

2015

James Robert Rawcliffe, Plaintiff and Appellant, v. Robert Anciaux. Et Al., Defendants and Appelles

Utah Court of Appeals

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No. 20150852-CA

IN THE
UTAH COURT OF APPEALS

JAMES ROBERT RAWCLIFFE,

Plaintiff and Appellant,

v.

ROBERT ANCIAUX, et al.,

Defendants and Appellees.

RESPONSE BRIEF OF DEFENDANTS-APPELLEES

Appeal from the Third District Court, Salt Lake County, State of Utah
The Honorable Heather Brereton, District Court No. 140905252

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ORAL ARGUMENT REQUESTED

LIST OF PARTIES

Plaintiff-Appellant:

James Robert Rawcliffe

Defendants-Appellees:

Robert Anciaux a/k/a Robert Auciaux, Jerry G. McClain, Ronald S. Poelman,
James H. Bramble, Jim Brown, Gilbert Fuller, Kevin G. Guest, Daniel A. Macuga, David
A. Wentz, Deborah Woo and Nominal Defendant USANA Health Sciences, Inc.

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STATEMENT OF JURISDICTION

Defendants-Appellees adopt Plaintiff-Appellant's Statement of Jurisdiction.

STATEMENT OF ISSUES AND STANDARD OF REVIEW

Issue 1: Whether the District Court correctly held that Plaintiff failed to state a claim against members of USANA Health Sciences, Inc.'s Compensation Committee for breach of fiduciary duty based on the granting of long-term incentive compensation to corporate directors and officers, where: (1) the Compensation Committee followed the unambiguous terms of a shareholder-approved compensation plan; (2) the Defendants promptly and publicly disclosed the incentive awards through S.E.C. filings; and (3) none of the awards could vest for a minimum of nearly two years from the date of issuance.

Standard of Review: Although the District Court's dismissal of this claim under Rule 12(b)(6) is reviewed *de novo*, this claim sounds in fraud and thus must meet the heightened pleading requirements of Rule 9(b). (*See* R0606 (citing Utah R. Civ. P. 9(b) ("In all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity."))). In reviewing a 12(b)(6) dismissal, the court accepts the non-conclusory factual allegations of the Complaint as true, but need not accept conclusory statements that are unsupported by underlying factual allegations. *See Fidelity Nat'l Title Ins. Co. v. Worthington*, 2015 UT App 19, ¶ 23, 344 P.3d 156.

Issue 2: Whether the District Court correctly held that Plaintiff failed to state a claim for breach of fiduciary duty or for unjust enrichment against individuals who merely passively received long-term incentive compensation awards.

Standard of Review: The District Court’s dismissal of these claims under Rule 12(b)(6) is reviewed *de novo*, but Plaintiff’s fiduciary duty claim, which sounds in fraud, must meet the heightened pleading requirements of Rule 9(b). (*See* R0606 (citing Utah R. Civ. P. 9(b)).) In reviewing a 12(b)(6) dismissal, the court accepts the non-conclusory factual allegations of the Complaint as true, but need not accept conclusory statements that are unsupported by underlying factual allegations. *See Fidelity Nat’l*, 2015 UT App 19, ¶ 23.

Issue 3: Whether the District Court correctly held that Plaintiff failed to state a claim for waste of corporate assets, given the lack of Utah authority supporting such a claim and in light of other jurisdictions’ “demanding standard” for pleading such claims.

Standard of Review: The District Court’s dismissal of this claim under Rule 12(b)(6) is reviewed *de novo*. In reviewing a 12(b)(6) dismissal, the court accepts the non-conclusory factual allegations of the Complaint as true, but need not accept conclusory statements that are unsupported by underlying factual allegations. *See Fidelity Nat’l*, 2015 UT App 19, ¶ 23.

**DETERMINATIVE CONSTITUTIONAL PROVISIONS,
STATUTES, ORDINANCES, RULES AND REGULATIONS**

Three provisions from Utah’s Corporate Code are determinative. *First*, Utah Code § 16-10a-840, “General standards of conduct for directors and officers,” provides:

- (1) Each director shall discharge his duties as a director, including duties as a member of a committee, and each officer with discretionary authority shall discharge his duties under that authority:
 - (a) in good faith;

- (b) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
 - (c) in a manner the director or officer reasonably believes to be in the best interests of the corporation.
- (2) In discharging his duties, a director or officer is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:
 - (a) one or more officers or employees of the corporation whom the director or officer reasonably believes to be reliable and competent in the matters presented;
 - (b) legal counsel, public accountants, or other persons as to matters the director or officer reasonably believes are within the person's professional or expert competence; or
 - (c) in the case of a director, a committee of the board of directors of which he is not a member, if the director reasonably believes the committee merits confidence.
- (3) A director or officer is not acting in good faith if he has knowledge concerning the matter in question that makes reliance otherwise permitted by Subsection (2) unwarranted.
- (4) A director or officer is not liable to the corporation, its shareholders, or any conservator or receiver, or any assignee or successor-in-interest thereof, for any action taken, or any failure to take any action, as an officer or director, as the case may be, unless:
 - (a) the director or officer has breached or failed to perform the duties of the office in compliance with this section; and
 - (b) the breach or failure to perform constitutes gross negligence, willful misconduct, or intentional infliction of harm on the corporation or the shareholders.

Second, Utah Code § 16-10a-811, "Compensation of directors," provides:

Unless the articles of incorporation or bylaws provide otherwise, the board of directors may fix the compensation of directors.

Third, Utah Code § 16-10a-624, "Share options and other rights," provides:

- (1) Subject to any provisions in its articles of incorporation, a corporation may create and issue, whether or not in connection with the issue and sale of any shares or other securities of the corporation, rights or options for the purchase of shares or assets of the corporation. The board of directors shall determine the terms upon which the rights or options are issued, their form and content, and the consideration for which the shares are to be issued.
- (2) The terms and conditions of the options or rights may include restrictions or conditions that:
 - (a) preclude or limit the exercise, transfer, or receipt of the options or rights by any person owning or offering to acquire a specified number or percentage of the outstanding common shares or other securities of the corporation or any transferee of that person; or
 - (b) invalidate or void the options or rights.
- (3) This section applies to all options and rights notwithstanding the date of grant.

PRELIMINARY STATEMENT

The central issue on this appeal is whether corporate directors and officers can be held liable for granting and receiving incentive awards issued in strict compliance with a shareholder-approved incentive compensation plan. As explained in the well-reasoned opinion of the District Court, fundamental legal precepts unequivocally dictate that the answer to this question is no. The decision of the lower court should therefore be affirmed.

Nominal defendant USANA Health Sciences, Inc. (“USANA” or the “Company”) is a successful Utah corporation. As with any successful company, it has generated returns for shareholders over the years which are driven in part by the quality of its senior personnel and by its efforts to keep these managers invested in the business. These

efforts to attract and retain talented managers and to drive them to succeed include a program of awarding equity-based incentives to senior executives and directors.

USANA's shareholders therefore put in place a 2006 Equity Incentive Award Plan (the "Incentive Plan" or the "Plan") to govern the particulars of USANA's incentive program.

In February 2014, consistent with the Plan, the Compensation Committee of USANA's board (the "Compensation Committee" or the "Committee") issued packages of incentive awards known as SSARs: stock appreciation rights whose redemption value rises or falls with the value of the Company's stock. Such awards are designed to reward key personnel for long-term gains in the Company's value, and thereby drive those personnel to create returns for shareholders. The February 2014 SSARs did not vest, and could not be exercised by their recipients, until between two and three-and-a-half years after issuance. As of the day of this filing, the majority of these SSARs remain unvested and therefore have no current monetary value to their recipients.

Shortly after making the SSARs grants, the Company also announced positive financial results for fiscal year 2013. USANA's share price subsequently rose. Even though the SSARs in question would not vest and could not be exercised for two to three-and-a-half years, Plaintiff claims that the granting of these February 2014 SSARs somehow constitutes unlawful options "spring-loading," a claim that has never been recognized by Utah courts. Specifically, Plaintiff claims that this alleged spring-loading can support claims for breach of fiduciary duty, unjust enrichment and corporate waste. As described below, and as determined by the District Court, these contentions are legally baseless.

The legal deficiencies in the Complaint are both numerous and manifest. First and perhaps foremost, while contending that the defendant officers and directors violated their fiduciary obligations, Plaintiff does not contest, and indeed *concedes*, that the SSARs here were awarded in strict compliance with the terms of the Plan. The Plan requires that the SSARs be issued at “Fair Market Value,” a term defined in the Plan as the price at which USANA’s common stock is “then trading” on the New York Stock Exchange. The Committee followed this mandate in issuing the February 2014 SSARs, and the District Court therefore found it “undisputed that the Members of the Compensation Committee complied with the terms of the Plan.”

Given this compliance with the Plan, the District Court found that the Committee’s “actions are protected by the business judgment rule and they did not breach their fiduciary duties.” In fact, Utah’s codified business judgment rule differs from the uncodified business judgment rule found in Delaware and elsewhere. Under Utah’s rule, officers and directors cannot be held liable for breach of fiduciary duty absent a finding of “gross negligence, willful misconduct, or intentional infliction of harm on the corporation or the shareholders.” Neither the Committee members’ issuance of the SSARs in accordance with the Plan, nor the other defendants’ mere passive acceptance of the SSARs awarded to them, remotely approaches this standard for liability.

