

USANA HEALTH SCIENCES INC

Form 10-Q

August 05, 2014

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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 June 28, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 001-35024

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation or organization)

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

3838 West Parkway Blvd., Salt Lake City, Utah 84120

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of August 1, 2014 was 12,984,073.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 28, 2014

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Table of Contents**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 December 28, 2013 | As of June 28, 2014 |
|---|-------------------------------|---------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 137,343 | \$ 118,267 |
| Securities held-to-maturity, net | 8,642 | 3,374 |
| Inventories | 47,242 | 44,528 |
| Prepaid expenses and other current assets | 35,818 | 35,756 |
| Total current assets | 229,045 | 201,925 |
| Property and equipment, net | 59,180 | 65,859 |
| Goodwill | 18,243 | 17,919 |
| Intangible assets, net | 42,329 | 41,015 |
| Deferred tax assets | 5,519 | 5,515 |
| Other assets | 14,154 | 22,688 |
| | \$ 368,470 | \$ 354,921 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 9,502 | \$ 6,408 |
| Other current liabilities | 86,369 | 82,297 |
| Total current liabilities | 95,871 | 88,705 |
| Deferred tax liabilities | 10,866 | 10,672 |
| Other long-term liabilities | 1,211 | 1,290 |
| Stockholders' equity | | |
| Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 13,886 as of December 28, 2013 and 13,404 as of June 28, 2014 | 14 | 13 |

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| | | |
|--|------------|------------|
| Additional paid-in capital | 54,691 | 51,925 |
| Retained earnings | 200,023 | 196,992 |
| Accumulated other comprehensive income | 5,794 | 5,324 |
| Total stockholders' equity | 260,522 | 254,254 |
| | \$ 368,470 | \$ 354,921 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

| | Quarter Ended | | Six Months Ended | |
|--|------------------|------------------|------------------|------------------|
| | June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 |
| Net sales | \$ 189,136 | \$ 188,256 | \$ 358,218 | \$ 370,657 |
| Cost of sales | 31,905 | 34,865 | 62,166 | 68,693 |
| Gross profit | 157,231 | 153,391 | 296,052 | 301,964 |
| Operating expenses: | | | | |
| Associate incentives | 77,801 | 81,098 | 147,656 | 159,972 |
| Selling, general and administrative | 42,978 | 43,206 | 85,382 | 87,783 |
| Total operating expenses | 120,779 | 124,304 | 233,038 | 247,755 |
| Earnings from operations | 36,452 | 29,087 | 63,014 | 54,209 |
| Other income (expense): | | | | |
| Interest income | 81 | 215 | 159 | 427 |
| Interest expense | | | | (6) |
| Other, net | (164) | 82 | (268) | 1 |
| Other income (expense), net | (83) | 297 | (109) | 422 |
| Earnings before income taxes | 36,369 | 29,384 | 62,905 | 54,631 |
| Income taxes | 12,159 | 10,083 | 20,916 | 18,793 |
| Net earnings | \$ 24,210 | \$ 19,301 | \$ 41,989 | \$ 35,838 |
| Earnings per common share | | | | |
| Basic | \$ 1.79 | \$ 1.40 | \$ 3.09 | \$ 2.59 |
| Diluted | \$ 1.72 | \$ 1.36 | \$ 2.99 | \$ 2.50 |
| Weighted average common shares outstanding | | | | |
| Basic | 13,513 | 13,768 | 13,578 | 13,843 |
| Diluted | 14,099 | 14,235 | 14,034 | 14,315 |
| Comprehensive income: | | | | |
| Net earnings | \$ 24,210 | \$ 19,301 | \$ 41,989 | \$ 35,838 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment | (2,472) | 802 | (2,441) | (860) |
| Tax benefit (expense) related to foreign currency translation adjustment | 798 | (262) | 732 | 390 |
| Other comprehensive income (loss), net of tax | (1,674) | 540 | (1,709) | (470) |
| Comprehensive income | \$ 22,536 | \$ 19,841 | \$ 40,280 | \$ 35,368 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Six Months Ended June 28, 2014

(in thousands)

(unaudited)

| | Shares | Common Stock Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|--------|-----------------------|----------------------------------|----------------------|--|------------|
| Balance at December 28, 2013 | 13,886 | \$ 14 | \$ 54,691 | \$ 200,023 | \$ 5,794 | \$ 260,522 |
| Net earnings | | | | 35,838 | | 35,838 |
| Other comprehensive income (loss), net of tax | | | | | (470) | (470) |
| Equity-based compensation expense | | | 4,071 | | | 4,071 |
| Common stock repurchased and retired | (682) | (1) | (10,224) | (38,869) | | (49,094) |
| Common stock issued under equity award plans, including tax benefit of \$3,387 | 200 | | 3,387 | | | 3,387 |
| Balance at June 28, 2014 | 13,404 | \$ 13 | \$ 51,925 | \$ 196,992 | \$ 5,324 | \$ 254,254 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Six Months Ended | |
|--|------------------|------------------|
| | June 29, 2013 | June 28, 2014 |
| Cash flows from operating activities | | |
| Net earnings | \$ 41,989 | \$ 35,838 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 4,631 | 4,408 |
| (Gain) loss on sale of property and equipment | (6) | 16 |
| Equity-based compensation expense | 4,427 | 4,071 |
| Excess tax benefits from equity-based payment arrangements | (1,734) | (3,387) |
| Deferred income taxes | 843 | (605) |
| Changes in operating assets and liabilities: | | |
| Inventories | (6,123) | 3,034 |
| Prepaid expenses and other assets | (3,295) | (5,144) |
| Accounts payable | 155 | (3,085) |
| Other liabilities | 6,409 | (3,896) |
| Net cash provided by (used in) operating activities | 47,296 | 31,250 |
| Cash flows from investing activities | | |
| Additions to notes receivable | (2,232) | (2,520) |
| Purchases of investment securities held-to-maturity | | (3,871) |
| Maturities of investment securities | | 9,137 |
| Proceeds from sale of property and equipment | 15 | 8 |
| Purchases of property and equipment | (2,961) | (10,103) |
| Net cash provided by (used in) investing activities | (5,178) | (7,349) |
| Cash flows from financing activities | | |
| Proceeds from equity awards exercised | 454 | |
| Excess tax benefits from equity-based payment arrangements | 1,734 | 3,387 |
| Repurchase of common stock | (18,085) | (46,109) |
| Net cash provided by (used in) financing activities | (15,897) | (42,722) |
| Effect of exchange rate changes on cash and cash equivalents | (1,004) | (255) |
| Net increase (decrease) in cash and cash equivalents | 25,217 | (19,076) |
| Cash and cash equivalents, beginning of period | 70,839 | 137,343 |

