

USANA HEALTH SCIENCES INC

Form 10-Q

August 07, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2008

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of July 30, 2008 was 16,301,934.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 28, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 29, 2007 (1)	June 28, 2008 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,865	\$ 9,982
Inventories	19,439	22,038
Prepaid expenses and other current assets	11,639	9,545
Deferred income taxes	2,049	2,711
Total current assets	45,992	44,276
Property and equipment, net	52,061	60,163
Assets held for sale	607	607
Goodwill	5,690	5,690
Other assets	4,778	5,409
	\$ 109,128	\$ 116,145
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 8,111	\$ 8,753
Other current liabilities	32,074	33,326
Total current liabilities	40,185	42,079
Line of credit	28,000	9,835
Other long-term liabilities	2,305	2,820
Stockholders' equity		
Common stock, \$0.001 par value; authorized 50,000 shares, issued and outstanding 16,198 as of December 29, 2007 and 16,413 as of June 28, 2008	16	16
Additional paid-in capital	7,525	11,759
Retained earnings	30,108	47,803
Accumulated other comprehensive income	989	1,833
Total stockholders' equity	38,638	61,411
	\$ 109,128	\$ 116,145

(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

(in thousands, except per share data)

(unaudited)

	Quarter Ended	
	June 30, 2007	June 28, 2008
Net sales	\$ 107,542	\$ 109,208
Cost of sales	22,443	21,884
Gross profit	85,099	87,324
Operating expenses:		
Associate incentives	43,280	45,603
Selling, general and administrative	22,531	25,135
Research and development	902	618
Total operating expenses	66,713	71,356
Earnings from operations	18,386	15,968
Other income (expense):		
Interest income	87	85
Interest expense	(403)	(123)
Other, net	303	(27)
Other income (expense), net	(13)	(65)
Earnings from continuing operations before income taxes	18,373	15,903
Income taxes	6,966	5,755
Income from continuing operations	11,407	10,148
Loss from discontinued operations, net of tax benefit	(93)	
Net earnings	\$ 11,314	\$ 10,148
Earnings per common share		
Basic		
Continuing operations	\$ 0.68	\$ 0.62

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Discontinued operations			
Net earnings	\$	0.68	\$ 0.62
Diluted			
Continuing operations	\$	0.66	\$ 0.62
Discontinued operations			
Net earnings	\$	0.66	\$ 0.62
Weighted average common shares outstanding			
Basic		16,709	16,393
Diluted		17,163	16,460

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

	Six Months Ended	
	June 30, 2007	June 28, 2008
Net sales	\$ 208,220	\$ 210,778
Cost of sales	43,029	43,386
Gross profit	165,191	167,392
Operating expenses:		
Associate incentives	82,829	86,967
Selling, general and administrative	44,032	50,909
Research and development	1,832	1,591
Total operating expenses	128,693	139,467
Earnings from operations	36,498	27,925
Other income (expense):		
Interest income	394	183
Interest expense	(408)	(362)
Other, net	472	43
Other income (expense), net	458	(136)
Earnings from continuing operations before income taxes	36,956	27,789
Income taxes	13,749	10,094
Income from continuing operations	23,207	17,695
Loss from discontinued operations, net of tax benefit	(207)	
Net earnings	\$ 23,000	\$ 17,695
Earnings per common share		
Basic		
Continuing operations	\$ 1.34	\$ 1.08

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Discontinued operations		(0.01)	
Net earnings	\$	1.33	\$ 1.08
Diluted			
Continuing operations	\$	1.30	\$ 1.08
Discontinued operations		(0.01)	
Net earnings	\$	1.29	\$ 1.08
Weighted average common shares outstanding			
Basic		17,302	16,378
Diluted		17,813	16,460

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 June 30, 2007 and June 28, 2008