Faced with the fact that the Committee members complied with the Plan, Plaintiff contends that awarding the February 2014 SSARs somehow violated the “spirit and intent” of the Plan. These contentions are unavailing. When interpreting the plain terms of a corporate agreement such as the Plan, Utah courts will enforce those terms, and not

look beyond the strict letter of the agreement to attempt to ferret out some amorphous, unstated “spirit and intent.”

In making his arguments regarding spring-loading, Plaintiff attempts to rely solely on a limited number of trial court decisions from Delaware. These cases are both inapplicable and unpersuasive. First, these cases are inapplicable because both Delaware’s judicially-created business judgment rule and its pleading standards are distinct from the Utah statutes governing this case. Specifically, Delaware’s limitations on director and officer liability differ because the Utah code expressly requires both a breach of duty *and* a showing of gross negligence, willful misconduct or intentional harm before courts will hold a corporate officer or director liable. Further, these Delaware cases were decided under a “notice pleading” standard, while the allegations here are governed by the specificity requirements of Rule 9(b) of the Utah Rules of Civil Procedure.

These Delaware cases are also unpersuasive because they involved situations where directors and officers engaged in egregious conduct in attempting to circumvent a shareholder-approved plan. The cases generally involve out-of-cycle grants, often with immediate vesting periods, cover-ups or misrepresentations regarding the grants, and additional deceptive fiduciary conduct unrelated to the grants. Such circumvention schemes stand in contrast to the present case—where the SSARs were granted in their usual time-frame, with long vesting periods and full public disclosure via promptly-filed S.E.C. documents. Plaintiff’s attempt to rely on readily distinguishable Delaware law cannot rescue his case.

Lastly, Plaintiff cannot salvage his Complaint through his alternative claims of unjust enrichment and corporate waste. Plaintiff's conclusory allegations of unjust enrichment fail to meet Utah's pleading requirements, are refuted by the stalwart efforts and dedication of the defendant officers and directors, and ignore the superior performance of the Company. Indeed, there was nothing "unjust" about the benefits received here. With respect to waste, it is unclear whether Utah even recognizes a separate claim for corporate waste. Even if it does, defendants' years of work for the Company confirm that the allegations here cannot meet the demanding standard that defendants effectively received "something for nothing."

USANA implemented its long-term Incentive Plan to ensure that it can retain a stable, diligent, and committed group of senior officers and directors to create value for the Company and its shareholders. It is undisputed that the Committee followed this Plan and that the Plan's objectives have been met—as witnessed by the more-than doubling of USANA's stock price since the granting of the February 2014 SSARs. Plaintiff's claims here are both legally unsupported and factually unwarranted, and will accomplish nothing but undermine the valid and legitimate objectives set forth by the Company in the Plan. The District Court below properly dismissed these claims. That dismissal should be affirmed.

STATEMENT OF THE CASE

A. Factual Background

1. The Parties

Plaintiff-Appellant James Robert Rawcliffe, a citizen of Connecticut, brought a shareholder derivative suit on behalf of USANA. He alleges that he owned stock in USANA during the relevant time period. (R0003.)

Nominal Defendant-Appellee USANA is a highly successful Utah-based and Utah-incorporated company that develops and manufactures nutritional and personal care products designed to promote long-term health and reduce the risk of chronic degenerative disease. (R0044.) Founded in Salt Lake City in 1992 by Dr. Myron Wentz, USANA has achieved tremendous success over the past two-and-a-half decades, and particularly in recent years. (R0012.) In the last eight years, USANA's sales have more than doubled, exceeding \$918 million in 2015. (USANA, Annual Report (Form 10-K) (Mar. 13, 2008), attached at Addendum A; USANA, Annual Report (Form 10-K) (Mar. 1, 2016) (hereinafter "USANA 2015 10-K"), attached at Addendum B.)¹ According to USANA's latest annual report, in 2015 the Company delivered record sales, achieved continued growth of its customers, and increased its brand recognition. (*See* USANA 2015 10-K.) USANA currently employs over 1,600 people worldwide and its products

¹ Before the District Court, "both sides agreed that, in addition to considering the allegations of the Complaint, the Court may take judicial notice of public documents such as SEC filings, as well as documents referenced in the Complaint, without converting th[e] Rule 12(b)(6) motion" into a summary judgment motion. (R0607 (citing *BMBT, LLC v. Miller*, 2014 UT App 64, ¶¶ 6-7, 322 P.3d 1172).)

are sold in 20 markets around the world. (*Id.* at 8, 24.) USANA’s common stock trades on the New York Stock Exchange. (*Id.* at 40.)

The ten individual defendants in this action at all relevant times served as corporate officers or directors of USANA—Robert Anciaux a/k/a Robert Auciaux, Jerry G. McClain, Ronald S. Poelman, James H. Bramble, Jim Brown, Gilbert Fuller, Kevin G. Guest, Daniel A. Macuga, David A. Wentz and Deborah Woo (collectively, the “Individual Defendants”). Defendants Anciaux, McClain, Poelman, and Fuller have all served as independent directors of USANA (collectively, the “Director Defendants”). (R0004-07.) At the time the Complaint was filed, three of these directors—Anciaux, McClain, and Poelman—served as members of the Compensation Committee. (*Id.*) Ron Poelman, a practicing corporate, finance, and securities lawyer in Salt Lake City, chaired the Committee. (*Id.*) Jerry McClain brought to the Committee experience as a former accounting partner and the CFO for various private companies. (*Id.*) Robert Anciaux brought a background in finance and experience as a director for a number of other companies. (*Id.*) In May 2016, after over a decade of service to the Company, Ron Poelman and Jerry McClain retired from the USANA Board. (USANA, Current Report (Form 8-K) (Mar. 23, 2016), attached at Addendum C.)

The remaining Individual Defendants are all officers of USANA (collectively, the “Officer Defendants”). At the time the Complaint was filed, Dave Wentz served as the Chief Executive Officer of USANA, Dan Macuga served as USANA’s Chief Communications Officer, Jim Brown served as USANA’s Chief Operating Officer, Jim Bramble served as USANA’s Chief Legal Officer, Kevin Guest served as USANA’s

President, and Deborah Woo served as USANA's President of Asia and Greater China.

(Id.) None of the Officer Defendants is alleged to have played a role in the decision to issue the incentive SSARs awards at the center of this action.

2. USANA's Equity Incentive Award Plans

In April 2006, USANA's shareholders adopted the 2006 Equity Incentive Award Plan. The Incentive Plan governed the Company's use of stock and other equity instruments in compensating and creating incentives for the Company's high-level personnel. (R0010.) The stated purpose of the Plan was to use incentive awards to attract highly desirable candidates as employees by maintaining "competitive compensation levels." (R0031.) The Plan further provided that incentive awards would be used to retain talent by providing "an incentive to management and employees to remain in continuing employment with the Company," and to "motivate, attract, and retain the services of members of the Board, Employees and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent." *(Id.)*

The Incentive Plan contemplated that incentive awards would be used to "[c]losely associate the interests of management, employees, directors and consultants . . . with the shareholders by reinforcing the relationship between participants' rewards and shareholder gains." *(Id.)* Specifically, USANA implemented the Plan to provide both "management and employees with an equity ownership in the Company commensurate with Company performance, as reflected in increased shareholder value." *(Id.)* USANA

structured the Plan to “[p]rovide an incentive to management and employees . . . to put forth maximum efforts for the success of its business.” (*Id.*)

To achieve these aims, the Incentive Plan provided the Committee with a great deal of “flexibility” in advancing the Plan’s stated goals. (*Id.*) In accordance with Utah Code §§ 16-10a-624 and 16-10a-811, the Incentive Plan granted extensive powers to the Committee to administer the Incentive Plan and issue awards pursuant to its terms. (R0048-49.) The Committee also had broad discretion to interpret the terms of the Incentive Plan and “any matter arising” under, or award issued “pursuant to,” the Plan. (R0050.)

The Plan cabined the Committee’s discretion in a number of discrete and specific ways. For example, it capped both the number of shares and the total dollar amount that an officer or director could receive in a given year. (R0036 (“Limitations on Number of Shares Subject to Awards”); R0037 (“Individual Dollar Limitation”).) Moreover, the Plan prevented option “backdating”—*i.e.*, retroactively changing the strike price of an option to a lower price—by requiring that the Committee set options based on actual market trading prices. (R0033 (defining “Fair Market Value”).) Nevertheless, the Plan otherwise afforded the Committee broad discretion to act within its shareholder-approved guidelines, stating that the Committee had “exclusive power, authority and discretion” over the recipients, types, and number of shares awarded. (R0049.)

The Incentive Plan authorized the Compensation Committee to choose among a variety of equity-based incentive awards. (R0011.) In recent years, the Committee has primarily issued such awards in the form of stock appreciation rights, or “SARs.” SARs

“are a type of compensation that ‘give the holder the right to a cash payment or stock in an amount representing the difference between the market price and the fixed or strike price specified on the face of the SAR.’” *Parks v. Dittmar (In re Dittmar)*, 618 F.3d 1199, 1204-05 (10th Cir. 2010); (R0011).

