

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 April 3, 1999

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: 0-21116

USANA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May
10, 1999 was 13,073,238.

[Note: On July 21, 1998, the registrant declared a two-for-one stock split
of its common stock, no par value, that was distributed in the form of a stock
dividend on August 3, 1998 to shareholders of record as of July 31, 1998.
Outstanding common stock data in this report for periods prior to August 3, 1998
have been adjusted to reflect the stock split.]

USANA, INC.

FORM 10-Q

For the Quarterly Period Ended April 3, 1999

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USANA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

<TABLE>
<CAPTION>

	Unaudited	
	January 2, 1999	April 3, 1999
<S>	<C>	<C>
ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 2,617	\$ 3,376
Accounts receivable, net.....	294	481
Current maturities of notes receivable.....	547	979
Inventories, net (Note A).....	10,543	10,629
Prepaid expenses and other current assets.....	1,912	2,128
Deferred income taxes.....	1,233	1,268
	-----	-----
Total current assets.....	17,146	18,861
Property and Equipment, net (Note B).....	22,751	22,411
Notes Receivable, less current maturities.....	5	5
Other Assets.....	55	56
	-----	-----
	\$39,957	\$41,333
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable.....	\$ 4,211	\$ 1,565
Other current liabilities (Note C).....	4,505	6,260
	-----	-----
Total current liabilities.....	8,716	7,825
Deferred Income Taxes.....	624	661
Stockholders' Equity		
Common stock, no par value; authorized 50,000 shares; issued and outstanding 13,047 shares at January 2, 1999 and 13,051 shares at April 3, 1999.....	9,131	9,183
Accumulated other comprehensive loss.....	(182)	(132)
Retained earnings.....	21,668	23,796
	-----	-----
Total stockholders' equity.....	30,617	32,847
	-----	-----
	\$39,957	\$41,333
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share amounts)

<TABLE>
<CAPTION>

	Unaudited	
	March 28, 1998	April 3, 1999
	-----	-----
	<C>	<C>
Net sales.....	\$26,164	\$31,323
Cost of sales.....	5,486	6,383
	-----	-----
Gross profit.....	20,678	24,940
Operating expenses		
Distributor incentives.....	11,762	13,909
Selling, general and administrative.....	5,432	7,244
Research and development.....	355	356
	-----	-----
Total operating expenses.....	17,549	21,509
	-----	-----
Earnings from operations.....	3,129	3,431
Other income (expense)		
Interest income.....	55	47
Interest expense.....	(13)	(6)
Other, net.....	4	(7)
	-----	-----
Total other income (expense).....	46	34
	-----	-----
Earnings before income taxes.....	3,175	3,465
Income taxes.....	1,239	1,337
	-----	-----
NET EARNINGS.....	\$ 1,936	\$ 2,128
	=====	=====
Earnings per share (Note D).....		
Earnings per share--basic.....	\$0.15	\$0.16
	=====	=====
Weighted average shares outstanding--basic.....	12,827	13,050
	=====	=====
Earnings per share--diluted.....	\$0.14	\$0.16
	=====	=====
Weighted average shares outstanding--diluted.....	13,771	13,557
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Quarters ended March 28, 1998 and April 3, 1999
(in thousands)

<TABLE>
<CAPTION>

Accumulated

	Common stock		other		Total
	Shares	Amount	Retained Earnings	comprehensive income/loss	
<S>	<C>	<C>	<C>	<C>	<C>
For the quarter ended March 28, 1998					
Balance at December 27, 1997.....	12,812	\$7,167	\$12,171	\$ (80)	\$19,258
Comprehensive income					
Net earnings for the quarter.....	--	--	1,936	--	1,936
Foreign currency translation adjustment.....	--	--	--	35	35
Comprehensive income.....	--	--	--	--	1,971
Common stock issued under stock option plan.....	22	80	--	--	80
Balance at March 28, 1998.....	12,834	\$7,247	\$14,107	\$ (45)	\$21,309
For the quarter ended April 3, 1999					
Balance at January 2, 1999.....	13,047	\$9,131	\$21,668	\$(182)	\$30,617
Comprehensive income					
Net earnings for the year.....	--	--	2,128	--	2,128
Foreign currency translation adjustment.....	--	--	--	50	50
Comprehensive income.....	--	--	--	--	2,178
Common stock issued under stock option plan, including tax benefit of \$13.....	4	52	--	--	52
Balance at April 3, 1999.....	13,051	\$9,183	\$23,796	\$(132)	\$32,847

</TABLE>

The accompanying notes are an integral part of these statements.

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USANA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

<TABLE>
<CAPTION>

	Unaudited	
	March 28, 1998	April 3, 1999
<S>	<C>	<C>
Increase in cash and cash equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings.....	\$ 1,936	\$ 2,128
Adjustments to reconcile net earnings to net cash provided by		
Operating activities		
Depreciation and amortization.....	713	1,109
Deferred income taxes.....	(130)	3
Provision for inventory obsolescence.....	(170)	87
Provision for doubtful accounts.....	--	122
Changes in assets and liabilities		
Accounts receivables.....	(6)	(344)
Inventories.....	(1,872)	(76)
Prepaid expenses and other assets.....	189	(81)
Accounts payable.....	1,362	(2,617)
Other current liabilities.....	1,722	1,782
Total adjustments.....	1,808	(15)
Net cash provided by operating activities.....	3,744	2,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts on notes receivable.....	7	8
Increase in notes receivable.....	(152)	(440)

Purchase of property and equipment.....	(2,338)	(785)
Proceeds from sale of property and equipment.....	--	22
	-----	-----
Net cash used in investing activities.....	(2,483)	(1,195)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of common stock.....	81	38
	-----	-----
Net cash provided by financing activities.....	81	38
Effect of exchange rate changes on cash.....	35	(197)
	-----	-----
Net increase in cash and cash equivalents.....	1,377	759
Cash and cash equivalents at beginning of year.....	2,608	2,617
	-----	-----
Cash and cash equivalents at end of year.....	\$ 3,985	\$ 3,376
	=====	=====

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest.....	\$ 13	\$ 6
Income taxes.....	1,337	535

</TABLE>

The accompanying notes are an integral part of these statements.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

Basis of Presentation

The unaudited interim consolidated financial information of USANA, Inc. and Subsidiaries (the "Company" or "USANA") has been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's financial position as of April 3, 1999, and results of operations for the quarters ended April 3, 1999 and March 28, 1998. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 2, 1999. The results of operations for the quarter ended April 3, 1999 may not be indicative of the results that may be expected for the fiscal year ending January 1, 2000.

