USANA HEALTH SCIENCES INC
Form 10-Q
November 07, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2018

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: 001-35024

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)

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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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

The number of shares outstanding of the registrant s common stock as of November 2, 2018 was 23,976,585

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended September 29, 2018

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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 30, 2017	As of September 29, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 247,131	$ 239,751
Securities held-to-maturity, net		81,673
Inventories	62,918	81,110
Prepaid expenses and other current assets	30,110	32,228
Total current assets	340,159	434,762
Property and equipment, net	102,847	93,555
Goodwill	17,417	16,829
Intangible assets, net	35,154	32,217
Deferred tax assets	2,859	3,771
Other assets	20,833	18,247
	$ 519,269	$ 599,381
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 11,787	$ 14,467
Other current liabilities	129,396	138,419
Total current liabilities	141,183	152,886
Deferred tax liabilities	13,730	9,848
Other long-term liabilities	1,146	1,058
Stockholders equity		
Common stock, $0.001 par value; Authorized 50,000 shares, issued and outstanding 24,024 as of December 30, 2017 and 24,201 as of September 29, 2018	24	24
Additional paid-in capital	76,542	83,216
Retained earnings	288,070	362,250
Accumulated other comprehensive income (loss)	(1,426)	(9,901)
Total stockholders equity	363,210	435,589

	$	519,269	$	599,381

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30, 2017	September 29, 2018	September 30, 2017	September 29, 2018
Net sales	$ 261,765	$ 296,767	$ 774,151	$ 890,225
Cost of sales	47,135	51,877	133,691	151,243
Gross profit	214,630	244,890	640,460	738,982
Operating expenses:				
Associate incentives	116,010	130,264	350,195	392,416
Selling, general and administrative	67,263	69,112	193,653	206,781
Total operating expenses	183,273	199,376	543,848	599,197
Earnings from operations	31,357	45,514	96,612	139,785
Other income (expense):				
Interest income	571	1,269	1,644	3,140
Interest expense	(10)	(8)	(31)	(27)
Other, net	129	(249)	19	(851)
Other income (expense), net	690	1,012	1,632	2,262
Earnings before income taxes	32,047	46,526	98,244	142,047
Income taxes	8,278	15,486	29,858	48,154
Net earnings	$ 23,769	$ 31,040	$ 68,386	$ 93,893
Earnings per common share				
Basic	$ 0.98	$ 1.28	$ 2.80	$ 3.88
Diluted	$ 0.97	$ 1.24	$ 2.75	$ 3.80
Weighted average common shares outstanding				
Basic	24,283	24,269	24,462	24,179
Diluted	24,588	25,001	24,871	24,705
Comprehensive income:				
Net earnings	$ 23,769	$ 31,040	$ 68,386	$ 93,893

Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	2,941	(6,381)	10,153	(10,087)
Tax benefit (expense) related to foreign currency translation adjustment	(625)	344	(2,601)	1,612
Other comprehensive income (loss), net of tax	2,316	(6,037)	7,552	(8,475)
Comprehensive income	$ 26,085	$ 25,003	$ 75,938	$ 85,418

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

(unaudited)

For the nine months ended September 30, 2017

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	24,485	$ 24	$ 71,505	$ 265,405	$ (11,647)	325,287
Net earnings				68,386		68,386
Other comprehensive income (loss), net of tax					7,552	7,552
Equity-based compensation expense			11,711			11,711
Common stock repurchased and retired	(865)	(1)	(10,129)	(39,870)		(50,000)
Common stock issued under equity award plans	326	1				1
Tax withholding for net-share settled equity awards			(125)			(125)
Balance at September 30, 2017	23,946	$ 24	$ 72,962	$ 293,921	$ (4,095)	$ 362,812

For the nine months ended September 29, 2018

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 30, 2017	24,024	$ 24	$ 76,542	$ 288,070	$ (1,426)	$ 363,210
Cumulative effect of accounting change				994		994
Balance after cumulative effect of accounting change	24,024	24	76,542	289,064	(1,426)	364,204
Net earnings				93,893		93,893