The specific type of award at issue here is a “stock-settled appreciation right,” or “SSAR.” SSARs pay the appreciated amount of the award to the recipient in stock rather than cash. SSARs are distinct from more traditional “stock options” in that they do not require the recipient to pay an exercise price, but instead involve the issuance of stock to the recipient reflecting the difference between the Company stock’s market price at the time of vesting and the SSARs’ strike price. SSARs are “in the money” when the market price at the time of vesting is higher than the strike price. Upon exercise, vested SSARs will return the difference between the market price and the strike price. SSARs that vest when the market price is lower than the strike price are “out of the money,” and return no value to an exercising party. Contrary to Plaintiff’s contentions, SSARs are non-transferable and have no intrinsic monetary value prior to vesting. (Appellant’s Br. at 36-39; R0045.) Thus, delayed vesting dates create an incentive for officers, directors, and employees to pursue sustained, long-term performance. Recipients know that they will only be able to exercise their SSARs and obtain a financial reward if they remain with the Company during the entire vesting period, and the Company achieves long-term success, as reflected in the share price.

The Incentive Plan specifically provided that the exercise price of incentive awards must be no less than the “Fair Market Value” of the Company’s shares at the time

of the grant. (R0040 (stock appreciation rights shall be granted at a price no “less than 100% of the Fair Market Value on the date of grant”.) The Plan defined “Fair Market Value,” in turn, as the price of the Company’s shares on the principal exchange on which they are traded “on such date.” (R0033 (defining “Fair Market Value”).)

In 2015, USANA’s shareholders approved the implementation of a revised 2015 Equity Incentive Plan. (USANA, Current Report (Form 8-K) (May 6, 2015), attached at Addendum D.) The terms of the 2015 plan are substantially similar to those of the 2006 Incentive Plan at issue here. (USANA, Definitive Proxy Statement (Form DEF 14A) (Mar. 25, 2015) at 47-69 (hereinafter “2015 Incentive Plan”), attached at Addendum E.) Among other things, the 2015 Incentive Plan shares the identical goals of the 2006 Plan and includes a materially identical definition of what constitutes “Fair Market Value” as “the closing price of a share of Stock on the principal exchange on which shares of Stock are then trading, if any, on such date.” (Addendum E, 2015 Incentive Plan § 2.16.)

3. The February 2014 SSARs Grants

On February 3, 2014, the Compensation Committee met, as it typically does, on the day before the full Board meeting, scheduled for February 4. The dates for both the February 3 Compensation Committee meeting and the February 4 Board meeting were scheduled nearly a year earlier, in May 2013. (R0324-29.) At the Committee meeting, the Committee granted SSARs to certain senior officers and directors, each of whom is named as an individual defendant in this action. (*Id.*) There is no dispute that all of the grants complied with the terms of the Plan.

Under the grants, the six Officer Defendants received between 32,500 and 58,500 SSARs, half of which were set to vest two-and-a-half years later, in August 2016, and half of which were set to vest three-and-a-half years later, in August 2017. (*See* R0382-421 (hereinafter “Form 4s”).) None of the February 2014 SSARs granted to the Officer Defendants have vested as of the date of this filing. The Committee also granted 12,000 SSARs each to the four Director Defendants, which were set to vest quarterly beginning almost two years later, in January 2016. (*Id.*) Fully 9,000 of the 12,000 SSARs granted to the Director Defendants in February 2014 remain unvested as of the date of this filing.

Within three days of their issuance, the directors and officers detailed and disclosed the February 2014 SSARs to the public and the Company’s shareholders in Form 4s filed with the S.E.C. (*Id.*) These Form 4s set forth the quantity of SSARs issued, the date they were issued, and their vesting schedule. The Individual Defendants thus made no effort to hide the existence or the details of the February 2014 SSARs grants at the time they occurred.

On February 4, 2014, the day after the Committee granted the SSARs, USANA announced results for fiscal year 2013, and the Company’s stock price rose to a closing price of \$68.46. (R0275-76.) Because the issued SSARs had not vested, however, and would not vest for nearly two to three-and-a-half years, this stock price increase had little bearing on the SSARs’ long-term value. (*See* Form 4s.) Although the stock price temporarily increased by approximately 19% on February 4, 2014, it has since fluctuated both upwards and downwards from that initial increase in the ensuing months.

Due in large part to the efforts of the Company's employees, officers, and directors, the Company's share price has now risen by more than 100% since the SSARs were issued, to \$121.² USANA's market capitalization has thus grown from just under \$800 million at the time of the February 2014 SSARs grants to over \$1.4 billion today. This growth has redounded to the benefit of Plaintiff and USANA's other shareholders, whose shares in USANA are now worth double their value of only two years ago. Thus, under the Individual Defendants' leadership, the Company has enjoyed "outstanding financial performance." (R0616.)

As noted above, however, the recipients of the February 2014 SSARs must continue to work for the Company in order to receive the benefit of the SSARs. Thus, Director Defendants and former Committee members Poelman and McClain, who recently retired from USANA's Board of Directors, will receive no benefit from their as-yet-unvested SSARs from the February 2014 issuance. Those unvested SSARs will expire in accordance with the term of the grant agreements. (USANA 2015 10-K, Ex. 10.3 § 4 ("If you cease to be an Independent Director for any reason, all then unvested SSARs awarded hereunder . . . shall be forfeited.")) Thus, two of the three Committee members who granted the February 2014 SSARs received no value whatsoever from their unvested SSARs, which comprised the bulk of the SSARs issued to these two Director Defendants. Consistent with the Incentive Plan's goal of tying compensation to talent

² As of the close of business on May 20, 2016, USANA's stock price was \$121. See The Wall Street Journal, *USANA Health Sciences, Inc.* (May 20, 2016), <http://quotes.wsj.com/USNA>.

retention and long-term Company performance, the other eight Individual Defendants continue to work for the Company at the present time.

While Plaintiff's Complaint and Opening Brief suggest there are additional related options transactions at issue in this litigation, Plaintiff ultimately admits that this action concerns the legality of only one SSARs transaction: the February 2014 SSARs. (R0793 (confirming that "the only issue in this case is the legality of the 2014 SSARs"); R0278-80; Appellant's Br. at 8-11.) Moreover, Plaintiff's cherry-picked data, which includes allegations of "bullet-dodging," misrepresents the Board's historical SSARs grants. As Plaintiff's own data shows, the Board awarded *no* SSARs in 2009, 2013, or 2015, despite 13 consecutive years of earnings growth. Thus, Plaintiff's insinuations of bad faith are both inaccurate and irrelevant.³

B. Procedural History

In March 2014, Plaintiff sent a demand letter to USANA challenging the February 2014 SSARs grants. (R0282.) The Company responded that it had determined that the Committee had issued the SSARs in good faith and consistent with the Incentive Plan, and declined to rescind the SSARs. (R0282-83.)

³ Plaintiff's counsel conceded below that "[c]ourts in Delaware have questioned rightly, I think, whether bullet dodging is a breach of fiduciary duty." (R0792.); *see also Desimone v. Barrows*, 924 A.2d 908, 944-45 (Del. Ch. 2007) (alternative to bullet-dodging "would be an odd compensation practice indeed"). Moreover, although Plaintiff notes that the S.E.C. reviewed certain stock sales by some of USANA's directors in December 2012 (R0280-81; Appellant's Br. at 11), he neglects to mention that the S.E.C. stated in 2014 that it had "concluded its investigation as to the Company" and "did not intend to recommend any enforcement action." (USANA, Quarterly Report (Form 10-Q) (Aug. 5, 2014), attached at Addendum F.)

In August 2014, Plaintiff filed the Verified Complaint in this action, challenging the issuance of the February 2014 SSARs. After briefing and oral argument, the District Court dismissed Plaintiff's Complaint in full with prejudice in a Memorandum Decision and Order dated April 3, 2015. The District Court issued a Final Judgment on September 22, 2015. (Appellant's Br. at 4 n.3.)

The District Court concluded that Plaintiff's breach of fiduciary duty claims fail because there is no dispute that the Compensation Committee members "complied with the terms of the [Incentive] Plan when they issued the February 2014 SSARs." (R0612.) Accordingly, "their actions are protected by the business judgment rule, and they did not breach their fiduciary duties." (*Id.*) The District Court noted that nothing in the Utah Code or Utah precedent prohibits the so-called "spring-loading" of options grants, and that USANA's shareholders did not impose such a limitation in the Incentive Plan governing stock options. Thus, there was nothing "that would have given the Compensation Committee members any grounds to believe that they could be held personally liable for granting options before announcing earnings." (R0614.) This was especially so, the District Court observed, given that the February 2014 SSARs would not vest for approximately two to three-and-a-half years. Those "long vesting periods mean that the short-term jump in share price immediately after issuance of the SSARs will only bring value to the Defendants if the Company's positive performance is sustained for 23 to 42 months." (*Id.*)

The District Court specifically considered the Delaware authority that Plaintiff cited, but found that those out-of-state cases "should not bar dismissal in this case . . .

even in light of allegations that the Compensation Committee possessed material non-public information soon to be released that would affect USANA's share price." (R0615.)

In addition to being distinguishable as involving attempts to circumvent valid shareholder-approved plans, those cases were "not binding on this Court," and in any event "not persuasive to the extent" they would allow liability where the "undisputed facts show: (i) the SSARs were issued consistent with the Plan, at their publicly traded share price; (ii) their terms were publicly disclosed three days later in the Form 4s; and (iii) the SSARs could not be exercised for at least 23 to 42 months after they were issued." (*Id.*)

With regard to the remaining three claims for relief, the District Court found that USANA's directors and officers could not be subject to suit under Utah law for breaches of their fiduciary duty or for unjust enrichment based on the mere receipt of the February 2014 SSARs, given Plaintiff's "conclusory allegations." (R0615-616.) Nor could Plaintiff state a claim for corporate waste, given that the SSARs awards complied with an Incentive Plan designed to attract and maintain officers and directors, and that the Individual Defendants substantially contributed to the "outstanding financial performance" of USANA under their watch. (R0616.)

