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 July 2, 2022

or

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

Commission file number: 001-35024

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

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

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

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

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

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

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

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of August 5, 2022, there were 19,198,303 outstanding shares of the registrant's common stock, $0.001 par value.

Auditor Name: KPMG LLP Auditor Location: Salt Lake City, Utah Auditor Firm ID: 185

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 2, 2022

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Cautionary Note Regarding Forward-Looking Statements and Certain Risks

This report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We may also make forward-looking statements in other reports filed with the Securities and Exchange Commission ("SEC"), in materials delivered to shareholders and in press releases. In addition, our representatives may from time to time make oral forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely unduly on forward-looking statements.

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

- Our dependence upon the direct selling business model to distribute our products and the activities of our independent Associates;

- Extensive regulation of our business model and uncertainties relating to the interpretation and enforcement of applicable laws and regulations governing direct selling and anti-pyramiding, particularly in the United States and China;

- The operation and expansion of our business in China through our subsidiary, BabyCare Holdings, Ltd. ("BabyCare"), including risks related to (i) operating in China in general, (ii) engaging in direct selling in China, (iii) BabyCare's business model in China, and (iv) changes in the Chinese economy, marketplace or consumer environment;

- Unanticipated effects of changes to our Compensation Plan;

- Challenges associated with our planned expansion into new international markets, delays in commencement of sales or product offerings in such markets, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;

- Uncertainty related to the magnitude, scope and duration of the impact of the novel strain coronavirus COVID-19 pandemic ("COVID-19" or the "COVID-19 pandemic") to our business, operations and financial results, including, for example, additional regulatory measures or voluntary actions that may be put in place to limit the spread of COVID-19 in the markets where we operate, such as restrictions on business operations; shelter at home requirements; individual, group or city-wide lock-downs; or social distancing requirements;

- Political events, natural disasters, pandemics, epidemics or other health crises including, and in addition to, COVID-19 or other events that may negatively affect economic conditions, consumer spending or consumer behavior;

- Changes to trade policies and tariffs, the impact of customs, duties, taxation, and transfer pricing regulations, as well as regulations governing distinctions between and our responsibilities to employees and independent contractors;

- Geo-political tensions or conflicts, including deterioration in foreign relations, as well as disputes or tensions amongst countries around the world in general or between the United States and other countries, including China;

- Volatile fluctuation in the value of foreign currencies against the U.S. dollar;

- Noncompliance by us or our Associates with any data privacy laws or any security breach by us or a third party involving the misappropriation, loss, destruction or other unauthorized use or disclosure of confidential information;

- Shortages of raw materials, disruptions in the business of our contract manufacturers, significant price increases of key raw materials, significant price increases of freight and transportation, meaningful delays in freight and shipping, and other disruptions to our supply chain; and

- Our continued compliance with debt covenants in our Credit Facility.

Important information as to these factors can be found in this document, including, among other sections, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings of "Overview," and "Financial Condition and Liquidity." Discussion of these factors is incorporated by reference from Part I, Item 1A, "Risk Factors," of this document, and should be considered an integral part of Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q, and 8-K filed with the SEC from time to time.

Unless otherwise indicated or otherwise required by the context, the terms "we," "our," "it," "its," "Company," and "USANA" refer to USANA Health Sciences, Inc. and its wholly-owned subsidiaries. USANA Health Sciences, Inc. and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of USANA Health Sciences, Inc. and its subsidiaries. Names, abbreviations of names, logos, and products and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. References to internet websites in this Form 10-Q are provided for convenience only. Information available through these websites is not incorporated by reference into this Form 10-Q.

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(unaudited)

	As of July 2, 2022	As of January 1, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 230,370	$ 239,832
Inventories	84,164	98,318
Prepaid expenses and other current assets	27,470	26,967
Total current assets	342,004	365,117
Property and equipment, net	97,827	101,780
Goodwill	17,476	17,668
Intangible assets, net	34,371	30,442
Deferred tax assets	11,265	4,839
Other assets	55,016	57,894
	$ 557,959	$ 577,740
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 10,175	$ 13,508
Other current liabilities	123,419	147,282
Total current liabilities	133,594	160,790
Deferred tax liabilities	5,142	7,497
Other long-term liabilities	15,542	14,329
Stockholders' equity		
Common stock, $0.001 par value; Authorized -- 50,000 shares, issued and outstanding 19,196 as of July 2, 2022 and 19,393 as of January 1, 2022	19	19
Additional paid-in capital	49,206	50,010
Retained earnings	363,912	344,637
Accumulated other comprehensive income (loss)	(9,456)	458
Total stockholders' equity	403,681	395,124
	$ 557,959	$ 577,740

The accompanying notes are an integral part of these statements.

