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 29, 2001

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 HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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 November 8, 2001 was 9,663,837.

For the Quarterly Period Ended September 29, 2001

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PART I. FINANCIAL INFORMATION

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 30, 2000	September 29, 2001 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,900	$ 4,105
Accounts recievable, net	362	675
Income taxes receivable	1,401	922
Inventories, net (Note A)	10,880	10,274
Prepaid expenses	654	819
Deferred income taxes	730	46
Total current assets	16,927	16,841
Property and equipment, net (Note C)	17,614	20,500
Other assets		
Deferred taxes	27	35
Other	924	891
	$ 35,492	$ 38,267
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ -	$ 1,500
Accounts payable	3,352	4,605
Other current liabilites (Note B)	4,098	5,701
Line of credit	7,169	5,808
Total current liabilities	14,619	17,614
Long-term debt, less current maturities	8,000	6,500
Stockholders' equity (Note D)		
Common stock, $0.001 par value; authorized 50,000 shares, issued and outstanding 9,683 as of December 30, 2000 and 9,665 as of September 29, 2001	10	10
Additional paid-in capital	2,364	2,359
Retained earnings	10,581	12,106
Accumulated other comprehensive loss	(82)	(322)
Total stockholders' equity	12,873	14,153
	$ 35,492	$ 38,267

The accompanying notes are an integral part of these statements.

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

	Quarter Ended	
	September 30, 2000	September 29, 2001
Net sales	$ 30,362	$ 29,341
Cost of sales	9,251	8,232
Gross profit	21,111	21,109
Operating expenses:		
Associate incentives	11,275	11,187

Selling, general and administrative	8,247	8,538
Research and development	311	276
Total operating expenses	19,833	20,001
Earnings from operations	1,278	1,108
Other income (expense):		
Interest income	41	39
Interest expense	(300)	(186)
Other, net	(206)	(23)
Total other expense	(465)	(170)
Earnings before income taxes	813	938
Income taxes	325	352
Net earnings	$ 488	$ 586
Earnings per common share (Note D)		
Basic	$ 0.05	$ 0.06
Diluted	$ 0.05	$ 0.06
Weighted average common and dilutive common equivalent shares outstanding (Note D)		
Basic	9,683	9,682
Diluted	9,771	9,708

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended	
	September 30, 2000	**September 29, 2001**
Net sales	$ 93,471	$ 85,561
Cost of sales	26,577	24,568
Gross profit	66,894	60,993
Operating expenses:		
Associate incentives	35,985	32,648
Selling, general and administrative	25,085	24,262
Research and development	1,104	827
Total operating expenses	62,174	57,737
Earnings from operations	4,720	3,256
Other income (expense):		
Interest income	92	110
Interest expense	(870)	(653)
Other, net	(165)	(231)
Total other expense	(943)	(774)
Earnings before income taxes	3,777	2,482
Income taxes	1,511	931
Net earnings	$ 2,266	$ 1,551
Earnings per common share (Note D)		
Basic	$ 0.23	$ 0.16
Diluted	$ 0.23	$ 0.16

Weighted average common and dilutive common equivalent shares outstanding (Note D)		
Basic	9,821	9,682
Diluted	9,950	9,720

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2000 and September 29, 2001
(in thousands)
(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
For the Nine Months Ended September 30, 2000						
Balance at January 1, 2000	10,169	$ 10	$ 2,867	$ 10,078	$ (36)	$ 12,919
Comprehensive income						
Net earnings	-	-	-	2,266	-	2,266
Foreign currency translation adjustment	-	-	-	-	42	42
Comprehensive income						2,308
Common stock retired	(531)	-	(625)	(2,364)	-	(2,989)
Common stock issued under stock option plan, including tax benefit of $29	45	-	97	-	-	97
Balance at September 30, 2000	9,683	$ 10	$ 2,339	$ 9,980	$ 6	$ 12,335
For the Nine Months Ended September 29, 2001						
Balance at December 30, 2000	9,683	$ 10	$ 2,364	$ 10,581	$ (82)	$ 12,873
Comprehensive income						
Net earnings	-	-	-	1,551	-	1,551
Foreign currency translation adjustment	-	-	-	-	(240)	(240)
Comprehensive income						1,311
Common stock retired	(18)	-	(5)	(26)	-	(31)
Balance at September 29, 2001	9,665	$ 10	$ 2,359	$ 12,106	$ (322)	$ 14,153

The accompanying notes are an integral part of this statement.