On October 6, 2015, Plaintiff appealed the District Court's final judgment.

SUMMARY OF ARGUMENT

The District Court correctly held that Plaintiff's Complaint fails to state breach of fiduciary duty and other claims against USANA's directors and officers for granting and

receiving fully disclosed long-term incentive compensation awards under a valid, shareholder-approved plan.

I. Plaintiff concedes that the Individual Defendants followed the “strict letter” and “literal terms” of USANA’s Incentive Plan. That concession is fatal to his breach of fiduciary duty claims. Utah law gives corporate boards of directors the right to fix board compensation, and also grants them the right to determine the terms upon which stock options are issued. Given that the Director Defendants undisputedly abided by the terms of a shareholder-approved compensation plan, the discretionary compensation decisions that Plaintiff has challenged fall within Utah’s codified business judgment rule. The business judgment rule broadly protects such discretionary decision-making by corporate leadership.

Having conceded that the Individual Defendants followed the Plan’s terms, Plaintiff is left to argue that they failed to follow the Plan’s “spirit and intent.” But when interpreting unambiguous contractual language, courts look to the meaning of the plain language of the text and do not engage in a freewheeling inquiry into its purpose. Nor, in any event, do the challenged SSARs grants frustrate the Plan’s clearly defined “intent” to offer long-term, competitive incentive compensation to the Company’s senior management and board, who have presided over a period of exceptional growth to the benefit of all shareholders, including Plaintiff. Tellingly, Plaintiff points to nothing in the Plan that suggests that the shareholders meant to prohibit pre-announcement SSARs grants. Quite the opposite: the shareholders just ratified a materially similar incentive plan in 2015.

Plaintiff's final tactic is to urge this Court to follow Delaware law and, in particular, a few distinguishable Delaware cases that have allowed breach of fiduciary duty claims to proceed past the pleading stage where the allegations suggested that the directors were trying to "circumvent" the terms of an incentive compensation plan. As the District Court found, however, there is no similar allegation or evidence of circumvention here. More broadly, Plaintiff's repeated insistence that Delaware law should control this case ignores the many significant differences between Delaware and Utah law, especially in terms of the scope and meaning of the business judgment rule. In fact, Utah law, public policy, and the broad goals of USANA's Incentive Plan all support dismissing allegations that, at bottom, seek to question considered exercises of director discretion. Dismissal here is particularly appropriate given Utah Rule of Civil Procedure 9(b)'s heightened pleading standard for fraud-based allegations. Plaintiff cannot properly allege, much less establish, that any of the Director Defendants granted these SSARs with the intent to circumvent or frustrate the shareholder-approved Plan.

II. Plaintiff also failed to state a claim for breach of fiduciary duty or unjust enrichment against directors and officers who did no more than passively receive incentive awards. His one-sentence, conclusory allegation regarding the Individual Defendants' supposed breach of duties through the mere acceptance of compensation cannot satisfy any pleading standard, much less the heightened pleading standards imposed by Rule 9(b). Plaintiff's only supporting authority (from Delaware) does not dictate a contrary result; it was explicitly decided under Delaware's liberal "general averment" pleading standards.

Plaintiff's claim for unjust enrichment against all ten Individual Defendants who received SSARs—again relying solely on Delaware law—fails as well. Plaintiff's conclusory allegations have not and cannot state a claim that the Individual Defendants who received awards were aware of any *unjust* benefit, as required by Utah (but not Delaware) law. Nor can Plaintiff establish that any Individual Defendant accepted and retained the benefits under circumstances that would make it unjust to do so, such as when a defendant receives “something for nothing.” Again, Plaintiff's own Complaint makes clear that the SSARs awards were given to more closely align the long-term goals of USANA with each of the Individual Defendants, and thus to ensure USANA's continued success. Given that most of USANA's leadership team remains intact, and especially given the Company's outstanding financial performance both before and after the SSARs were awarded, Plaintiff cannot show that the Individual Defendants received “something for nothing” here.

III. Lastly, Plaintiff failed to state a claim for waste of corporate assets. Plaintiff cites no Utah authority to support his claim. Thus, as a threshold matter, there is substantial doubt as to whether Utah would recognize this claim. Regardless, other jurisdictions make clear that corporate waste may only be established under a demanding standard that requires showing that the corporation essentially received nothing in return for the corporate assets supposedly wasted. But Plaintiff's own allegations, along with USANA's appreciating stock price, confirm that USANA received a great deal in exchange for its SSARs awards—namely, years of continued outstanding financial performance with a stable and successful management team. That is exactly what the

shareholders asked for when they ratified a compensation plan permitting long-term executive compensation designed to attract and retain top-tier managerial talent devoted to the Company's success.

ARGUMENT

I. PLAINTIFF FAILED TO STATE A CLAIM FOR BREACH OF FIDUCIARY DUTY AGAINST DIRECTORS WHO UNDISPUTEDLY COMPLIED WITH THE PLAIN TERMS OF THE INCENTIVE PLAN

A. Utah's Codified Business Judgment Rule Protects Discretionary Compensation Decisions Made In Compliance With A Shareholder-Approved Incentive Plan

The District Court properly dismissed Plaintiff's breach-of-fiduciary duty claim against the three members of USANA's Compensation Committee for granting so-called "spring-loaded" SSARs. Plaintiff does not dispute the District Court's finding that "[n]othing in the Utah corporate code prohibits a compensation committee from granting incentive compensation before announcing positive financial results." (R0613.) To the contrary, Utah law provides that ordinarily "the board of directors may fix the compensation of directors." Utah Code § 16-10a-811. Utah law further provides the board with the right to "determine the terms upon which the rights or options are issued." *Id.* § 16-10a-624(1). Like other jurisdictions, Utah thus places decisions regarding the compensation of directors and officers squarely within the sound discretion—*i.e.*, the business judgment—of the board of directors. *Cf. Freedman v. Redstone*, 753 F.3d 416, 427 (3d Cir. 2014) ("The business judgment rule protects an independent board's compensation decisions.").

Indeed, Utah’s business judgment rule, Utah Code § 16-10a-840, robustly “protects a corporate director or officer from personal liability for corporate decisions” of all kinds, except where a plaintiff can make a heightened showing of fraudulent intent or utter indifference. *Reedeker v. Salisbury*, 952 P.2d 577, 583 n.6 (Utah Ct. App. 1998). Thus, even where a plaintiff has adequately alleged a breach of the duties of care or loyalty, a director or officer is still “*not liable*” to the corporation or its shareholders unless the alleged “breach or failure to perform constitutes gross negligence, willful misconduct, or intentional infliction of harm on the corporation or the shareholders.” Utah Code § 16-10a-840(4) (emphasis added); *see also Daniels v. Gamma W. Brachytherapy, LLC*, 2009 UT 66, ¶ 43, 221 P.3d 256 (defining gross negligence as “carelessness or recklessness to a degree that shows *utter indifference* to the consequences that may result”) (emphasis added).

Accordingly, as noted by the District Court, Utah has an established policy of “shielding directors from liability absent some basis for concluding that they acted willfully or with gross negligence.” (R0612.) In doing so, Utah law enshrines—and indeed, strengthens—the longstanding practice of Utah courts to “provide[] directors with broad discretion” and to refrain from “mak[ing] hindsight judgments about corporate affairs.” *Resolution Trust Corp. v. Hess*, 820 F. Supp. 1359, 1366 (D. Utah 1993). Long before Utah codified its business judgment rule in 1992, Utah courts avoided second-guessing the decisions of officers or directors, and declined to substitute their own judgment for the judgment of corporate leadership.

Utah courts thus recognize “the function and the prerogative of the Board of Directors of the corporation to manage its affairs in the [b]est interests of the corporation and its stockholders.” *Summit Range & Livestock Co. v. Rees*, 265 P.2d 381, 382 (Utah 1953). This wide grant of discretion means that a board’s actions “will not be interfered with so long as it . . . is not fraudulent or so discriminatory as to be confiscatory of the rights” of stockholders. *Id.* Simply put, “it is not the right or privilege of a court to set up its judgment as to whether or not the directors of a corporation have acted wisely in its management.” *Chapman v. Troy Laundry Co.*, 47 P.2d 1054, 1064 (Utah 1935).

It appears that no Utah court has considered the application of the business judgment rule in connection with a board incentive compensation decision. The typical rule, however—including the one articulated in Plaintiff’s own cases—is that directors act within their business judgment when they abide by the terms of a shareholder-approved compensation plan. *See Weiss v. Swanson*, 948 A.2d 433, 441 (Del. Ch. 2008) (noting that “directors’ grant of options pursuant to a stockholder-approved plan” are “typically protected by the business judgment rule”); *see also, e.g., Freedman*, 753 F.3d at 427-28 (affirming dismissal of derivative claim for lack of demand where plaintiff failed to bring “particularized allegations regarding violations of a stockholder-approved plan”); *Oliveira v. Sugarman*, 130 A.3d 1085, 1097-98 (Md. Ct. Spec. App. 2016) (business judgment rule protected board’s actions in refusing demand where board complied with shareholder-approved plan); *Seidman v. Clifton Sav. Bank, S.L.A.*, 14 A.3d 36, 53-54 (N.J. 2011) (business judgment rule protected grant of stock awards under

shareholder-approved plan, where “the stock awards here were not issued until *after* the stockholders approved the 2005 Plan”).