NOTE A - INVENTORIES

Inventories consist of the following:

<TABLE>

<CAPTION>

	January 2, 1999	April 3, 1999
	-----	-----
	(in thousands)	
	<C>	<C>
Raw materials.....	\$ 3,043	\$ 2,390
Work in process.....	1,534	2,029
Finished goods.....	6,592	6,919
	-----	-----
	11,169	11,338
Less allowance for inventory obsolescence.....		626
	-----	-----
	\$10,543	\$10,629
	=====	=====

</TABLE>

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<TABLE>

<CAPTION>

	January 2, 1999	April 3, 1999	

	(in thousands)		
	<C>	<C>	
Buildings.....	\$ 7,414	\$ 7,414	
Laboratory and production equipment.....		2,697	2,759
Computer equipment and software.....		11,075	11,444
Furniture and fixtures.....	2,024	2,062	
Automobiles.....	320	321	
Leasehold improvements.....		461	472
Land improvements.....		542	542

	24,533	25,014	
Less accumulated depreciation and amortization.....		5,681	6,802

	18,852	18,212	
Land.....	2,548	2,548	
Deposits and projects in process.....		1,351	1,651

	\$22,751	\$22,411	
	=====		

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands, except per share data)

NOTE C - OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

<TABLE>

<CAPTION>

	January 2, 1999	April 3, 1999	

	(in thousands)		
	<C>	<C>	
Accrued compensation and related items.....		\$ 964	\$ 822
Distributor incentives.....	1,140	1,327	
Income taxes.....	429	1,225	
Sales taxes.....	845	960	
Deferred revenue.....	34	80	
All other.....	1,093	1,846	

	\$4,505	\$6,260	
	=====		

</TABLE>

NOTE D - EARNINGS PER SHARE

On July 21, 1998, the Company announced that its Board of Directors approved a 2-for-1 stock split effected in the form of a stock dividend that was distributed on August 3, 1998 to all shareholders of record on July 31, 1998. All stock option agreements and commitments of the Company payable in stock provide for the issuance of additional shares in the event of a stock split or similar event. This action did not change the par value of the common stock or the total number of shares the Company is authorized to issue. No amendment to the Company's Articles of Incorporation was required.

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

<TABLE>

(in thousands)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues from external customers.....	\$16,619	\$7,969	\$1,576	\$ --	\$ --	\$26,164	
Earnings before income taxes.....	\$ 2,087	\$ 898	\$ 190	\$ --	\$ --	\$ 3,175	
Long-lived assets.....	\$15,132	\$ 144	\$ 823	\$ --	\$ --	\$16,099	
Total assets.....	\$27,019	\$1,051	\$3,434	\$ --	\$ --	\$31,504	

<TABLE>
<CAPTION>

Quarter ended April 3, 1999	Australia/ New Zealand United Kingdom					Others	Totals
	Domestic	Canada	Zealand	Kingdom			
(in thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
Revenues from external customers.....	\$17,059	\$7,099	\$6,473	\$ 692	\$ --	\$31,323	
Earnings before income taxes.....	\$ 1,623	\$1,361	\$1,083	\$ (600)	\$ (2)	\$ 3,465	
Long-lived assets.....	\$20,285	\$ 243	\$1,020	\$ 924	\$ --	\$22,472	
Total assets.....	\$32,509	\$2,289	\$4,067	\$2,462	\$ 6	\$41,333	

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q.

General

USANA develops and manufactures high-quality nutritional, personal care and weight management products. The Company distributes its products through a network marketing system. As of April 3, 1999, the Company had approximately 118,000 current distributors in the United States, Canada, Australia, New Zealand and the United Kingdom. The Australia/New Zealand and the United Kingdom markets initiated operations on February 12, 1998 and November 30, 1998, respectively. The Company defines a current distributor as a distributor who has made a purchase in the most recent twelve-month period.

The Company has experienced significant growth since its inception. From 1993 to 1998, net sales of the Company grew from \$3.9 million to \$121.6 million, while net earnings increased from a loss of \$312,000 to net earnings of \$9.5 million.

The Company's three primary product lines consist of nutritional, personal care and weight management products. Nutritional products accounted for approximately 78% of the Company's net sales for the quarter ended April 3, 1999. The Company's top selling products, USANA Essentials and Proflavanol, represented approximately 41% and 17%, respectively, of net sales for the quarter ended April 3, 1999. No other products accounted for more than 10% of net sales during the quarter. USANA's personal care line includes skin, hair and body, and dental care products. The Company's weight management line includes a dietary supplement tablet, food bars, meal entrees, instructional videos and other products developed to provide a comprehensive approach to weight management, proper diet, nutrition and healthy living. The Company introduced its weight management line in its Australia/New Zealand market in February 1999. In addition to its primary product lines, the Company also sells distributor kits and sales aids, which accounted for approximately 3% of the Company's net sales for the quarter ended April 3, 1999.

Net sales of the Company are primarily dependent upon the efforts of a network of independent distributors who purchase products and sales materials. The Company also offers a Preferred Customer program specifically designed for customers who desire to purchase USANA's products for personal consumption, while choosing not to become independent distributors. As of April 3, 1999, the Company had approximately 30,000 Preferred Customers. The Company recognizes revenue when products are shipped and title passes to independent distributors and Preferred Customers. During the first quarter of 1999, sales in the Company's four primary markets, the United States, Canada, Australia/New Zealand and the United Kingdom, were 54.5%, 22.6%, 20.7% and 2.2%, respectively, of net sales of the Company. As the Company expands into additional international markets, the Company expects international operations to account for an increasing percentage of its net sales.