(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 June 30, 2007						
Balance at December 30, 2006	17,859	\$ 18	\$ 15,573	\$ 44,251	\$ 355	\$ 60,197
Comprehensive income						
Net earnings				23,000		23,000
Foreign currency translation adjustment, net of tax benefit of \$184					253	253
Comprehensive income						23,253
Common stock retired	(1,712)	(2)	(18,958)	(54,038)		(72,998)
Common stock awarded to Associates	1		47			47
Equity-based compensation expense			3,220			3,220
Common stock exercised under equity award plan, including tax benefit of \$1,031	117		3,232			3,232
Balance at June 30, 2007	16,265	\$ 16	\$ 3,114	\$ 13,213	\$ 608	\$ 16,951
For the Six Months Ended June 28, 2008						
Balance at December 29, 2007	16,198	\$ 16	\$ 7,525	\$ 30,108	\$ 989	\$ 38,638
Comprehensive income						

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Net earnings				17,695			17,695
Foreign currency translation adjustment, net of tax benefit of \$438						844	844
Comprehensive income							18,539
Equity-based compensation expense				2,858			2,858
Common stock exercised under equity award plan, including tax benefit of \$1,028			215	1,376			1,376
Balance at June 28, 2008	16,413	\$	16	\$	11,759	\$	47,803
						\$	1,833
							61,411

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	
	June 30, 2007	June 28, 2008
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Net earnings	\$ 23,000	\$ 17,695
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	2,457	3,171
(Gain) loss on disposition of property and equipment	73	(78)
Write-down of assets held for sale	25	
Equity-based compensation expense	3,220	2,858
Excess tax benefit from equity-based payment arrangements	(977)	(1,028)
Common stock awarded to Associates	47	
Deferred income taxes	(844)	(1,791)
Provision for inventory valuation	691	400
Changes in operating assets and liabilities:		
Inventories	26	(2,563)
Prepaid expenses and other assets	106	2,291
Accounts payable	(1,371)	1,705
Other liabilities	6,167	2,535
Total adjustments	9,599	7,500
Net cash provided by operating activities	32,599	25,195
Cash flows from investing activities		
Receipts on notes receivable	60	57
Increase in notes receivable	(65)	(16)
Proceeds from the sale of property and equipment	23	119
Purchases of property and equipment	(14,271)	(11,582)
Net cash used in investing activities	(14,253)	(11,422)
Cash flows from financing activities		
Proceeds from equity awards exercised	2,201	348
Excess tax benefit from equity-based payment arrangements	844	1,028
Repurchase of common stock	(72,998)	
Borrowings on line of credit	62,410	2,655
Payments on line of credit	(27,895)	(20,820)

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Net cash used in financing activities	(35,438)	(16,789)
Effect of exchange rate changes on cash and cash equivalents	(61)	133
Net decrease in cash and cash equivalents	(17,153)	(2,883)
Cash and cash equivalents, beginning of period	27,029	12,865
Cash and cash equivalents, end of period	\$ 9,876	\$ 9,982
<u>Supplemental disclosures of cash flow information</u>		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 201	\$ 371
Income taxes	11,343	9,948

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 unaudited interim consolidated financial information of USANA Health Sciences, Inc. and its subsidiaries (collectively, the Company or USANA) has 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 28, 2008, and results of operations for the quarters and six months ended June 30, 2007 and June 28, 2008. 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 29, 2007. The results of operations for the quarter and six months ended June 28, 2008 may not be indicative of the results that may be expected for the fiscal year ending January 3, 2009.

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, Canada, Mexico, Australia, New Zealand, Singapore, Malaysia, Hong Kong, Taiwan, Japan, South Korea, the United Kingdom, and the Netherlands.

NOTE B DISCONTINUED OPERATIONS

Consistent with the Company's long-term objectives of focusing on its direct selling business, on August 10, 2007, the Company sold certain assets of its third-party contract manufacturing business. The Company retained assets that are associated with manufacturing and packaging its Sensé skin and beauty care products and continues to manufacture these products at the Draper, Utah facility. Results of the third-party contract manufacturing operations have been classified as discontinued operations for all periods.

The Company's sales that are reported in discontinued operations for the quarter and six months ended June 30, 2007 were \$1,865 and \$3,754 respectively. For the quarter ended June 30, 2007, the loss from discontinued operations was \$150 and the related income tax benefit was \$57. For the six months ended June 30, 2007, the loss from discontinued operations was \$330 and the related income tax benefit was \$123.

NOTE C INVENTORIES

Inventories consist of the following:

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December 29,
2007

June 28,
2008

Raw materials	\$	5,730	
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