For example, in *Desimone v. Barrows*, the Delaware Chancery Court dismissed “weak allegations about a single alleged instance of spring loading” where the directors, as here, followed the “terms of . . . [a] stockholder-approved option plan.” 924 A.2d at 934, 946. *Desimone* thus recognized that courts should not undermine an explicit shareholder-approved compensation plan governing the grant of options. *Id.* The court further noted the danger in overlaying such a plan with “concepts of fiduciary duty” that may be “used in an unprincipled and wholly-elastic way to reach any and all behavior that, upon first blush, strikes judges as inappropriate.” *Id.* at 925, 932.

Plaintiff cites a number of Utah authorities—mostly involving the usurpation of corporation opportunities—for the basic proposition that directors owe fiduciary duties to the corporation that can be breached in “many different ways.” (Appellant’s Br. at 19-21 (citing, *inter alia*, *Nicholson v. Evans*, 642 P.2d 727 (Utah 1982) (involving directors who took over corporate subsidiary without first offering sale to the corporation); *Glen Allen Mining Co. v. Park Galena Mining Co.*, 296 P. 231 (Utah 1931) (involving directors’ scheme to purchase company at lowball price after their removal as directors); *Bingham Consol. Co. v. Groesbeck*, 2004 UT App 434, 105 P.3d 365 (involving controlling shareholder who stripped a mining company of its most valuable asset); *C & Y Corp. v. Gen. Biometrics, Inc.*, 896 P.2d 47 (Utah Ct. App. 1995) (involving directors’ alleged scheme to purchase corporation’s profitable division); *Fausett v. Am. Res. Mgmt. Corp.*, 542 F. Supp. 1234, 1240 (D. Utah 1982) (declining to reach merits of then-novel

fiduciary duty claim that had been recognized in Delaware but rejected in other jurisdictions)).) The issue here, however, is whether a director breaches a fiduciary duty by awarding compensation in accordance with the “strict letter” of a shareholder-approved plan. (See Appellant’s Br. at 30.) None of Plaintiff’s Utah authority bears on this question. (*Id.* at 21 (alleging that this is the “first Utah case” involving Plaintiff’s theory of fiduciary liability).)

Citing only Delaware authority, Plaintiff also suggests that the business judgment rule cannot apply *at all* to the portion of his claim involving allegedly “self-interested” grants awarded to the Compensation Committee members. (*Id.* at 32-33.) But whatever the rule in Delaware, *Utah’s* rule broadly governs the “[g]eneral standards of conduct for directors and officers” in this State, and does not distinguish among different types of claims or different species of alleged misbehavior. Utah Code § 16-10a-840; *see, e.g., Hansen, Jones & Leta, P.C. v. Segal*, 220 B.R. 434, 451 (D. Utah 1998) (citing Section 16-10a-840 for the proposition that directors and officers are “prohibited . . . from any form of self-dealing, fraud or other illegality”); *C & Y Corp.*, 896 P.2d at 54 (self-interested transactions do not give rise to liability “so long as corporate officers [or directors] act fairly and in good faith” (quoting *Runswick v. Floor*, 208 P.2d 948, 951 (Utah 1949) (modifications in original))).

As explained by the drafters of the Model Business Corporation Act, upon which Utah based its statute, the Model Act’s standard of conduct is intended to encompass “all aspects of directors’ duties,” including both “the duty of care” and “the duty of loyalty.” *See* Model Bus. Corp. Act. Ann. § 8.30 cmt. at 8-196 (Am. Bar Ass’n 2013). Indeed,

although Plaintiff's brief nowhere cites Section 16-10a-840, one of his own cases relies on the provision in holding that directors did not breach their fiduciary duties of loyalty despite allegations that, while serving on the board, they hatched "secret plans . . . to acquire the corporation's only profitable assets." *C & Y Corp.*, 896 P.2d at 54. The court in that case noted that the "business judgment rule creates [a] presumption that 'directors acted in good faith and in accordance with sound business principles.'" *Id.* (internal citation omitted). Given these fundamental governing principles, the District Court was correct to review all of the allegations in this case under the "general standards of conduct" rubric set forth in Section 16-10a-840.

**B. The Compensation Committee Members' Actions
Fall Well Within The Business Judgment Rule**

Because "[i]t is undisputed that the Members of the Compensation Committee complied with the terms of the Plan when they issued the February 2014 SSARs," the District Court held that their "actions are protected by the business judgment rule, and they did not breach their fiduciary duties." (R0612.) That was the correct result.

1. **The Compensation Committee Members Undisputedly
Complied With The Terms of the Incentive Plan**

Plaintiff has conceded, both on appeal and below, that the Compensation Committee granted the disputed SSARs in strict compliance with the Plan's unambiguous terms. (*See* Appellant's Br. at 30 ("the Compensation Committee complied with the 'strict letter' of the Plan by granting the SSARs at the February 3 trading price"); R0786 ("the compensation committee complied with the letter of the plan").) Those terms provide that SSARs must be granted at "Fair Market Value." (R0040.) "Fair Market

Value,” in turn, is explicitly defined in the Plan as the price paid on the principal exchange on which the stock is traded “on such date”—*i.e.*, the “then-current trading price” of USANA’s stock. (*Id.*; R0011 (“Article 7 of the Plan requires that the exercise price” for each SSAR shall be “the then-current trading price”).) Plaintiff does not dispute the District Court’s finding that there is no “limitation in the Plan” regarding the timing of awarding SSARs; “nor is there a provision in USANA’s corporate charter or bylaws that would prevent such an award.” Instead, as recognized by the District Court, there simply is no “shareholder-imposed restriction govern[ing] the timing of SSARs awards.” (R0612-13.)

Thus, under the Plan’s plain terms, the “Fair Market Value” of the SSARs on February 3, 2014 was \$57.62. Complying with that Plan requirement, the Committee issued the SSARs on that date with an exercise price of \$57.62. The Committee awarded them with a lengthy vesting period ranging from a minimum of approximately two to three-and-a-half years, which ensured “that the short-term jump in share price immediately after issuance of the SSARs will only bring value to the Defendants if the Company’s positive performance is sustained for 23 to 42 months.” (R0614.) Further, the Individual Defendants “fully disclosed the issuance of the SSARs” to the S.E.C., shareholders, and the general public three days after they were issued, ensuring that no one was misled about the timing or the amount of the recent compensation decision. (R0613.) All of these actions are undisputed, and none of them are alleged to violate any Plan term.

2. The Compensation Committee Members Also Complied With The “Spirit and Intent” Of The Incentive Plan

Given Plaintiff’s concession that these awards complied with the “letter” of the Incentive Plan, his entire argument for avoiding the business judgment rule—and thus dismissal—rests on proving that the Compensation Committee was attempting to “circumvent” the Plan. (Appellant’s Br. at 28, 31; *see Weiss*, 948 A.2d at 441-442 (allegations must support inference that “directors *intended to violate* the terms of stockholder-approved option plans”) (emphasis added); *In re Tyson Foods, Inc. Consol. S’holder Litig.*, 919 A.2d 563, 593 (Del. Ch. 2007) (same)). According to Plaintiff, the SSARs grants, though complying with the Plan’s actual terms, violated the “spirit and intent” of the Plan and “undermine[d] [its] very objectives.” (Appellant’s Br. at 30 (quoting *Tyson*, 919 A.2d at 592-93).)

As the District Court held, however, the awards in question “cannot be viewed as circumventing valid shareholder-approved restrictions upon the exercise price of the SSARs” because they were “undisputedly issued consistent with th[e] express provision[s]” of the Plan. (R0615.) The Plan places one—and only one—restriction on the timing of any SSARs awards: the exercise price must be the “then-current trading price.” (*Id.*) Although Plaintiff now argues that the February 3, 2014 price at which the market was trading USANA’s stock was not the “true” market value, nothing in the Plan requires the Compensation Committee to look to anything other than its *actual* “market” price. (Appellant’s Br. at 28.) Indeed, given that the Plan explicitly defines “Fair Market Value,” the Committee arguably would have violated the Plan by setting the exercise

price of the February 2014 SSARs at anything *other* than the “then-current trading price.” The Plan does not call for such speculation.

Although Plaintiff asks this Court to look beyond the “strict letter” of the Plan to its “spirit and intent,” Utah law requires courts interpreting unambiguous text to look to the plain meaning of the words the drafters chose. *See, e.g., Tom Heal Commercial Real Estate, Inc. v. Overton*, 2005 UT App 257, ¶ 8, 116 P.3d 965 (“the parties’ intentions are determined from the plain meaning of the contractual language”). Because Plaintiff asserts no ambiguity in the definition of “Fair Market Value,” or any other aspect of the Plan, this Court is “not at liberty to adopt a different” construction because it thinks “it might better advance” the unarticulated purposes Plaintiff believes the Plan should serve. *See Hughes Gen. Contractors, Inc. v. Utah Labor Comm’n*, 2014 UT 3, ¶ 29, 322 P.3d 712.