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

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net sales	$ 264,474	$ 336,837	$ 537,341	$ 644,813
Cost of sales	49,517	57,014	100,900	114,665
Gross profit	214,957	279,823	436,441	530,148
Operating expenses:				
Associate incentives	119,204	153,863	238,824	288,358
Selling, general and administrative	66,387	72,240	135,184	143,873
Total operating expenses	185,591	226,103	374,008	432,231
Earnings from operations	29,366	53,720	62,433	97,917
Other income (expense):				
Interest income	673	679	1,412	1,439
Interest expense	(96)	(16)	(128)	(21)
Other, net	(635)	(73)	(1,122)	(689)
Other income (expense), net	(58)	590	162	729
Earnings before income taxes	29,308	54,310	62,595	98,646
Income taxes	10,151	16,076	20,969	29,791
Net earnings	$ 19,157	$ 38,234	$ 41,626	$ 68,855
Earnings per common share				
Basic	$ 1.00	$ 1.89	$ 2.16	$ 3.35
Diluted	$ 1.00	$ 1.87	$ 2.15	$ 3.31
Weighted average common shares outstanding				
Basic	19,215	20,247	19,283	20,570
Diluted	19,244	20,446	19,362	20,771
Comprehensive income:				
Net earnings	$ 19,157	$ 38,234	$ 41,626	$ 68,855
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(11,672)	2,859	(12,363)	328
Tax benefit (expense) related to foreign currency translation adjustment	2,995	725	2,449	2,341
Other comprehensive income (loss), net of tax	(8,677)	3,584	(9,914)	2,669
Comprehensive income	$ 10,480	$ 41,818	$ 31,712	$ 71,524

The accompanying notes are an integral part of these statements.

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

For six months ended July 3, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at January 2, 2021	21,038	$ 21	$ 62,460	$ 382,794	$ (3,625)	$ 441,650
Net earnings				68,855		68,855
Other comprehensive income (loss), net of tax					2,669	2,669
Equity-based compensation expense			7,585			7,585
Common stock repurchased and retired	(1,025)	(1)	(13,155)	(85,999)		(99,155)
Common stock issued under equity award plans	121	—				—
Tax withholding for net-share settled equity awards			(2,981)			(2,981)
Balance at July 3, 2021	20,134	$ 20	$ 53,909	$ 365,650	$ (956)	$ 418,623

For six months ended July 2, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at January 1, 2022	19,393	$ 19	$ 50,010	$ 344,637	$ 458	$ 395,124
Net earnings				41,626		41,626
Other comprehensive income (loss), net of tax					(9,914)	(9,914)
Equity-based compensation expense			6,739			6,739
Common stock repurchased and retired	(288)	—	(3,031)	(22,351)		(25,382)
Common stock issued under equity award plans	91	—				—
Tax withholding for net-share settled equity awards			(4,512)			(4,512)
Balance at July 2, 2022	19,196	$ 19	$ 49,206	$ 363,912	$ (9,456)	$ 403,681

The accompanying notes are an integral part of these statements.

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

For the three months ended July 3, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at April 3, 2021	20,422	$ 20	$ 54,084	$ 353,213	$ (4,540)	$ 402,777
Net earnings				38,234		38,234
Other comprehensive income (loss), net of tax					3,584	3,584
Equity-based compensation expense			3,845			3,845
Common stock repurchased and retired	(304)	—	(3,904)	(25,797)		(29,701)
Common stock issued under equity award plans	16	—				—
Tax withholding for net-share settled equity awards			(116)			(116)
Balance at July 3, 2021	20,134	$ 20	$ 53,909	$ 365,650	$ (956)	$ 418,623

For the three months ended July 2, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at April 2, 2022	19,185	$ 19	$ 45,951	$ 344,755	$ (779)	$ 389,946
Net earnings				19,157		19,157
Other comprehensive income (loss), net of tax					(8,677)	(8,677)
Equity-based compensation expense			3,556			3,556
Common stock issued under equity award plans	11	—				—
Tax withholding for net-share settled equity awards			(301)			(301)
Balance at July 2, 2022	19,196	$ 19	$ 49,206	$ 363,912	$ (9,456)	$ 403,681

The accompanying notes are an integral part of these statements.

