

USANA HEALTH SCIENCES INC
Form 10-Q
August 05, 2010
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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 July 3, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 0-21116

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(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

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The number of shares outstanding of the registrant's common stock as of August 2, 2010 was 15,323,969.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 3, 2010

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands)

| | As of January 2, 2010 (1) | As of July 3, 2010 (unaudited) |
|--|---------------------------------|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 13,658 | \$ 28,427 |
| Inventories | 25,761 | 30,789 |
| Prepaid expenses and other current assets | 10,391 | 9,391 |
| Deferred income taxes | 2,116 | 2,519 |
| Total current assets | 51,926 | 71,126 |
| Property and equipment, net | 57,241 | 56,035 |
| Goodwill | 5,690 | 5,690 |
| Other assets | 8,581 | 10,821 |
| | \$ 123,438 | \$ 143,672 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 5,810 | \$ 7,121 |
| Other current liabilities | 34,668 | 36,523 |
| Total current liabilities | 40,478 | 43,644 |
| Line of credit | 7,000 | |
| Other long-term liabilities | 1,587 | 1,470 |
| Stockholders' equity | | |
| Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 15,309 as of January 2, 2010 and 15,319 as of July 3, 2010 | 15 | 15 |
| Additional paid-in capital | 16,425 | 20,662 |
| Retained earnings | 56,410 | 76,821 |
| Accumulated other comprehensive income | 1,523 | 1,060 |

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| | | | | |
|----------------------------|----|---------|----|---------|
| Total stockholders' equity | | 74,373 | | 98,558 |
| | \$ | 123,438 | \$ | 143,672 |

(1) Derived from audited financial statements.

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(U.S. dollars in thousands, except per share data)

(unaudited)

| | Quarter Ended | |
|--|-----------------|-----------------|
| | July 4, 2009 | July 3, 2010 |
| Net sales | \$ 112,093 | \$ 126,011 |
| Cost of sales | 23,753 | 22,735 |
| Gross profit | 88,340 | 103,276 |
| Operating expenses: | | |
| Associate incentives | 50,321 | 57,065 |
| Selling, general and administrative | 24,719 | 29,149 |
| Total operating expenses | 75,040 | 86,214 |
| Earnings from operations | 13,300 | 17,062 |
| Other income (expense): | | |
| Interest income | 12 | 16 |
| Interest expense | (146) | (5) |
| Other, net | 259 | (598) |
| Other income (expense), net | 125 | (587) |
| Earnings before income taxes | 13,425 | 16,475 |
| Income taxes | 4,634 | 5,705 |
| Net earnings | 8,791 | 10,770 |
| Earnings per common share | | |
| Basic | \$ 0.57 | \$ 0.70 |
| Diluted | \$ 0.57 | \$ 0.69 |
| Weighted-average common shares outstanding | | |
| Basic | 15,350 | 15,318 |
| Diluted | 15,385 | 15,697 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(U.S. dollars in thousands, except per share data)

(unaudited)

| | Six Months Ended | |
|--|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 |
| Net sales | \$ 209,392 | \$ 245,098 |
| Cost of sales | 43,599 | 45,755 |
| Gross profit | 165,793 | 199,343 |
| Operating expenses: | | |
| Associate incentives | 92,211 | 111,183 |
| Selling, general and administrative | 50,049 | 56,607 |
| Total operating expenses | 142,260 | 167,790 |
| Earnings from operations | 23,533 | 31,553 |
| Other income (expense): | | |
| Interest income | 30 | 34 |
| Interest expense | (435) | (26) |
| Other, net | 440 | (256) |
| Other income (expense), net | 35 | (248) |
| Earnings before income taxes | 23,568 | 31,305 |
| Income taxes | 8,131 | 10,894 |
| Net earnings | 15,437 | 20,411 |
| Earnings per common share | | |
| Basic | \$ 1.01 | \$ 1.33 |
| Diluted | \$ 1.00 | \$ 1.31 |
| Weighted-average common shares outstanding | | |
| Basic | 15,350 | 15,315 |
| Diluted | 15,384 | 15,609 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Six Months Ended July 4, 2009 and July 3, 2010

(in thousands)

(unaudited)

| | Common Stock Shares | Common Stock Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|------------------------|-----------------------|----------------------------------|----------------------|--|-----------|
| For the Six Months Ended July 4, 2009 | | | | | | |
| Balance at January 3, 2009 | 15,350 | 15 | 8,089 | 24,107 | (375) | 31,836 |
| Comprehensive income | | | | | | |
| Net earnings | | | | 15,437 | | 15,437 |
| Foreign currency translation adjustment, net of tax benefit of \$613 | | | | | 911 | 911 |
| Comprehensive income | | | | | | 16,348 |
| Equity-based compensation expense | | | 4,618 | | | 4,618 |
| Balance at July 4, 2009 | 15,350 | \$ 15 | \$ 12,707 | \$ 39,544 | \$ 536 | \$ 52,802 |
| For the Six Months Ended July 3, 2010 | | | | | | |
| Balance at January 2, 2010 | 15,309 | 15 | 16,425 | 56,410 | 1,523 | 74,373 |
| Comprehensive income | | | | | | |
| Net earnings | | | | 20,411 | | 20,411 |
| Foreign currency translation adjustment, net of tax benefit of \$317 | | | | | (463) | (463) |
| Comprehensive income | | | | | | 19,948 |
| Equity-based compensation expense | | | 4,140 | | | 4,140 |