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

	Nine Months Ended September 30, 2000	Nine Months Ended September 29, 2001
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Net earnings	$ 2,266	$ 1,551
Adjustments to reconcile net earnings to net cash provided by		
Operating activities		
Depreciation and amortization	3,137	3,001
(Gain) loss on sale of property and equipment	(4)	19
Deferred income taxes	1,098	631
Provision for inventory valuation	104	543
Provision for losses on receivables	43	15
Changes in operating assets and liabilities:		
Accounts receivable	285	(182)

Inventories	(3,576)	(205)
Income taxes receivable	(3,668)	421
Prepaid expenses and other assets	1,215	4
Accounts payable	447	1,273
Other current liabilities	705	1,702
Restructuring provision	(464)	-
Total adjustments	(678)	7,222
Net cash provided by operating activities	1,588	8,773
Cash flows from investing activities		
Receipts on notes receivable	5	-
Purchases of property and equipment	(3,948)	(6,412)
Proceeds from the sale of property and equipment	2,708	468
Net cash used in investing activities	(1,235)	(5,944)
Cash flows from financing activities		
Net proceeds from the sale of common stock	68	-
Repurchase of common stock	(2,989)	(31)
Principal payments of long-term debt	(1,500)	-
Increase (decrease) in line of credit	6,905	(1,362)
Net cash provided by (used in) financing activities	2,484	(1,393)
Effect of exchange rate changes on cash	(236)	(231)
Net increase in cash and cash equivalents	2,601	1,205
Cash and cash equivalents beginning of period	1,411	2,900
Cash and cash equivalents end of period	$ 4,012	$ 4,105
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 860	$ 771
Income taxes	3,502	944
Non-cash operating activities		
Loss on sale and disposition of plant and equipment against the restructuring and impairment provision	$ 1,820	$ -

The accompanying notes are an integral part of these statements.

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

Basis of Presentation

The unaudited interim consolidated financial information of USANA Health Sciences, 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 accounting principles generally accepted in the United States of America 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 September 29, 2001, and results of operations for the quarters and nine months ended September 30, 2000 and September 29, 2001. 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 December 30, 2000. The results of operations for the quarter and nine months ended September 29, 2001 may not be indicative of the results that may be expected for the fiscal year ending December 29, 2001.

NOTE A – INVENTORIES

Inventories consist of the following:

	December 30, 2000	September 29, 2001
Raw materials	$ 1,837	$ 2,944

Work in progress	2,138	1,910
Finished goods	7,562	6,392
	11,537	11,246
Less provision for inventory valuation	657	972
	$ 10,880	$ 10,274

NOTE B - OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	December 30, 2000	September 29, 2001
Associate incentives	$ 703	$ 893
Accrued compensation	843	1,015
Sales taxes	490	558
Other taxes	152	268
Accrued Associate promotions	46	224
Deferred revenue	304	695
All other	1,560	2,048
	$ 4,098	$ 5,701

NOTE C - - PROPERTY AND EQUIPMENT

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

	Years	December 30, 2000	September 29, 2001
Building	40	$ 5,787	$ 8,115
Laboratory and production equipment	5-7	3,926	4,499
Computer equipment and software	3-5	12,370	14,912
Furniture and fixtures	3-5	1,888	2,111
Automobiles	3-5	318	281
Leasehold improvements	3-5	667	1,054
Land improvements	15	688	931
		25,644	31,903
Less accumulated depreciation and amortization		12,681	14,173
		12,963	17,730
Land		1,773	1,773
Deposits and projects in process		2,878	997
		$ 17,614	$ 20,500

NOTE D – COMMON STOCK AND EARNINGS PER SHARE

On September 14, 2001, the Securities and Exchange Commission issued an Emergency Order through Release No. 44791 in response to the terrorist attacks of September 11, 2001. This Release temporarily removed some constraints of a company's ability to repurchase its own stock. Under the provisions set forth in this Release, USANA repurchased 18 shares of common stock totaling $31 during the third quarter of 2001. We also obtained a waiver from our financial institution to repurchase up to $100 of our own stock.