Cost of sales primarily consists of expenses related to raw materials, labor, quality assurance and overhead directly associated with the procurement and production of USANA's products and sales materials as well as duties and taxes associated with product exports. In the first quarter of 1999, products manufactured by the Company accounted for approximately 75% of its net sales. As international sales increase as a percentage of net sales, the Company expects that its overall cost of sales could increase slightly, reflecting additional duties, freight and other expenses associated with international expansion.

Distributor incentives are the Company's most significant expense and represented 44.4% of net sales for the quarter ended April 3, 1999. Distributor incentives include commissions and leadership bonuses, and are paid weekly based on sales volume points. Each product sold by the Company is assigned a sales volume point value independent of the product's price. Distributors earn commissions based on sales volume points generated in their downline. Generally,

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distributor kits, sales aids and logo merchandise, such as items of clothing and luggage, have no sales volume point value and therefore the Company pays no commissions on the sale of these items.

The Company closely monitors the amount of distributor incentives paid as a percentage of net sales and may from time to time adjust its distributor compensation plan to prevent distributor incentives from having a significant adverse effect on earnings, while continuing to maintain an appropriate incentive for its distributors.

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

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

The fiscal year end of the Company is the Saturday closest to December 31 of each year.

Results Of Operations

Quarters Ended April 3, 1999 and March 28, 1998

Net Sales. Net sales increased 19.7% to \$31.3 million for the quarter ended April 3, 1999, an increase of \$5.1 million from the \$26.2 million reported in the comparable quarter in 1998. The increase in net sales is primarily the result of a 42.3% increase in the Company's customer base. Customers of the Company include both independent distributors and Preferred Customers. The Company's current distributor base increased 28.3% to 118,000 at April 3, 1999 compared to 92,000 at March 28, 1998. Preferred Customers grew 150.0% to 30,000 at April 3, 1999 compared to 12,000 at March 28, 1998. Successful distributor events and new product introductions also contributed to sales growth in the first quarter of 1999.

The following tables illustrate the growth in sales and customers by market for the quarters ended March 28, 1998 and April 3, 1999:

<TABLE>
<CAPTION>

Sales By Market
(in millions)
Quarter Ended

Market	March 28, 1998		April 3, 1999		Growth over Prior Year		% Growth
	<C>	<C>	<C>	<C>	<C>	<C>	
United States.....	\$16.6	63.5%	\$17.0	54.5%	\$ 0.4	2.6%	
Canada.....	8.0	30.5	7.1	22.6	(0.9)	(10.9%)	
Australia/New Zealand.....	1.6	6.0	6.5	20.7	4.9	310.7%	
United Kingdom.....	-	-	0.7	2.2	0.7	-	
Consolidated.....	\$26.2	100.0%	\$31.3	100.0%	\$ 5.1	19.7%	

</TABLE>

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<TABLE>
<CAPTION>

Current Distributors By Market

Market	As of March 28, 1998		As of April 3, 1999		Growth over Prior Year		% Growth
	<C>	<C>	<C>	<C>	<C>	<C>	
United States.....	57,000	62.0%	58,000	49.1%	1,000	1.8%	
Canada.....	30,000	32.6	31,000	26.3	1,000	3.3%	
Australia/New Zealand.....	5,000	5.4	27,000	22.9	22,000	440.0%	
United Kingdom.....	-	-	2,000	1.7	2,000	-	
Consolidated.....	92,000	100.0%	118,000	100.0%	26,000	28.3%	

</TABLE>

<TABLE>
<CAPTION>

Preferred Customers By Market

Market	As of March 28, 1998		As of April 3, 1999		Growth over Prior Year		% Growth
	<C>	<C>	<C>	<C>	<C>	<C>	
United States.....	8,000	66.7%	18,000	60.0%	10,000	125.0%	
Canada.....	4,000	33.3	8,000	26.7	4,000	100.0%	
Australia/New Zealand.....	-	-	4,000	13.3	4,000	-	
United Kingdom.....	-	-	-	-	-	-	
Consolidated.....	12,000	100.0%	30,000	100.0%	18,000	150.0%	

</TABLE>

<TABLE>
<CAPTION>

Total Customers By Market

Market	As of March 28, 1998		As of April 3, 1999		Growth over Prior Year		% Growth
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
United States.....	65,000	62.5%	76,000	51.4%	11,000	16.9%	
Canada.....	34,000	32.7	39,000	26.4	5,000	14.7%	
Australia/New Zealand.....	5,000	4.8	31,000	20.9	26,000	520.0%	
United Kingdom.....	-	-	2,000	1.3	2,000	-	
Consolidated.....	104,000	100.0%	148,000	100.0%	44,000	42.3%	

</TABLE>

Cost of Sales. Cost of sales increased 16.4% to \$6.4 million for the first quarter ended April 3, 1999, an increase of \$0.9 million from the \$5.5 million reported in the comparable quarter for 1998. This increase is primarily due to the increase in net sales. As a percentage of net sales, cost of sales decreased to 20.4% for the first quarter ended April 3, 1999 from 21.0% in the comparable quarter for 1998. The decrease in cost of sales as a percentage of net sales can be primarily attributed to volume-based efficiencies in production and procurement activities. This decrease in cost of sales as a percentage of net sales was partially offset by additional costs such as freight and duties associated with exporting products to the Company's Australia/New Zealand and United Kingdom markets and also an increase in the sale of distributor kits. Distributor kits have a significantly lower gross profit margin than other products sold by the Company. When a new market is opened, the Company initially experiences a higher demand for distributor kits in that market.