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| | | | | | | | | | | | |
|---|--------|----|----|----|--------|----|--------|----|-------|----|--------|
| Common stock issued under equity award plans, including tax benefit of \$38 | 10 | | | 97 | | | | 97 | | | |
| Balance at July 3, 2010 | 15,319 | \$ | 15 | \$ | 20,662 | \$ | 76,821 | \$ | 1,060 | \$ | 98,558 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Six Months Ended | |
|--|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 |
| Cash flows from operating activities | | |
| Net earnings | \$ 15,437 | \$ 20,411 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation and amortization | 3,569 | 3,623 |
| Loss on sale of property and equipment | 20 | 7 |
| Equity-based compensation expense | 4,618 | 4,140 |
| Excess tax benefit from equity-based payment arrangements | | (61) |
| Deferred income taxes | (1,508) | (2,240) |
| Provision for inventory valuation | 334 | 601 |
| Changes in operating assets and liabilities: | | |
| Inventories | (600) | (5,781) |
| Prepaid expenses and other assets | 2,359 | 996 |
| Accounts payable | (2,200) | 1,312 |
| Other liabilities | (15,565) | 2,319 |
| Total adjustments | (8,973) | 4,916 |
| Net cash provided by operating activities | 6,464 | 25,327 |
| Cash flows from investing activities | | |
| Receipts on notes receivable | \$ 108 | \$ |
| Increase in notes receivable | (1) | |
| Proceeds from sale of property and equipment | 1 | 4 |
| Purchases of property and equipment | (1,893) | (3,666) |
| Net cash used in investing activities | (1,785) | (3,662) |
| Cash flows from financing activities | | |
| Proceeds from equity awards exercised | \$ | \$ 59 |
| Excess tax benefits from equity-based payment arrangements | | 61 |
| Borrowings on line of credit | 49,340 | |
| Payments on line of credit | (56,160) | (7,000) |
| Net cash used in financing activities | (6,820) | (6,880) |
| Effect of exchange rate changes on cash and cash equivalents | 30 | (16) |

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| | | |
|--|-----------|-----------|
| Net increase (decrease) in cash and cash equivalents | (2,111) | 14,769 |
| Cash and cash equivalents, beginning of period | 13,281 | 13,658 |
| Cash and cash equivalents, end of period | \$ 11,170 | \$ 28,427 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$ 411 | \$ 32 |
| Income taxes | 12,492 | 12,513 |

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Basis of Presentation

The condensed balance sheet as of January 2, 2010, derived from audited financial statements, and the unaudited interim consolidated financial information of USANA Health Sciences, Inc. and its subsidiaries (collectively, the Company or USANA) 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 present fairly the Company's financial position as of July 3, 2010 and results of operations for the quarters and six months ended July 4, 2009 and July 3, 2010. 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 January 2, 2010. The results of operations for the quarter and six months ended July 3, 2010, may not be indicative of the results that may be expected for the fiscal year 2010 ending January 1, 2011.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 addresses the accounting for sales arrangements that include multiple products or services by revising the criteria for when deliverables may be accounted for separately rather than as a combined unit. Specifically, this guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is necessary to separately account for each product or service. This hierarchy provides more options for establishing selling price than existing guidance. ASU 2009-13 is required to be applied prospectively to new or materially modified revenue arrangements in fiscal periods beginning on or after June 15, 2010. The Company adopted ASU 2009-13 during the second quarter ended July 3, 2010, and its application had no impact on the Company's consolidated financial statements.

NOTE A ORGANIZATION

USANA develops and manufactures high-quality nutritional and personal care products that are sold internationally through a network marketing system, which is a form of direct selling. The Company's products are sold throughout the United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, Australia, New Zealand, Singapore, Malaysia, the Philippines, Hong Kong, Taiwan, Japan, and South Korea.

NOTE B INVENTORIES

Inventories consist of the following:

| | January 2, 2010 | July 3, 2010 |
|------------------|----------------------------|-------------------------|
| Raw materials | \$ 6,785 | \$ 7,419 |
| Work in progress | 5,003 | 5,603 |
| Finished goods | 13,973 | 17,767 |
| | \$ 25,761 | \$ 30,789 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE C PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

| | January 2, 2010 | July 3, 2010 |
|---------------------------------|--------------------|-----------------|
| Prepaid insurance | \$ 1,165 | \$ 602 |
| Other prepaid expenses | 2,263 | 2,305 |
| Federal income taxes receivable | 505 | 462 |
| Miscellaneous receivables, net | 2,775 | 2,595 |
| Deferred commissions | 2,738 | 2,741 |
| Other current assets | 945 | 686 |
| | \$ 10,391 | \$ 9,391 |

NOTE D PROPERTY AND EQUIPMENT

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

| | Years | January 2, 2010 | July 3, 2010 |
|--|-------|--------------------|-----------------|
| Buildings | 40 | \$ 37,346 | \$ 37,013 |
| Laboratory and production equipment | 5-7 | 16,242 | 16,641 |
| Sound and video library | 5 | 600 | 600 |
| Computer equipment and software | 3-5 | 27,419 | 27,544 |
| Furniture and fixtures | 3-5 | 4,561 | 4,601 |
| Automobiles | 3-5 | 256 | 259 |
| Leasehold improvements | 3-5 | 4,478 | 4,447 |
| Land improvements | 15 | 2,025 | 2,014 |
| | | 92,927 | 93,119 |
| Less accumulated depreciation and amortization | | 43,714 | 46,489 |
| | | 49,213 | 46,630 |

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| | | | |
|----------------------------------|-----------|----|--------|
| | | | |
| Land | 7,352 | | 7,027 |
| Deposits and projects in process | 676 | | 2,378 |
| | \$ 57,241 | \$ | 56,035 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE E OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| | January 2, 2010 | July 3, 2010 |
|--------------------------------------|--------------------|-----------------|
| Associate incentives | \$ 8,008 | \$ 8,804 |
| Accrued employee compensation | 8,508 | 7,382 |
| Income taxes | 284 | 834 |
| Sales taxes | 3,683 | 3,208 |
| Associate promotions | 1,026 | 1,883 |
| Deferred revenue | 7,387 | 7,565 |
| Provision for returns and allowances | 1,115 | 1,092 |
| All other | 4,657 | 5,755 |
| | \$ 34,668 | \$ 36,523 |

NOTE F LONG TERM DEBT AND LINE OF CREDIT

The Company has a \$40,000 line of credit. At the year ended 2009, there was an outstanding balance of \$7,000 associated with the line of credit, with a weighted-average interest rate of 1.23%. The interest rate is computed at the bank's Prime Rate or LIBOR, adjusted by features specified in the Credit Agreement. The collateral for this line of credit is the pledge of the capital stock of certain subsidiaries of the Company, as set forth in a separate pledge agreement with the bank. The Credit Agreement contains restrictive covenants based on adjusted EBITDA and a debt coverage ratio.