Other comprehensive income (loss), net of tax					(8,475)	(8,475)
Equity-based compensation expense			11,026			11,026
Common stock repurchased and retired	(217)		(4,883)	(20,707)		(25,590)
Common stock issued under equity award plans	394					
Tax withholding for net-share settled equity awards			(376)			(376)
Disgorgement of short-swing stock profits			907			907
Balance at September 29, 2018	24,201	$ 24	$ 83,216	$ 362,250	$ (9,901)	$ 435,589

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

(unaudited)

For the three months ended September 30, 2017

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	**Value**	**Capital**	**Earnings**	**Income (Loss)**	**Total**
Balance at July 1, 2017	24,624	$ 24	$ 79,507	$ 310,022	$ (6,411)	$ 383,142
Net earnings				23,769		23,769
Other comprehensive income (loss), net of tax					2,316	2,316
Equity-based compensation expense			3,709			3,709
Common stock repurchased and retired	(865)	(1)	(10,129)	(39,870)		(50,000)
Common stock issued under equity award plans	187	1				1
Tax withholding for net-share settled equity awards			(125)			(125)
Balance at September 30, 2017	23,946	$ 24	$ 72,962	$ 293,921	$ (4,095)	$ 362,812

For the three months ended September 29, 2018

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	**Value**	**Capital**	**Earnings**	**Income (Loss)**	**Total**
Balance at June 30, 2018	24,220	$ 24	$ 83,542	$ 349,579	$ (3,864)	$ 429,281
Net earnings				31,040		31,040
Other comprehensive income (loss), net of tax					(6,037)	(6,037)
Equity-based compensation expense			3,968			3,968
Common stock repurchased and retired	(178)		(4,278)	(18,369)		(22,647)
	159					

Common stock issued under equity award plans						
Tax withholding for net-share settled equity awards			(16)			(16)
Balance at September 29, 2018	24,201	$ 24	$ 83,216	$ 362,250	$ (9,901)	$ 435,589

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 29, 2018
Cash flows from operating activities		
Net earnings	$ 68,386	$ 93,893
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	11,797	12,734
(Gain) loss on sale of property and equipment	8	1,804
Equity-based compensation expense	11,711	11,026
Deferred income taxes	(12,801)	(3,524)
Impairment on notes receivable		(658)
Changes in operating assets and liabilities:		
Inventories	4,556	(21,938)
Prepaid expenses and other assets	6,343	(2,396)
Accounts payable	550	2,855
Other liabilities	(21,909)	17,897
Net cash provided by (used in) operating activities	68,641	111,693
Cash flows from investing activities		
Receipts on notes receivable	259	4,801
Proceeds from the settlement of net investment hedges		739
Purchases of investment securities held-to-maturity		(81,673)
Proceeds from sale of property and equipment	16	381
Purchases of property and equipment	(9,168)	(8,862)
Net cash provided by (used in) investing activities	(8,893)	(84,614)
Cash flows from financing activities		
Repurchase of common stock	(50,000)	(25,590)
Proceeds from disgorgement of short-swing stock profits		907
Borrowings on line of credit	3,500	
Payments on line of credit	(3,500)	
Payments related to tax withholding for net-share settled equity awards	(125)	(376)
Net cash provided by (used in) financing activities	(50,125)	(25,059)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	6,481	(9,784)
Net increase (decrease) in cash, cash equivalents and restricted cash	16,104	(7,764)
Cash, cash equivalents, and restricted cash, at beginning of period	178,952	250,535

Cash, cash equivalents, and restricted cash at end of period	$	195,056	$	242,771
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets				
Cash and equivalents	$	191,745	$	239,751
Restricted cash included in prepaid expenses and other current assets		305		108
Restricted cash included in other assets		3,006		2,912
Total cash, cash equivalents, and restricted cash	$	195,056	$	242,771
Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	$	9	$	5
Income taxes		40,532		59,244
Cash received during the period for:				
Income tax refund		4,700		2,451
Non-cash investing activities:				
Credits on notes receivable		412		
Accrued purchases of property and equipment		202		50

The accompanying notes are an integral part of these statements.

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

The condensed consolidated balance sheet as of December 30, 2017, derived from audited consolidated financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC). Accordingly, 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 (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of management, the accompanying interim condensed consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company s financial position as of September 29, 2018 and results of operations for the quarters and nine months ended September 30, 2017 and September 29, 2018.