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

For the Quarter Ended

	September 30, 2000	September 29, 2001
Earnings available to common shareholders	$ 488	$ 586
Basic EPS		
Shares		
Common shares outstanding entire period	10,169	9,683
Weighted average common shares:		
Issued during period	45	-
Canceled during period	(531)	(1)
Weighted average common shares outstanding during period	9,683	9,682
Earnings per common share - basic	$ 0.05	$ 0.06
Diluted EPS		
Shares		
Weighted average shares outstanding during period - basic	9,683	9,682
Dilutive effect of stock options	88	26
Weighted average shares outstanding during period - diluted	9,771	9,708
Earnings per common share - diluted	$ 0.05	$ 0.06

Options to purchase 1,994 and 1,218 shares of stock were not included in the computation of EPS for the quarters ended September 30, 2000 and September 29, 2001, respectively, due to their exercise price being greater than the average market price of the shares.

	For the Nine Months Ended	
	September 30, 2000	September 29, 2001
Earnings available to common shareholders	$ 2,266	$ 1,551
Basic EPS		
Shares		
Common shares outstanding entire period	10,169	9,683
Weighted average common shares:		
Issued during period	25	-
Canceled during period	(373)	(1)
Weighted average common shares outstanding during period	9,821	9,682
Earnings per common share - basic	$ 0.23	$ 0.16
Diluted EPS		
Shares		
Weighted average shares outstanding during period - basic	9,821	9,682
Dilutive effect of stock options	129	38
Weighted average shares outstanding during period - diluted	9,950	9,720
Earnings per common share - diluted	$ 0.23	$ 0.16

Options to purchase 1,763 and 1,543 shares of stock were not included in the computation of EPS for the nine months ended September 30, 2000 and September 29, 2001, respectively, due to their exercise price being greater than the average market price of the shares.

NOTE E – SEGMENT INFORMATION

USANA has four operating segments. Since the beginning of the second quarter of 2000, the United Kingdom (hereinafter includes The Netherlands) market has been serviced from the United States and is considered a part of the domestic operating segment of the Company. Accordingly, all previously reported financial information for the United Kingdom has been included in the domestic segment for comparability purposes. Additionally, the Company began its direct export program into Japan during the third quarter of 2000. These results are also incorporated in the domestic segment. The Company's operating segments are based on operating geographic regions. Management considers the geographic segments of the Company to be the only reportable operating segments. These operating segments are evaluated regularly by management in determining the allocation of resources and in assessing the performance of the Company. Management evaluates performance based on sales revenue and the amount of operating income or loss.

Segment profit or loss is based on profit or loss from operations before income taxes. Interest income and expense as well as income taxes, while significant, are not included in the Company's determination of segment profit or loss in assessing the performance of a segment.

Financial information summarized by geographic segment for the nine months ended September 30, 2000 and September 29, 2001 is listed below:

	Revenues from External Customers	Intersegment Revenues	Earnings before Income Taxes	Long-lived Assets	Total Assets
Nine months ended September 30, 2000:					
United States	$ 51,886	$ 14,047	$ 5,757	$ 18,706	$ 40,959
Canada	22,007	-	(646)	219	1,573
Australia - New Zealand	14,674	1,058	(2,087)	496	(58)
Hong Kong	4,904	-	(870)	478	868
Reportable Segments Total	93,471	15,105	2,154	19,899	43,342
Unallocated and Other (1)	-	(15,105)	1,623	(2,112)	(3,528)
Consolidated Total	$ 93,471	$ -	$ 3,777	$ 17,787	$ 39,814

	Revenues from External Customers	Intersegment Revenues	Earnings before Income Taxes	Long-lived Assets	Total Assets
Nine months ended September 29, 2001:					
United States	$ 50,459	$ 10,613	$ 3,038	$ 29,926	$ 43,113
Canada	20,645	-	149	149	1,398
Australia - New Zealand	10,607	797	(184)	296	2,772
Hong Kong	3,850	-	(50)	302	653
Reportable Segments Total	85,561	11,410	2,953	30,673	47,936
Unallocated and Other (1)	-	(11,410)	(471)	(9,247)	(9,669)
Consolidated Total	$ 85,561	$ -	$ 2,482	$ 21,426	$ 38,267

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

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

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

General

We did not suffer the loss of any employees, assets or Associates as a result of the terrorist attacks of September 11, 2001, or the anthrax attacks that followed. Our express and other delivery of product orders was affected because the U.S. air delivery system was shut down for several days following the attacks in New York and Washington, D.C. on September 11. As a result, some of our customers may have experienced an interruption or delay in delivery. Orders placed slowed somewhat immediately following September 11, but returned to normal levels by the end of the month.