At July 3, 2010, there was no outstanding debt on this line of credit. The Company will be required to pay any balance on this line of credit in full at the time of maturity in May 2011 unless the line of credit is replaced or terms are renegotiated.

NOTE G EQUITY-BASED COMPENSATION

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Equity-based compensation expense for the quarters ended July 4, 2009, and July 3, 2010, was \$2,104 and \$2,184, respectively. The related tax benefit for these periods was \$758 and \$787, respectively. Expense for the six months ended July 4, 2009, and July 3, 2010, was \$4,618 and \$4,140, respectively. The related tax benefit for these periods was \$1,647 and \$1,514, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of equity awards that were outstanding as of July 3, 2010. This table does not include an estimate for future grants that may be issued.

| | | |
|-------------------|----|--------|
| Remainder of 2010 | \$ | 4,968 |
| 2011 | | 8,572 |
| 2012 | | 7,357 |
| 2013 | | 4,696 |
| 2014 | | 2,143 |
| 2015 | | 596 |
| | \$ | 28,332 |

The cost above is expected to be recognized over a weighted-average period of 2.5 years.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE G EQUITY-BASED COMPENSATION CONTINUED

The following table includes weighted-average assumptions that the Company has used to calculate the fair value of equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date of grant and have been excluded from the table below:

| | Quarter Ended | | Six Months Ended | |
|------------------------------|-----------------|-----------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 | July 4, 2009 | July 3, 2010 |
| Expected volatility | 37.3% | 54.8% | 37.3% | 54.9% |
| Risk-free interest rate | 1.6% | 2.0% | 1.7% | 2.0% |
| Expected life | 4.0 yrs. | 4.2 yrs. | 4.0 yrs. | 4.2 yrs. |
| Expected dividend yield | | | | |
| Weighted-average grant price | \$ 24.99 | \$ 35.47 | \$ 26.04 | \$ 34.46 |

A summary of the Company's stock option and stock-settled stock appreciation right activity for the six months ended July 3, 2010 is as follows:

| | Shares | Weighted-average grant price | Weighted-average remaining contractual term | Aggregate intrinsic value* |
|--------------------------------|--------|------------------------------|---|----------------------------|
| Outstanding at January 2, 2010 | 4,267 | \$ 30.26 | 3.8 | \$ 17,173 |
| Granted | 652 | 34.46 | | |
| Exercised | (17) | 18.49 | | |
| Canceled or expired | (71) | 34.16 | | |
| Outstanding at July 3, 2010 | 4,831 | \$ 30.81 | 3.5 | \$ 33,641 |
| Exercisable at July 3, 2010 | 1,840 | \$ 32.86 | 3.1 | \$ 9,969 |

* 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 weighted-average fair value of stock-settled stock appreciation rights that were granted during the six-month periods ended July 4, 2009, and July 3, 2010 was \$8.16 and \$15.50, respectively.

Table of Contents**NOTES TO 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. 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.

| | For the Quarter Ended | |
|---|------------------------------|-------------------------|
| | July 4, 2009 | July 3, 2010 |
| Net earnings available to common shareholders | \$ 8,791 | \$ 10,770 |
| <u>Basic EPS</u> | | |
| Shares | | |
| Common shares outstanding - entire period | | |
| Weighted-average common shares: | 15,350 | 15,309 |
| Issued during period | | 9 |
| Canceled during period | | |
| Weighted-average common shares outstanding during period | 15,350 | 15,318 |
| Earnings per common share from net earnings - basic | \$ 0.57 | \$ 0.70 |
| <u>Diluted EPS</u> | | |
| Shares | | |
| Weighted-average shares outstanding during period - basic | 15,350 | 15,318 |
| Dilutive effect of equity awards | 35 | 379 |
| Weighted-average shares outstanding during period - diluted | 15,385 | 15,697 |
| Earnings per common share from net earnings - diluted | \$ 0.57 | \$ 0.69 |

Equity awards for 1,584 and 1,256 shares of stock were not included in the computation of diluted EPS for the quarters ended July 4, 2009, and July 3, 2010, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE H COMMON STOCK AND EARNINGS PER SHARE CONTINUED

| | For the Six Months Ended | |
|---|---------------------------------|-------------------------|
| | July 4, 2009 | July 3, 2010 |
| Net earnings available to common shareholders | \$ 15,437 | \$ 20,411 |
| <u>Basic EPS</u> | | |
| Shares | | |
| Common shares outstanding - entire period | | |
| Weighted-average common shares: | 15,350 | 15,309 |
| Issued during period | | 6 |
| Canceled during period | | |
| Weighted-average common shares outstanding during period | 15,350 | 15,315 |
| Earnings per common share from net earnings - basic | \$ 1.01 | \$ 1.33 |
| <u>Diluted EPS</u> | | |
| Shares | | |
| Weighted-average shares outstanding during period - basic | 15,350 | 15,315 |
| Dilutive effect of equity awards | 34 | 294 |
| Weighted-average shares outstanding during period - diluted | 15,384 | 15,609 |
| Earnings per common share from net earnings - diluted | \$ 1.00 | \$ 1.31 |

Equity awards for 2,935 and 1,833 shares of stock were not included in the computation of diluted EPS for the six-month periods ended July 4, 2009, and July 3, 2010, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

NOTE I COMPREHENSIVE INCOME

Total comprehensive income consisted of the following:

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| | Quarter Ended | | Six Months Ended | |
|--|-----------------|-----------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 | July 4, 2009 | July 3, 2010 |
| Net earnings | \$ 8,791 | \$ 10,770 | \$ 15,437 | \$ 20,411 |
| Foreign currency translation adjustment | 1,157 | (762) | 911 | (463) |
| Comprehensive income | \$ 9,948 | \$ 10,008 | \$ 16,348 | \$ 19,948 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE J SEGMENT INFORMATION