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

	Six Months Ended	
	July 2, 2022	July 3, 2021
Cash flows from operating activities		
Net earnings	$ 41,626	$ 68,855
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	6,628	6,511
Right-of-use asset amortization	4,105	4,537
(Gain) loss on sale of property and equipment	74	45
Equity-based compensation expense	6,739	7,585
Deferred income taxes	(6,825)	(5,775)
Changes in operating assets and liabilities:		
Inventories	8,537	(254)
Prepaid expenses and other assets	(3,072)	(2,711)
Accounts payable	(3,711)	(5,030)
Other liabilities	(19,787)	(14,946)
Net cash provided by (used in) operating activities	34,314	58,817
Cash flows from investing activities		
Receipts on notes receivable	—	104
Proceeds from the settlement of net investment hedges	4,555	—
Payments for net investment hedge	—	(1,555)
Payments to acquire assets	(6,532)	—
Proceeds from sale of property and equipment	3	15
Purchases of property and equipment	(3,535)	(3,146)
Net cash provided by (used in) investing activities	(5,509)	(4,582)
Cash flows from financing activities		
Repurchase of common stock	(25,382)	(99,155)
Borrowings on line of credit	10,500	—
Payments on line of credit	(10,500)	—
Payments related to tax withholding for net-share settled equity awards	(4,512)	(2,981)
Net cash provided by (used in) financing activities	(29,894)	(102,136)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(8,535)	515
Net increase (decrease) in cash, cash equivalents, and restricted cash	(9,624)	(47,386)
Cash, cash equivalents, and restricted cash at beginning of period	243,653	315,937
Cash, cash equivalents, and restricted cash at end of period	$ 234,029	$ 268,551
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	$ 230,370	$ 265,368
Restricted cash included in prepaid expenses and other current assets	—	93
Restricted cash included in other assets	3,659	3,090
Total cash, cash equivalents, and restricted cash	$ 234,029	$ 268,551
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 45	$ 5
Income taxes	31,523	38,791
Cash received during the period for:		
Income tax refund	43	—
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease obligations	4,471	1,128
Accrued purchases of property and equipment	988	453
Contingent consideration given to acquire assets	886	—

The accompanying notes are an integral part of these statements.

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

NOTE A – ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

The COVID-19 pandemic has negatively impacted economies, businesses, sales practices, supply chains, and consumer behavior around the world. The ongoing COVID-19 pandemic has created an unpredictable operating environment for us in many of our markets around the world and caused meaningful disruptions in both sales and operations for the three and six months ended July 2, 2022, and for fiscal 2021. At this time, the Company is unable to predict the impact that COVID-19 will have on its business, financial position, and operating results in future periods due to numerous uncertainties and is closely monitoring the impact of the pandemic on all aspects of its business. Additionally, we have begun to experience inflationary pressures across several areas of our business which has created a challenging operating environment.

USANA Health Sciences, Inc. develops and manufactures high quality, science-based nutritional and personal care products that are sold internationally through a direct selling channel. The Condensed Consolidated Financial Statements (the "Financial Statements") include the accounts and operations of the Company, which are grouped and presented in two geographic regions: (1) Asia Pacific, and (2) Americas and Europe. Asia Pacific is further divided into three sub-regions: (i) Greater China, (ii) Southeast Asia Pacific, and (iii) North Asia.

(1) Asia Pacific -

(i) Greater China - Hong Kong, Taiwan, and China. The Company's business in China is conducted by BabyCare Holdings, Ltd., the Company's wholly-owned subsidiary.

(ii) Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia.

(iii) North Asia – Japan and South Korea.

(2) Americas and Europe – United States, Canada, Mexico, Colombia, the United Kingdom, France, Germany, Spain, Italy, Romania, Belgium, and the Netherlands.

The condensed consolidated balance sheet as of January 1, 2022, derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial information of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the SEC. Accordingly, certain information and disclosures that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Company's management, the accompanying interim condensed consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company's financial position as of July 2, 2022, and results of operations and cash flows for the three and six months ended July 2, 2022 and July 3, 2021.

The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended January 1, 2022. The results of operations for the three and six months ended July 2, 2022, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022.

Recent Accounting Pronouncements

Issued Accounting Pronouncements Not Yet Adopted

In October 2021, the Financial Accounting Standards Board ("FASB") issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* ASU 2021-08 requires an acquirer to recognize and measure contract assets and contract liabilities (deferred revenue) acquired in a business combination in accordance with *Revenue from Contracts with Customers (Topic 606*). Under this approach, the acquirer applies the revenue model as if it had originated the contracts. This is a departure from the current requirement to measure contract assets and contract liabilities at fair value at the acquisition date. ASU 2021-08 is effective for annual periods beginning after December 15, 2022 and interim periods within those annual periods. ASU 2021-08 should be applied prospectively to business combinations occurring on or after the date of adoption. Evaluation of this new standard is dependent on multiple circumstances including the timing and complexity of completed business combinations. As a result, the Company intends to adopt the provisions of ASU 2021-08 in the first quarter of 2023.

No other new accounting pronouncement issued or effective during the three and six months ended July 2, 2022, had, or is expected to have, a material impact on the Company's condensed consolidated financial statements.

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

NOTE B – BUSINESS COMBINATIONS

During the second quarter, the Company acquired assets in business combinations for an aggregate purchase consideration of $6,532 in cash and $886 in contingent consideration. The preliminary purchase price allocations were $964 to tangible assets, $6,065 to intangible assets, and $389 to goodwill. The primary reasons for the business combinations are to augment and expand the Company's core competencies. The amount of revenue and earnings related to the business combinations since the acquisition date is immaterial.