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| | | | | |
|---|----|--------|----|---------|
| Cash and cash equivalents, end of period | \$ | 96,056 | \$ | 118,267 |
| Supplemental disclosures of cash flow information | | | | |
| Cash paid during the period for: | | | | |
| Interest | \$ | | \$ | 6 |
| Income taxes | | 21,040 | | 9,963 |
| Non-cash financing activities: | | | | |
| Unsettled trades for repurchase of common stock | | | | (2,985) |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

USANA Health Sciences, Inc. develops and manufactures high-quality nutritional and personal care products that are sold internationally through a global network marketing system, which is a form of direct selling. The Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries (collectively, the Company or USANA) in two geographic regions: Americas and Europe and Asia Pacific, which is further divided into three sub-regions; Southeast Asia Pacific, Greater China, and North Asia. Americas and Europe includes the United States, Canada, Mexico, Colombia, the United Kingdom, France, Belgium, and the Netherlands. Southeast Asia Pacific includes Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand; Greater China includes Hong Kong, Taiwan and China; and North Asia includes Japan and South Korea. All significant intercompany accounts and transactions have been eliminated in this consolidation.

The condensed consolidated balance sheet as of December 28, 2013, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been 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 that are necessary to state fairly the Company's financial position as of June 28, 2014 and results of operations for the quarters and six months ended June 29, 2013 and June 28, 2014. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended December 28, 2013. The results of operations for the quarter and six months ended June 28, 2014, may not be indicative of the results that may be expected for the fiscal year 2014 ending January 3, 2015.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled to in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE B FAIR VALUE MEASURES

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

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

As of December 28, 2013 and June 28, 2014, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

| | December 28, 2013 | Fair Value Measurements Using: | | |
|---|-------------------|--------------------------------|----------------|----------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Money market funds included in cash equivalents | \$ 9,249 | \$ 9,249 | \$ | \$ |
| Term deposits included in cash equivalents | 348 | | 348 | |

| | June 28, 2014 | Fair Value Measurements Using: | | |
|---|---------------|--------------------------------|----------------|----------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Money market funds included in cash equivalents | \$ 14,412 | \$ 14,412 | \$ | \$ |

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the periods indicated.

The majority of the Company's non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 28, 2013 and June 28, 2014, there were no non-financial assets measured at fair value on a non-recurring basis.

At December 28, 2013 and June 28, 2014, the Company's financial instruments include cash equivalents, restricted cash, securities held-to-maturity (HTM), and notes receivable. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates. HTM securities consist of certificates of deposits. The fair value of a certificate of deposit is determined based on the pervasive interest rates in the market, which is considered to be a Level 2 input. The carrying values of these certificates of deposit approximate their fair values due to their short-term maturities.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE C INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of HTM securities by major security type and class of security were as follows:

| | Amortized Cost | As of December 28, 2013 | | Estimated Fair Value |
|-------------------------|----------------|----------------------------|-----------------------------|----------------------|
| | | Unrecognized Holding Gains | Unrecognized Holding Losses | |
| Certificates of Deposit | \$ 8,642 | \$ | \$ | \$ 8,642 |
| Total HTM Securities | \$ 8,642 | \$ | \$ | \$ 8,642 |

| | Amortized Cost | As of June 28, 2014 | | Estimated Fair Value |
|-------------------------|----------------|----------------------------|-----------------------------|----------------------|
| | | Unrecognized Holding Gains | Unrecognized Holding Losses | |
| Certificates of Deposit | \$ 3,374 | \$ | \$ | \$ 3,374 |
| Total HTM Securities | \$ 3,374 | \$ | \$ | \$ 3,374 |

NOTE D INVENTORIES

Inventories consist of the following:

| | December 28, 2013 | June 28, 2014 |
|------------------|----------------------|------------------|
| Raw materials | \$ 13,824 | \$ 12,301 |
| Work in progress | 8,147 | 8,361 |
| Finished goods | 25,271 | 23,866 |
| | \$ 47,242 | \$ 44,528 |

NOTE E OTHER ASSETS

The Company has extended non-revolving credit to its supplier of nutrition bars to allow this supplier to acquire the necessary equipment to manufacture the USANA nutrition bars. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as of December 28, 2013, and June 28, 2014, were \$4,942 and \$7,447, respectively.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the latter half of 2015. As part of this project, land use rights totaling \$1,483, and \$7,364 as of December 28, 2013 and June 28, 2014, respectively, have been purchased and will be amortized over 50 years. Land-use rights are classified within the Other assets line item in the Company's consolidated balance sheets.

Table of Contents**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data)****(unaudited)****NOTE F 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 our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. While complete assurance cannot be given 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 our financial condition, liquidity or results of operations.