USANA operates in a single operating segment 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 has determined that the Company operates in one reportable business segment. Performance for a region or market is primarily evaluated based on sales. The Company does not use profitability reports on a regional or market basis for making business decisions. 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.

| Product Line | Quarter Ended | | Six Months Ended | |
|--------------------------|-----------------|-----------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 | July 4, 2009 | July 3, 2010 |
| USANA® Nutritionals | 77% | 76% | 76% | 76% |
| USANA Foods | 11% | 13% | 12% | 13% |
| Sensé beautiful science® | 9% | 8% | 9% | 8% |

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

- North America
- United States
- Canada
- Mexico
- Asia Pacific

- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, and the Philippines
- East Asia Hong Kong and Taiwan
- North Asia Japan and South Korea

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE J SEGMENT INFORMATION CONTINUED*Selected Financial Information*

Selected financial information, presented by geographic region, is listed below for the periods ended as of the dates indicated:

| | Quarter Ended | | Six Months Ended | |
|--|-----------------|-----------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 | July 4, 2009 | July 3, 2010 |
| Net Sales to External Customers | | | | |
| North America | | | | |
| United States | \$ 39,908 | \$ 37,992 | \$ 76,397 | \$ 75,598 |
| Canada | 16,454 | 18,373 | 31,390 | 35,933 |
| Mexico | 6,379 | 5,748 | 10,849 | 11,102 |
| North America Total | 62,741 | 62,113 | 118,636 | 122,633 |
| Asia Pacific | | | | |
| Southeast Asia Pacific | 24,518 | 23,968 | 44,456 | 48,501 |
| East Asia | 19,649 | 34,437 | 36,604 | 62,700 |
| North Asia | 5,185 | 5,493 | 9,696 | 11,264 |
| Asia Pacific Total | 49,352 | 63,898 | 90,756 | 122,465 |
| Consolidated Total | \$ 112,093 | \$ 126,011 | \$ 209,392 | \$ 245,098 |
| Total Assets | | | | |
| North America | | | | |
| United States | \$ 77,356 | \$ 90,951 | \$ 77,356 | \$ 90,951 |
| Canada | 2,112 | 2,992 | 2,112 | 2,992 |
| Mexico | 3,522 | 3,905 | 3,522 | 3,905 |
| North America Total | 82,990 | 97,848 | 82,990 | 97,848 |
| Asia Pacific | | | | |
| Southeast Asia Pacific | 24,308 | 24,119 | 24,308 | 24,119 |
| East Asia | 8,448 | 15,846 | 8,448 | 15,846 |
| North Asia | 4,208 | 5,859 | 4,208 | 5,859 |
| Asia Pacific Total | 36,964 | 45,824 | 36,964 | 45,824 |
| Consolidated Total | \$ 119,954 | \$ 143,672 | \$ 119,954 | \$ 143,672 |

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The following table provides further information on markets representing ten percent or more of consolidated net sales:

| | Quarter Ended | | Six Months Ended | |
|---------------|-----------------|-----------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 | July 4, 2009 | July 3, 2010 |
| Net Sales: | | | | |
| United States | \$ 39,908 | \$ 37,992 | \$ 76,397 | \$ 75,598 |
| Hong Kong | 14,392 | 28,858 | 26,293 | 50,867 |
| Canada | 16,454 | 18,373 | 31,390 | 35,933 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

NOTE J SEGMENT INFORMATION CONTINUED

Due to the centralized structure of the Company's manufacturing operations and its corporate headquarters in the United States, a significant concentration of assets exists in this market. As of July 4, 2009, and July 3, 2010, long-lived assets in the United States totaled \$47,749 and \$45,903, respectively. Additionally, long-lived assets in the Australia market as of July 4, 2009, and July 3, 2010 totaled \$12,721 and \$13,131, respectively. There is no significant concentration of long-lived assets in any other market.

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

The following discussion and analysis of USANA's financial condition and results of operations should be read in conjunction with the Unaudited 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 January 2, 2010, 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.

Our fiscal year end is the Saturday closest to December 31st of each year. Fiscal year 2010 will end on January 1, 2011, and fiscal year 2009 ended on January 2, 2010.

Overview

We develop and manufacture high-quality 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 July 3, 2010, we had approximately 210,000 active Associates and approximately 66,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased product from USANA 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:

- North America

- United States

- Canada

- Mexico

- Asia Pacific

- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, and the Philippines

- East Asia Hong Kong and Taiwan

- North Asia Japan and South Korea

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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 indicated:

| Product Line | Six Months Ended | |
|--------------------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 |
| USANA® Nutritionals | | |
| Essentials | 33% | 30% |
| Optimizers | 43% | 46% |
| USANA Foods | 12% | 13% |
| Sensé beautiful science® | 9% | 8% |
| All Other | 3% | 3% |

| Key Product | Six Months Ended | |
|-------------------|------------------|-----------------|
| | July 4, 2009 | July 3, 2010 |
| USANA® Essentials | 19% | 18% |
| HealthPak 100 | 12% | 10% |
| Proflavanol® | 11% | 11% |

As a developer and manufacturer of nutritional and personal care products, 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. Additionally, it is important to attract and retain Preferred Customers as consumers of our products. We believe that our ability to attract and retain Associates and Preferred Customers to sell and consume our products is influenced by a number of factors. Some of these factors include: the growing desire for a secondary source of income and small business ownership, the general public's heightened awareness and understanding of the connection between diet and long-term health, and the aging of the worldwide population, as older people generally tend to consume more nutritional supplements.

We believe that our high-quality products and our financially rewarding Associate Compensation Plan (Compensation Plan) are the key components to attracting and retaining Associates and the continued success and growth of our business. To 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 some of our Associate leaders and members of our management team. We also provide low cost sales tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. For example, we offer our Associates an on-line training system, called eApprentice, which was designed to make training in USANA's network marketing system readily available, simple to use and easy to understand. We believe that this system will assist new Associates by providing detailed training about the industry and a deeper understanding of USANA's products and compensation plan.