The contingent consideration liability is based on the achievement of certain milestones over a three-year period. Under the terms of the purchase agreement, the contingent consideration consists of three earn-out periods capped at $500 per earn-out period. The maximum earn-out is $1,500 per the asset purchase agreement. As of the acquisition date, the contingent consideration had a fair value of $886. The estimated fair value of the contingent consideration liability as of the date of acquisition was determined using an option pricing method based upon available information and certain assumptions known and contains key inputs that are unobservable in the market, which represents a Level 3 measurement within the fair value hierarchy. Contingent consideration is included in Fair Value Measures in Note C.

Pro forma results of operations have not been presented because the effects of the acquisitions were not material to the Company’s condensed consolidated financial statements.

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

NOTE C – FAIR VALUE MEASURES

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

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

As of July 2, 2022, and January 1, 2022, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

		Fair Value Measurements Using Inputs		
	July 2, 2022	Level 1	Level 2	Level 3
Money market funds included in cash equivalents	$ 160,287	$ 160,287	$ —	$ —
Foreign currency contracts included in prepaid expenses and other current assets	1,435	—	1,435	—
Contingent consideration included in other current liabilities of ($338) and other long-term liabilities of ($548)	(886)	—	—	(886)
	$ 160,836	$ 160,287	$ 1,435	$ (886)

		Fair Value Measurements Using Inputs		
	January 1, 2022	Level 1	Level 2	Level 3
Money market funds included in cash equivalents	$ 163,619	$ 163,619	$ —	$ —
Foreign currency contracts included in other current liabilities	(461)	—	(461)	—
	$ 163,158	$ 163,619	$ (461)	$ —

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

The majority of the Company's non-financial assets, which include long-lived assets, are not required to be carried at fair value on a recurring basis. However, if an impairment charge is required, a non-financial asset would be written down to fair value. As of July 2, 2022 and January 1, 2022, there were no non-financial assets measured at fair value on a non-recurring basis.

The Company's financial instruments include cash equivalents, restricted cash, other liabilities, and foreign currency contracts. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature.

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

NOTE D – INVENTORIES

Inventories consist of the following:

	July 2, 2022	January 1, 2022
Raw materials	$ 24,629	$ 30,280
Work in progress	7,990	9,586
Finished goods	51,545	58,452
	$ 84,164	$ 98,318

NOTE E – INVESTMENT IN EQUITY SECURITIES

As of July 2, 2022 and January 1, 2022, the carrying amount of equity securities without readily determinable fair values was $20,000 and is included in the "Other assets" line item on the Company's condensed consolidated balance sheets.

During the three and six months ended July 2, 2022, and the fiscal year ended January 1, 2022, no observable price changes occurred, and no impairment of securities was recorded.

NOTE F – REVENUE AND CONTRACT LIABILITIES

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

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

The following table presents Other Revenue for the periods indicated:

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Other Revenue	$ 895	$ 965	$ 1,794	$ 1,937

Disaggregation of revenue by geographic region and major product line is included in Segment Information in Note K.

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

	July 2, 2022	January 1, 2022
Contract liabilities at beginning of period	$ 19,635	$ 15,952
Increase due to deferral of revenue at end of period	16,141	19,635
Decrease due to beginning contract liabilities recognized as revenue	(17,147)	(15,952)
Contract liabilities at end of period	$ 18,629	$ 19,635

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

NOTE G – LINE OF CREDIT

On August 25, 2020, the Company as borrower, and certain of its material subsidiaries as guarantors, entered into the Second Amended and Restated Credit Agreement (the “Credit Agreement”) with Bank of America, N.A. (“Bank of America”) as Administrative Agent, Swingline Lender and Letter of Credit Issuer, and the other lenders party thereto. On April 21, 2021, the Company entered into the First Amendment to the Second Amended and Restated Credit Agreement, which, among other things amended the definition of “LIBOR Replacement Date,” “LIBOR Successor Rate,” and “Eurodollar Rate.”

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

There was no outstanding debt on the Credit Facility at July 2, 2022. The obligations of the Company under the Credit Agreement are secured by the pledge of the capital stock of certain subsidiaries of the Company, pursuant to a Security and Pledge Agreement.

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

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

NOTE H – CONTINGENCIES

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

NOTE I – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the three and six months ended July 2, 2022, the Company settled a forward contract with a notional amount of $98,930. During the three and six months ended July 3, 2021, the Company settled a European option with a notional amount of $98,684. Both the forward contract and the European option were designated as net investment hedges. For the three and six months ended July 2, 2022 and July 3, 2021, the Company realized a gain of $4,555 and a loss of $1,555, respectively, recorded to FCTA within AOCI. The Company assessed hedge effectiveness under the forward rate method, determining the hedging instruments were highly effective.

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

NOTE J – COMMON STOCK AND EARNINGS PER SHARE

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

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

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net earnings available to common shareholders	$ 19,157	$ 38,234	$ 41,626	$ 68,855
Weighted average common shares outstanding - basic	19,215	20,247	19,283	20,570
Dilutive effect of in-the-money equity awards	29	199	79	201
Weighted average common shares outstanding - diluted	19,244	20,446	19,362	20,771
Earnings per common share from net earnings - basic	$ 1.00	$ 1.89	$ 2.16	$ 3.35
Earnings per common share from net earnings - diluted	$ 1.00	$ 1.87	$ 2.15	$ 3.31

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

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
	374	59	272	58

There were no shares repurchased during the three months ended July 2, 2022. During the three months ended July 3, 2021, the Company repurchased and retired 304 shares for $29,701 under the Company's share repurchase plan.