Regardless, Plaintiff’s “circumvention” argument fails on its own terms, given that the Plan’s stated goals fully support the challenged exercise of the Committee’s discretion. The Plan is designed to “motivate, attract, and retain the services” of a stable and talented management team committed to the long-term success of the Company. (R0031 (goals include incentivizing “management and employees to remain in continuing employment with the Company and to put forth maximum efforts”).) Plaintiff points to no language in the Plan expressing shareholder intent to prohibit pre-announcement incentive grants. To the contrary, the Plan is designed to “[m]aintain competitive compensation levels” and give the Company “flexibility” to hire and keep the people on

“whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.” (*Id.*)

In fact, the Plan has worked exactly as intended: since the SSARs were issued in February 2014, USANA has managed to keep the core of its leadership team intact and to continue unabated its period of “outstanding financial performance.” (R0616.) As noted, most of the SSARs have not yet vested, and many will not vest until August 2017, if at all. At present, their contingent value, should they vest, has risen to \$121—an increase of well over 100% from the \$57.62 price at the time of issuance in February 2014. In these circumstances, there can be no serious question that the awards helped serve the Plan’s goal of maximizing “Company performance, as reflected in *increased shareholder value.*” (R0031 (emphasis added).) Had the Company’s stock price suffered, the issued SSARs would potentially be worthless; instead the stock price has doubled. Contrary to Plaintiff’s contention that these grants “completely defeat the purpose of stock *appreciation* rights” (Appellant’s Br. at 35), their outstanding appreciation is exactly the type of sustained long-term performance that the Plan—and the shareholders—intended.

Indeed, the significance of the long-term nature of these SSARs is reflected in the recent retirement of two of the three Compensation Committee members—Ron Poelman and Jerry McClain. Because these two Board members retired before most of their February 2014 SSARs vested, their unvested SSARs were extinguished. (*See* USANA 2015 10-K, Ex. 10.3 § 4.) As a result, two of the three Committee members received no benefit whatsoever from their unvested SSARs, which comprised the bulk of their grants. (*Id.*)

Further proving the point, just last year USANA's shareholders voted to adopt a revised version of the Plan that is materially the same as the 2006 Plan in all relevant respects, including a nearly identical provision defining "fair market value." (*See* Addendum E, 2015 Incentive Plan § 2.16 (defining "Fair Market Value" as "the closing price of a share of Stock on the principal exchange on which shares of Stock are then trading".)) That is so even though the Company and its shareholders are well aware of this lawsuit and of the Board's history of compensating its key officers and directors with SSARs. If the shareholders had *actually* disapproved of the Compensation Committee's grant of the February 2014 SSARs, they could have expressed that disapproval by seeking to amend or reject the Plan's provisions related to such grants. Instead, they reaffirmed them.

3. Plaintiff's Out-of-State Authority Does Not Support His Claims

Plaintiff acknowledges that no Utah court has found that the challenged conduct violates a director's fiduciary duty of loyalty. (*See* Appellant's Br. at 17 (acknowledging that this is a case of "first impression" and that "there is no Utah law squarely on point".)) He nevertheless asks this Court to import a theory of corporate fiduciary duty liability based on a handful of Delaware trial-level decisions at the pleading stage. This Court should not permit Plaintiff to sue on a brand-new theory of fiduciary liability that not only has never been recognized by the courts or legislature in Utah, but that would frustrate the guidance of USANA's own shareholders.

a. Utah Courts Do Not Blindly Follow the Law of Delaware or Any Other State on Matters of Corporate Law

As an initial matter, Plaintiff's argument is founded on the false premise that Utah courts "often look to the courts of Delaware for guidance on matters of corporate law, particularly where there is 'no Utah authority squarely on point.'" (Appellant's Br. at 21 (quoting *Zagg, Inc. v. Harmer*, 2015 UT App 52, ¶ 8, 345 P.3d 1273).) His cases do not support that assertion, and instead, stand only for the unremarkable proposition that courts will generally look to the reasoning of "courts in other jurisdictions" when there is no on-point Utah precedent. *See Zagg*, 2015 UT App 52, ¶ 8 (citing, *inter alia*, decision from the 8th Circuit). *Zagg* is thus in keeping with Utah's rule that, in evaluating corporate law, courts will "examine Utah statutory law and the case law from other jurisdictions for guidance." *Arndt v. First Interstate Bank of Utah, N.A.*, 1999 UT 91, ¶ 17, 991 P.2d 58 (looking to the corporate law of multiple states for comparison, including Arkansas, Colorado, Delaware, and Texas).

The rule that Utah courts do not look to Delaware law exclusively or even predominantly makes sense, given that the states base their respective bodies of law on very different underlying statutes. Utah bases its corporate framework on a revised version of the Model Business Corporation Act. *See Holman v. Callister, Duncan & Nebeker*, 905 P.2d 895, 897 n.1 (Utah Ct. App. 1995); Erik G. Davis, *Restricting Shareholder Voting Rights Under the Utah Revised Business Corporation Act*, 1995 BYU L. Rev. 1297, 1297 (Utah's enactment of the 1992 Revised Act "modified various provisions of the Model Act to respond to local needs and concerns"). Utah has codified its business judgment rule and extended it to both "officers" as well as "directors," and is

the only state in the country to employ the deferential “gross negligence, willful misconduct, or intentional infliction” standard set forth in Utah Code § 16-10a-840(4). See Model Bus. Corp. Act. Ann. § 8.30 annot. at 8-213; see also *Resolution Trust Corp.*, 820 F. Supp. at 1365 (citing 1993 amendment that incorporated heightened “gross negligence” standard). That rule is intended to encompass “all aspects of directors’ duties,” including both the “duty of care” and “the duty of loyalty.” See Model Bus. Corp. Act. Ann. § 8.30 cmt. at 8-196. Moreover, Utah is one of only a handful of states to make this limitation of liability self-executing, *i.e.*, to “limit or eliminate the liability of directors even in the absence of a charter provision to the effect.” *Id.* § 8.31 cmt. at 8-252.

Unlike Utah, Delaware has not codified the business judgment rule. *Zapata Corp. v. Maldonado*, 430 A.2d 779, 782 (Del. 1981) (characterizing rule as “a judicial creation”). Although the Delaware Code permits corporations to limit director (but not officer) liability, it has expressly carved out from such limits any action that is not in “good faith” or that involves any “breach of the director’s duty of loyalty to the corporation or its stockholders.” Compare Del. Code Ann. tit. 8, § 102(b)(7), with Utah Code § 16-10a-840(4) (providing that directors and officers are “not liable” even for breaches of duties of care or of loyalty absent gross negligence or intentional misconduct). Also unlike Utah, Delaware’s provision is not self-executing—for director liability to be limited, Delaware law requires that a provision so stating be included in a corporation’s certificate of incorporation.

Given distinctions like these, this Court has previously declined to follow Delaware law in certain cases as “unhelpful because [it] do[es] not involve the interpretation of statutes similar” to the Revised Business Corporation Act. *Brewster v. Brewster*, 2010 UT App 260, ¶ 20 n.10, 241 P.3d 357 (refusing to follow Delaware authority regarding derivative actions because of differences with Utah law). In light of Utah’s unique business judgment rule, the same result follows here.

b. Even Under Delaware Law, Plaintiff’s Authority is Entirely Inapposite

Statutory differences aside, this Court should not adopt the reasoning of the three Delaware trial-court decisions that Plaintiff relies on, given that they are distinguishable in material respects and, in any event, unpersuasive. The major difference in all three cases is that they involved allegations of egregious shareholder deception—*i.e.*, an intent to circumvent shareholder-approved plans. As noted, the fully disclosed, long-term vesting incentive awards here do not involve similar deception. Nor are the Delaware cases otherwise similar to the case at hand.

For example, Plaintiff points to *In re CytRx Corp. Stockholder Derivative Litigation*, in which the compensation committee awarded an out-of-cycle grant of almost 3 million options to six directors and executives. It did so the day after the company learned “transformational” news regarding a clinical trial of its primary drug that promised to be “the single biggest event in the company’s history,” and a day before this “transformational” news became public. Tr. of Oral Arg. at 29:1-20 (R0542); 36:14-15 (R0549), 2015 WL 2207024 (Del. Ch. Jan. 8, 2015) (hereinafter “*CytRx Tr.*”). Unsurprisingly, after the news was released, the stock price vaulted from the \$2.39 strike

price to \$6.12 in two days—an increase of nearly 160%. *Id.* at 29:16-30:8 (R0542-43.) Most of the options began vesting in monthly installments on an immediate basis. *Id.*; (CytRx Corp., Definitive Proxy Statement, (Form DEF 14A) (May 1, 2014) at 26 (hereinafter “CytRx Proxy”), attached at Addendum G.) By comparison, USANA, in accordance with its regular practice, distributed just over 300,000 SSARs to ten executives, and none of the awards could be exercised for almost two years at the earliest. Neither *CytRx*’s proximate increase in stock price (160% versus 19%) nor the size of the awards (3 million grants versus 300,000) are remotely analogous to the present case.

Moreover, *CytRx* involved additional allegations of deception and other bad faith behavior. The company there had issued a deceptive proxy statement attempting to assure its shareholders that it had “not timed the release of material nonpublic information for the purpose of affecting the value of stock options or other compensation to our executive officers.” (CytRx Proxy at 23; *see* R0536 (characterizing company’s “affirmative disclosure that ‘We do not spring-load’”).) *CytRx* shareholders have also separately alleged the company’s executives had hidden schemes to pump up the company’s stock price artificially for their personal gain and failed to make meaningful disclosures. These allegations are the subject of several federal securities class and derivative actions currently pending in California. *CytRx* Tr. at 30:20-31:15 (R0543-44). Again, no similar deception or fraudulent scheme is alleged here.