In addition to Company-sponsored meetings and sales tools, we maintain a website exclusively for our Associates where they can stay up-to-date on the latest USANA news, obtain training materials, manage their personal information, enroll new customers, shop, and register for Company-sponsored events. Additionally, through this website, Associates can access other online services to which they may subscribe. For example, we offer an online business management service, which includes a tool that helps Associates track and manage their business activity, a personal webpage to which their prospects or retail customers can be directed, e-cards for advertising, and a tax information tool.

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

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general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. 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.

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. Notably, sales to Associates account for the majority of our product sales, representing 89% of product sales during the six months ended July 3, 2010. In general, the volume of recurring monthly product purchases by an Associate or a Preferred Customer, in their local currencies, remain relatively constant over time. Accordingly, sales growth in local currencies is driven primarily by an increased number of active Associates and Preferred Customers. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

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 July 4, 2009 | | As of July 3, 2010 | | Change from Prior Year | Percent Change |
|------------------------|-----------------------|--------|-----------------------|--------|------------------------------|-------------------|
| North America: | | | | | | |
| United States | 65,000 | 32.5% | 57,000 | 27.1% | (8,000) | (12.3)% |
| Canada | 26,000 | 13.0% | 26,000 | 12.4% | | 0.0% |
| Mexico | 15,000 | 7.5% | 12,000 | 5.7% | (3,000) | (20.0)% |
| North America Total | 106,000 | 53.0% | 95,000 | 45.2% | (11,000) | (10.4)% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 46,000 | 23.0% | 44,000 | 21.0% | (2,000) | (4.3)% |
| East Asia | 40,000 | 20.0% | 63,000 | 30.0% | 23,000 | 57.5% |
| North Asia | 8,000 | 4.0% | 8,000 | 3.8% | | 0.0% |
| Asia Pacific Total | 94,000 | 47.0% | 115,000 | 54.8% | 21,000 | 22.3% |
| | 200,000 | 100.0% | 210,000 | 100.0% | 10,000 | 5.0% |

Active Preferred Customers By Region

| | As of July 4, 2009 | | As of July 3, 2010 | | Change from Prior Year | Percent Change |
|-----------------------|-----------------------|-------|-----------------------|-------|------------------------------|-------------------|
| North America: | | | | | | |
| United States | 42,000 | 60.9% | 39,000 | 59.1% | (3,000) | (7.1)% |
| Canada | 15,000 | 21.7% | 15,000 | 22.7% | | 0.0% |

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| | | | | | | |
|------------------------|--------|--------|--------|--------|---------|---------|
| Mexico | 3,000 | 4.3% | 3,000 | 4.6% | | 0.0% |
| North America Total | 60,000 | 86.9% | 57,000 | 86.4% | (3,000) | (5.0)% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 7,000 | 10.1% | 6,000 | 9.1% | (1,000) | (14.3)% |
| East Asia | 1,000 | 1.5% | 2,000 | 3.0% | 1,000 | 100.0% |
| North Asia | 1,000 | 1.5% | 1,000 | 1.5% | | 0.0% |
| Asia Pacific Total | 9,000 | 13.1% | 9,000 | 13.6% | | 0.0% |
| | 69,000 | 100.0% | 66,000 | 100.0% | (3,000) | (4.3)% |

Table of Contents**Total Active Customers By Region**

| | As of July 4, 2009 | | As of July 3, 2010 | | Change from Prior Year | Percent Change |
|------------------------|-----------------------|--------|-----------------------|--------|------------------------------|-------------------|
| North America: | | | | | | |
| United States | 107,000 | 39.8% | 96,000 | 34.8% | (11,000) | (10.3)% |
| Canada | 41,000 | 15.2% | 41,000 | 14.8% | | 0.0% |
| Mexico | 18,000 | 6.7% | 15,000 | 5.4% | (3,000) | (16.7)% |
| North America Total | 166,000 | 61.7% | 152,000 | 55.0% | (14,000) | (8.4)% |
| Asia Pacific: | | | | | | |
| Southeast Asia Pacific | 53,000 | 19.7% | 50,000 | 18.1% | (3,000) | (5.7)% |
| East Asia | 41,000 | 15.2% | 65,000 | 23.6% | 24,000 | 58.5% |
| North Asia | 9,000 | 3.4% | 9,000 | 3.3% | | 0.0% |
| Asia Pacific Total | 103,000 | 38.3% | 124,000 | 45.0% | 21,000 | 20.4% |
| | 269,000 | 100.0% | 276,000 | 100.0% | 7,000 | 2.6% |

Our primary growth strategy continues to be focused on attracting and retaining Associates. This strategy includes our increased investment in Associate events and training materials, periodic new and enhanced product introductions, and Associate education on the marketing of our Compensation Plan. Additionally, we frequently evaluate opportunities for entering new markets and also may evaluate strategic acquisition opportunities.

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. 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 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;

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- Our dependence upon a network marketing system to distribute our products;
- Activities of our independent Associates;
- Our planned expansion into international markets, including delays in commencement of sales in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- Rigorous scrutiny by various governments of network marketing practices;

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- 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;
- 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 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 currencies compared to the U.S. dollar;
- Our reliance on outside suppliers for raw materials and certain manufactured items;

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- 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; and
- The outcome of regulatory and litigation matters.

Results of Operations

Summary of Financial Results

Net sales for the second quarter of 2010 increased \$13.9 million, or 12.4%, to \$126.0 million when compared with the same period in 2009. The growth in net sales was driven primarily by increased product sales volumes of our core products due to a 5.0% increase in the number of active Associates. This growth was led by Hong Kong, where local currency sales increased 102.1% and the number of active Associates increased 85.7%. Additionally, net sales benefited from changes in currency exchange rates during the quarter by an estimated \$5.2 million. Notably, we also had sales of \$2.8 million at our Asia Pacific Convention held in Hong Kong during the second quarter. We did not hold a similar event in this region in 2009.

