Financial Statements filed with our 2022 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have no material changes to the disclosures on this matter made in our 2022 Form 10-K. For a discussion of our exposure to market risk, refer to our market risk disclosures set forth in the section entitled “Quantitative and Qualitative Disclosures About Market Risk” in the [2022 Form 10-K](#).

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer) evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a- 15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2023, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Information with respect to our legal proceedings may be found in [Note H](#) to the Condensed Consolidated Financial Statements included in Item 1 Part I of this report.

Item 1A. RISK FACTORS

Our business, results of operations, and financial condition are subject to various risks. Our material risk factors are disclosed in Part I, Item 1A of our [2022 Form 10-K](#). The risk factors identified in our 2022 Form 10-K have not changed in any material respect.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

Our share repurchase plan has been ongoing since the fourth quarter of 2000, with the Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. At September 30, 2023, the authorized amount available for repurchases under the plan was \$71.2 million.

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

The following table summarizes information relating to purchases of our common stock made by or on behalf of the Company during the quarter ended September 30, 2023.

Period	Issuer Purchases of Equity Securities (amounts in thousands, except per share data)			Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	
Fiscal July (Jul. 2, 2023 through Aug. 5, 2023)	—	\$—	—	\$82,839
Fiscal August (Aug. 6, 2023 through Sep. 2, 2023)	166	\$64.56	166	\$72,052
Fiscal September (Sep. 3, 2023 through Sep. 30, 2023)	14	\$62.89	14	\$71,182
	<u>180</u>		<u>180</u>	

⁽¹⁾ Represents the approximate weighted-average price paid per share excluding accrued excise taxes.

Item 5. OTHER INFORMATION

During the fiscal quarter ended September 30, 2023, none of our directors or officers informed us of the adoption, modification or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408.

Item 6. Exhibits

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

Exhibit Number	Description
31.1	*Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	*Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	*Certification of Principal Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	*Certification of Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data file (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

Date: November 7, 2023

USANA HEALTH SCIENCES, INC.

/s/ G. Douglas Hekking

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

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Jim H. Brown, certify that:

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

Date: November 7, 2023

/s/ Jim H. Brown

Jim H. Brown
Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, G. Douglas Hekking, certify that:

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

Date: November 7, 2023

/s/ G. Douglas Hekking

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

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

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended September 30, 2023 as filed November 7, 2023 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: November 7, 2023

/s/ Jim H. Brown

Jim H. Brown
Chief Executive Officer
(Principal Executive Officer)

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

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended September 30, 2023 as filed November 7, 2023 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: November 7, 2023

/s/ G. Douglas Hekking

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