Plaintiff also relies on *In re Tyson Foods, Inc. Consolidated Shareholder Litigation*, which likewise concerned a quantity and variety of fraud-based allegations that are profoundly different from the present case. *See* 919 A.2d 563. *Tyson* involved a

nine-count complaint alleging a history of board misdeeds stretching back years. These allegations included issuing lavish consulting contracts to favored directors, back-dating stock options, pumping up the stock price, engaging in undisclosed self-dealing transactions, and issuing millions of dollars of undisclosed perquisites to top executives. *Id.* at 575-80. Moreover, the *Tyson* board made multiple stock option grants identified as “spring-loaded” at irregular intervals, and all of them coincided with significant corporate announcements, including the sale of a major subsidiary. *Id.* at 576. Finally, the incentive plan in *Tyson* required that the exercise price “may not be less than the fair market value” of the stock, without defining “fair market value” as its “then-current trading price.” *Id.* at 575 n.15. In this context, the Delaware Chancery Court found that the plaintiffs adequately alleged a claim for breach of fiduciary duty based on the board’s repeated grant of these options. *Id.* at 574-75, 593; *see also In re Tyson Foods, Inc. Consol. S’holder Litig.*, 2007 WL 2351071, at *4 (Del. Ch. Aug. 15, 2007) (noting “gravamen of [claim] lies in the charge that defendants intentionally and *deceptively* channeled corporate profits to chosen executives”) (emphasis in original).

Finally, Plaintiff relies on *Weiss*, another Chancery Court decision relying on *Tyson*, challenging a board’s issuance of 22 allegedly spring-loaded and bullet-dodged stock option grants over the course of a decade. *Weiss*, 948 A.2d at 439. In denying the defendants’ motion to dismiss, the *Weiss* court noted that the plaintiff had acknowledged that “granting and receiving spring-loaded and bullet-dodged options might be an appropriate exercise of business judgment in some circumstances,” but had adequately alleged that the awards were “inconsistent with the expectations of the stockholders who

approved the plans.” *Id.* at 439-40; *see also Ausikaitis v. Kiani*, 962 F. Supp. 2d 661, 677 (D. Del. 2013) (recognizing claim where Board allegedly violated shareholder-approved plan and “masked” violations in yearly proxy statements).⁴

All of these cases are readily distinguishable from this one. In this case, there were no years of back-dating stock options, lavish perks, or consulting contracts; nor was there “transformational” news followed by an out-of-the-ordinary grant of stock options. Each of these Delaware courts interpreted the allegations, taken as a whole, as an attempt to “circumvent” or evade valid stockholder-approved restrictions, whereas the District Court here found the opposite. (*See* R0615 (the awards “cannot be viewed as circumventing valid shareholder-approved restrictions upon the exercise price of the SSARs”).) In any event, Plaintiff’s Delaware cases “are not binding on this Court” and “not persuasive,” given the differences between Delaware and Utah law and the undisputed facts here. (*Id.*)

Moreover, because these decisions were all at the pleadings stage, no court in Delaware has actually “held that spring-loading equity awards constitutes a breach of the fiduciary duty of loyalty,” as Plaintiff suggests. (Appellant’s Br. at 17 (emphasis added).)

⁴ Plaintiff also may attempt to rely on the recent Delaware decision *Larkin v. O’Connor*, in which the court followed its own *CytRx* precedent in declining to dismiss a spring-loading claim. Tr. of Oral Arg., No. 11338-CB (Del. Ch. Mar. 31, 2016). As in *CytRx*, *Larkin* involved the grant of out-of-cycle stock options to the company’s executives immediately before the company made a series of transformative positive announcements. (*Larkin* Compl. ¶¶ 31-70). Unlike the present case, the grants in *Larkin* were primarily issued under a new compensation policy that the shareholders had not yet approved. (*Id.*)

Likewise, no courts outside of Delaware appear to have addressed “spring-loading” beyond the pleading stage, and many have dismissed causes of action alleging spring-loading. *See, e.g., In re Ditech Networks, Inc. Derivative Litig.*, 2008 WL 820705, at *8 (N.D. Cal. Mar. 26, 2008) (dismissing spring-loading claims where plaintiff made only conclusory allegations and did not plead claims with particularity); *In re Keithley Instruments, Inc., Derivative Litig.*, 599 F. Supp. 2d 875, 907-08 (N.D. Ohio 2008) (dismissing spring-loading claims for failure to make demand on the board). Plaintiff points to no appellate cases, nor any decision in any state but Delaware, that supports his position. In fact, it appears that the only appellate courts to have considered spring-loading claims have affirmed their dismissal. *See Laborers v. Bailey*, 310 F. App’x 128, 130 (9th Cir. 2009) (affirming dismissal of spring-loading claims for failure to make demand); *Rosenberg v. Gould*, 554 F.3d 962, 967 (11th Cir. 2009) (affirming dismissal of spring-loading and back-dating claim for failure to state a claim). The law in this area is thus short on definitive pronouncements that spring-loading can ground a fiduciary-duty claim under any circumstances, and replete with examples of courts dismissing alleged spring-loading causes of action for failure to state a claim.

4. The Awards In Question Do Not Conflict With Public Policy

Plaintiff argues that, even though “spring-loading” has not been proscribed by Utah courts, the Utah legislature, or even USANA’s own shareholders, this Court should hold that it violates Utah’s “public policy” anyway. (Appellant’s Br. at 39.) In making this contention, Plaintiff relies exclusively on a decision that predates Utah’s codification of the business judgment rule by more than 60 years, and in all events gets that policy

backwards. (*Id.* (citing *Glen Allen Mining*, 296 P. at 240).) Current Utah law protects officers and directors from strict judicial oversight and the threat of “personal liability for corporate decisions” except in the rare egregious case involving actual fraud or gross negligence. *See* Utah Code § 16-10a-840(4). This position reflects a considered judgment by the Utah legislature not to casually embroil Utah courts in evaluating the wisdom of corporate decision-making. If this Court were to adopt Plaintiff’s rule, it would require Utah courts to second-guess whether a particular action, made in conformity with a compensation plan, nevertheless “undermine[d] the very objectives” of the Plan. (Appellant’s Br. at 30.) That, in turn, would chill corporate decision-making, making it harder for companies to attract and retain the most capable executives and directors. Such a holding would undermine the balance the Utah legislature struck in deferring to corporate decision-making, except in the rare case of malfeasance or utter indifference.

The undisputed facts here do not involve concealing information or misleading shareholders, and therefore do not represent that rare egregious case. Indeed, Plaintiff does not and cannot explain how effectuating the will of the shareholders through the shareholder-approved Incentive Plan was in any way “disloyal” to the Company. *See Criden v. Steinberg*, 2000 WL 354390, at *4 (Del. Ch. Mar. 23, 2000) (“Carrying out a predetermined stock option plan, approved by shareholders, entirely consistently with the plan can hardly be characterized as an act of a ‘disloyal’ fiduciary.”). Because the “text” of Utah’s business judgment rule “is the governing public policy in this area,” this Court will “remain faithful to the public policy embraced by the legislature” by “applying the

statute as written” to shield the challenged exercise of corporate judgment. *Strohm v. ClearOne Commc’ns, Inc.*, 2013 UT 21, ¶ 32, 308 P.3d 424 (discussing indemnification of corporate officers).

Plaintiff is also wrong to suggest that spring-loading is against public policy as a general matter. Although Plaintiff attempts to equate the practice of spring-loading with certain other actions the S.E.C. has condemned, such as options “backdating,” that attempt fails. (Appellant’s Br. at 22 n.11.) The S.E.C. has long brought enforcement actions involving the backdating of options—*i.e.*, deceptively manipulating the exercise price *after* the options have already been granted. See U.S. Sec. and Exchange Comm’n, Spotlight on Stock Options Backdating, *available at* <https://www.sec.gov/spotlight/optionsbackdating.htm>. But it has never directed similar attention to spring-loading allegations, given the very different conduct at issue. As the Court in *Desimone* put it, “[I]umping context-specific behavior involving varying motivations into generic categories such as . . . spring loading and bullet dodging, and driving results by such labeling, seems unlikely to do justice.” 924 A.2d at 938.

In fact, more than ten years ago, then-S.E.C. Commissioner Paul S. Atkins highlighted various ways in which pre-announcement options grants *benefit* companies and their shareholders. See Paul S. Atkins, Comm’r, U.S. Sec. and Exchange Comm’n, Remarks Before the International Corporate Governance Network 11th Annual Conference (July 6, 2006), <http://www.sec.gov/news/speech/2006/spch070606psa.htm>, (hereinafter “Atkins Remarks”). In his public remarks, Atkins specifically noted that “[i]n the best exercise of their business judgment, directors might very well conclude that

options should be granted in advance of good news,” because that will “maximize the value that the option recipient attaches to the option.” *Id.* Atkins further reasons that a “board that makes a consistent practice of timing options grants before the stock price rises should be able to pay lower cash salaries,” thereby minimizing salary expense for the company—and thus appropriately “representing the shareholders’ interests.” *Id.*

Thus, even if Plaintiff could prove spring-loading here, public policy may, at worst, view discretionary spring-loaded option grants as a mixed blessing, and in line with shareholder interests. *See* Utah Code § 16-10a-624(1) (giving boards the right to “determine the terms upon which the rights or options are issued” in absence of shareholder direction). At a minimum, Utah’s public policy demands the utmost caution in establishing a new form of liability over such grants in the absence of legislative or shareholder direction. This is especially true where, as here, the awards accorded with a compensation plan and thus fully “represent[ed] the shareholders’ interests.” *See* Atkins Remarks.