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Net earnings during the second quarter of 2010 increased 22.5% to \$10.8 million from \$8.8 million in the prior year. This increase was the result of higher net sales and improved gross profit margins, partially offset by higher Associate incentives expense and higher selling, general and administrative expenses.

In an effort to further manage our Associate incentives expense relative to net sales, we made some strategic changes to our Compensation Plan during the later part of the second quarter. This was done in an effort to reduce our exposure to changes in currency exchange rates and to better align our Compensation Plan to reward for sales growth. While these changes may negatively impact net sales in certain markets in the short-term, we believe that these changes are necessary to help improve profitability and the long-term success of our business. During the third quarter, however, we plan to make enhancements to our Associate recognition and promotional programs to ensure greater Associate productivity and increase our sales.

As mentioned above, during the second quarter we held our Asia Pacific Convention in Hong Kong. At this event, we introduced three new products exclusive to our Asia Pacific region, two skin brightening products to enhance our Sensé skin care line, and a Calming Tea product. Additionally, we announced our intention to open China as our next international market and have increased our resources dedicated to opening this market.

Quarters Ended July 4, 2009 and July 3, 2010

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 | Approximate impact of currency exchange | Change excluding the impact of currency | |
|------------------------|---------------------------------------|---------|--------------|----|------------------------------|-------------------|--|--|---------|
| | Quarter Ended July 4, 2009 | | July 3, 2010 | | | | | | |
| North America: | | | | | | | | | |
| United States | \$ | 39,908 | 35.6% | \$ | 37,992 | 30.1% | \$ | N/A | (4.8)% |
| Canada | | 16,454 | 14.7% | | 18,373 | 14.6% | | 2,100 | (1.1)% |
| Mexico | | 6,379 | 5.7% | | 5,748 | 4.6% | | 300 | (14.6)% |
| North America Total | | 62,741 | 56.0% | | 62,113 | 49.3% | | 2,400 | (4.8)% |
| Asia Pacific: | | | | | | | | | |
| Southeast Asia Pacific | | 24,518 | 21.9% | | 23,968 | 19.0% | | 2,400 | (12.0)% |
| East Asia | | 19,649 | 17.5% | | 34,437 | 27.3% | | 100 | 74.8% |
| North Asia | | 5,185 | 4.6% | | 5,493 | 4.4% | | 300 | 0.2% |
| Asia Pacific Total | | 49,352 | 44.0% | | 63,898 | 50.7% | | 2,800 | 23.8% |
| | \$ | 112,093 | 100.0% | \$ | 126,011 | 100.0% | \$ | 5,200 | 7.8% |

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North America: The decrease in net sales in this region, on a local currency basis, was the result of a decrease in the number of active Associates and Preferred Customers in this region. Although there were fewer Associates purchasing in the second quarter, we did see a slight increase in customer spending in the United States during the second quarter of 2010 compared with the second quarter in 2009. During the fourth quarter of 2009, we implemented a price increase of nearly ten percent on our products in Mexico. While our profitability has improved in this market, we believe the price increase contributed to the decline in our active Associate count and resulting product sales on a year-over-year basis. On consecutive quarter basis, however, local currency sales increased in each of our markets in North America in the second quarter, led by Mexico which was up 6.0%.

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Asia Pacific: The increase in local currency net sales in this region was primarily due to higher product sales volume resulting from a 22.3% increase in the number of active Associates. This increase in the number of active Associates came predominantly from Hong Kong, which is now our second largest market in terms of sales and Associates. The number of active Associates in Hong Kong increased 85.7% year-over-year. As previously mentioned, during the second quarter of 2010 we held our Asia Pacific Convention in Hong Kong, which added \$2.8 million to net sales for this market. The increase in total Asia Pacific sales was partially offset by a decline in sales and Associates in Southeast Asia Pacific in the second quarter.

Gross Profit

Gross profit increased to 82.0% of net sales for the second quarter of 2010, from 78.8% of net sales for the second quarter of 2009. This increase in gross profit can primarily be attributed to a decrease in overall raw materials cost, currency benefits, and lower relative freight costs on shipments to our customers. Additionally, during 2009 we implemented some product price changes both on low margin products and in conjunction with product formula upgrades, and we discontinued several of our lower gross margin product pack offerings. For the third and fourth quarters of 2010 we do not expect to recognize, to the same extent, the benefits realized during the second quarter of 2010. We expect pressure on certain raw material prices as well as higher than normal volume of lower margin products sold at our annual international convention held during the third quarter.

Associate Incentives

As a percentage of net sales, Associate incentives increased to 45.3% during the second quarter of 2010, compared with 44.9% for the second quarter of 2009. This increase was primarily the result of an increase in our base Compensation Plan commissions related mostly to the year-over-year change in currency exchange rates, and higher utilization of our Matching Bonus program.

On a sequential quarter basis our Associate Incentives expense has decreased modestly as a percentage of net sales since the fourth quarter of 2009. We expect this expense to continue to decrease as a percentage of net sales due to our strategies to further manage this expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to 23.1% of net sales for the second quarter of 2010, compared with 22.1% for the second quarter in 2009. This relative increase can be attributed to expenses related to our Asia Pacific Convention that was held during the second quarter of 2010. Because we did not hold a convention in this region during 2009, the cost of this convention is not comparable to the second quarter of 2009. As a result of the significant growth in the Asia Pacific region, this event is planned to be held annually.

In absolute terms, our selling, general and administrative expenses increased by \$4.4 million for the second quarter of 2010, compared with the second quarter in 2009. The most significant components of this increase in absolute terms were as follows:

- Expenses related to our Asia-Pacific Convention of approximately \$1.6 million;
- An increase in wage-related expenses of approximately \$1.3 million;
- An increase in professional services of approximately \$0.5 million;
- An increase in credit card fees of approximately \$0.3 million related to an increase in sales; and
- An increase in customer recognition and promotional activities of approximately \$0.3 million.