During the six months ended July 2, 2022 and July 3, 2021, the Company repurchased and retired 288 shares and 1,025 shares for $25,382 and $99,155, respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

As of July 2, 2022, the remaining authorized repurchase amount under the stock repurchase plan was $82,839. There is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

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

NOTE K – SEGMENT INFORMATION

USANA operates as a direct selling company that develops, manufactures, and distributes high-quality nutritional and personal care products that are sold through a network marketing system of independent distributors (“Associates”). The Company aggregates its operating segments into one reportable segment, as management believes that the Company’s segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. No single Associate accounted for 10% or more of net sales for the periods presented. The table below summarizes the approximate percentage of total product revenue that has been contributed by the Company’s nutritionals, foods, and personal care and skincare products for the periods indicated.

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
USANA® Nutritionals	85%	86%	86%	87%
USANA Foods(1)	8%	8%	7%	7%
Personal care and Skincare	6%	5%	6%	5%
All Other	1%	1%	1%	1%

(1) Includes the Company’s new Active Nutrition line, which launched in five markets in 2021 and all but two of the remaining markets through the second quarter of 2022.

Selected Financial Information

Financial information, presented by geographic region is listed below:

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net Sales to External Customers				
Asia Pacific				
Greater China	$ 140,775	$ 165,416	$ 274,514	$ 314,394
Southeast Asia Pacific	47,830	76,101	102,572	148,249
North Asia	28,803	37,438	58,742	67,603
Asia Pacific Total	217,408	278,955	435,828	530,246
Americas and Europe	47,066	57,882	101,513	114,567
Consolidated Total	$ 264,474	$ 336,837	$ 537,341	$ 644,813

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

	Quarter Ended		Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net sales:				
China	$ 128,389	$ 150,878	$ 248,643	$ 285,181
South Korea	$ 28,153	$ 36,337	$ 57,340	$ 65,357

	As of	
	July 2, 2022	January 1, 2022
Long-lived assets:		
China	$ 87,351	$ 91,530
United States	$ 92,227	$ 85,350

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

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

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

- Overview
- Products
- Impact of the COVID-19 Pandemic
- Customers
- Non-GAAP Financial Measures
- Results of Operations
- Liquidity and Capital Resources

This discussion and analysis from management's perspective should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and Notes thereto that are contained in this quarterly report, as well as Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended January 1, 2022 ("2021 Form 10-K"), filed with the SEC on March 1, 2022, and our other filings, including the Current Reports on Form 8-K, that have been filed with the SEC through the date of this report. Forward-looking statements in Part I, Item 2 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements and Certain Risks" on page 1 and the risk factors provided in Part II, Item 1A for discussion of these risks and uncertainties).

Overview

We develop and manufacture high quality, science-based nutritional and personal care and skincare products that are distributed internationally through direct selling. We use this distribution method because we believe it is more conducive to meeting our vision as a company, which is to improve the overall health and nutrition of individuals and families around the world. Our customer base is primarily comprised of two types of customers: "Associates" and "Preferred Customers," referred to together as "active Customers." Our Associates also sell our products to retail customers. Associates share in our company vision by acting as independent distributors of our products in addition to purchasing our products for their personal use. Preferred Customers purchase our products strictly for personal use and are not permitted to resell or to distribute the products. We only count as active Customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period. As of July 2, 2022, we had approximately 559,000 active Customers worldwide.

We have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, our operating results are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. During the six months ended July 2, 2022, net sales outside of the United States represented 90.2% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

Products

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

	Six Months Ended	
	July 2, 2022	July 3, 2021
Product Line		
USANA® Nutritionals		
Optimizers	69%	69%
Essentials/CellSentials(1)	17%	18%
USANA Foods(2)	7%	7%
Personal care and Skincare	6%	5%
All Other	1%	1%
Key Product		
USANA® Essentials/CellSentials	11%	12%
Proflavanol®	10%	11%
Probiotic	10%	9%

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

(2) Includes the Company's new Active Nutrition line, which launched in five markets in 2021 and all but two of the remaining markets through the second quarter of 2022.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic, including the spread of new variants of the virus, has negatively impacted economies, businesses, sales practices, supply chains, and consumer behavior around the world. The ongoing COVID-19 pandemic has created an unpredictable operating environment for us in many of our markets around the world and caused meaningful disruptions in both sales and operations. Government-imposed restrictions, health and safety mandated best practices, and public hesitance regarding in-person gatherings have reduced our ability and the ability of our Associates to hold sales meetings, required our Associates to share and sell our products in a predominantly virtual environment, resulted in cancellations of key Company events and trips, required us to modify our workforce strategies, and required us, at times, to temporarily close our walk-in and fulfillment locations in some markets where we have such properties. The pandemic has also affected the availability and cost of various of our raw materials, packaging materials and shipping resources to transport our products to our various markets around the world. Our supply chain and logistics have incurred some disruption and we could experience more significant disruptions or closures in the future. These factors and others related to the COVID-19 pandemic, including the spread of new variants of the virus, will likely continue to negatively affect our business throughout 2022 in a number of ways.

