

USANA HEALTH SCIENCES INC
Form 10-Q
August 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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 x No o

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 x No o

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 x

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 Exchange Act). Yes o No x

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The number of shares outstanding of the registrant's common stock as of August 2, 2012 was 14,450,595.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2012

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	As of December 31, 2011	As of June 30, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50,353	\$ 65,538
Inventories	36,968	33,805
Prepaid expenses and other current assets	18,738	24,163
Total current assets	106,059	123,506
Property and equipment, net	60,754	60,343
Goodwill	17,740	17,675
Intangible assets, net	42,637	41,846
Deferred tax assets	11,033	10,913
Other assets	6,273	6,729
	\$ 244,496	\$ 261,012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,952	\$ 6,408
Other current liabilities	51,744	60,341
Total current liabilities	59,696	66,749
Deferred tax liabilities	9,948	9,638
Other long-term liabilities	942	998
Stockholders' equity	15	14

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Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 14,940 as of December 31, 2011 and 14,350 as of June 30, 2012

Additional paid-in capital	49,257	47,742
Retained earnings	118,799	130,120
Accumulated other comprehensive income	5,839	5,751
Total stockholders' equity	173,910	183,627
	\$ 244,496	\$ 261,012

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Quarters Ended	
	July 2, 2011	June 30, 2012
Net sales	\$ 148,925	\$ 160,901
Cost of sales	26,208	28,073
Gross profit	122,717	132,828
Operating expenses:		
Associate incentives	67,760	70,901
Selling, general and administrative	33,803	36,776
Total operating expenses	101,563	107,677
Earnings from operations	21,154	25,151
Other income (expense):		
Interest income	54	71
Interest expense	(2)	
Other, net	(52)	(293)
Other income (expense), net		(222)
Earnings before income taxes	21,154	24,929
Income taxes	7,298	8,184
Net earnings	\$ 13,856	\$ 16,745
Earnings per common share		
Basic	\$ 0.89	\$ 1.14
Diluted	\$ 0.88	\$ 1.11
Weighted average common shares outstanding		
Basic	15,530	14,691
Diluted	15,752	15,090
Comprehensive income:		
Net earnings	\$ 13,856	\$ 16,745

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Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	1,717		(851)
Tax (expense) benefit related to foreign currency translation adjustment	(352)		363
Other comprehensive income (loss), net of tax	1,365		(488)
Comprehensive income	\$	15,221	\$ 16,257

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Six Months Ended	
	July 2, 2011	June 30, 2012
Net sales	\$ 292,491	\$ 315,021
Cost of sales	51,870	55,290
Gross profit	240,621	259,731
Operating expenses:		
Associate incentives	132,567	138,910
Selling, general and administrative	69,673	74,808
Total operating expenses	202,240	213,718
Earnings from operations	38,381	46,013
Other income (expense):		
Interest income	104	109
Interest expense	(8)	
Other, net	5	(199)
Other income (expense), net	101	(90)
Earnings before income taxes	38,482	45,923
Income taxes	13,276	15,427
Net earnings	\$ 25,206	\$ 30,496
Earnings per common share		
Basic	\$ 1.60	\$ 2.06
Diluted	\$ 1.58	\$ 2.01
Weighted average common shares outstanding		
Basic	15,720	14,827
Diluted	15,964	15,192
Comprehensive income:		
Net earnings	\$ 25,206	\$ 30,496

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Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	2,581		(156)
Tax (expense) benefit related to foreign currency translation adjustment	(560)		68
Other comprehensive income (loss), net of tax	2,021		(88)
Comprehensive income	\$	27,227	\$ 30,408

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

Six Months Ended July 2, 2011 and June 30, 2012

(in thousands)

(unaudited)

	Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
For the Six Months Ended July 2, 2011						
Balance at January 1, 2011	15,985	\$ 16	\$ 51,222	\$ 90,207	\$ 5,357	\$ 146,802
Net earnings				25,206		25,206
Other comprehensive income, net of tax					2,021	2,021
Equity-based compensation expense			4,802			4,802
Common stock repurchased and retired	(827)	(1)	(8,725)	(16,613)		(25,339)
Common stock issued under equity award plans, including tax benefit of \$49	15		88			88
Tax impact of canceled vested equity awards			(509)			(509)
Balance at July 2, 2011	15,173	15	46,878	98,800	7,378	153,071
For the Six Months Ended June 30, 2012						
Balance at December 31, 2011	14,940	15	49,257	118,799	5,839	173,910
Net earnings				30,496		30,496
Other comprehensive income, net of tax					(88)	(88)
Equity-based compensation expense			5,618			5,618
Common stock repurchased and retired	(677)	(1)	(7,387)	(19,175)		(26,563)
Common stock issued under equity award plans, including tax benefit of \$336	87		375			375
Tax impact of canceled vested equity awards			(121)			(121)
Balance at June 30, 2012	14,350	\$ 14	\$ 47,742	\$ 130,120	\$ 5,751	\$ 183,627

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)

	July 2, 2011	Six Months Ended June 30, 2012
Cash flows from operating activities		
Net earnings	\$ 25,206	\$ 30,496
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	4,246	4,410
(Gain) loss on sale of property and equipment	9	(108)
Equity-based compensation expense	4,802	5,618
Excess tax benefits from equity-based payment arrangements	(48)	(380)
Deferred income taxes	(1,981)	(4,673)
Changes in operating assets and liabilities:		
Inventories, net	(561)	3,466
Prepaid expenses and other assets	4,109	(1,332)
Accounts payable	1,914	(1,565)
Other liabilities	(6,295)	8,014
Total adjustments	6,195	13,450
Net cash provided by operating activities	31,401	43,946
Cash flows from investing activities		
Proceeds from sale of property and equipment	1	148
Purchases of property and equipment	(5,794)	(3,447)
Net cash used in investing activities	(5,793)	(3,299)
Cash flows from financing activities		
Proceeds from equity awards exercised	39	39
Excess tax benefits from equity-based payment arrangements	48	380
Repurchase of common stock	(25,339)	(26,563)
Borrowings on line of credit		593
Net cash used in financing activities	(25,252)	(25,551)
Effect of exchange rate changes on cash and cash equivalents	366	89
Net increase in cash and cash equivalents	722	15,185
Cash and cash equivalents, beginning of period	24,222	50,353

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Cash and cash equivalents, end of period	\$	24,944	\$	65,538
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	\$	9	\$	
Income taxes		13,483		13,293

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)

NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

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

The condensed balance sheet as of December 31, 2011, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to present fairly the Company's financial position as of June 30, 2012 and results of operations for quarters and six months ended July 2, 2011 and June 30, 2012. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The results of operations for the quarter and six months ended June 30, 2012, may not be indicative of the results that may be expected for the fiscal year 2012 ending December 29, 2012.

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

(in thousands, except per share data)

(unaudited)

NOTE B REVISIONS

As disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2011, revisions have been made to the Company's previously issued financial statements to record the impact of currency translation on intangible assets acquired as a part of the 2010 purchase of BabyCare Holdings, Ltd. These revisions had no effect on our earnings from operations, net earnings or earnings per share.

The following tables illustrate the effects of the revision on the Company's consolidated financial statements for only those line items that were affected and have not been previously disclosed:

Consolidated Statements of Comprehensive Income

	For the six months ended July 2, 2011		
	As Previously Reported	Adjustment	As Revised
Comprehensive income	\$ 26,211	\$ 1,016	\$ 27,227

Consolidated Statements of Stockholders' Equity

	For the six months ended July 2, 2011		
	As Previously Reported	Adjustment	As Revised
Other comprehensive income, net of tax	\$ 1,005	\$ 1,016	\$ 2,021
Accumulated Other Comprehensive Income (Loss), Balance at July 2, 2011	4,726	2,652	7,378
Total Stockholders' Equity, Balance at July 2, 2011	150,419	2,652	153,071

NOTE C INVENTORIES

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Inventories consist of the following:

	December 31, 2011		June 30, 2012	
Raw materials	\$	9,670	\$	8,897
Work in progress		6,917		6,349
Finished goods		20,381		18,559
	\$	36,968	\$	33,805

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

(in thousands, except per share data)

(unaudited)

NOTE D 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.