USANA develops and manufactures high-quality nutritional, personal care and weight management products. USANA distributes its products through a network marketing system. USANA refers to its independent distributors as Associates. As of September 29, 2001, we had approximately 84,000 Associates in the United States, Canada, Australia, New Zealand, Hong Kong, Japan and the United Kingdom. We also offer a Preferred Customer program specifically designed for customers who desire to purchase USANA's products for personal use and do not desire to resell or distribute products. As of September 29, 2001, we had approximately 81,000 Preferred Customers worldwide. Sales to Preferred Customers accounted for approximately 19% of net sales during the first nine months of 2001. For purposes of this Report, USANA counts as Associates and Preferred Customers only those who have purchased product from USANA at any time during the most recent 12-month period.

The financial results for any quarter or nine-month period referenced within this Report are adjusted to reflect the Financial Accounting Standards Board guidelines on revenue recognition pursuant to Emerging Issues Task Force No. 00-10 ("EITF 00-10"). Under EITF 00-10 guidelines, historical and future revenue relating to amounts billed to a customer for shipping and handling should be classified as revenue. The corresponding expenses are reported as cost of sales. Historically, USANA has reported freight income and expense as a net amount within selling, general and administrative expense.

USANA's three primary product lines consist of USANAâ Nutritionals, LEAN LifelongÔ and SenséÔ. The USANA Nutritionals product line accounted for approximately 68% of net sales for the nine months ended September 29, 2001. USANA's top selling products, USANAâ Essentials and Proflavanolâ represented approximately 29% and 12%, respectively, of net sales for the nine months ended September 29, 2001. The LEAN Lifelong product line accounted for approximately 11% of net sales for the nine months ended September 29, 2001. The LEAN Lifelong product line includes several completely reformulated food products previously sold under the LEAN or USANA Nutritional brand names. NutrimealÔ and Fibergyâ drink mixes, Nutribar and Fibergy bar, a LEAN Formula for weight management and several other related products for healthy diets are included in the LEAN Lifelong product line. The Sensé product line consists of scientifically developed natural products designed to support healthy skin and hair by providing protection and nourishment on both the inside and outside of the dermal layers of the skin. The Sensé product line accounted for approximately 13% of net sales for the nine months ended September 29, 2001.

In addition to these three principal product lines, USANA develops and makes available to Associates a number of materials to assist them in building their business and selling the products. These resource materials or sales aids, which may be purchased from USANA, include product brochures and business forms designed by USANA and printed by outside publishers. Each major product line incorporates specifically designed sales aids. From time to time we contract with authors and publishers to provide books, tapes and other items dealing with health and personal motivation and make these available to Associates. USANA also writes and develops materials for audio and videotapes, which are produced by third parties. New Associates are required to purchase a starter kit containing USANA training materials that assist them in starting and growing their business. Affinity and identity are also furthered through the sale of logo merchandise such as clothing, caps, mugs, and other products. Associates do not earn commissions on sales aids, starter kits or logo merchandise.

The fiscal year end of USANA is the Saturday closest to December 31 of each year. Fiscal year 2001 will end on December 29, 2001. Fiscal year 2000 ended on December 30, 2000.

Results of Operations

Quarters Ended September 29, 2001 and September 30, 2000

Net Sales. Net sales decreased 3.4% to $29.3 million for the quarter ended September 29, 2001, a decrease of $1.0 million from the $30.4 million reported for the comparable quarter in 2000. The decrease in net sales is the result of:

- A 15% decrease in our Associate base, and
- Weaker foreign currencies relative to the U. S. dollar, which negatively affected the translation of sales in our foreign markets.

The decrease in the Associate base was partially offset by strong enrollments of Preferred Customers. The Preferred Customer base at September 29, 2001 increased 14% compared to the levels present at September 30, 2000. In September 2000, we began a direct export program for consumers in Japan. Sales to Japan under the direct export program increased by $755,000 during the third quarter of 2001 when compared to the same period in 2000.

We had $552,000 of sales at our annual international convention in the third quarter of 2001. The annual convention in 2000 was held in the second quarter of fiscal year 2000.