Customers

Because we sell our products to a customer base of independent Associates and Preferred Customers, we increase our sales by increasing the number of our active Customers, the amount they spend on average, or both. Our primary focus continues to be increasing the number of active Customers. We believe this focus is consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for approximately 51% of product sales during the six months ended July 2, 2022. The remainder of our sales are to Preferred Customers. Increases or decreases in product sales are typically the result of variations in the volume of product sold relating to fluctuations in the number of active Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial indicator to evaluate our operational performance.

We believe that our ability to attract and retain active Customers is positively influenced by a number of factors, including our high-quality product offerings and the general public's heightened awareness and understanding of the connection between diet and long-term health. Additionally, we believe that our Associate compensation plan and the general public's growing desire for a secondary source of income and small business ownership are key to our ability to attract and retain Associates. We periodically update our Compensation Plan in an effort to ensure that it is among the most competitive plans in the industry, to encourage behavior that we believe leads to a successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings. Additionally, the initiatives we are executing under our customer experience and technology enhancements strategy are designed to promote active Customer growth.

To further support our Associates in building their businesses, we traditionally sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. We also provide low-cost sales tools, including online sales, business management, and training tools, which are intended to support our Associates in building and maintaining a successful home-based business. Although we provide training and sales tools, we ultimately rely on our Associates to sell our products, attract new active Customers to purchase our products, and educate and train new Associates. We sponsor meetings designed to assist Associates in their business development and to provide a forum for interaction with our Associate leaders and members of our management team.

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

	Total Active Customers by Region					
	As of July 2, 2022		As of July 3, 2021		Change from Prior Year	Percent Change
Asia Pacific:						
Greater China	278,000	49.8%	303,000	46.5%	(25,000)	(8.3%)
Southeast Asia Pacific	103,000	18.4%	144,000	22.1%	(41,000)	(28.5%)
North Asia	57,000	10.2%	66,000	10.1%	(9,000)	(13.6%)
Asia Pacific Total	438,000	78.4%	513,000	78.7%	(75,000)	(14.6%)
Americas and Europe	121,000	21.6%	139,000	21.3%	(18,000)	(12.9%)
	559,000	100.0%	652,000	100.0%	(93,000)	(14.3%)

Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States (“GAAP”). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures described below. Our management believes these non-GAAP financial measures that exclude the impact of specific items (described below) may be useful to investors in their assessment of our ongoing operating performance and provide additional meaningful comparisons between current results and results in prior operating periods and in understanding the activities and business metrics of our operations. We believe that these non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. We provide non-GAAP financial information for informational purposes only. Readers should consider the information in addition but not instead of or superior to, our consolidated financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of those measures for comparative purposes.

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

Results of Operations

Summary of Financial Results

Net sales for the second quarter of 2022 decreased 21.5% to $264.5 million, a decrease of $72.4 million, compared with the prior-year quarter. The decrease was due, in great part, to a lower number of active Customers during the quarter as compared to the prior year period. This decline in active Customers resulted, in part, from timing and performance differences in sales program activity offered by the Company during the second quarter of 2022 compared to the prior year period. During the second quarter of 2021, the Company benefited from a successful worldwide sales program that contributed to double-digit- active Customer growth during that period. During the second quarter of 2022, we offered a similar sales program, however the duration and geographic scope of the program is staggered throughout the year (beyond the second quarter), which creates a challenging comparable year-over-year. Additionally, the current year sales program has performed below expectations because of disruptions attributable to COVID-19 related lockdowns, restrictions, and other challenges, particularly in our Asia Pacific markets. These disruptions have contributed to a 14.3% decline in active Customers compared to the prior-year quarter. Additionally, unfavorable changes in currency exchange rates, have negatively impacted net sales by an estimated $10.9 million.

Net earnings for the second quarter of 2022 were $19.2 million, a decrease of 49.9% compared with $38.2 million during the prior-year quarter. The decrease in net earnings was primarily the result of decreased sales and higher relative operating expenses. Additionally, inflationary pressures have persisted across several areas of our business, but we remain steadfast in pursuing investments to deliver on our business strategies.

