USANA HEALTH SCIENCES INC
Form 10-K
March 14, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to
Commission file number: 0-21116

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

(Title of each class)	**(Name of each exchange on which registered)**
Common Stock, Par Value $0.001 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of common stock held by non-affiliates of the registrant as of July 1, 2011 was approximately $234,357,000, based on a closing market price of $33.54 per share.

There were 14,990,415 shares of the registrant's common stock outstanding as of March 2, 2012.

Documents incorporated by reference. The registrant incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to the registrant's definitive proxy statement to be filed pursuant to Regulation 14A for its 2012 Annual Shareholders Meeting.

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The statements contained in this report on Form 10-K 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, as amended (the "Exchange Act"). These statements represent our expectations, beliefs, anticipations, commitments, intentions, and strategies regarding the future and include, but are not limited to, the risks and uncertainties outlined in Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. Readers are cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in forward-looking statements within this report. The forward-looking statements included in this report speak only as of the date hereof.

In this Annual Report on Form 10-K, unless otherwise expressly indicated, references to "dollars" and "$" are to United States dollars.

PART I

Item 1. Business

General

USANA Health Sciences, Inc. was founded in 1992 by Myron W. Wentz, Ph.D. We develop and manufacture high-quality, science-based nutritional and personal care products with a primary focus on promoting long-term health and reducing the risk of chronic degenerative disease. In so doing, we are committed to continuous product innovation and sound scientific research. We have operations in 15 markets worldwide where we distribute and sell our products by way of direct selling. Our net sales in fiscal year 2011 were $582 million, of which 74.6% were in markets outside of the United States. As a U.S.-based multi-national company with an expanding international presence, our operating results are becoming more sensitive to currency fluctuations, as well as economic and political conditions in markets throughout the world. Additionally, we are subject to the various laws and regulations unique both to the products that we sell and to our method of distribution.

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 personal use. Preferred Customers purchase our products strictly for personal use and are not permitted to resell or to distribute the products. As of December 31, 2011, we had 222,000 active Associates and 64,000 active Preferred Customers worldwide.

Recent Developments

In 2011, we increased our international expansion efforts by announcing and preparing for our entry into Thailand, France, and Belgium. We expect our operations in France and Belgium to begin at the end of the first quarter of 2012, and we expect our operations in Thailand to have fully commenced by the middle of the second quarter of 2012. Thailand and France are among the top Direct Selling markets in the world, and we are encouraged by the growth opportunity that these markets provide. Further, we believe the opening of France and Belgium will provide our North American Associates additional opportunity to expand their business internationally. This is particularly true for many of our Canadian Associates who have direct ties to France.

We continued integrating our China subsidiary, BabyCare, into our business during 2011. We introduced several USANA products for sale in China and continued educating our Associates on our China compensation plan to help them understand how to appropriately grow their businesses in China. Additionally, we continued to make progress on obtaining additional provincial direct selling licenses.

In 2011, we also began implementing a strategy to stabilize and grow our North America region. This strategy is centered on a number of key initiatives, including: (i) strengthening the partnership between USANA and its North American Associates; (ii) developing the leadership and marketing

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skills of our Associates; (iii) personalizing our products, technologies and systems to meet the individual needs of our Associates; (iv) innovating to develop new products and technologies; and (v) offering North America-specific incentives and promotions. To develop and support these initiatives, we have expanded our corporate and management team. While this is a long-term strategy that will require upfront investment and patience, we believe that our successful execution of this strategy could produce results as early as the fourth quarter of 2012. Additionally, we believe our entry into the France and Belgium markets will encourage North American Associates to expand their businesses.

Products

The following table summarizes our product lines.

Product Line/Category	Description	Percent of Product Sales by Fiscal Year	Product examples
USANA® Nutritionals Essentials	Includes core vitamin and mineral supplements that provide a foundation of advanced total body nutrition for every age group beginning with children 13 months of age.	2009 33% 2010 30% 2011 29%	USANA® Essentials HealthPak 100
Optimizers	Consists of targeted supplements designed to meet individual health and nutritional needs. These products support needs such as cardiovascular health, skeletal/structural health, and digestive health, and are intended to be used in conjunction with the Essentials.	2009 43% 2010 47% 2011 50%	Proflavanol CoQuinone® 30 BiOmega-3
Foods	Includes low-glycemic meal replacement shakes, snack bars, and other related products that provide optimal macro-nutrition (complex carbohydrates, complete proteins, and beneficial fats) in great tasting and convenient formats. These products can be used along with Essentials and Optimizers to provide a complete and healthy diet, and sustained energy throughout the day.	2009 12% 2010 12% 2011 11%	Nutrimeal Fibergy RESET weight-management program and accompanying RESET kit
Sensé beautiful science®	Includes premium, science-based, personal care products that support healthy skin and hair by providing advanced topical nourishment, moisturization, and protection. These products are designed to complement inner nutrition for the skin provided by the USANA Nutritionals and are manufactured with our patented, self-preserving technology, which uses a unique blend of botanicals, antioxidants, and active ingredients to keep products fresh without adding traditional chemical preservatives.	2009 9% 2010 8% 2011 7%	Daytime Protective Emulsion Night Renewal Perfecting Essence