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Distributor Incentives. Distributor incentives increased 18.3% to \$13.9 million for the first quarter ended April 3, 1999, an increase of \$2.1 million from the \$11.8 million reported in the comparable quarter in 1998. The increase in distributor incentives for the first quarter of 1999 can be attributed to the increase in commissionable sales. As a percentage of net sales, distributor incentives decreased to 44.4% in the first quarter of 1999 from 45.0% in the comparable quarter of 1998. The decrease in distributor incentives as a percentage of net sales can primarily be attributed to three factors:

- . The introduction of a new level in the distributor compensation plan,
- . An increase in the proportion of distributor kits sold on which no distributor incentives are paid and
- . The implementation of the Company's repricing strategy in the third quarter of 1997, which was not fully implemented throughout the first quarter of 1998.

The new level in the distributor compensation plan is now the lowest compensated level in the Company's network marketing system. The Company believes this new level will assist in distributor retention efforts by paying these distributors earlier on reduced downline requirements; however, this level does pay at a lower rate than other levels in the Company's network marketing system.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 33.4% to \$7.2 million for the quarter ended April 3, 1999, an increase of \$1.8 million from the \$5.4 million reported in the comparable quarter of 1998. As a percentage of net sales, selling, general and administrative expenses increased to 23.1% in the first quarter of 1999 from 20.8% in the comparable quarter of 1998. The increase in selling, general and administrative expenses can be attributed to several factors:

- . Higher relative costs associated with international expansion, primarily related to commencing operations in the United Kingdom,
- . Increased depreciation and amortization expense as a result of substantial investments in current and prior periods in computer and telecommunications equipment to support growth and international expansion,
- . Increased costs including, but not limited to, employee compensation as a result of building a Company infrastructure to meet strategic

objectives and

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

The Company expects to see continued pressure on selling, general and administrative expenses as a percentage of net sales throughout 1999.

Research and Development. Research and development expenses remained flat totaling \$356,000 for the quarter ended April 3, 1999 compared to \$355,000 for the comparable quarter in 1998. The Company continues to keep abreast of the latest research in nutrition and degenerative diseases and is committed to developing new products, reformulating existing products and maintaining its involvement in numerous clinical studies.

Net Earnings. Net earnings increased 9.9% to \$2.1 million for the quarter ended April 3, 1999, an increase of \$0.2 million from the \$1.9 million reported in the comparable quarter of 1998. The increase in net earnings is primarily the result of higher sales. Net earnings reflect the combined effect of decreased cost of sales, decreased distributor incentives, and increased selling, general and administrative expenses relative to net sales, which resulted in a 6.8% profit margin in the first quarter of 1999 compared to 7.4% in the comparable quarter of 1998. Diluted earnings per share increased 14.3% to \$0.16 for the quarter ended April 3, 1999, an increase of \$0.02 from \$0.14 in the comparable quarter of 1998.

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Liquidity and Capital Resources

The Company has financed its growth primarily from cash flows from operations. In the first quarter of 1999, the Company generated net cash from operations of \$2.1 million compared to \$3.7 million in the comparable quarter of 1998. Cash and cash equivalents increased to \$3.4 million at April 3, 1999 from \$2.6 million at January 2, 1999. Working capital was \$11.0 million at April 3, 1999 compared to \$8.4 million at January 2, 1999. The Company does not extend credit to its customers, but requires payment prior to shipping, which eliminates significant receivables.

The Company invested \$0.8 million in property and equipment for the quarter ended April 3, 1999 compared to \$2.3 million for the comparable period in 1998. Inventory increased modestly to \$10.6 million at April 3, 1999 from \$10.5 million at fiscal year end 1998.

At April 3, 1999 the Company had \$5.0 million available under its line of credit which expires May 31, 1999. The interest rate is computed at the bank's prime rate, or at the option of the Company, the LIBOR base rate plus 2.25%. Certain receivables, inventories, and equipment collateralize the line of credit. The line-of-credit agreement also contains restrictive covenants requiring the Company to maintain certain financial ratios. As of April 3, 1999, the Company was in compliance with these covenants. There was no outstanding balance on the line of credit as of April 3, 1999. The Company is in the process of negotiating the extension of this line of credit through May 31, 2000.

A significant percentage of the Company's net sales is generated from the sale of products outside the United States. The Company intends to continue to expand its foreign operations. The foreign operations of the Company expose it to risks associated with changes in social, political and economic conditions inherent in foreign operations, including changes in the laws and policies that govern foreign investment in countries where it has operations as well as, to a lesser extent, changes in U.S. laws and regulations relating to foreign trade and investment. In addition, the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates, which may favorably or adversely affect reported earnings and, accordingly, the comparability of period-to-period results of operations. Changes in currency exchange rates may affect the relative prices at which the Company and foreign competitors sell their products in the same market. Sales outside the United States represented 21.1%, 30.8%, 42.5% and 45.5% of the Company's net sales in 1996, 1997, 1998 and for the quarter ended April 3, 1999, respectively. As additional foreign markets are opened, the Company expects

foreign sales to represent an increasing percentage of net sales in future periods. The Company enters into forward and option contracts to hedge certain commitments denominated in foreign currencies, including intercompany cash transfers. Transaction hedging activities seek to protect operating results and cash flows from the potentially adverse effects of currency exchange fluctuations.

During 1998 and the first quarter of 1999, the Company advanced funds to its President, CEO and Chairman, Dr. Wentz. On April 28, 1999, the Company entered into an arrangement with Dr. Wentz to provide him up to \$5.0 million, including all amounts advanced to date. A total of \$1.9 million has been advanced to Dr. Wentz through April 30, 1999. The obligation is evidenced by the Promissory Note and Redemption Agreement and shares of stock have been pledged to secure the payment of amounts provided under the agreement. The Company expects additional advances up to the \$5.0 million maximum to be made in the second and third quarters of 1999. The arrangement calls for repayment of the borrowed amounts to be made by redemption of shares of common stock beneficially owned by Dr. Wentz. All shares redeemed through this arrangement will be cancelled. The Company's redemption of these shares pursuant to the agreement will reduce the number of shares outstanding, resulting in higher earnings per share than would have otherwise been achieved. This arrangement also allows Dr. Wentz to achieve some liquidity in his ownership interest in the Company without creating an oversupply of available shares in the market. See Item 5, Other Information, below.