Quarters Ended July 2, 2022 and July 3, 2021

Net Sales

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

	Net Sales by Region (in thousands) Quarter Ended								
	July 2, 2022		July 3, 2021		Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
Asia Pacific								
Greater China	$ 140,775	53.2%	$ 165,416	49.1%	$ (24,641)	(14.9%)	$ (3,062)	(13.0%)
Southeast Asia Pacific	47,830	18.1%	76,101	22.6%	(28,271)	(37.1%)	(3,341)	(32.8%)
North Asia	28,803	10.9%	37,438	11.1%	(8,635)	(23.1%)	(3,632)	(13.4%)
Asia Pacific Total	217,408	82.2%	278,955	82.8%	(61,547)	(22.1%)	(10,035)	(18.5%)
Americas and Europe	47,066	17.8%	57,882	17.2%	(10,816)	(18.7%)	(863)	(17.2%)
	$ 264,474	100.0%	$ 336,837	100.0%	$ (72,363)	(21.5%)	$ (10,898)	(18.2%)

Asia Pacific: The decline in this region is largely the result of lower active Customer counts in the region caused, in part, by (i) the challenging operating environment due to COVID-19, and (ii) timing and performance differences in sales program activity offered by the Company during the quarter compared to the prior year period, which creates a challenging comparable year-over-year. The decrease in constant currency net sales in Greater China was primarily the result of a sales decline in China, where local currency net sales decreased 13.1%, due to a 8.5% decrease in active Customers. The decrease in constant currency net sales in Southeast Asia Pacific is largely the result of sales declines in the Philippines, and Malaysia, which had local currency net sales declines of 48.3%, and 28.2%, due to a 41.5%, and 20.9% decrease in active Customers, respectively. The decrease in constant currency net sales in North Asia was primarily the result of a sales decline in South Korea, where local currency net sales decreased 12.9%, due to a 12.7% decrease in active Customers.

Americas and Europe: The decrease in this region is largely the result of lower active Customer counts in the region due to timing and performance difference in sales program activity offered by the Company during the quarter compared to the prior year period, which creates a challenging year-over-year comparable. There were local currency sales declines in all markets in this region, most notable among these markets, Canada and the United States, which had local currency net sales declines of 22.6%, and 9.5%, due to a 13.3%, and 8.8% decrease in active Customers, respectively.

Gross Profit

Gross profit decreased 180 basis points to 81.3% of net sales, down from 83.1% in the prior-year quarter. The decrease can be attributed to unfavorable changes in currency exchange rates, an increase in inventory valuation adjustments, loss of leverage on lower sales, and higher material costs. These decreases were partially offset by favorable changes in market and product sales mix.

Associate Incentives

Associate incentives decreased 60 basis points to 45.1% of net sales, down from 45.7% in the prior-year quarter. The relative decrease can primarily be attributed to the increased spend associated with the worldwide sales program offered during the prior-year quarter, and decreased spend on miscellaneous associate incentives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 360 basis points relative to net sales and decreased $5.9 million in absolute terms. The relative increase can be attributed to leverage lost on lower net sales. The decreased expense in absolute terms can be primarily attributed to lower costs on variable expenses, as well as lower employee related costs.

Income Taxes

Income taxes increased to 34.6% of pre-tax earnings, up from 29.6% of pre-tax earnings in the prior-year quarter. The effective tax rate increase is due primarily to a change in mix of pre-tax income to markets with higher tax rates.

Diluted Earnings per Share

Diluted EPS decreased 46.5% to $1.00 as compared to $1.87 reported in the prior-year quarter. This decrease can be attributed to lower net earnings, partially offset by lower diluted share count.

Six Months Ended July 2, 2022 and July 3, 2021

Net Sales

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

	Net Sales by Region (in thousands) Six Months Ended							
	July 2, 2022		July 3, 2021		Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
Asia Pacific								
Greater China	$ 274,514	51.1%	$ 314,394	48.7%	$ (39,880)	(12.7%)	$ (532)	(12.5%)
Southeast Asia Pacific	102,572	19.1%	148,249	23.0%	(45,677)	(30.8%)	(5,937)	(26.8%)
North Asia	58,742	10.9%	67,603	10.5%	(8,861)	(13.1%)	(6,078)	(4.1%)
Asia Pacific Total	435,828	81.1%	530,246	82.2%	(94,418)	(17.8%)	(12,547)	(15.4%)
Americas and Europe	101,513	18.9%	114,567	17.8%	(13,054)	(11.4%)	(1,156)	(10.4%)
	$ 537,341	100.0%	$ 644,813	100.0%	$ (107,472)	(16.7%)	$ (13,703)	(14.5%)

Asia Pacific: The decline in this region is largely the result of the challenging operating environment as discussed above, as a result, there were local currency sales declines in all markets in this region. The decrease in constant currency net sales in Greater China was most notable in China, where local currency net sales decreased 12.7%. The decrease in constant currency net sales in Southeast Asia Pacific was most notable among these markets, the Philippines, and Malaysia, which had local currency net sales declines of 39.5%, and 27.6%, respectively. The decrease in constant currency net sales in North Asia was most notable in South Korea, which had a local currency net sales decline of 3.4%.