NOTE G EQUITY BASED COMPENSATION

The Company utilizes a share-based compensation plan, which is more fully described in Note K to the Consolidated Financial Statements in Form 10-K for the year ended December 28, 2013.

Equity-based compensation expense for the quarters ended June 29, 2013, and June 28, 2014, was \$2,058 and \$2,235, respectively. The related tax benefit for these periods was \$697 and \$743, respectively. Expense for the six months ended June 29, 2013, and June 28, 2014, was \$4,427 and \$4,071, respectively. The related tax benefit for these periods was \$1,509 and \$1,359, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of June 28, 2014. This table does not include an estimate for future grants that may be issued.

| | | |
|-------|----|--------|
| 2014 | \$ | 4,643 |
| 2015 | | 7,382 |
| 2016 | | 5,504 |
| 2017 | | 3,399 |
| 2018+ | | 541 |
| | \$ | 21,469 |

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value of stock-settled stock appreciation rights that were granted during the six months ended June 29, 2013, and June 28, 2014, was \$13.86 and \$17.73, respectively. Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE G EQUITY BASED COMPENSATION CONTINUED

| | Six Months Ended | |
|-------------------------------------|------------------|------------------|
| | June 29, 2013 | June 28, 2014 |
| Expected volatility (1) | 43.1% | 39.9% |
| Risk-free interest rate (2) | 0.6% | 1.2% |
| Expected life (3) | 3.97 yrs | 3.54 yrs |
| Expected dividend yield (4) | 0.0% | 0.0% |
| Weighted-average exercise price (5) | \$ 40.84 | \$ 57.62 |

- (1) The Company utilizes historical volatility of the trading price of its common stock.
- (2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.
- (3) Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.
- (4) The Company historically has not paid dividends.
- (5) Exercise price is the closing price of the Company's common stock on the date of grant.

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

| | Shares | Weighted- average exercise price | Weighted-average remaining contractual term | Aggregate intrinsic value* |
|----------------------------------|--------|--|---|----------------------------------|
| Outstanding at December 28, 2013 | 1,827 | \$ 37.37 | 2.6 | \$ 74,160 |
| Granted | 686 | 57.62 | | |
| Exercised | (362) | 32.26 | | |
| Forfeited | (20) | 27.33 | | |
| Expired | | | | |
| Outstanding at June 28, 2014 | 2,131 | \$ 44.85 | 2.8 | \$ 70,555 |
| Exercisable at June 28, 2014 | 412 | \$ 38.40 | 1.6 | \$ 16,207 |

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the

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Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised during the six months ended June 29, 2013, and June 28, 2014, was \$10,429 and \$14,404, respectively.

The total fair value of equity awards that vested during the six months ended June 29, 2013, and June 28, 2014, was \$1,553 and \$3,506, respectively. This total fair value includes equity-based awards issued in the form of stock options and stock-settled stock appreciation rights.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE H COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share are 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 earnings per share based on the time they were outstanding in any period. Diluted earnings per common share are based on shares that are outstanding (computed under basic EPS) and on potentially dilutive shares. Shares that are included in the diluted earnings per share 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 earnings per share and diluted earnings per share for the periods indicated:

| | Quarter Ended | | Six Months Ended | |
|--|------------------|------------------|------------------|------------------|
| | June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 |
| Net earnings available to common shareholders | \$ 24,210 | \$ 19,301 | \$ 41,989 | \$ 35,838 |
| Basic EPS | | | | |
| Shares | | | | |
| Common shares outstanding entire period | 13,821 | 13,886 | 13,821 | 13,886 |
| Weighted average common shares: | | | | |
| Issued during period | 106 | 131 | 58 | 81 |
| Canceled during period | (414) | (249) | (301) | (124) |
| Weighted average common shares outstanding during period | 13,513 | 13,768 | 13,578 | 13,843 |
| Earnings per common share from net earnings - basic | \$ 1.79 | \$ 1.40 | \$ 3.09 | \$ 2.59 |
| Diluted EPS | | | | |
| Shares | | | | |
| | 13,513 | 13,768 | 13,578 | 13,843 |

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Weighted average common shares
outstanding during period - basic

Dilutive effect of in-the-money equity
awards

Weighted average common shares
outstanding during period - diluted

Earnings per common share from net
earnings - diluted

| | | | |
|---------|---------|---------|---------|
| 586 | 467 | 456 | 472 |
| 14,099 | 14,235 | 14,034 | 14,315 |
| \$ 1.72 | \$ 1.36 | \$ 2.99 | \$ 2.50 |

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 | |
|------------------|------------------|------------------|------------------|
| June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 |
| 234 | 383 | 560 | 328 |

Table of Contents**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data)****(unaudited)****NOTE H COMMON STOCK AND EARNINGS PER SHARE- CONTINUED**

During the six months ended June 29, 2013 and the quarter and six months ended June 28, 2014, the Company repurchased and retired 414 shares and 682 shares, for \$18,085 and \$49,094 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.

Subsequent to the period ended June 28, 2014 and through August 1, 2014, the Company repurchased and retired 430 shares under the Company's share repurchase plan for a total of \$30,932. As of August 1, 2014, the remaining approved repurchase amount under the plan was \$119,953.

NOTE I 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 global network marketing system of independent distributors (Associates). As such, management 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 nutritional and personal care products for the periods indicated.

| | Quarter Ended | | Six Months Ended | |
|--------------------------|------------------|------------------|------------------|------------------|
| | June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 |
| USANA® Nutritionals | 81% | 78% | 80% | 79% |
| USANA Foods | 12% | 14% | 12% | 13% |
| Sensé beautiful science® | 6% | 7% | 6% | 7% |

Selected financial information for the Company is presented for two geographic regions: Americas and Europe and Asia Pacific, with three sub-regions under Asia Pacific. Individual markets are categorized into these regions as follows:

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- Americas and Europe United States, Canada, Mexico, Colombia (1), the United Kingdom, France, Belgium, and the Netherlands.
- Asia Pacific
- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
- Greater China Hong Kong, Taiwan and China(2)
- North Asia Japan and South Korea

(1) The Company commenced operations in Colombia in the third quarter of 2013.

