

USANA HEALTH SCIENCES INC
Form 10-Q
November 07, 2013
[Table of Contents](#)

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 September 28, 2013

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

The number of shares outstanding of the registrant's common stock as of November 1, 2013 was 13,872,365.

Table of Contents

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended September 28, 2013

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1</u>	
<u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u>	
<u>Quarter Ended</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	
<u>Months Ended</u>	5
<u>Condensed Consolidated Statement of Stockholders' Equity</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8-13
<u>Item 2</u>	
<u>Management's Discussion and Analysis of Financial Condition and</u>	
<u>Results of Operations</u>	14-23
<u>Item 3</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4</u>	
<u>Controls and Procedures</u>	24
<u>PART II. OTHER INFORMATION</u>	
<u>Item 6</u>	
<u>Exhibits</u>	25-26
<u>Signatures</u>	27

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

(in thousands, except par value)

(unaudited)

	As of December 29, 2012	As of September 28, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 70,839	\$ 115,349
Inventories	36,481	45,671
Prepaid expenses and other current assets	25,225	35,105
Total current assets	132,545	196,125
Property and equipment, net	61,751	60,432
Goodwill	17,890	18,105
Intangible assets, net	42,085	42,078
Deferred tax assets	5,956	3,562
Other assets	7,128	11,031
	\$ 267,355	\$ 331,333
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,040	\$ 8,061
Other current liabilities	63,804	74,474
Total current liabilities	70,844	82,535
Deferred tax liabilities	10,001	9,022
Other long-term liabilities	938	1,127
Stockholders' equity		
Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 13,821 as of December 29, 2012 and 13,860 as of September 28, 2013	14	14

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Additional paid-in capital	43,822	52,848
Retained earnings	134,800	179,741
Accumulated other comprehensive income	6,936	6,046
Total stockholders' equity	185,572	238,649
	\$ 267,355	\$ 331,333

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Quarters Ended	
	September 29, 2012	September 28, 2013
Net sales	\$ 165,175	\$ 173,691
Cost of sales	30,343	31,491
Gross profit	134,832	142,200
Operating expenses:		
Associate incentives	70,406	76,361
Selling, general and administrative	40,342	41,145
Total operating expenses	110,748	117,506
Earnings from operations	24,084	24,694
Other income (expense):		
Interest income	64	119
Other, net	203	(43)
Other income (expense), net	267	76
Earnings before income taxes	24,351	24,770
Income taxes	6,861	8,017
Net earnings	\$ 17,490	\$ 16,753
Earnings per common share		
Basic	\$ 1.22	\$ 1.22
Diluted	\$ 1.18	\$ 1.16
Weighted average common shares outstanding		
Basic	14,365	13,751
Diluted	14,884	14,393
Comprehensive income:		
Net earnings	\$ 17,490	\$ 16,753

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Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment		1,312		1,371
Tax benefit (expense) related to foreign currency translation adjustment		(402)		(552)
Other comprehensive income (loss), net of tax		910		819
Comprehensive income	\$	18,400	\$	17,572

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Nine Months Ended	
	September 29, 2012	September 28, 2013
Net sales	\$ 480,196	\$ 531,909
Cost of sales	85,633	93,657
Gross profit	394,563	438,252
Operating expenses:		
Associate incentives	209,316	224,017
Selling, general and administrative	115,150	126,527
Total operating expenses	324,466	350,544
Earnings from operations	70,097	87,708
Other income (expense):		
Interest income	173	278
Other, net	4	(311)
Other income (expense), net	177	(33)
Earnings before income taxes	70,274	87,675
Income taxes	22,288	28,933
Net earnings	\$ 47,986	\$ 58,742
Earnings per common share		
Basic	\$ 3.27	\$ 4.31
Diluted	\$ 3.19	\$ 4.16
Weighted average common shares outstanding		
Basic	14,673	13,636
Diluted	15,064	14,132
Comprehensive income:		
Net earnings	\$ 47,986	\$ 58,742

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Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment		1,156		(1,070)
Tax benefit (expense) related to foreign currency translation adjustment		(334)		180
Other comprehensive income (loss), net of tax		822		(890)
Comprehensive income	\$	48,808	\$	57,852

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Nine Months Ended September 28, 2013

(in thousands)