The following tables illustrate the change in sales and customers by market for the quarters ended September 30, 2000 and September 29, 2001 (sales and customer information for the United Kingdom and Japan are incorporated in the numbers for the United States):

Sales By Market
(in thousands)
Quarter Ended

Market	September 30, 2000		September 29, 2001		Change from Prior Year	Percent Change
United States	$ 17,197	56.6%	$ 17,620	60.1%	$ 423	2.5%
Canada	7,189	23.7%	6,803	23.2%	(386)	(5.4)%
Australia-New Zealand	4,552	15.0%	3,591	12.2%	(961)	(21.1)%
Hong Kong	1,424	4.7%	1,327	4.5%	(97)	(6.8)%
Consolidated	$ 30,362	100.0%	$ 29,341	100.0%	$ (1,021)	(3.4)%

Associates By Market

Market	As of September 30, 2000	As of September 29, 2001	Change from Prior Year	Percent Change

United States	48,000	48.5%	42,000	50.0%	(6,000)	(12.5)%
Canada	22,000	22.2%	20,000	23.8%	(2,000)	(9.1)%
Australia-New Zealand	20,000	20.2%	15,000	17.9%	(5,000)	(25.0)%
Hong Kong	9,000	9.1%	7,000	8.3%	(2,000)	(22.2)%
Consolidated	99,000	100.0%	84,000	100.0%	(15,000)	(15.2)%

Preferred Customers By Market

Market	As of September 30, 2000		As of September 29, 2001		Change from Prior Year	Percent Change
United States	40,000	56.3%	48,000	59.3%	8,000	20.0%
Canada	18,000	25.4%	21,000	25.9%	3,000	16.7%
Australia-New Zealand	11,000	15.5%	10,000	12.3%	(1,000)	(9.1)%
Hong Kong	2,000	2.8%	2,000	2.5%	-	0.0%
Consolidated	71,000	100.0%	81,000	100.0%	10,000	14.1%

Total Customers By Market

Market	As of September 30, 2000		As of September 29, 2001		Change from Prior Year	Percent Change
United States	88,000	51.8%	90,000	54.5%	2,000	2.3%
Canada	40,000	23.5%	41,000	24.8%	1,000	2.5%
Australia-New Zealand	31,000	18.2%	25,000	15.2%	(6,000)	(19.4)%
Hong Kong	11,000	6.5%	9,000	5.5%	(2,000)	(18.2)%
Consolidated	170,000	100.0%	165,000	100.0%	(5,000)	(2.9)%

Gross Profit. Gross profit increased to 71.9% of net sales for the quarter ended September 29, 2001, from 69.5% for the comparable quarter in 2000. The increase in gross profit can primarily be attributed to:

- A change in our pricing on select products,
- Improved procurement efficiencies and inventory management, and
- A decrease in product development costs in 2001, resulting from new products introduced during 2000.

The aforementioned change in pricing is intended to make it easier for Associates to build their businesses. These products have better gross profit margins and a higher payout rate for USANA Associates. The increase in gross profit was partially offset by the compression of gross margins as a result of weaker foreign currencies relative to the U. S. dollar.

Associate Incentives. Associate incentives increased to 38.1% of net sales for the quarter ended September 29, 2001, from 37.1% for the comparable quarter in 2000. The increase in Associate incentives as a percentage of net sales can primarily be attributed to the change in pricing discussed above in our gross profit analysis.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to 29.1% of net sales for the quarter ended September 29, 2001 from 27.2% for the comparable quarter in 2000. The increase in selling, general and administrative expenses as a percentage of net sales can be attributed to lower sales and increased spending on our Japanese market of $902,000 in the third quarter of 2001 compared to the same period in 2000. USANA has made a company-wide effort to better manage costs and was able to reduce selling, general and administrative expenses in absolute terms during the third quarter of 2001 by $611,000 without including the costs associated with our Japanese market. We expect that selling, general and administrative expenses will continue to be pressured for the remainder of 2001 by expenditures associated with supporting and growing operations in Japan, which opened in October of 2001.

Other Income (Expense). Interest expense (a component of Other, net) decreased $114,000 for the third quarter of 2001 when compared to the same period in 2000. This decrease is a result of both lower interest rates and a lower level of debt throughout the third quarter of 2001 when compared to the same period in 2000.

Foreign currency exchange losses (another component of Other, net) decreased $176,000 for the third quarter of 2001 compared to the same period in 2000. The decrease is a result of lower outstanding intercompany loans with our foreign subsidiaries. Additional discussion on our foreign currency risk is included in Item 3, "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK," on page 19.