(2) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE I SEGMENT INFORMATION - CONTINUED

Selected Financial Information

Financial information by geographic region is presented for the periods indicated below:

| | Quarter Ended | | Six Months Ended | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 |
| Net Sales to External Customers | | | | |
| Americas and Europe | \$ 66,769 | \$ 63,661 | \$ 130,921 | \$ 127,476 |
| Asia Pacific | | | | |
| Southeast Asia Pacific | 37,475 | 42,689 | 72,784 | 83,137 |
| Greater China | 77,388 | 74,091 | 140,373 | 144,938 |
| North Asia | 7,504 | 7,815 | 14,140 | 15,106 |
| Asia Pacific Total | 122,367 | 124,595 | 227,297 | 243,181 |
| Consolidated Total | \$ 189,136 | \$ 188,256 | \$ 358,218 | \$ 370,657 |

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 | |
|---------------|------------------|------------------|------------------|------------------|
| | June 29, 2013 | June 28, 2014 | June 29, 2013 | June 28, 2014 |
| Net sales: | | | | |
| China | \$ 23,559 | \$ 51,223 | \$ 36,984 | \$ 89,983 |
| United States | 40,087 | 35,570 | 80,325 | 73,183 |
| Hong Kong | 45,938 | N/A | 87,535 | 38,926 |

As of
December 28, June 28,

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| | 2013 | 2014 |
|--------------------|-----------|-----------|
| Long-lived Assets: | | |
| China | \$ 61,716 | \$ 73,026 |
| United States | 51,260 | 53,004 |

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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 is presented in six sections:

- Overview
- Customers
- Current Focus and Recent Developments
- Results of Operations
- Liquidity and Capital Resources
- Forward-Looking Statements and Certain Risks

This discussion and analysis 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 Management's Discussion and Analysis of Financial Condition and Results of Operations that are included in our Annual Report on Form 10-K for the year ended December 28, 2013, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission (SEC) through the date of this report.

Overview

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. Our customer base comprises two types of customers: Associates and Preferred Customers. Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of June 28, 2014, we had approximately 283,000 active Associates and approximately 79,000 active Preferred Customers worldwide. For purposes of this report, 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, either for personal use or for resale.

We have ongoing operations in the following markets, which are grouped and presented as follows:

- Americas and Europe United States, Canada, Mexico, Colombia(1), the United Kingdom, France, Belgium, and the Netherlands

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- Asia Pacific
- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
- Greater China Hong Kong, Taiwan, and China (2)
- North Asia Japan and South Korea

-
- (1) We commenced operations in Colombia in the third quarter of 2013.
 - (2) Our business in China is that of BabyCare, our wholly-owned subsidiary.

Our primary product lines consist of USANA® Nutritionals, USANA Foods, and Sensé beautiful science® (Sensé), which is our line of personal care products. The USANA Nutritionals product line is further categorized into two separate classifications: Essentials and Optimizers. The following tables summarize 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:

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| Product Line | Six Months Ended | |
|----------------------------|--------------------------|--------------------------|
| | June 29, 2013 | June 28, 2014 |
| USANA® Nutritionals | | |
| Essentials | 27% | 25% |
| Optimizers | 53% | 54% |
| USANA Foods | 12% | 13% |
| Sensé beautiful science® | 6% | 7% |
| All Other | 2% | 1% |
| Key Product | | |
| USANA® Essentials | 18% | 16% |
| Proflavanol® | 12% | 13% |

We believe that our ability to attract and retain Associates and Preferred Customers to sell and consume our products is positively influenced by a number of factors, some of which include: the general public's heightened awareness and understanding of the connection between diet and long-term health, and the growing desire for a secondary source of income and small business ownership.

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates. We strive to ensure that our products are formulated with the latest science in nutrition research and to keep our product lines relatively compact, which we believe simplifies the selling and buying process for our Associates and Preferred Customers. We also periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding 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.

To further support our Associates in building their businesses, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are 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. We also provide low cost sales tools, including online sales, business management, and training tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. Although we provide training and sales tools, we ultimately rely on our Associates to sell our products, attract new customers to purchase our products, and educate and train new Associates.

Because 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, net sales and gross profit are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Associate incentives and selling, general and administrative expenses, however, are affected negatively by a weakening of the U.S. dollar and positively by a strengthening of the U.S. dollar. During the six months ended June 28, 2014, net sales outside of the United States represented 80.3% 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.