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Product Line/Category	Description	Percent of Product Sales by Fiscal Year	Product examples
All Other	Includes materials and online tools that are designed to assist our Associates in building their businesses and in marketing our products.	2009 3% 2010 3% 2011 3%	Associate Starter Kit Product Brochures

In addition to the products described above, we offer products designed specifically for prenatal, infant, and young child age groups in China.

As we continue to increase our focus on personalization and innovation, we will look for product opportunities such as our MyHealthPak product. MyHealthPak is a fully customized pre-packaged supplement regimen, similar to the HealthPak 100 and can include virtually any of the Essentials and Optimizers. Additionally, MyHealthPak is currently only available to our customers in the United States and as part of our personalization and innovation initiative we will look for opportunities to expand this offering into other of our markets.

The approximate percentage of total product sales represented by our top-selling products for the last three fiscal years are as follows:

	Year Ended		
Top-selling products	2009	2010	2011
USANA® Essentials	19%	18%	18%
Proflavanol®	11%	11%	12%
HealthPak 100	12%	10%	9%

Geographic Presence

Our products are distributed and sold in 15 markets. We have organized our markets into two geographic regions: North America and Asia Pacific, with three sub-regions under Asia Pacific.

North America

North America is our most mature region and includes the United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, and Mexico. The most recent market expansion in this region was our entry into Mexico in 2004. For several years, North America has been our most challenging region. Our North America growth strategy, which is discussed elsewhere in this report, is intended to reverse our declining trend in North America and generate growth. We note that North America will become our North America/Europe region with the opening of business in France and Belgium in 2012.

Asia Pacific

Asia Pacific is organized into three sub-regions: Southeast Asia/Pacific, Greater China, and North Asia. Markets included in each of these sub-regions are as follows:

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

Greater China Hong Kong, Taiwan, and China(1)

North Asia Japan and South Korea

(1) Our business in China is that of BabyCare, our wholly-owned subsidiary.

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Growth in our Asia Pacific region over the last several years has been led by our Hong Kong market. Our most recent market expansions in this region include our entry into the Philippines in 2009 and our entry into mainland China in 2010 through our acquisition of BabyCare. These two markets have contributed to our recent growth in this region. Moving forward we anticipate growth in this region to come from emerging markets such as the Philippines, South Korea, China, and Thailand. Our Thailand market will be included in Southeast Asia/Pacific.

Net Sales by Region

The following table shows net sales by geographic region for our last three fiscal years. We report net sales in a geographic region if a product shipment originates in that geographic region. Additional financial information relating to our geographic regions can be found in Note M to the Consolidated Financial Statements.

Region	Years Ended 2009		2010		2011	
	(in thousands)					
North America						
United States	$ 151,663	34.7%	$ 150,893	29.2%	$ 148,061	25.4%
Canada	65,682	15.1%	69,411	13.4%	67,024	11.5%
Mexico	22,384	5.1%	21,843	4.2%	21,301	3.7%
	239,729	54.9%	242,147	46.8%	236,386	40.6%
Asia Pacific						
Southeast Asia/Pacific	95,185	21.8%	99,311	19.2%	111,447	19.2%
Greater China	81,455	18.6%	152,280	29.4%	204,822	35.2%
North Asia	20,571	4.7%	23,906	4.6%	29,284	5.0%
	197,211	45.1%	275,497	53.2%	345,553	59.4%
	$ 436,940	100.0%	$ 517,644	100.0%	$ 581,939	100.0%

Research and Development

Our research and development efforts are focused on developing and providing high-quality, science-based products that promote long-term health and reduce the risk of chronic degenerative disease. Our research and development activities include developing products that are new to USANA and new to the industry, updating existing formulas to keep them current with the latest science, and adapting existing formulas to meet ever-changing regulations in new and existing international markets. Our scientific staff includes experts on human nutrition, cellular biology, biochemistry, natural product chemistry, and clinical research. These experts continually review the latest published research on nutrition, attend scientific conferences, and work with a number of third-party research institutions and researchers to identify possible new products and opportunities to reformulate our existing products.