Net Earnings. Net earnings increased to 2.0% of net sales for the quarter ended September 29, 2001, from 1.6% for the comparable quarter in 2000. The increase in net earnings can primarily be attributed to the decrease in cost of goods sold, interest expense, and foreign currency exchange losses. These benefits were partially offset by the 3.4% decline in net sales and 3.5% increase in selling, general and administrative expenses during the third quarter of 2001 when compared to the same period in 2000.

Diluted earnings per share increased by $0.01 to $0.06 for the third quarter of 2001 from $0.05 reported in the comparable quarter of 2000.

Nine Months Ended September 29, 2001 and September 30, 2000

Net Sales. Net sales decreased 8.5% to $85.6 million for the nine months ended September 29, 2001, a decrease of $7.9 million from the $93.5 million reported for the comparable period in 2000. The decrease in net sales is the result of:

- A 15% decrease in our Associate base,
- Weaker foreign currencies, relative to the U. S. dollar, which negatively affected the translation of sales in foreign markets, and
- The value initiative, which reduced prices by an average of 24%.

The value initiative was introduced in February 2000 and late March 2000 in the North American and Australia-New Zealand markets, respectively. Sales to Japan under the direct export program totaled $2.0 million during the nine months ended September 29, 2001, compared to $174,000 for the same nine-month period in 2000.

The following tables illustrate the change in sales and customers by market for the nine months ended September 30, 2000 and September 29, 2001 (sales and customer information for the United Kingdom and Japan are incorporated in the numbers for the United States):

Sales By Market
(in thousands)
Nine Months Ended

Market	September 30, 2000			September 29, 2001			Change from Prior Year	Percent Change
United States	$	51,886	55.6%	$	50,459	59.0%	$ (1427)	(2.8)
Canada		22,007	23.5%		20,645	24.1%	(1,362)	(6.2)%
Australia-New Zealand		14,674	15.7%		10,607	12.4%	(4,067)	(27.7)%
Hong Kong		4,904	5.2%		3,850	4.5%	(1,054)	(21.5)%
Consolidated	$	93,471	100.0%	$	85,561	100.0%	$ (7,910)	(8.5)%

Gross Profit. Gross profit decreased to 71.3% of net sales for the nine months ended September 29, 2001, from 71.6% for the comparable period in 2000. The slight decrease in gross profit can be attributed primarily to:

- The value initiative, which reduced prices by an average of 24% while the cost and quality of the product remained virtually unchanged, and
- The compression of gross profit margins as a result of weaker foreign currencies relative to the U. S. dollar.

The decrease in gross profit was offset by the three items discussed for the quarter on page 15 in the quarterly "Results of Operations" section.

Associate Incentives. Associate incentives decreased to 38.2% of net sales for the nine months ended September 29, 2001, from 38.5% for the comparable period in 2000. The decrease in Associate incentives as a percentage of net sales can be attributed primarily to the value initiative. In addition to reducing prices by an average of 24%, the value initiative also incorporated a reduction in the ratio of sales volume points to the wholesale price on customer product purchases. Associate incentives are paid on the amount of sales volume points generated. The decrease was partially offset by the change in pricing on select products intended to make it easier for Associates to build their businesses. These products have better gross margins and pay Associates at a higher rate.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to 28.4% of net sales for the nine months ended September 29, 2001, from 26.8% for the comparable period in 2000. The increase in selling, general and administrative expenses as a percentage of net sales can be attributed primarily to lower sales in the first nine months of 2001 compared to the same period in 2000. USANA has made a company-wide effort to better manage costs and was able to reduce selling, general and administrative expenses in absolute terms during the first nine months of 2001 by $823,000 despite spending $2.4 million on our Japanese market.

Other Income (Expense). Interest expense (a component of Other, net) decreased $217,000 for the third quarter of 2001 when compared to the same period in 2000. This decrease is a result of both lower interest rates and a lower level of debt throughout the third quarter of 2001 when compared to the same period in 2000.

Foreign currency exchange losses (another component of Other, net) increased $143,000 for the first nine months of 2001 compared to the same period in 2000. The increase is due to the negative effect of weaker foreign currencies on intercompany loans with our foreign subsidiaries. Additional discussion on our foreign currency risk is included in Item 3, "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK," on page 19.

Net Earnings. Net earnings decreased to 1.8% of net sales for the nine months ended September 29, 2001, from 2.4% for the comparable period in 2000. The decrease in net earnings can be attributed to:

- Lower sales in the first nine months of 2001 when compared to the same period in 2000, and

- Costs associated with establishing operations in Japan.