Customers

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Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on our ability to attract new Associates and retain existing Associates to sell and consume our products. Notably, sales to Associates account for the majority of our product sales, representing approximately 90% of product sales during the six months ended June 28, 2014. Additionally, it is important to attract and retain Preferred Customers as consumers of our products. Increases or decreases in product sales are typically the result of variations in product sales volumes relating to fluctuations in the number of active Associates and Preferred Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

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The tables below summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated.

| Active Associates By Region | | | | | |
|-----------------------------|------------------------|--------|------------------------|--------|---------------------------|
| | As of June 29, 2013 | | As of June 28, 2014 | | Change from Prior Year |
| Americas and Europe | 82,000 | 32.3% | 82,000 | 29.0% | |
| Asia Pacific: | | | | | |
| Southeast Asia Pacific | 60,000 | 23.6% | 67,000 | 23.7% | 7,000 |
| Greater China | 103,000 | 40.6% | 125,000 | 44.1% | 22,000 |
| North Asia | 9,000 | 3.5% | 9,000 | 3.2% | |
| Asia Pacific Total | 172,000 | 67.7% | 201,000 | 71.0% | 29,000 |
| | 254,000 | 100.0% | 283,000 | 100.0% | 29,000 |

| Preferred Customers By Region | | | | | |
|-------------------------------|------------------------|--------|------------------------|--------|---------------------------|
| | As of June 29, 2013 | | As of June 28, 2014 | | Change from Prior Year |
| Americas and Europe | 57,000 | 81.4% | 60,000 | 75.9% | 3,000 |
| Asia Pacific: | | | | | |
| Southeast Asia Pacific | 7,000 | 10.0% | 11,000 | 13.9% | 4,000 |
| Greater China | 4,000 | 5.7% | 3,000 | 3.8% | (1,000) |
| North Asia | 2,000 | 2.9% | 5,000 | 6.4% | 3,000 |
| Asia Pacific Total | 13,000 | 18.6% | 19,000 | 24.1% | 6,000 |
| | 70,000 | 100.0% | 79,000 | 100.0% | 9,000 |

Current Focus and Recent Developments

Our primary objective, both on a short- and long-term basis, is to strengthen and grow our active customer counts throughout the world. To this end, in August 2013 we announced and implemented several strategic changes to our business, which we refer to as the 2013 strategic changes throughout this report. These changes are aimed at simplifying our business model for our Associates and promoting customer loyalty, enjoyment and success with USANA. The 2013 Strategic Changes included: (i) simplification of our pricing structure, which included an overall 10% price reduction, while maintaining a price discount on products ordered through our monthly Auto Order program (collectively price discounts), (ii) a new reward based on the amount of a customer's initial product order to then be credited on their subsequent two Auto Orders, and (iii) increased payout under and simplification of our Compensation Plan.

We increased the payout under our Compensation Plan in several ways, including: (i) paying higher compensation to newer Associates, (ii) increasing compensation for Associates who grow their business through our Auto Order program, and (iii) simplifying the commission qualification requirements under the plan, resulting in a greater number of Associates earning compensation. Additionally, we simplified our rank advancement system to make it easier for Associates to advance in our business, and we added new recognition benefits for Associate leaders.

During the second quarter, we continued training our Associates on the benefits of the 2013 Strategic Changes and emphasized Associate recognition. We also continued to achieve progress on several business indicators that we monitor to measure the success of the 2013 Strategic Changes. These indicators include: active customer counts; world-wide unit volume; percent of sales processed through our Auto Order program; and the number of Associates earning a commission check. On a year-over-year basis, we achieved double-digit growth for most of these indicators.

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The positive impact to net sales, however, from improvements in these indicators will, in the short-term, be partially offset by the aforementioned price discounts. For instance, overall customers grew by nearly 12% during the second quarter of 2014, compared to the prior year quarter, while net sales were essentially flat. This difference can, in most part, be attributed to the price discounts and is manifest more greatly in markets with higher Auto Order penetration. Our annual pricing update, which takes effect during the first quarter of the year, softened the impact of the price discounts as we increased prices in several markets.

Results of Operations*Summary of Financial Results*

Although the number of active Associates and Preferred Customers increased 11.4% and 12.9%, respectively, in the second quarter of 2014 when compared with the second quarter of 2013, net sales were essentially flat at \$188.3 million. Net sales, on a comparative basis, were negatively impacted by: (i) \$7.0 million of incremental sales that occurred ahead of a worldwide policy change that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which did not recur in 2014; (ii) \$3.3 million from unfavorable changes in currency exchange rates, and (iii) the price discounts noted above.

Net earnings for the second quarter of 2014 decreased 20.3%, to \$19.3 million, compared with the second quarter of 2013. This decrease was primarily the result of higher relative Associate incentives expense and lower gross margins, which are discussed further below.

Quarters Ended June 29, 2013 and June 28, 2014*Net Sales*

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

| | Net Sales by Region (in thousands) | | Change from Prior Year | Percent Change | | |
|------------------------|---------------------------------------|--------------------------------|---------------------------|-------------------|------------|--------|
| | June 29, 2013 | Quarter Ended June 28, 2014 | | | | |
| Americas and Europe | \$ 66,769 | 35.3% | \$ 63,661 | 33.8% | \$ (3,108) | (4.7)% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 37,475 | 19.8% | 42,689 | 22.7% | 5,214 | 13.9% |
| Greater China | 77,388 | 40.9% | 74,091 | 39.4% | (3,297) | (4.3)% |
| North Asia | 7,504 | 4.0% | 7,815 | 4.1% | 311 | 4.1% |
| Asia Pacific Total | 122,367 | 64.7% | 124,595 | 66.2% | 2,228 | 1.8% |

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| | | | | | | | | |
|----|---------|--------|----|---------|--------|----|-------|--------|
| \$ | 189,136 | 100.0% | \$ | 188,256 | 100.0% | \$ | (880) | (0.5)% |
|----|---------|--------|----|---------|--------|----|-------|--------|

Americas and Europe: The decline in net sales in this region was due to a decrease in net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$1.4 million. Net sales in the United States decreased \$4.5 million, or 11.3%, due to pressure from price discounts, combined with a decrease in the number of active Associates and Preferred Customers of 7.0% and 2.7%, respectively. The decreases in the United States, however, were partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 4.8% in Canada and 12.2% in Mexico due to continued growth in the number of active Associates and Preferred Customers in these markets. Our newest market, Colombia, also contributed \$0.9 million to net sales during the quarter.