Table of Contents**Other Income (Expense)**

Other income (expense) had a net change of \$0.7 million to other expense of \$0.6 million in the second quarter of 2010 from other income of \$0.1 million for the second quarter of 2009. This change was the result of \$0.6 million in losses resulting from the impact of changes in currency exchange rates on intercompany transactions during the quarter, compared with a \$0.2 million gain in the prior year period. This loss was partially offset by a \$0.1 million decrease in interest expense related to our line of credit, which was paid off in the first quarter of 2010.

Six Months Ended July 4, 2009 and July 3, 2010**Net Sales**

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 | | | | Change from prior year | Percent change | Approximate impact of currency exchange | Change excluding the impact of currency |
|------------------------|---|--------|--------------|--------|------------------------------|-------------------|--|--|
| | July 4, 2009 | | July 3, 2010 | | | | | |
| North America: | | | | | | | | |
| United States | \$ 76,397 | 36.5% | \$ 75,598 | 30.8% | \$ (799) | (1.0)% | \$ N/A | (1.0)% |
| Canada | 31,390 | 15.0% | 35,933 | 14.7% | 4,543 | 14.5% | 5,000 | (1.5)% |
| Mexico | 10,849 | 5.2% | 11,102 | 4.5% | 253 | 2.3% | 900 | (6.0)% |
| North America Total | 118,636 | 56.7% | 122,633 | 50.0% | 3,997 | 3.4% | 5,900 | (1.6)% |
| Asia Pacific: | | | | | | | | |
| Southeast Asia/Pacific | 44,456 | 21.2% | 48,501 | 19.8% | 4,045 | 9.1% | 6,500 | (5.5)% |
| East Asia | 36,604 | 17.5% | 62,700 | 25.6% | 26,096 | 71.3% | 500 | 69.9% |
| North Asia | 9,696 | 4.6% | 11,264 | 4.6% | 1,568 | 16.2% | 1,000 | 5.9% |
| Asia Pacific Total | 90,756 | 43.3% | 122,465 | 50.0% | 31,709 | 34.9% | 8,000 | 26.1% |
| | \$ 209,392 | 100.0% | \$ 245,098 | 100.0% | \$ 35,706 | 17.1% | \$ 13,900 | 10.4% |

North America: The decrease in net sales in this region, on a local currency basis, was the result of a decrease in the average number of active Associates and Preferred Customers in this region in the first six months of 2010. Although there were fewer Associates purchasing in the first six months of 2010, we did see a slight increase in customer spending in the United States compared with the same period in 2009. Additionally, although price increases implemented on our products in Mexico during the fourth quarter of 2009 improved profitability, we believe that they also contributed to the decline in our active Associate count and resulting product sales on a year-over-year basis.

Asia Pacific: The increase in local currency net sales in this region was primarily due to higher product sales volume resulting from an increase in the average number of active Associates. This increase in the number of active Associates came, predominantly, from Hong Kong. The increase in total Asia Pacific sales was partially offset by a decline in sales and the average number of active Associates in Southeast Asia

Pacific in the first six months of 2010.

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Gross Profit

Gross profit increased to 81.3% of net sales for the first six months of 2010, from 79.2% of net sales for the same period of 2009. This increase in gross profit can primarily be attributed to a decrease in overall raw materials cost, currency benefits, and lower relative freight costs on shipments to our customers. Additionally, during 2009 we implemented some product price changes both on low margin products and in conjunction with product formula upgrades, and we discontinued several of our lower gross margin product pack offerings.

Associate Incentives

As a percentage of net sales, Associate incentives increased to 45.4% during the first six months of 2010, compared with 44.0% for the same period of 2009. This increase was primarily the result of higher utilization of our Matching Bonus program and an increase in our base Compensation Plan commissions related to the year-over-year change in currency exchange rates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to 23.1% of net sales for the first six months of 2010, compared with 23.9% for the same period of 2009. This decrease is the result of leverage gained on higher net sales, partially offset by expenses related to our Asia Pacific Convention that was held during the second quarter of 2010. Because we did not hold a convention in this region during 2009, the cost of this convention is not comparable.

In absolute terms, our selling, general and administrative expenses increased by \$6.6 million for the first six months of 2010, compared with the same period in 2009. The most significant components of this increase in absolute terms were as follows:

- An increase in wage-related expenses of approximately \$2.4 million;
- Expenses related to our Asia-Pacific Convention of approximately \$1.6 million;
- An increase in credit card fees of approximately \$0.9 million related to an increase in sales;
- An increase in professional service fees of approximately \$0.7 million; and

- An increase in customer recognition and promotional activities of approximately \$0.5 million.

Other Income (Expense)

Other income (expense) had a net change of \$0.3 million to other expense of nearly \$0.3 million for the first six months of 2010 when compared with the same period in 2009. This change was the result of a \$0.2 million loss resulting from changes in currency exchange rates on intercompany transactions during the first six months of 2010, compared with a \$0.5 million gain in the prior year period. This loss was partially offset by a \$0.4 million decrease in interest expense from our line of credit, which was paid off in the first quarter of 2010.

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. There are no material restrictions on our ability to transfer and remit funds among our international markets.

Operating cash flow

We typically generate positive cash flow due to our strong operating margins. During the first six months of 2010, we had a net cash flow from operating activities of \$25.3 million, compared with \$6.5 million for the same period in 2009. The most

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significant factors of this change were an increase in net sales during the first six months of 2010, and the unusual payments that we made during the first six months of 2009 and their effects on related balance sheet items, such as other liabilities and prepaid expenses and other assets. These payments, totaling \$14.4 million in the first six months of 2009, were the result of an unanticipated arbitration award and an IRS tax settlement. These improvements were partially offset by increased cash spent on inventory for our Asia Pacific Convention.

As a U.S.-based, multi-national company, reporting in U.S. dollars, our net sales and earnings can be significantly affected by changes in currency exchange rates and it is difficult to estimate the impact that these changes may have on our future operating results. In general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar relative to the currencies in the countries where we have operations. During the first six months of 2009, we received a benefit to net sales of approximately \$13.9 million related to changes in currency exchange rates.

Line of credit

We currently maintain a \$40.0 million credit facility with Bank of America. As of July 3, 2010, no amount was outstanding on this line of credit.