Diluted earnings per share decreased $0.07 to $0.16 for the first nine months of 2001 from $0.23 reported in the comparable period of 2000.

Liquidity and Capital Resources

USANA has historically financed growth with cash flows from operations. In the first nine months of 2001, USANA generated net cash flows from operations of $8.8 million compared to $1.6 million for the comparable period in 2000. Cash and cash equivalents increased to $4.1 million at September 29, 2001, from $2.9 million at December 30, 2000.

On September 29, 2001, USANA had negative net working capital of $773,000 compared to positive net working capital of $2.3 million at December 30, 2000. The change in net working capital was primarily the result of investments in property and equipment and a $1.5 million increase in current maturities of long-term debt.

USANA invested $6.4 million in property and equipment during the first nine months of 2001 compared to $3.9 million during the comparable period in 2000. Expanded warehouse space, improved technology systems, and investments related to our newly opened operations in Japan comprise the majority of the investment in property and equipment for the first nine months of 2001.

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

During 1999, USANA entered into agreements with a financial institution to provide up to $25 million in secured credit facilities consisting of a $10 million five-year term loan and a $15 million three-year revolving line of credit. The credit facilities were amended in March 2001. The amended credit facilities reduced the revolving line of credit to $12.5 million and do not require USANA to make quarterly principal payments on the term loan until March 2002. The credit facilities contain restrictive covenants requiring USANA to maintain certain financial ratios. As of September 29, 2001, USANA was in compliance with these covenants. As of September 29, 2001, $8.0 million was outstanding on the five-year term loan and $5.8 million was outstanding on the line of credit.

USANA believes that its current cash balances, the available line of credit and cash provided by operations will be sufficient to cover its needs in the ordinary course of business for the foreseeable future. If USANA 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. USANA may also require or seek additional financing through the sale of its equity securities to finance future expansion into new markets, finance capital acquisitions associated with the growth of USANA, and for other reasons. Any financing which involves the sale of equity securities or instruments convertible into equity securities would result in immediate and possibly significant dilution to existing shareholders.

Forward-Looking Statements

The statements contained in this Report that are not purely historical are considered to be “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 our 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 our financial performance, revenue and expense levels in the future and the sufficiency of our existing assets to fund future operations and capital spending needs. 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 our most recent Annual Report on Form 10-K, pages 25 through 30. The fact that some of the risk factors may be the same or similar to our past reports filed with the Securities and Exchange Commission means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in the Company’s SEC filings are part of doing business in the industry in which we operate and compete and will likely be present in all periods reported. The fact that certain risks are endemic to the industry does not lessen their significance. The forward-looking statements contained in this Report are made as of the date of this Report and we assume no obligation to update them or to update the reasons why actual results could differ from those projected in such forward-looking statements. Among others, risks and uncertainties that may affect our business, financial condition, performance, development and results of operations include:

- Our ability to attract and maintain a sufficient number of Associates,

- High turnover of Associates,

- Our reliance on information technology,

- Our dependence upon a network marketing system to distribute our products,

- The fluctuation in the value of foreign currencies against the US dollar,

- Activities of our independent Associates,

- 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 our President, Chief Executive Officer and Chairman of the Board of Directors, Myron W. Wentz, Ph.D.,
- Extensive government regulation of the Company's products and manufacturing,
- Risks related to our expansion into international markets,
- Failure of USANA to sustain or manage growth including the failure to continue to develop new products,
- The adverse effect of the loss of a high level sponsoring Associate together with a group of leading Associates in that person's downline,
- The loss of product market share or Associates to competitors,
- Potential adverse effects of taxation and transfer pricing regulations,
- Our reliance on outside suppliers for raw materials,
- Intellectual property risks particularly applicable to our business, or
- Product liability claims and other manufacturing activity risks.

The recent terrorist attacks in New York and Washington, D.C., and the subsequent anthrax attacks on the East Coast of the United States appear to be having an adverse effect generally on the business, financial and general economic conditions of the United States. These effects may, in turn, adversely affect our business and results of operations, although at this time it is not possible to predict the nature, extent or duration of these effects on the overall economic conditions or on our business and results of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We conduct our business in several countries and intend to continue to expand our foreign operations. Net sales, earnings from operations and net earnings are affected by fluctuations in currency exchange rates, interest rates and other uncertainties inherent in doing business and selling product in more than one currency. In addition, USANA's operations are exposed to risks associated with changes in social, political and economic conditions inherent in foreign operations, including changes in the laws and policies that govern foreign investment in countries where it has operations as well as, to a lesser extent, changes in United States laws and regulations relating to foreign trade and investment.