Asia Pacific: The increase in net sales in this region was driven primarily by growth in Southeast Asia Pacific, partially offset by a decrease in sales in Greater China.

The increase in Southeast Asia Pacific was driven by growth in every market within this region, despite a \$1.7 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines and Singapore, where net sales

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increased 20.2% and 24.2%, respectively. On a local currency basis, sales in these two markets increased 27.1% and 24.4%, respectively. The number of active Associates in the Philippines and Singapore increased 11.1% and 40.0%, respectively. Sales in Singapore benefited from another year-over-year increase in sales of our MyHealthPak product to our Associates in other Asia Pacific markets, as sales of this item started gaining traction late in the second quarter of 2013.

The decline in net sales in Greater China was the result of a 66.5% decrease in net sales in Hong Kong, which was partially offset by triple-digit sales growth in mainland China. Notably, the decrease in Hong Kong includes an estimated \$7.0 million in incremental sales generated ahead of a worldwide policy that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which makes for a difficult year-over-year comparable.

Gross Profit

Gross profit decreased to 81.5% of net sales for the second quarter of 2014, from 83.1% for the second quarter of 2013. This decline can be attributed to price discounts, unfavorable currency fluctuations, production inefficiencies, and an increase in relative freight costs. This decrease was partially offset by favorable changes in product and market mix and from our annual pricing update.

Associate Incentives

Associate incentives increased to 43.1% of net sales for the second quarter of 2014, from 41.1% for the second quarter of 2013. This increase was the result of the 2013 Strategic Changes, and was partially offset by changes from our annual pricing update.

Selling, General and Administrative Expenses

In absolute terms, our selling, general and administrative expense was essentially flat when compared with the second quarter of 2013. Selling, general and administrative expense as a percentage of net sales increased 23 basis points in the second quarter of 2014 compared with the second quarter of 2013, which can primarily be attributed to the impact from the price discounts introduced in 2013.

Income Taxes

Our effective income tax rate during the second quarter of 2014 was 34.3%, compared with 33.4% in the second quarter of 2013. This increase was due to a reduction in our United States manufacturing deduction benefit as a result of increased sales in China where products are manufactured in-market, and a reduction in tax benefits from lower tax rate jurisdictions, where sales have decreased.

Diluted Earnings Per Share

Diluted earnings per share decreased 20.9% in the second quarter of 2014 when compared with the prior year quarter. This decrease was the result of reduced net earnings as discussed above.

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

| | Net Sales by Region (in thousands) Six Months Ended | | June 28, 2014 | Change from Prior Year | Percent Change |
|------------------------|---|--------|---------------|---------------------------|-------------------|
| | June 29, 2013 | | | | |
| Americas and Europe | \$ 130,921 | 36.5% | \$ 127,476 | 34.4% | \$ (3,445) (2.6)% |
| Asia Pacific: | | | | | |
| Southeast Asia Pacific | 72,784 | 20.3% | 83,137 | 22.4% | 10,353 14.2% |
| Greater China | 140,373 | 39.2% | 144,938 | 39.1% | 4,565 3.3% |
| North Asia | 14,140 | 4.0% | 15,106 | 4.1% | 966 6.8% |
| Asia Pacific Total | 227,297 | 63.5% | 243,181 | 65.6% | 15,884 7.0% |
| | \$ 358,218 | 100.0% | \$ 370,657 | 100.0% | \$ 12,439 3.5% |

Americas and Europe: The decrease in net sales in this region was due to a decrease in net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$3.3 million. Net sales in the United States decreased \$7.1 million, or 8.9%, due to pressure from price discounts, combined with a decrease in the average number of active Associates and Preferred Customers. The decreases in the United States, however, were partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 9.7% in Canada and 13.4% in Mexico due to continued growth in the number of active Associates and Preferred Customers in these markets. Our newest market, Colombia, also contributed \$1.5 million to net sales for the six month period.

Asia Pacific: The increase in net sales in this region was driven mostly by growth in Southeast Asia Pacific and Greater China, which was primarily the result of an increase in the average number of active Associates.

The increase in Southeast Asia Pacific was driven by growth in every market within this region despite a \$5.3 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines and Singapore, where net sales increased 18.5% and 43.0%, respectively. On a local currency basis, sales in these two markets increased 27.9% and 44.9%, respectively. Sales in Singapore benefited from a year-over-year increase in sales of our MyHealthPak product to our Associates in other Asia Pacific markets, as sales of this item started gaining traction late in the second quarter of 2013.

Sales in Australia and New Zealand during the first six months of 2014 increased 3.0% even with a \$2.0 million reduction from changes in currency exchange rates. On a local currency basis, net sales in this market increased 10.5%.

The increase in net sales in Greater China included a 143.3% increase in net sales in mainland China, offset in great part by a 55.5% decrease in Hong Kong. Notably, the decrease in Hong Kong includes an estimated \$7.0 million in incremental sales generated ahead of a worldwide policy that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which makes for a difficult year-over-year comparable. We have also experienced a change in the trend of our unearned revenue as a result of these policy changes and anticipate being able to begin recognizing breakage in the near future.

Gross Profit

Gross profit declined to 81.5% of net sales for the first six months of 2014, compared with 82.6% in the prior year period. This decline can be attributed to price discounts and unfavorable currency fluctuations. This decrease was partially offset by favorable changes in product and market mix.

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Associate Incentives

Associate incentives increased to 43.2% of net sales for the first six months of 2014, from 41.2% in the prior year period. This increase was the result of the 2013 Strategic Changes, and was partially offset by changes from our annual pricing update.