The Company believes that its current cash balance, the available line of credit and cash provided by operations will be sufficient to cover its needs in the ordinary course of business for the next 12 months. The Company believes it may draw on its line of credit to advance funds to Dr. Wentz under its agreement with him. The Company also believes cash flows from operations will enable the line to be fully retired by fiscal year end 1999. In the event the Company experiences an adverse operating environment or unusual capital expenditure requirements, additional financing may be required. However, no assurance can be given that additional financing, if required, would be available on favorable terms. The

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Company may also require or seek additional financing, including through the sale of its equity securities to finance future expansion into new markets, capital acquisitions associated with the growth of the Company, and for other reasons. Any financing which involves the sale of equity securities or instruments convertible into such securities could result in immediate and possibly significant dilution to existing shareholders.

Year 2000 Issues

The Company is aware of the risks associated with the operation of information technology and non-information technology systems as the millennium (year 2000) approaches. The "Year 2000 problem" is pervasive and complex, with the possibility that it will affect many technology systems and is the result of the rollover of the two digit year value from "99" to "00". Systems that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company is in the process of assessing its state of readiness, including the readiness of third parties with which the Company interacts, with respect to the Year 2000 problem. The assessment will also include an evaluation of the costs to the Company to correct Year 2000 problems related to its own systems, which, if uncorrected, could have a material adverse effect on the business, financial condition or results of operations of the Company. As a part of this assessment, the Company will also determine the known risks related to the consequences of failure to correct any Year 2000 problems identified by the Company and contingency plans, if any, that should be adopted by the Company should any identified Year 2000 problems not be corrected. The Company will use, if necessary, both internal and external resources to reprogram, or replace and test its software for Year 2000 acceptability. However, if such modifications or conversions are not made, or are not completed timely, the Year 2000 problem could have a material impact on the operations of the Company. The Company has initiated formal communications with all of its significant suppliers to

determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 problems.

Independent of the Year 2000 problem, the Company determined in late 1997 that the purchase and installation of an Enterprise Resource Planning system (ERP system) could assist in achieving overall efficiencies. The ERP system will replace all of the Company's existing resource planning systems except for the Distribution System. The Company has begun installing the ERP system and expects the installation to be complete during the third quarter of 1999. The third-party vendor of the ERP system has certified that its software is Year 2000 compliant according to the Information Technology Association of America. Therefore, assuming the successful installation of the ERP system, the Company does not expect any material Year 2000 compliance issues related to its primary internal business information systems. The Company intends to replace the Distribution System with two new systems in 1999 and to integrate it with the ERP system. With respect to third-party providers whose services are critical to the Company, the Company intends to monitor the efforts of such providers as they become Year 2000 compliant.

The Company is presently not aware of any Year 2000 issues that have been encountered by any such third party, which could materially affect the Company's operations. Based on the most recent assessment, the Company believes that with modifications to existing software and conversions to new software, any Year 2000 problems that it may have with its own systems can be mitigated. Notwithstanding the foregoing, there can be no assurance that the Company will not experience operational difficulties as a result of Year 2000 issues, either arising out of internal operations, or caused by third-party service providers, which individually or collectively could have an adverse impact on business operations or require the Company to incur unanticipated expenses to remedy any problems.

Inflation

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

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Seasonality

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

Forward-Looking Statements

The statements contained in this Report on Form 10-Q that are not purely historical are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act. These statements represent the Company's expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. They may be identified by the use of words or phrases such as "believes," "expects," "anticipates," "should," "plans," "estimates," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding the Company's financial performance, revenue and expense levels in the future and the sufficiency of its existing assets to fund future operations and capital spending needs. Readers are cautioned that actual results could differ materially from the anticipated results or other expectations expressed in such forward-looking statements for the reasons detailed in the Company's Annual Report on Form 10-K under the headings "Description of Business" and "Risk Factors." The fact that some of the risk factors may be the same or similar to the Company's past reports filed with the Securities and Exchange Commission means only that the risks are present in multiple periods. The Company believes that many of the risks detailed here and in the Company's SEC filings are part of doing business in the industry in which the Company operates and competes and will likely be present in all periods reported. The fact that certain risks are endemic to the industry does not lessen their significance. The forward-looking statements contained in this Report are made as of the date of this Report and the Company

assumes no obligation to update them or to update the reasons why actual results could differ from those projected in such forward-looking statements. Among others, risks and uncertainties that may affect the business, financial condition, performance, development, and results of operations of the Company include:

- . The Company's dependence upon a network marketing system to distribute its products;
- . Activities of its independent distributors;
- . Rigorous government scrutiny of network marketing practices;
- . Potential effects of adverse publicity regarding nutritional supplements or the network marketing industry;
- . Reliance on key management personnel, including the Company's President, Chief Executive Officer and Chairman of the Board of Directors, Dr. Wentz;
- . Extensive government regulation of the Company's products and manufacturing;
- . Risks related to the Company's expansion into international markets;
- . Failure of the Company to sustain or manage growth including the failure to continue to develop new products;
- . The possible adverse effects of increased distributor incentives as a percentage of net sales;
- . The Company's reliance on information technology;
- . The adverse effect of the Company's loss of a high level sponsoring distributor together with a group of leading distributors in that person's downline;
- . The loss of product market share or distributors to competitors;
- . Potential adverse effect of taxation and transfer pricing regulation or exchange rate fluctuations or
- . The Company's inability or failure to identify and to manage its Year 2000 risks.

Quantitative and Qualitative Disclosures About Market Risk

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

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to certain litigation in the United States Federal District Court for the District of Connecticut involving the Company's rights to continue to sell its popular Proflavanol product. These actions have been disclosed by the Company in its reports filed with the SEC in prior periods.