	July 2, 2011	Quarters Ended	June 30, 2012
Net earnings available to common shareholders	\$	13,856	\$ 16,745
Basic EPS			
Shares			
Common shares outstanding entire period		15,985	14,940
Weighted average common shares:			
Issued during period		13	68
Repurchased and retired during period		(468)	(317)
Weighted average common shares outstanding during period		15,530	14,691
Earnings per common share from net earnings - basic	\$	0.89	\$ 1.14
Diluted EPS			
Shares			
Weighted average common shares outstanding during period - basic		15,530	14,691
Dilutive effect of in-the-money equity awards		222	399
Weighted average common shares outstanding during period - diluted		15,752	15,090
Earnings per common share from net earnings - diluted	\$	0.88	\$ 1.11

Equity awards for 2,782 and 1,906 shares of stock were not included in the computation of diluted EPS for the quarters ended July 2, 2011, and June 30, 2012, respectively, due to the fact that their effect would be anti-dilutive.

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

(in thousands, except per share data)

(unaudited)

NOTE D COMMON STOCK AND EARNINGS PER SHARE CONTINUED

	Six Months Ended	
	July 2, 2011	June 30, 2012
Net earnings available to common shareholders	\$ 25,206	\$ 30,496
Basic EPS		
Shares		
Common shares outstanding entire period	15,985	14,940
Weighted average common shares:		
Issued during period	8	45
Repurchased and retired during period	(273)	(158)
Weighted average common shares outstanding during period	15,720	14,827
Earnings per common share from net earnings - basic	\$ 1.60	\$ 2.06
Diluted EPS		
Shares		
Weighted average common shares outstanding during period - basic	15,720	14,827
Dilutive effect of in-the-money equity awards	244	365
Weighted average common shares outstanding during period - diluted	15,964	15,192
Earnings per common share from net earnings - diluted	\$ 1.58	\$ 2.01

Equity awards for 2,782 and 1,934 shares of stock were not included in the computation of diluted EPS for the six months ended July 2, 2011, and June 30, 2012, respectively, due to the fact that their effect would be anti-dilutive.

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

(in thousands, except per share data)

(unaudited)

NOTE E 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.

	Quarters Ended		Six Months Ended	
	July 2, 2011	June 30, 2012	July 2, 2011	June 30, 2012
USANA® Nutritionals	78%	79%	78%	79%
USANA Foods	12%	12%	12%	12%
Sensé beautiful science®	7%	7%	7%	7%

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

- North America/Europe United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France(1), and Belgium(1)
- Asia Pacific
- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand(1)
- Greater China Hong Kong, Taiwan, and China

- North Asia Japan and South Korea

(1) The Company commenced operations in Thailand, France, and Belgium at the end of the first quarter of 2012.

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

(in thousands, except per share data)

(unaudited)

NOTE E SEGMENT INFORMATION CONTINUED*Selected Financial Information*

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

	Quarters Ended		Six Months Ended	
	July 2, 2011	June 30, 2012	July 2, 2011	June 30, 2012
Net Sales to External Customers				
North America/Europe	\$ 60,267	\$ 62,464	\$ 120,288	\$ 121,096
Asia Pacific				
Southeast Asia/Pacific	27,225	34,271	51,919	66,523
Greater China	53,678	56,770	105,789	113,405
North Asia	7,755	7,396	14,495	13,997
Asia Pacific Total	88,658	98,437	172,203	193,925
Consolidated Total	\$ 148,925	\$ 160,901	\$ 292,491	\$ 315,021

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

	Quarters Ended		Six Months Ended	
	July 2, 2011	June 30, 2012	July 2, 2011	June 30, 2012
Net Sales to External Customers				
Hong Kong	\$ 41,785	\$ 43,547	\$ 81,988	\$ 87,354
United States	37,121	39,108	74,157	75,586
Canada	17,462	16,246	34,789	32,435

December 31,
2011

As of
June 30,
2012

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Long-lived Assets

China	\$	59,806	\$	58,673
United States				