Selling, General and Administrative Expenses

In absolute terms, our selling, general and administrative expense increased \$2.4 million during the first six months of 2014 when compared with the same period of the prior year. This increase is the result of costs associated with supporting a higher sales base, spending on new markets, and spending to support our personalization initiative. Relative to net sales, selling, general and administrative expense remained relatively flat in the first six months of 2014 compared with the same period of the prior year, due to leverage gained on a higher sales base.

Income Taxes

Our effective income tax rate during the first six months of 2014 was 34.4%, compared with 33.3% in same period of 2013. This increase was primarily the result of a reduction in our United States manufacturing deduction benefit due to increased sales in China where products are manufactured in-market, and a reduction in tax benefits from lower tax rate jurisdictions, where sales decreased.

Diluted Earnings Per Share

Diluted earnings per share decreased 16.4% in the first six months of 2014 when compared with the prior year period. This decrease was the result of reduced net earnings as discussed above.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both 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 some of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. The hypothetical repatriation of \$10.2 million that relates to earnings considered indefinitely reinvested in certain of our markets at June 28, 2014, would result in a tax liability to the Company.

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We have historically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$31.3 million in the first six months of 2014, compared with \$47.3 million in the first six months of 2013. Items affecting year-over-year changes in cash flow from operating activities include the impact of our 2013 Strategic Changes on operating income, and the overall change in operating assets and liabilities. Included in the change in operating assets and liabilities were: (i) an increase in other assets, related mostly to the purchase of land use rights for our new facility in China, (ii) an overall decrease in other liabilities resulting primarily from changes in accrued compensation, accrued commissions, and deferred convention revenue, and (iii) a decrease in accounts payable in the current year quarter due to the timing of invoices and payments. These items were partially offset by lower spending on inventory in the current year compared with the prior year.

Net cash flow from operating activities in the first six months of 2014 was offset by share repurchases as discussed below. As a result, cash and cash equivalents decreased to \$118.3 million at June 28, 2014, from \$137.3 million at December 29, 2013. Of the \$118.3 million cash and cash equivalents held at June 28, 2014, \$47.5 million was held in the United States and \$70.8 million was held by international subsidiaries. Of the \$137.3 million held at December 28, 2013, \$65.8 million was held in the United States and \$71.5 million was held by international subsidiaries. Net working capital decreased to \$113.2 million at June 28, 2014, from \$133.2 million at December 28, 2013.

We have extended non-revolving credit to the supplier of our nutrition bars to allow this supplier to acquire the necessary equipment to manufacture our bars. Notes receivable from this supplier as of June 28, 2014, were \$7.4 million.

We are building a state-of-the-art manufacturing and production facility in China, which we anticipate will become operational during the latter half of 2015. We anticipate that this project will require a total investment of approximately \$40 million, of which

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approximately \$24 million will be incurred in 2014. During the first six months of 2014, we incurred \$11.8 million on this project of which \$5.9 million was for land use rights.

Line of credit

We have a long-standing relationship with Bank of America. We currently maintain a \$75.0 million credit facility pursuant to a credit agreement with Bank of America, which expires in April 2016. Bank guarantees are considered a reduction of the overall availability of credit. As of June 28, 2014, such normal course of business bank guarantees reduced our available borrowing limit by \$3.9 million. We did not otherwise draw on this line of credit at any time during the quarter and, as of June 28, 2014, there was no actual outstanding balance on our line of credit.

The agreement for this credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of June 28, 2014, we were in compliance with these covenants. Management is not aware of any issues currently impacting Bank of America's ability to honor their commitment to extend credit under this facility.

Share repurchase

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. The objective of this plan is to return value to our shareholders. Our Board of Directors has periodically approved additional dollar amounts for share repurchases under that plan. Share repurchases are made from time-to-time, in the open market, through block trades or otherwise, and are based on market conditions, the level of our cash balances, general business opportunities, and other factors. During the quarter ended June 28, 2014, our Board of Directors authorized an increase in the amount available for repurchase under this plan to a total of \$200 million. During the quarter and six months ended June 28, 2014, we repurchased and retired 681,719 shares of common stock for a total investment of \$49.1 million, at an average market price of \$72.02 per share. Additionally, subsequent to the quarter ended June 28, 2014, and through August 1, 2014, we repurchased and retired 429,774 shares of common stock for a total investment of \$30.9 million, at an average market price of \$71.97 per share pursuant to a preset trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 as amended. As of August 1, 2014, there was \$120.0 million remaining under the current share repurchase authorization and there is currently no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Summary

We believe that 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 on favorable terms. We might also require or seek additional financing for the purpose of expanding into new markets, growing our existing markets, 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.

Forward-Looking Statements and Certain Risks

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 of 1934. 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 our future operations and capital spending needs. Readers are

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cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in these forward-looking statements for the reasons that are detailed in our most recent Annual Report on Form 10-K. The fact that some of these risk factors may be the same or similar to those in our past SEC reports means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in the industry in which we operate and will likely be present in all periods reported. The fact that certain risks are common in 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 our actual results could differ from those that we have projected. 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;
- Our dependence upon a network marketing system to distribute our products and the activities of our independent Associates;
- The integration of BabyCare's operations and expansion of our business in China through BabyCare;
- Unanticipated effects of changes to our Compensation Plan;
- Our planned expansion into international markets, including delays in commencement of sales or product offerings in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- General economic conditions, both domestically and internationally;
- Potential political events, natural disasters, or other events that may negatively affect economic conditions;
- Potential effects of adverse publicity regarding the Company, nutritional supplements, or the network marketing industry;
- Reliance on key management personnel;
- Extensive government regulation of the Company's products, manufacturing, and network marketing system;

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- Potential inability to sustain or manage growth, including the failure to continue to develop new products;
- An increase in the amount of Associate incentives;
- Our reliance on the use of information technology;
- The effects of competition from new and established network and direct selling organizations in our key markets;
- 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 customs, duties, taxation, and transfer pricing regulations, including regulations governing distinctions between and Company responsibilities to employees and independent contractors;
- The fluctuation in the value of foreign currencies against the U.S. dollar;
- Our reliance on outside suppliers for raw materials and certain manufactured items;
- Shortages of raw materials that we use in certain of our products;
- Significant price increases of our key raw materials;
- Product liability claims and other risks that may arise with our manufacturing activity;
- Intellectual property risks;

- Liability claims that may arise with our Athlete Guarantee program;
- Continued compliance with debt covenants;
- Disruptions to shipping channels that are used to distribute our products to international warehouses;

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- The introduction of new laws or changes to existing laws, both domestically and internationally; or
- The outcome of regulatory and litigation matters.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to information presented from that presented for the year ended December 28, 2013.