After the various motions to dismiss had been pending for some time, the U.S. District Court for the District of Connecticut ordered that the motions be re-filed as motions for summary judgment, together with statements of uncontested facts. All parties, including USANA, have re-filed their motions to dismiss as motions for summary judgment, and International Nutrition Company has opposed those motions. The motions are now fully briefed and awaiting ruling by the Court. USANA intends to vigorously defend its right to continue to provide the Proflavanol brand product to its customers.

Item 5. Other Information

Transactions with the President and CEO

On April 28, 1999, the Company agreed to provide up to \$5.0 million to its President, CEO and Chairman, Dr. Wentz, pursuant to a Promissory Note and Redemption Agreement ("Agreement"). As of April 30, 1999, the Company had advanced \$1.9 million under this arrangement. Repayment of amounts advanced under the Agreement, together with interest at prime rate, will be made through the surrender and redemption of shares of the Company's common stock beneficially owned by Dr. Wentz, held by Gull Holdings Ltd. ("Gull"). Dr. Wentz is the sole shareholder of Gull. Gull has pledged shares to secure the payment and redemption as contemplated by the Agreement. Payment must be made by redemption of shares on August 31, 1999 in the amount of \$2.5 million. The balance of unpaid principal and accrued interest will be paid by redemption on December 31, 1999. Dr. Wentz may make up to two interim payments by redemption of shares prior to August 31, 1999. Up to two additional interim payments may also be made during the period from September 1, 1999 to December 31, 1999. The number of shares subject to redemption at the time of each payment will be determined by the

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average closing price of the Company's common stock as reported by NASDAQ for the five trading days preceding a payment date.

Redemption of shares in satisfaction of the Agreement will be anti-dilutive to other shareholders, reducing the total number of issued and outstanding shares by the number of shares redeemed. This arrangement also provides some liquidity of Dr. Wentz's investment in the Company without creating an overhang in the market and without increasing the supply of available shares when such an act may otherwise drive down the market price of the Company's common stock. This arrangement also permits Dr. Wentz to continue toward completion of his Sanoviv project.

The interest rate charged to Dr. Wentz is the same rate applicable under the Company's line of credit agreement with its bank. The Company expects that amounts, if any, drawn under the line of credit for this purpose, will be repaid in full by the end of fiscal year 1999.

The arrangement was reviewed by the Audit Committee and approved by the independent directors of the Company. A copy of the Agreement and the related Stock Pledge Agreement are filed with this Report as exhibits.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Form 10-Q

For The Quarter Ended April 3, 1999

Exhibit Index

<TABLE>

<CAPTION>

Exhibit
Number

Description

<S>	<C>
3.1	Articles of Incorporation [Incorporated by reference to the Company's Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]

- 3.2 Bylaws [Incorporated by reference to the Company's Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
- 4.1 Specimen Stock Certificate for Common Stock, no par value [Incorporated by reference to the Company's Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
- 10.1 Business Loan Agreement by and between Bank of America National Trust and Savings Association, d/b/a Seafirst Bank ("Seafirst Bank") and the Company [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
- 10.2 Loan Modification Agreement by and between Seafirst Bank and the Company [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
- 10.3 Employment Agreement dated June 1, 1997 by and between the Company and Gilbert A. Fuller [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
- 10.4 Amended and Restated Long-Term Stock Investment and Incentive Plan [Incorporated by reference to the Company's Report on Form 10-Q for the period ended June 27, 1998]
- 10.5 Promissory Note and Redemption Agreement dated April 28, 1999
- 10.6 Stock Pledge Agreement dated April 28, 1999
- 11.1 Computation of Net Income per Share (included in Notes to Consolidated Financial Statements)
- 22.1 Subsidiaries of the Company [Incorporated by reference to the Company's Annual Report on Form 10-K for fiscal year 1998]
- 27.1 Financial Data Schedule
</TABLE>

(b) Reports on Form 8-K.

The Company filed no current reports on Form 8-K during the quarter ended April 3, 1999.

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SIGNATURES

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

USANA, INC.

Date: May 17, 1999

By: /s/ Gilbert A. Fuller

 Gilbert A. Fuller
 Vice President and Chief
 Financial Officer

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EXHIBIT 10.5

PROMISSORY NOTE AND REDEMPTION AGREEMENT

Principal: \$5,000,000

Date: April 28, 1999

1. Promise to Pay. For value received, Myron W. Wentz ("Borrower"), promises

to pay to the order of USANA, Inc. ("Holder") at 3838 West Parkway Blvd.,

Salt Lake City, Utah or such other place as the Holder hereof from time to time may designate in writing, the principal sum of up to FIVE MILLION DOLLARS (\$5,000,000), plus interest and such other sums as are payable under the terms of this Note.
2. Payments. All unpaid principal, interest and other sums owing under this Note shall be due and payable as follows: (a) \$2,500,000 on or before August 31, 1999; and (b) the balance of principal and accrued interest on or before December 31, 1999 (each of August 31, 1999 and December 31, 1999, a "Due Date"). Borrower may completely or partially prepay this Note at any

time or from time to time without penalty. Payments shall be applied first to accrued interest, costs and expenses payable under this Note and then to principal.
3. Interest. Interest shall accrue on the unpaid principal balance from and after the date hereof at "Prime Rate" as that term is defined in Holder's

bank line of credit agreement until this Note is paid in full. At the date of this Note, the Prime Rate is 7.75% per annum. Upon occurrence of an Event of Default under that certain Stock Pledge Agreement of even date herewith ("Stock Pledge Agreement") executed by Gull Holdings Ltd.