The interim condensed consolidated 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 30, 2017. The results of operations for the nine months ended September 29, 2018, are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2018.

Recent Accounting Pronouncements

Adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Also referred to as ASC 606, this update replaces existing revenue recognition guidance with a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. ASC 606 includes a five-step process by which entities recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. This standard also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted ASC 606 effective at the beginning of fiscal 2018 and applied the modified retrospective approach. Accordingly, the Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the fiscal 2018 opening balance of retained earnings. The comparative information has not been restated and continues to be presented according to accounting standards in effect for those periods. The adoption of ASC 606 did not have a material impact on the Company s consolidated financial statements. As a result of the adoption of ASC 606, the Company updated its accounting policies related to revenue recognition. See Note B Revenue Recognition for additional information regarding the Company s revenue recognition policies under the new standard.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION - CONTINUED

Under ASC 606, the Company made a change in the timing for recognizing revenue on orders that have shipped but have not been delivered at period end. Under the new standard, revenue is recognized when the customer obtains control of the goods and considering the indicators used to determine when control has passed to the customer, the Company has concluded that control transfers upon shipment. Therefore, revenue and related expense items including cost of goods sold and Associate incentives on orders that have shipped but have not been delivered at period end are no longer deferred. Subsequent to the period of adoption, there has been no material impact on net income and related per-share amounts.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company is in the process of evaluating the impact of the final rule on its consolidated financial statements.

Issued accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The update requires lessees to apply a modified retrospective approach for recognition and disclosure, beginning with the earliest period presented. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842) Targeted Improvements, which allows an additional transition method to adopt the new lease standard at the adoption date, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption. The Company will adopt ASU 2016-02 in the first quarter of 2019, specifically, using the alternative transition method. The Company is currently in the process of accumulating and evaluating all the necessary information required to properly account for its lease portfolio under the new standard. The Company is also in the process of implementing changes to its systems and processes in conjunction with its review of lease agreements to support the ongoing accounting and disclosure requirements. Although the Company is in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, the Company currently believes the most significant change will be related to the recognition of right-of-use assets and lease liabilities on the Company s balance sheet for facility lease agreements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 better aligns an entity s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To satisfy that objective, the amendments expand and refine hedge accounting for both non-financial and financial risk components, and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2017-12 will have a material impact on its consolidated financial statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION - CONTINUED

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements. The modifications removed the following disclosure requirements: (i) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) the policy for timing of transfers between levels; and (iii) the valuation processes for Level 3 fair value measurements. This ASU added the following disclosure requirements: (i) the changes in unrealized gains and losses for the period included in other comprehensive income (OCI) for recurring Level 3 fair value measurements held at the end of the reporting period; and (ii) the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The capitalized implementation costs of a hosting arrangement that is a service contract will be expensed over the term of the hosting arrangement. For public business entities, the amendments in this ASU are effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period. The amendments can be applied either retrospectively or prospectively to all implementation costs incurred after the adoption date. The Company does not expect the adoption of ASU 2018-15 will have a material impact on its consolidated financial statements.

NOTE B REVENUE RECOGNITION

Revenue is recognized when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. Revenue excludes taxes that have been assessed by governmental authorities and that are directly imposed on revenue-producing transactions between the Company and its customers, including sales, use, value-added, and some excise taxes. Revenue recognition is evaluated through the following five-step process:

1) identification of the contract with a customer;

2) identification of the performance obligations in the contract;

3) determination of the transaction price;

4) allocation of the transaction price to the performance obligations in the contract; and

5) recognition of revenue when or as a performance obligation is satisfied.

Product Revenue

A majority of the Company s sales are for products sold at a point in time and shipped to customers, for which control is transferred as goods are delivered to the third party carrier for shipment. The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders and payment is required prior to shipment.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE B REVENUE RECOGNITION - CONTINUED

The Company s product sales contracts include terms that could cause variability in the transaction price for items such as discounts, credits, or sales returns. Accordingly, the transaction price for product sales includes estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. At the time of sale, the Company estimates a refund liability for the variable consideration based on historical experience.