Americas and Europe: The decline in this region is largely the result of the challenging operating environment as discussed above, as a result, there were local currency sales declines in all markets in this region, most notable among these markets , Canada and Mexico, where local currency net sales decreased 14.2%, and 25.5%, respectively.

Gross Profit

Gross profit decreased 100 basis points to 81.2% of net sales, down from 82.2% for the six months ended 2021. The decrease in gross profit margin can be attributed to inventory valuation adjustments, unfavorable changes in currency exchange rates, increased product costs, and loss of leverage on lower sales. These decreases were partially offset by favorable changes in market and product sales mix, and increased transportation costs related to the strategic buildup of inventory in the prior-year quarter due to COVID-19 related disruptions to our supply chain and logistics.

Associate Incentives

Associate incentives decreased 30 basis points to 44.4% of net sales, down from 44.7% for the six months ended 2021. The relative decrease can primarily be attributed to a decrease in promotional incentives, as described above, and decreased spend on miscellaneous associate incentives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 290 basis points relative to net sales and decreased $8.7 million in absolute terms. The relative increase can be attributed to leverage lost on lower net sales. The decreased expense in absolute terms can be primarily attributed to lower costs on variable expenses, as well as lower employee related costs.

Income Taxes

Income taxes increased to 33.5% of pre-tax earnings, up from 30.2% of pre-tax earnings for the six months ended 2021. The effective tax rate increase is due primarily to a change in mix of pre-tax income to markets with higher tax rates.

Diluted Earnings per Share

Diluted EPS decreased 35% to $2.15 as compared to $3.31 reported for the six months ended 2021. This decrease can be attributed to lower net earnings, partially offset by lower diluted share count.

Liquidity and Capital Resources

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

We believe we have sufficient liquidity to satisfy our cash needs and expect to continue to fund our business with cash flow from operations. We continue, however, to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times. Additionally, we continually evaluate opportunities, to repurchase shares of our common stock and will, from time to time, consider the acquisition of, or investment in complementary businesses, products, services, and technologies, which has the potential to affect our liquidity.

Cash and Cash Equivalents

Cash and cash equivalents decreased to $230.4 million as of July 2, 2022, from $239.8 million as of January 1, 2022. Cash flow provided by operating activities generated $34.3 million partially offset by cash used in financing activities of $29.9 million, and cash used in investing activities of $6.5 million to acquire assets in business combinations during the six months ended July 2, 2022.

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

	Cash and cash equivalents (in Millions)	
	As of July 2, 2022	As of January 1, 2022
United States	112.8	51.9
China	$ 76.2	$ 139.9
All other markets	41.4	48.0
Total Cash and cash equivalents	$ 230.4	$ 239.8

Cash Flows Provided by Operations

As discussed above, our principal source of liquidity comes from our net cash flow from operations, which results from a strong operating margin. Net cash flow provided by operating activities was $34.3 million for the first six months of 2022. Net earnings combined with adjustments of non-cash items contributed positively to our net cash flow provided by operating activities, partially offset by cash used to pay the 2021 annual employee bonus, and a reduction in trade payables.

Net cash flow provided by operating activities was $58.8 million for the first six months of 2021. Net earnings combined with adjustments of non-cash items contributed positively to our net cash flows provided by operating activities, partially offset by cash used to pay the 2020 annual employee bonus, reduce accruals related to inventories received at year-end, renew our annual insurance policies, and renew contracts for certain IT-related services.

Line of Credit

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

Share Repurchase

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

Off-Balance Sheet Arrangements

None.

Summary

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

Critical Accounting Policies

There were no changes during the quarter to our critical accounting policies as disclosed in our 2021 Form 10-K. Our significant accounting policies are disclosed in Note A to our Consolidated Financial Statements filed with our 2021 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have no material changes to the disclosures on this matter made in our 2021 Form 10-K. For a discussion of our exposure to market risk, refer to our market risk disclosures set forth in the section entitled “Quantitative and Qualitative Disclosures About Market Risk” in the 2021 Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer) evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a- 15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 2, 2022.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended July 2, 2022, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

Item 1A. RISK FACTORS

Our business, results of operations, and financial condition are subject to various risks. These risks are described elsewhere in this Quarterly Report on Form 10-Q and our other filings with the SEC, including the 2021 Form 10-K. The risk factors identified in our 2021 Form 10-K have not changed in any material respect.

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

None.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. Exhibits

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

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

SIGNATURES

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

Date: August 9, 2022

USANA HEALTH SCIENCES, INC.

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

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Kevin G. Guest, certify that:

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

Date: August 9, 2022

/s/ Kevin G. Guest

Kevin G. Guest
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, G. Douglas Hekking, certify that:

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

Date: August 9, 2022

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

EXHIBIT 32.1

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

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended July 2, 2022 as filed August 9, 2022 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: August 9, 2022

/s/ Kevin G. Guest
Kevin G. Guest
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended July 2, 2022 as filed August 9, 2022 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: August 9, 2022

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