(unaudited)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Value	Paid-in	Earnings	Other	
			Capital		Comprehensive	
					Income (Loss)	
Balance at December 29, 2012	13,821	\$ 14	\$ 43,822	\$ 134,800	\$ 6,936	\$ 185,572
Net earnings				58,742		58,742
Other comprehensive income (loss), net of tax					(890)	(890)
Equity-based compensation expense			6,113			6,113
Common stock repurchased and retired	(414)		(4,284)	(13,801)		(18,085)
Common stock issued under equity award plans, including tax benefit of \$6,769	453		7,223			7,223
Tax impact of canceled vested equity awards			(26)			(26)
Balance at September 28, 2013	13,860	\$ 14	\$ 52,848	\$ 179,741	\$ 6,046	\$ 238,649

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	September 29, 2012	September 28, 2013
Cash flows from operating activities		
Net earnings	\$ 47,986	\$ 58,742
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	6,608	6,870
(Gain) loss on sale of property and equipment	(106)	(23)
Equity-based compensation expense	8,184	6,113
Excess tax benefits from equity-based payment arrangements	(2,779)	(7,570)
Common stock awarded to Associates	100	
Deferred income taxes	2,255	1,196
Changes in operating assets and liabilities:		
Inventories, net	4,462	(9,999)
Prepaid expenses and other assets	(9,223)	(9,153)
Accounts payable	(1,063)	1,048
Other liabilities	7,199	17,369
Net cash provided by operating activities	63,623	64,593
Cash flows from investing activities		
Increase in notes receivable		(3,363)
Proceeds from sale of property and equipment	148	47
Purchases of property and equipment	(6,811)	(6,306)
Net cash used in investing activities	(6,663)	(9,622)
Cash flows from financing activities		
Proceeds from equity awards exercised	309	454
Excess tax benefits from equity-based payment arrangements	2,779	7,570
Repurchase of common stock	(35,501)	(18,085)
Borrowings on line of credit	1,842	
Payments on line of credit	(599)	
Net cash used in financing activities	(31,170)	(10,061)
Effect of exchange rate changes on cash and cash equivalents	458	(400)
Net increase in cash and cash equivalents	26,248	44,510
Cash and cash equivalents, beginning of period	50,353	70,839

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Cash and cash equivalents, end of period	76,601	115,349
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 11	\$
Income taxes	25,008	25,554

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

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

The condensed balance sheet as of December 29, 2012, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to state fairly the Company's financial position as of September 28, 2013 and results of operations for quarters and nine months ended September 29, 2012 and September 28, 2013. 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, 2012. The results of operations for the quarters and nine months ended September 28, 2013, may not be indicative of the results that may be expected for the fiscal year 2013 ending December 28, 2013.

NOTE B INTANGIBLE ASSETS

Goodwill and indefinite-lived intangible assets are tested annually for impairment, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate, and operating or cash flow losses related to such assets. Goodwill and indefinite lived intangible assets are not amortized. Definite lived intangibles are amortized over their related useful lives.

During the third quarter of 2013, the annual test for impairment was performed. The result of this test indicated that there was not an impairment of the value of goodwill or indefinite-lived intangible assets for any reporting unit.

NOTE C CONTINGENCIES

The Company is involved in various lawsuits, claims, investigations and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, relationships with suppliers, distributors, relationships with competitors, employees and other matters. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

On July 23, 2013, the Company disclosed that the Securities and Exchange Commission is conducting a formal investigation, which appears to involve possible issues regarding trading in the Company's stock during late 2012 by certain of the Company's directors, including the Chairman. The Company, as well as certain of its directors and executives, have received subpoenas from the SEC to produce documents related to this matter. The Company and its directors are cooperating with the SEC in this matter. In the opinion of management, based upon advice of counsel, the likelihood of an adverse outcome against the Company in this matter is remote. As such, management believes that the ultimate outcome of the SEC investigation will not have a material impact on the Company's financial position or results of operations.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE D LONG-TERM DEBT AND LINE OF CREDIT

The Company has a line of credit with Bank of America. Interest 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, set forth in a separate pledge agreement with the bank. On July 18, 2013, the Company entered into an amended credit agreement, which increased the amount that it may borrow under the credit facility to \$75,000. The only other modification to the amended credit agreement was that any new or existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$3,400 reduction in the available borrowing limit in the third quarter of 2013 due to existing normal course of business guarantees in certain markets. The Credit Agreement contains restrictive covenants based on adjusted EBITDA and a debt coverage ratio.

There was no outstanding debt on this line of credit at December 29, 2012 or at September 28, 2013. The Company will be required to pay any balance on this line of credit in full at the time of maturity in April 2016 unless the line of credit is replaced or terms are renegotiated.

NOTE E INVENTORIES

Inventories consist of the following:

December 29, 2012	September 28,
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