Initial product orders with a new customer may include multiple performance obligations related to sales discounts earned under the Company s initial order reward program. Under this program, the customer receives an option to apply the discounts earned on the initial order to two subsequent Auto Orders, which conveys a material right to the customer. As such, the initial order transaction price is allocated to each separate performance obligation based on its relative standalone selling price and recognized as revenue as each performance obligation is satisfied.

Associate incentives represent consideration paid to a customer and include all forms of commissions, and other incentives paid to our Associates. With the exception of commissions paid to Associates on personal purchases, which are considered a sales discount and are reported as a reduction to net sales, the incentives are paid for distinct services related to the Company s product sales and are recorded as an expense when revenue for the goods is recognized.

Shipping and handling activities are performed after the customer obtains control of the goods transferred. The Company accounts for these activities as fulfillment costs. Therefore, the Company recognizes the costs of these activities when revenue for the goods is recognized. Shipping and handling costs are included in cost of sales for all periods presented.

With respect to will-call orders, the Company periodically assesses the likelihood that customers will exercise their contractual right to pick up orders and revenue is recognized when the likelihood is estimated to be remote.

Other Revenue

Other types of revenue include fees for access to online customer service applications and annual account renewal fees for Associates, for which control is transferred over time as services are delivered and are recognized as revenue on a straight-line basis over the term of the respective contracts.

Revenue Disaggregation

Disaggregation of revenue by geographical region and major product line is included in Segment Information in Note L.

Contract Balances

Contract liabilities, which are recorded within Other current liabilities in the condensed consolidated balance sheets, primarily relate to deferred revenue for product sales for customer payments received in advance of shipment, for outstanding material rights under the initial order program, and for services where control is transferred over time as services are delivered.

The following table provides information about contract liabilities from contracts with customers, including significant changes in the contract liabilities balances during the period.

		Nine Months Ended September 29, 2018
Contract liabilities at beginning of period	$	14,417
Increase due to deferral of revenue		17,601
Decreases due to recognition of revenue		(14,141)
Contract liabilities at end of period	$	17,877

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE C FAIR VALUE MEASURES

The Company measures at fair value certain of its financial and non-financial assets and liabilities by using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

- Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable and are used to measure fair value in situations where there is little, if any, market activity for the asset or liability at the measurement date.

As of the dates indicated, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

			Fair Value Measurements Using Inputs		
	December 30, 2017	Level 1	Level 2	Level 3
Money market funds included in cash equivalents	$ 106,090	$ 106,090	$	$
Foreign currency contracts included in other current liabilities	(139)		(139)	
	$ 105,951	$ 106,090	$ (139)	$

			Fair Value Measurements Using Inputs				
	September 29, 2018		Level 1		Level 2		Level 3
Money market funds included in cash equivalents	$	128,418	$	128,418	$		$
Foreign currency contracts included in other current liabilities		(93)				(93)	
	$	128,325	$	128,418	$	(93)	$

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy for the periods indicated.

The majority of the Company s non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment charge is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 30, 2017 and September 29, 2018, there were no non-financial assets measured at fair value on a non-recurring basis.

The Company s financial instruments include cash equivalents, securities held-to-maturity, accounts receivable, restricted cash, notes receivable, and accounts payable. The recorded values of cash equivalents, accounts receivable, restricted cash, and accounts payable approximate their fair values, based on their short-term nature. Historically, the carrying value of the notes receivable approximated fair value because the variable interest rates in the notes reflected current market rates. During the year ended December 30, 2017, an impairment was recorded on a note receivable (discussed in Note G) based on the estimated recoverable amount using Level 3 inputs, which approximates fair value.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE C FAIR VALUE MEASURES - CONTINUED

Securities held-to-maturity consist of corporate bonds, commercial paper, and U.S. treasuries. The fair value of corporate bonds, commercial paper, and U.S. treasuries are priced using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data, which is considered to be a Level 2 input. The carrying values of these corporate bonds, commercial paper, and U.S. treasuries approximate their fair values due to their short-term maturities.

NOTE D INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities held-to-maturity by major security type and class of security were as follows:

	As of September 29, 2018			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Corporate bonds	60,743	5	(24)	60,724
U.S. treasuries	14,981		(1)	14,980
Commercial paper	5,949			5,949
Total securities held-to-maturity	$ 81,673	$ 5	$ (25)	$ 81,653