Foreign Currency Risks. USANA conducts business in several countries and intends to continue to expand its foreign operations. Sales outside the United States represented 44.4% and 41.0% of net sales for the nine months ended September 30, 2000 and September 29, 2001, respectively. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is considered the functional currency with all revenue and expenses translated at weighted average exchange rates for reported periods. Consequently, USANA's reported sales and earnings are impacted positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations or financial condition. Changes in currency exchange rates affect the relative prices at which USANA sells its products.

USANA seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts. We do not use such financial instruments for trading or speculative purposes. We regularly monitor our foreign currency risks and periodically take measures to reduce the impact of foreign exchange fluctuations on our operating results. As of September 29, 2001 and during the nine months then ended, USANA had no hedging instruments in place to offset exposure to the Canadian Dollar, Australian Dollar, New Zealand Dollar, Hong Kong Dollar, Japanese Yen, British Pound or Euro, to which, in aggregate, USANA had significant exposure. In future periods, when USANA has foreign currency exchange contracts in place, we will present the appropriate information.

As a last recourse for hedging foreign currency risk, USANA may elect to adjust prices in non-U.S. markets to reflect changes in foreign currency exchange rates. However, there can be no assurance that these practices will be successful in eliminating all or substantially all of the risks encountered in connection with our foreign currency transactions.

Interest Rate Risks. USANA currently carries $8.0 million in long-term debt at an effective interest rate of 4.61%. This long-term debt matures at the rate of $2.0 million in 2002, $3.4 million in 2003 and $2.6 million in 2004. We also have a revolving line of credit with $5.8 million outstanding at September 29, 2001, with a weighted average interest rate of 4.61%. The interest rate is computed at the bank's Prime Rate or LIBOR adjusted by features specified in our loan agreements, with fixed rate term options of up to six months. A hypothetical 100 basis point increase in interest rates on all of the above debt would result in an annual after tax increase in interest expense of approximately $86,000, which would not materially affect earnings.

PART II. OTHER INFORMATION

Item 5. OTHER INFORMATION

On October 22, 2001, USANA's Board of Directors named David A. Wentz to the position of Executive Vice President of the Company. In this new capacity, Mr. Wentz will have increased responsibility for the operation and management of USANA. Mr. Wentz previously served as the Senior Vice President of Strategic Development and will continue to serve as a member of the Company's Board of Directors. Dr. Myron W. Wentz, founder of the Company, will continue to serve as Chairman and Chief Executive Officer. David Wentz is the son of Dr. Wentz.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit Number	Description
3.1	Articles of Incorporation [Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
3.2	Bylaws [Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
3.3	Amendment to Articles of Incorporation to change name and increase par value [Incorporated by reference to Report on Form 10-Q for the period ended July 1, 2000]
4.1	Specimen Stock Certificate for Common Stock, no par value [Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993]
10.1	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 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 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 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 Report on Form 10-Q for the period ended June 27, 1998]
10.5	Promissory Note and Redemption Agreement dated April 28, 1999 [Incorporated by reference to Report on Form 10-Q for the period ended April 3, 1999]
10.6	Stock Pledge Agreement dated April 28, 1999 [Incorporated by reference to Report on Form 10-Q for the period ended April 3, 1999]
10.7	Redemption Agreement dated July 30, 1999 [Incorporated by reference to Report on Form 8-K, filed September 24, 1999]
10.8	Amended Term Note dated March 26, 2001 [Incorporated by reference to Report on Form 10-K, filed March 30, 2001]
10.9	Amended Revolving Note dated March 26, 2001 [Incorporated by reference to Report on Form 10-K, filed March 30, 2001]
10.10	Amended Credit Agreement dated March 26, 2001 [Incorporated by reference to Report on Form 10-K, filed March 30, 2001]
11.1	Computation of Net Earnings per Share (included in Notes to Consolidated Financial Statements)
99.1	Press Release dated September 21, 1999. [Incorporated by reference to Report on Form 8-K, filed September 24, 1999]

(b) Reports on Form 8-K.

The Company filed no current reports on Form 8-K during the quarter ended September 29, 2001.

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 HEALTH SCIENCES, INC.

Date: November 9, 2001

By: /s/ Gilbert A. Fuller
Gilbert A. Fuller
Senior Vice President and
Chief Financial Officer