The agreement for this line of credit (Credit Agreement) 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 \$50.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.5 to 1.0 at the end of each quarter. The adjusted EBITDA under the Credit Agreement is modified for certain non-cash expenses. As of July 3, 2010, 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.

This line of credit matures in May 2011, at which time we will be required to pay any outstanding balance unless the line is replaced or terms are renegotiated. There can be no assurance that we will be able to secure the same or similar credit terms on a new line of credit upon maturity of our existing Credit Agreement or that we will have the same amount available to us.

Working capital

Cash and cash equivalents increased to \$28.4 million at July 3, 2010, from \$13.7 million at January 2, 2010. Net working capital increased to \$27.5 million at July 3, 2010, from \$11.4 million at January 2, 2010. This increase in net working capital was due mostly to an increase in net cash flow from operating activities, and was partially offset by the cash paid on our line of credit.

Share repurchase

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We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. 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 cash balances, general business opportunities, and other factors. There were no share repurchases during the first six months of 2010. There currently is no expiration date on the remaining approved repurchase amount of \$8.7 million 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 unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available or 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.

Table of Contents**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our earnings, cash flows, and financial position are affected by fluctuations in currency exchange rates, interest rates, and other uncertainties that are inherent in doing business and selling product in more than one currency. In addition, our operations are exposed to risks that are associated with changes in social, political, and economic conditions in our international operations. This includes changes in the laws and policies that govern investment in international countries where we have operations, as well as, to a lesser extent, changes in United States laws and regulations relating to international trade and investment.

Currency Risks. Net sales outside the United States represented 63.5% and 69.2% of our net sales in the six-month periods ended July 4, 2009 and July 3, 2010, respectively. Because a significant portion of our sales are generated outside of the United States, currency exchange rate fluctuations may have a significant effect on our sales and earnings. This risk is partially mitigated by the fact that our sales are spread across 14 countries, with Hong Kong (where the local currency is tied to the U.S. dollar) being our largest international market, at 20.8% of net sales in the six months ended July 3, 2010, followed by Canada at 14.7%. The local currency of each international subsidiary is considered the functional currency, with all revenue and expenses being translated at weighted-average currency exchange rates for the applicable periods. In general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar relative to the currencies in the countries where we have operations. Changes in currency exchange rates may also affect our product margins because we manufacture the majority of our products in the U.S. and sell them to our international subsidiaries in their respective functional currencies. We are unable to reasonably estimate the effect that currency fluctuations may have on our future business, results of operations, or financial condition. This is due to the uncertainty in, and the varying degrees and type of exposure that we face from, fluctuations in various currencies.

At times we have sought to reduce exposure to fluctuations in currency exchange rates by creating offsetting positions through the use of currency exchange contracts on cash that we repatriate. We do not use derivative financial instruments for trading or speculative purposes. From time-to-time we use currency exchange contracts, which includes the purchase of put and call options, giving us the right, but not the obligation, to sell or buy international currency at a specified exchange rate (strike price). These contracts provide protection in the event that the currency weakens beyond the option strike price. In addition, we have used forward contracts to supplement our use of options. The fair value of these contracts is estimated based on period-end quoted market prices, and the resulting asset and expense, which historically has not been material, is recognized in our Consolidated Financial Statements. We have also considered the costs and benefits of managing currency impacts on net sales and certain balance sheet items. There can be no assurance that our practices will be successful in eliminating all or substantially all of the risks that may be encountered in connection with our currency transactions. As of July 3, 2010, we had no currency exchange contracts in place.

Following are the average exchange rates of currency units to one U.S. dollar for each of our international markets for the quarterly periods indicated:

| | 2009 | | 2010 | |
|--------------------|----------|----------|----------|----------|
| | First | Second | First | Second |
| Canadian Dollar | 1.24 | 1.16 | 1.04 | 1.03 |
| Australian Dollar | 1.50 | 1.31 | 1.10 | 1.14 |
| New Zealand Dollar | 1.87 | 1.65 | 1.41 | 1.43 |
| Hong Kong Dollar | 7.75 | 7.75 | 7.76 | 7.78 |
| Japanese Yen | 93.83 | 97.09 | 90.74 | 91.80 |
| New Taiwan Dollar | 33.98 | 33.11 | 31.92 | 31.86 |
| Korean Won | 1,411.30 | 1,250.00 | 1,142.55 | 1,166.79 |

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| | | | | |
|-------------------|-------|-------|-------|-------|
| Singapore Dollar | 1.51 | 1.47 | 1.40 | 1.39 |
| Mexican Peso | 14.35 | 13.28 | 12.75 | 12.59 |
| Chinese Yuan | 6.84 | 6.83 | 6.83 | 6.82 |
| Malaysian Ringitt | 3.63 | 3.54 | 3.36 | 3.24 |
| Philippine Peso | 47.68 | 47.62 | 45.92 | 45.55 |

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Interest Rate Risks. As of July 3, 2010, we had no outstanding debt, and therefore, we have no direct exposure to interest rate risk. It may become necessary to borrow in the future in order to meet our financing needs. In the event that it becomes necessary to borrow, there can be no assurance that we will be able to borrow, or at favorable rates.

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 July 3, 2010.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 3, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Chirco vs. USANA et. al

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As of July 3, 2010, this purported class action lawsuit was pending in State District Court in Clark County, Nevada against the Company and certain of its present and former officers and directors, as well as other individuals. Further information with respect to this litigation is contained under the caption "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year-ended January 2, 2010, which was filed with the Securities and Exchange Commission on March 17, 2010. We believe the claims in this action are distorted, not actionable under applicable law, and without merit. We will continue to vigorously defend the Company and related defendants in this action.

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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 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 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)* |

- 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)*

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| 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)* |
| 11.1 | Computation of Net Income per Share (included in Notes to Consolidated Financial Statements) |
| 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 |

* 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, 2010

/s/ Jeffrey A. Yates
Jeffrey A. Yates
Chief Financial Officer
(Principal Financial and Accounting Officer)