In 2011, we continued our relationship with the Linus Pauling Institute ("LPI") at Oregon State University. Our goal is to better determine and understand the function and role of micronutrients such as vitamins, minerals, and antioxidants in promoting optimal health and preventing disease. As part of this relationship, our in-house research team works closely with LPI on nutritional and clinical research. In 2012, we plan to continue our research efforts with LPI and maintain our ongoing nutrition research in preventing oxidative stress, glycemic stress, and chronic inflammation.

Our goal is to maintain a sharp focus on nutrition both inside and outside the body in promoting health and preventing chronic degenerative disease. Because we believe in focusing primarily on key health issues within our society rather than on fads, we typically do not introduce a new product

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unless we believe that it can provide health benefits to a significant number of our customers. As a result, we maintain a focused and compact line of products, which we believe simplifies the selling and buying process for our Associates and Preferred Customers.

We follow pharmaceutical standards established by the U.S. Pharmacopeia and other pharmacopeias in the development and formulation of our products. Our ingredients are selected to meet a number of criteria, including, but not limited to: safety, potency, purity, stability, bio-availability, and natural versus synthetic. We control the quality of our products beginning at the formulation stage, and we maintain our quality control through controlled sourcing of raw ingredients, manufacturing, packaging, and labeling. In fiscal years 2009, 2010, and 2011, we expended $3.6 million, $3.8 million, and $4.1 million, respectively, on product research and development activities. We intend to continue dedicating resources at similar levels for research and development in future years.

Manufacturing and Quality Assurance

We conduct nearly all of the manufacturing, production and quality control operations for our nutritional and personal care products in-house. We have established and maintain a manufacturing and quality control facility in Salt Lake City, Utah. BabyCare manufactures and produces nearly all of its products in-house and maintains manufacturing and quality control facilities in Beijing, China and Tianjin, China. Additional information about our U.S. manufacturing, production and quality control operations is set out below.

Tablet Manufacturing

Tablet manufacturing is conducted at our Salt Lake City, Utah manufacturing facility. Our tablet production process uses automatic and semi-automatic equipment and includes the following activities: identifying and evaluating suppliers of raw materials, acquiring raw materials, analyzing raw material quality, weighing or otherwise measuring raw materials, mixing raw materials into batches, forming mixtures into tablets, coating and sorting the tablets, analyzing tablet quality, packaging finished products, and analyzing finished product quality. We conduct sample testing of raw materials, in-process materials, and finished products for purity, potency, and composition to determine whether our products conform to our internal specifications, and we maintain complete documentation for each of these tests. We employ a qualified staff of professionals to develop, implement and maintain a quality system designed to assure that our products are manufactured to our internal and applicable regulatory agency specifications.

Our Salt Lake City manufacturing facility is registered with the U.S. Food and Drug Administration ("FDA"), Health Canada Natural Health Products Directorate, the Australian Therapeutic Goods Administration ("TGA"), and other governmental agencies, as required. This facility is audited regularly by various organizations and government agencies to assess, among other things, compliance with Good Manufacturing Practice regulations ("GMPs") and with labeling claims. Based on these audits, our Salt Lake City manufacturing facility has received and maintains certifications from the Islamic Foods and Nutrition Counsel of America in compliance with Halal, NSF International in compliance with product testing and GMPs, and the TGA in compliance with the Therapeutic Goods Act of 1989.

The manufacture of nutritional or dietary supplements and related products in the United States requires compliance with dietary supplement GMPs, which are based on the food-model GMPs, with additional requirements that are specific to dietary supplements. We believe our manufacturing processes comply with the GMPs for dietary supplements.

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Personal Care Manufacturing

Historically, we have manufactured the majority of our personal care products at our Draper, Utah manufacturing facility. In 2011, we moved the manufacturing of our personal care products to our Salt Lake City facility to maximize efficiency and reduce costs on these items. The production process for personal care products includes identifying and evaluating suppliers of raw materials, acquiring raw materials, analyzing raw material quality, weighing or otherwise measuring the raw materials, mixing raw materials into batches, analyzing liquid batch quality, packaging finished products, and analyzing finished product quality. We conduct sample testing of raw materials, in-process materials, and finished products for purity, potency, and composition to determine whether our products conform to our internal specifications, and we maintain complete documentation for each of these tests.