Item 4. CONTROLS AND PROCEDURES

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 Chief Executive Officer and Chief 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 and Chief Financial 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 June 28, 2014.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 28, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(c) Repurchases

The following table presents information with respect to purchases of USANA common stock made by the Company during the three months ended June 28, 2014:

Issuer Purchases of Equity Securities

(amounts in thousands, except per share data)

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs * |
|--------------------------------------|---|---|---|---|
| Fiscal April | | | | |
| (Mar. 30, 2014 through May 3, 2014) | 44 | \$ 69.31 | 44 | \$ 196,948 |
| Fiscal May | | | | |
| (May 4, 2014 through May 31, 2014) | 378 | \$ 69.92 | 378 | \$ 170,542 |
| Fiscal June | | | | |
| (Jun. 1, 2014 through Jun. 28, 2014) | 260 | \$ 75.52 | 260 | \$ 150,905 |
| | 682 | \$ 72.02 | 682 | |

* The Company's share repurchase plan has been ongoing since the fourth quarter of 2000, with the Company's Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. The Company began the second quarter of 2014 with \$13,622 remaining under the plan. As announced in a publicly issued press release on April 29, 2014, the Board of Directors authorized an increase in the amount available for repurchase under the plan to a total of \$200,000. Subsequent to the quarter ended June 28, 2014, and through August 1, 2014, the Company repurchased 430 shares for a total of \$30,932, at an average market price of \$71.97 per share pursuant to a Rule 10b5-1 trading plan. As of August 1, 2014, the Company had \$119,953 available under the share repurchase plan. There currently is no expiration date on the approved repurchase amount.

Item 5. OTHER INFORMATION

On July 23, 2013, the Company disclosed that the Securities and Exchange Commission (SEC) was conducting a formal investigation, which appeared to involve possible issues regarding trading in the Company s stock during late 2012 by certain of the Company s directors, including the Chairman. On May 28, 2014, the Company received a letter from the SEC which indicated that the SEC had concluded its investigation as to the Company and, as of the date of the letter, did not intend to recommend any enforcement action against the Company.

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Item 6. EXHIBITS

| Exhibit Number | Description |
|----------------|---|
| 3.1 | Amended and Restated Articles of Incorporation (Incorporated by reference to Report on Form 8-K, filed April 25, 2006) |
| 3.2 | Bylaws (Incorporated by reference to Report on Form 8-K, filed April 25, 2006) |
| 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 | 2002 USANA Health Sciences, Inc. Stock Option Plan (Incorporated by reference to Registration Statement on Form S-8, filed July 18, 2002)* |
| 10.2 | Form of employee or director non-statutory stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)* |
| 10.3 | Form of employee incentive stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)* |
| 10.4 | Credit Agreement, dated June 16, 2004, by and between Bank of America, N.A. and USANA Health Sciences, Inc. (Incorporated by reference to Report on Form 10-Q for the period ended July 3, 2004) |
| 10.5 | Amendment dated May 17, 2006 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended September 30, 2006) |
| 10.6 | Amendment dated April 24, 2007 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended March 31, 2007) |
| 10.7 | USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)* |
| 10.8 | Form of Stock Option Agreement for award of non-statutory stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.9 | Form of Stock Option Agreement for award of non-statutory stock options to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.10 | Form of Incentive Stock Option Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.11 | Form of Stock-Settled Stock Appreciation Rights Award Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.12 | Form of Stock-Settled Stock Appreciation Rights Award Agreement for directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |
| 10.13 | Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)* |

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- 10.14 Form of Indemnification Agreement between the Company and its directors (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)*
- 10.15 Form of Indemnification Agreement between the Company and certain of its officers (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)*

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|---------|---|
| 10.16 | Share Purchase Agreement, dated as of August 16, 2010, among USANA Health Sciences, Inc., Petlane, Inc., Yaolan Ltd., and BabyCare Holdings Ltd. (Incorporated by Reference to Report on Form 8-K, filed August 16, 2010) |
| 10.17 | Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011) |
| 10.18 | Form of Executive Confidentiality, Non-Disclosure and Non-Solicitation Agreement (Incorporated by reference to Quarterly Report on Form 10-Q for the period ended October 1, 2011, filed November 9, 2011)* |
| 10.19 | Separation and Release of Claims Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)* |
| 10.20 | Amendment to Confidentiality, Non-Disclosure and Non-Solicitation Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)* |
| 10.21 | Amendment to Amended and Restated Credit Agreement, dated as of July 18, 2013 (Incorporated by reference to Report on Form 8-K, filed July 23, 2013) |
| 31.1 | Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 32.2 | Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Denotes a management contract or compensatory plan or arrangement.

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SIGNATURES

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

USANA HEALTH SCIENCES, INC.

Date: August 5, 2014

/s/ Paul A. Jones
Paul A. Jones
Chief Financial Officer
(Principal Financial and Accounting Officer)