("Gull"), which prevents the delivery of securities having a Market Value

sufficient to make payment in full of any installment or amount when due hereunder, the unpaid balance of principal then due will bear interest at the rate of Prime Rate plus 5% until payment of such delinquent amount is made in full.
4. Method of Payment; Default. Unless prepayment is made by Borrower, amounts due and owing hereunder will be paid by the immediate and automatic redemption on each Due Date of shares of common stock of USANA, Inc. ("Shares") beneficially owned by Borrower in the name of Gull having a

Market Value (as defined below) equal to the principal and interest then owing on such Due Date(s). For purposes of this Note and the Stock Pledge Agreement, the Market Value of Shares surrendered or cancelled in payment of amounts owing hereunder will be determined by the average closing price of USANA, Inc. common stock as reported by the Nasdaq Stock Market for the five trading days preceding the date payment is made. Payment will be made from the Shares pledged by Gull pursuant to the Stock Pledge Agreement. Borrower's failure to surrender or cause the surrender of such Shares as may be required to make a payment when due will not prevent Holder from instructing its transfer agent to cancel Shares having the Market Value of the payment then due. Holder may instruct its transfer agent to stop transfer of Shares held by Gull or to cancel such Shares as may be necessary to make the payments required hereunder. Borrower consents to such action by Holder and waives any objection or right to notice of such action. No additional instruction to the transfer agent will be necessary other than a copy of this Note and the Holder's notice that payment is due and the Shares have not been surrendered as contemplated hereunder.
5. Prepayment. Borrower may make interim payments prior to the Due Dates in cash or by surrendering Shares or instructing USANA to cancel Shares pledged by Gull as provided herein. However, not more than two (2) interim payments by the surrender of Shares may be made from the date hereof through August 31, 1999, and not more than two (2) such payments may be made from September 1, 1999 through December 31, 1999.
6. Attorneys' Fees and Costs. If any action, judicial or nonjudicial, is

brought on this Note, or if it is placed in the hands of an attorney for collection, Borrower promises to pay all of Holder's costs and expenses in connection therewith, including without limitation the reasonable attorneys' fees incurred and paid by holder in connection herewith through any appeal or in bankruptcy.

7. Waivers. The undersigned, all endorsers, and all persons liable or to become liable on this Note hereby waive presentment, demand, protest and notice of demand, protest and nonpayment, and any defense or claim that resort must first be had to any security or to any other person, and authorize the holder of this Note, without affecting his, her or its liability hereunder, from time to time, to renew, extend, or change the time for payment or the other terms of this Note, to take and hold security for the payment of this Note, to release or exchange the security therefor, to apply any such security to such obligations as the holder may determine in its sole discretion, and to release, substitute, or add to those liable or to become liable on this Note.
8. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Utah, United States of America, without regard for conflict of law rules, and the parties consent and stipulate to the jurisdiction and venue in all appropriate courts located in Salt Lake County, Utah.

BORROWER:

/s/ Myron W. Wentz

Myron W. Wentz

EXHIBIT 10.6

STOCK PLEDGE AGREEMENT

STOCK PLEDGE AGREEMENT ("Agreement") entered into as of the 28th day of

April 1999, by USANA, Inc., a Utah corporation ("USANA"), Myron W. Wentz, an

individual ("Borrower") and Gull Holdings, Ltd., an Isle of Man corporation

("Pledgor").

RECITALS

A. Pledgor, has agreed to pledge certain securities to guarantee the performance and obligations of Borrower under that certain Promissory Note and Redemption Agreement of even date hereof in the aggregate principal amount of \$5,000,000, payable to USANA (the "Note"), by this reference incorporated in and

made a part of this Agreement. Capitalized terms in this Agreement that are not identified herein will have the meanings given such terms in the Note.

B. USANA was willing to accept the Note from Borrower only upon receiving adequate security for the performance of Borrower in the form of Pledgor's pledge of certain shares of the common stock of USANA, Inc. (the "Shares"), as

set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises, the mutual covenants and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Grant of Security Interest. Pledgor grants, pledges, hypothecates,

transfers and assigns to USANA, as collateral and security for the obligations and performance of Borrower under the Note, the Shares set forth on the attached Schedule 1 of this Agreement. Pledgor is the sole owner of the Shares.

2. Obligations Secured. During the term hereof, the Shares shall secure

all obligations of Borrower to USANA arising under or in connection with the Note, including the requirement to surrender shares of USANA, Inc. common stock upon the Due Dates in payment of amounts owing under the Note (all such obligations, the "Secured Obligations").

3. Perfection of Security Interests. Upon execution of this Agreement by

Pledgor, Pledgor shall deliver and transfer possession of the stock certificates identified on the signature page of this Agreement (the "Certificates"),

together with stock transfer powers duly executed in blank, with appropriate Medallion signature guaranty ("Stock Powers"), to USANA or its counsel to be

held until payment is made on the Due Dates under the Note. Pledgor shall also execute all documents and perform all acts as USANA may reasonably request in order to perfect and maintain a valid security interest for USANA in the Shares. USANA and its counsel, as the case may be, shall be bound by the rules of the Uniform Commercial Code of Utah, as the same may from time to time be amended, to preserve the Shares and to deliver the same in payment of amounts due under the Note or as otherwise directed by this Agreement.

4. Pledgor's Warranty of Title. Pledgor represents and warrants to USANA

as follows: (i) that there are no restrictions upon Pledgor's transfer and pledge of any of the Shares pursuant to the provisions of this Agreement; and this Agreement constitutes a legal, valid and binding obligation of the Pledgor enforceable in accordance with its terms, and (ii) that the

Shares are free and clear of any encumbrances of every nature whatsoever, Pledgor is the sole owner of the Shares, and such shares are duly authorized, validly issued, fully paid and non-assessable. Pledgor further agrees not to grant or create, any security interest, claim, lien, pledge or other encumbrance with respect to the Shares or attempt to sell, transfer or otherwise dispose of any of the Shares until the Secured Obligations have been paid in full.

5. Collection of Dividends and Interest. During the term of this

Agreement, Pledgor is authorized to collect all dividends, distributions, interest payments, and other amounts that may be, or may become, due on any of the Shares.

6. Voting Rights. During the term of this Agreement and until such time

as this Agreement has terminated, Pledgor shall have the right to exercise any voting rights evidenced by, or relating to, the Shares.