At our Salt Lake City facility, we have standard technology for producing batches of personal care items, and we have semi-automatic packaging equipment for packaging end products. We employ qualified staff to develop, implement, and maintain a quality system. Although the FDA has not promulgated GMPs for personal care items, it has issued guidelines for manufacturing personal care products. We voluntarily maintain compliance with the guidance established by FDA and the Personal Care Products Council.

Third-Party Suppliers and Manufacturers

We contract with third-party suppliers and manufacturers for the production of some of our products, which account for approximately 26% of our product sales. These third-party suppliers and manufacturers produce and, in most cases, package these products according to formulations that have been developed by, or in conjunction with, our in-house product development team. These products include most of our gelatin-capsulated supplements, Rev3 Energy Drink, Probiotic, our powdered drink mixes and nutrition bars, and certain of our personal care products. Products manufactured at these locations must also go through quality control and assurance procedures to ensure they are manufactured in conformance with our specifications.

Quality Control/Assurance

We conduct quality control processes in two in-house laboratories that are located in Salt Lake City, Utah. In our microbiology laboratory, scientists test for biological contamination of raw materials and finished goods. In our analytical chemistry laboratory, scientists test for chemical contamination and accurate levels of active ingredients in both raw materials and finished products. Both laboratories conduct stability tests on finished products to determine the shelf life of our products. Our laboratory staff also performs chemical assays on vitamin and mineral constituents, using United States Pharmacopoeia methods and other internally validated methods. In addition to our quality control and clinical laboratories, our headquarters facility also houses a laboratory designated for research and development. We also perform processes similar to those described above at our labs in China.

Raw Materials

Most of the raw ingredients that are used in the manufacture of our products are available from a number of suppliers. We have not generally experienced difficulty in obtaining necessary quantities of raw ingredients. When supplies of certain raw materials have tightened, we have been able to find alternative sources of raw materials, and believe we will be able to do so in the future, if the need arises. Accordingly, we are not subject to a single-source supplier for our required supplies of raw ingredients. Our raw material suppliers must demonstrate stringent process and quality control before we use their products in our manufacturing process.

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Distribution and Marketing

General

We distribute our products internationally through a network marketing system, which is a form of person-to-person direct selling. Under this system, distributors purchase products at wholesale prices from the manufacturer for resale to consumers and for personal consumption. The concept of network marketing is based on the strength of personal recommendations that frequently come from friends, neighbors, relatives, and close acquaintances. We believe that network marketing is an effective way to distribute our products because it allows person-to-person product education and testimonials as well as higher levels of customer service, all of which are not as readily available through other distribution channels.

Structure of Network Marketing Program

Associates. A person who wishes to sell USANA products must join our independent sales force as an Associate. A person becomes an Associate by completing an application under the sponsorship of an existing Associate. The new Associate then becomes part of the sponsoring Associate's "down-line" sales organization. New Associates sign a written contract and agree to adhere to the USANA policies and procedures. Under the policies and procedures, Associates may not, among other things: (i) use deceptive or unlawful practices to sell USANA products; (ii) make deceptive or unlawful claims or representations concerning our products or Compensation Plan; or (iii) sell competitive products to other USANA Associates or solicit USANA Associates to participate in other network marketing opportunities. New Associates are required to purchase a starter kit that includes a detailed manual describing our business and products as well as our policies and procedures. We sell these kits at a nominal cost averaging $30 in each of our markets. No other investment is required to become an Associate and start a home-based business with USANA.

Once a person becomes an Associate, he or she is able to purchase products directly from us at wholesale prices for personal use and resale to customers. Our Associates are also entitled to build sales organizations by attracting and enrolling new Associates and establishing a network of product users. The sponsoring of new Associates results in the creation of multiple levels within our network marketing structure. Sponsored Associates are referred to as part of the "down-line" of the sponsoring Associate. Down-line Associates may also sponsor new Associates, creating additional levels in their network, but also forming a part of the same down-line as the original sponsoring Associate. As outlined below, Associates who are interested in earning additional income must successfully sell USANA products and establish a business network/down-line in order to qualify for commissions, including bonuses. Subject to payment of a minimal annual account renewal fee, Associates may continue to distribute or consume our products as long as they adhere to our policies and procedures.

Individuals who reside in China and who are interested in being part of USANA's organization in China