7. Warrants and Options. In the event that, during the term of this

Agreement, subscription warrants, dividends, or any other rights or options shall be issued in connection with the Shares, such warrants, dividends, rights and options shall be immediately delivered to USANA to be held under the terms hereof in the same manner as the Shares.

8. Preservation of the Value of the Shares and Reimbursement of USANA.

Pledgor shall pay all taxes, charges, and assessments against the Shares and do all acts necessary to preserve and maintain the value thereof. On failure of Pledgor, so to do, USANA may make such payments on account thereof as it deems desirable, and Pledgor shall reimburse USANA immediately on demand for any and all such payments expended by USANA in enforcing, collecting, and exercising its remedies hereunder. The Market Value of the Shares initially delivered upon execution of this Agreement will be \$15,000,000. If at any time during the term hereof the Market Value of the Shares shall be less than two (2) times the amounts then due and owing under the Note (as determined in accordance with the terms of the Note), then at the request of USANA Pledgor will deliver additional shares of USANA, Inc. common stock such that the aggregate Market Value of all Shares then held by USANA (including such additional shares) will be at least three (3) times the amounts then due and owing under the Note and such additional shares shall be held and used to pay the Secured Obligations in accordance with this Agreement.

9. Default and Remedies.

(a) For purposes of this Agreement, "Event of Default" shall mean

(i) default in or under any of the Secured Obligations after the expiration, without cure, of any applicable cure period; and

(ii) a breach by a Pledgor of any of its representations, warranties, covenants or agreements in this Agreement.

(b) During the term of this Agreement, USANA shall have the following rights after any Event of Default and for so long as the Secured Obligations are not satisfied in full to the extent then due:

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(i) the rights and remedies provided by the Uniform Commercial Code as adopted by the State of Utah (as said law may at any time be amended);

(ii) the right to receive and retain all dividends, payments and other distributions of any kind upon any or all of the Shares;

(iii) the right to cancel or cause to be canceled any or all of the Shares having a Market Value sufficient to cover the amounts then due and owing.

10. Waiver. Pledgor waives any right that it may have to require USANA to

proceed against any other person, or proceed against or exhaust any other

security, or pursue any other remedy USANA may have.

11. Term of Agreement. This Agreement shall continue in full force and

effect until the payment in full of all Secured Obligations through the cancellation of Shares as contemplated by the Note and release of the security interest as to any Shares not required to satisfy such Secured Obligations. Upon termination of this Agreement, the Shares then remaining and not canceled under the Note shall be returned within five (5) business days to Pledgor or its counsel.

12. General Provisions.

12.1 Binding Agreement. This Agreement shall be binding upon and shall

inure to the benefit of the successors and assigns of the respective parties hereto.

12.2 Captions. The headings used in this Agreement are inserted for

reference purposes only and shall not be deemed to define, limit, extend, describe, or affect in any way the meaning, scope or interpretation of any of the terms or provisions of this Agreement or the intent hereof.

12.3 Counterparts. This Agreement may be signed in any number of

counterparts with the same effect as if the signatures upon any counterpart were upon the same instrument. All signed counterparts shall be deemed to be one original.

12.4 Further Assurances. The parties hereto agree that, from time to

time upon the written request of any party hereto, they will execute and deliver such further documents and do such other acts and things as such party may reasonably request, including notification of USANA's stock transfer agent, in order fully to effect the purposes of this Agreement.

12.5 Waiver of Breach. Any waiver by any party of any breach of any

kind or character whatsoever by another party hereto, whether such be direct or implied, shall not be construed as a continuing waiver of or consent to any subsequent breach of this Agreement.

12.6 Cumulative Remedies. The rights and remedies of the parties

hereto shall be construed cumulatively, and none of such rights and remedies shall be exclusive of, or in lieu or limitation of any other right, remedy, or priority allowed by applicable law.

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12.7 Amendment. This Agreement may be modified only in a written document

that refers to this Agreement and is executed by USANA and by Pledgor.

12.8 Interpretation. This Agreement shall be interpreted, construed, and

enforced according to the substantive laws of the State of Utah.

12.9 Attorneys' Fees. In the event any action or proceeding is brought by

any party hereto to enforce the provisions of this Agreement, the prevailing party in such action shall be entitled to recover its costs and reasonable attorneys' fees, whether such sums are expended with or without suit, at trial, or on appeal.

12.10 Notice. Any notice or other communication required or permitted to

be given hereunder shall be effective upon receipt. Such notices may be sent (i) in the United States mail, postage prepaid and certified, (ii) by express courier with receipt, (iii) by facsimile transmission, with a copy subsequently delivered as in (i) or (ii) above. Any such notice shall be addressed or

transmitted as follows:

If to Pledgor: Gull Holdings, Ltd.

Unit 1300 Summerhill Business Park

Victoria Road, Douglas

Isle of Man

If to USANA: USANA, Inc.

3838 West Parkway Blvd.

Salt Lake City, Utah 84120-6336

Attn. Gilbert A. Fuller, CFO

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

12.11 Acknowledgement by Pledgor. In the event that any provision of the

Note or this Agreement as applied to any party or circumstances shall be adjudged by a court to be invalid or unenforceable, Pledgor acknowledges and agrees that this Agreement shall remain valid and enforceable in all respects against Pledgor.

[The remainder of this page is intentionally left blank. The signatures of the parties appear on the following page.]

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IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day, month and year first above written.

USANA, Inc.

By: /s/ Gilbert A. Fuller

Its: Vice President and Chief Financial Officer

GULL HOLDINGS, LTD.

By: /s/ Iain Gardiner

Its: Director

By: /s/ Stephen M. Eppleston

Its: Director

Borrower

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SCHEDULE 1

The following shares are pledged hereunder as the Shares, each certificate in the name of Gull Holdings, Ltd.:

Certificate No. No. of Shares

----- -----

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<MULTIPLIER> 1,000

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