**C. Dismissal Of Plaintiff’s Claim Is Especially Justified Given
Rule 9(b)’s Heightened Pleading Requirements**

Even if spring-loading allegations could constitute a breach of fiduciary duty in some hypothetical circumstances, the District Court’s finding that Plaintiff failed to state a proper claim for fiduciary duty on these facts was fully justified—and particularly so under Rule 9(b)’s heightened pleading standard.

As the District Court found, allegations of option spring-loading sound in fraud, such that Plaintiff is bound to plead these causes of action “with particularity.” Utah R.

Civ. P. 9(b) (“In all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity.”). Rule 9(b) “is not limited to allegations of common law fraud,” but instead reaches “all circumstances where the pleader alleges the kind of misrepresentations, omissions, or other deceptions covered by the term ‘fraud’ in its broadest dimension.” *State v. Apotex Corp.*, 2012 UT 36, ¶ 22, 282 P.3d 66 (applying Rule 9(b) standard to plaintiff’s claims under Utah False Claims Act) (internal citations omitted). Because Plaintiff’s assertions regarding the Individual Defendants’ alleged history of “manipulating the granting of equity awards” is at heart a fraud claim, the District Court correctly recognized—and Plaintiff does not dispute—that he was “required to plead his breach of fiduciary duty claims (1st and 3rd claims) with the specificity required by Rule 9(b).” (R0606 (citing Compl. ¶¶ 45, 75-78, 83-86).)

A plaintiff cannot satisfy Rule 9(b) by simply alleging fraudulent conduct generally, but rather must allege facts with specificity. Plaintiff failed to do so here. As noted, Utah directors are “not liable” for an alleged breach of duty unless that “breach or failure to confirm constitutes gross negligence, willful misconduct, or intentional infliction of harm on the corporation or the shareholders.” Utah Code § 16-10a-840(4); *see also McLaughlin v. Schenk*, 2009 UT 64, ¶ 20, 220 P.3d 146 (liability is limited to situations of “oppression and misconduct by those in control”).

Here, Plaintiff has not, and could not, state his claim for breach of fiduciary duty with the requisite specificity. Indeed, as the District Court found, “there is nothing in Utah law or USANA’s corporate documents that would have given the Compensation Committee members any grounds to believe that they could be held personally liable for

granting options before announcing earnings.” (R0614.) To the contrary, the Plan expressly gives the Committee members “broad discretion in issuing SSARs” and protects them from liability for their good-faith actions. (*Id.*) Plaintiff, who admits that the directors followed the Plan’s terms, failed to plead with particularity that the directors *intended* to violate that Plan, *knew* that their actions would violate the Plan, or acted with *utter indifference* to the terms of the Plan. Accordingly, even if spring-loading could be considered a breach of fiduciary duty in some circumstances, Plaintiff still failed to state a proper claim here.

II. PLAINTIFF FAILED ADEQUATELY TO PLEAD CLAIMS AGAINST DIRECTORS AND OFFICERS WHO MERELY RECEIVED EQUITY AWARDS

In addition to the claims against the three Compensation Committee members, Plaintiff also attempts to state two claims against *all* of the Individual Defendants—including the six Officer Defendants and the one Director Defendant who took no part in issuing the February 2014 SSARs—for breach of their fiduciary duties (Count Three) and unjust enrichment (Count Four). The District Court properly dismissed these claims because, regardless of whether Utah would recognize “spring-loading” liability, Utah does not recognize claims based on mere acceptance of executive compensation.

A. The Mere Passive Receipt of SSARs Cannot Support A Claim Of Breach Of Fiduciary Duty

Plaintiff’s third claim for relief alleges that the ten Individual Defendants—including the seven who took no part in issuing the SSARs—violated their fiduciary duty to the corporation merely “by accepting the spring-loaded SSARs knowing such SSARs

were spring-loaded at the time of grant.” (R0288; *see also* R0278 (“each of the Individual Defendants breached his or her fiduciary duty owed to USANA by knowingly accepting the SSARs they knew were spring-loaded”).) This argument, which Plaintiff addresses only in a footnote, fails for the same reason that Plaintiff’s first fiduciary duty claim fails. (Appellant’s Br. at 26 n.13.) His conclusory allegations are insufficient to state a claim under Rule 9(b)’s heightened pleading standard, given that Plaintiff nowhere alleges that it constitutes “gross negligence, willful misconduct, or intentional infliction of harm on the corporation or the shareholders” to passively accept an option that someone else has awarded. As *Tyson* itself suggests, a spring-loading claim, even if allowed, should be brought only against “the directors that approved [the] spring-loaded . . . options” and the complaint should therefore name “only the members of the compensation committee.” 919 A.2d at 591-93.

Plaintiff relies on *Weiss* to support the proposition that mere receipt of a spring-loaded SSAR can establish a breach of fiduciary duty. But as the Plaintiff’s quoted language from *Weiss* confirms, that decision was rendered “[u]nder the liberal pleading standards of th[e]” Delaware courts, where “knowledge may be averred generally.” *Weiss*, 948 A.2d at 449. By contrast, in Utah, such claims must be stated “with particularity.” Utah R. Civ. P. 9(b). Far from pleading this claim “with particularity,” Plaintiff’s only factual allegation with regard to receipt of the SSARs is entirely conclusory: “[E]ach of the Individual Defendants breached his or her fiduciary duty owed to USANA by knowingly accepting the SSARs they knew were spring-loaded, and each was unjustly enriched by the receipt thereof.” (R0278.) This allegation does not

begin to satisfy Rule 9(b). *See Franco v. Church of Jesus Christ of Latter-day Saints*, 2001 UT 25, ¶ 36, 21 P.3d 198 (“mere conclusory allegations in a pleading, unsupported by a recitation of relevant surrounding facts, are insufficient to preclude” dismissal).

**B. The Mere Passive Receipt of SSARs Cannot Support
A Claim Of Unjust Enrichment**

Plaintiff’s claim for unjust enrichment is equally meritless. The District Court correctly dismissed Plaintiff’s claims, which again consisted of nothing more than conclusory allegations. As the District Court found, Plaintiff failed to allege that the Individual Defendants who received the February 2014 SSARs either appreciated or had knowledge of any *unjust* benefit, as required by Utah law. *See Desert Miriah, Inc. v. B&L Auto, Inc.*, 2000 UT 83, ¶ 13, 12 P.3d 580 (“the conferee must appreciate or have knowledge of the benefit”). Plaintiff’s repeated citations to Delaware authority and the *CytRx* decision do not support his argument, as Delaware law contains no similar knowledge requirement. *Compare Nemec v. Shrader*, 991 A.2d 1120, 1130 (Del. 2010) (requiring only “(1) an enrichment, (2) an impoverishment, (3) a relation between the enrichment and impoverishment, (4) the absence of justification, and (5) the absence of a remedy provided by law”).

Moreover, even if the Individual Defendants hypothetically had known they were receiving some *improper* benefit with the February 2014 SSARs. The District Court properly held that the Complaint failed to allege that they accepted and retained the benefits “under circumstances that would make it unjust” to do so. *Emergency Physicians Integrated Care v. Salt Lake Cty.*, 2007 UT 72, ¶ 11, 167 P.3d 1080. For an

unjust enrichment claim to survive, “the enrichment to the defendant must be unjust in that the defendant received a true windfall or ‘something for nothing.’” *Id.* ¶ 26. In his limited allegations related to this claim, Plaintiff fails to allege a single fact suggesting that the Individual Defendants received “something for nothing” through the SSARs, or were otherwise undeserving of their incentive compensation. “To the contrary, the Complaint makes clear that each of the Individual Defendants had substantial responsibilities and duties to perform at USANA, and that, under their watch, USANA had outstanding financial performance.” (R0616 (internal citations omitted); *see, e.g.*, R0276 (“2013 was an exceptional year for USANA,” marking the “11th consecutive year of record sales and our fourth consecutive year of record earnings”).) The substantial value that the shareholders have received since the Complaint was filed, and before most of the awards have even vested, further belies the allegation that the Individual Defendants were enriched “unjustly.” Accordingly, Plaintiff failed to plead “specific facts showing that the value of the [Individual Defendants’] work was less than the value of the [SSARs] they received.” *See In re Ditech*, 2008 WL 820705, at *9; *see also Desert Miriah*, 2000 UT 83, ¶ 17 (affirming dismissal of unjust enrichment claim where plaintiff failed to show inequity).

III. PLAINTIFF CANNOT MEET THE “DEMANDING STANDARD” OF PLEADING A CORPORATE WASTE CLAIM

The District Court was also correct to dismiss Plaintiff’s final claim for relief brought against the three Compensation Committee members for “Waste of Corporate Assets.” (R0288.) Plaintiff’s brief spends barely half a page on its “waste” claim, and

cites no Utah authority to support it. This Court need “not address arguments that are not adequately briefed.” *State v. Thomas*, 961 P.2d 299, 304 (Utah 1998); *see also* Utah R. App. P. 24(a)(9) (requiring an appellant’s argument to “contain the contentions and reasons of the appellant with respect to the issues presented”).

In any event, this claim is meritless. Initially, there is substantial doubt as to whether Utah even recognizes a claim for corporate waste. This Court has previously left open the question of whether such a claim exists independent of a breach-of-fiduciary-duty claim. *See Reedeker*, 952 P.2d at 587 n.11 (declining to reach defendants’ argument that plaintiff’s “breach of fiduciary duty and his mismanagement and waste claims do not exist as independent claims because mismanagement and waste merely identify ways in which a trustee may breach his or her fiduciary duty”). In light of the specific conduct and liability standards set forth for fiduciaries in Utah Code § 16-10a-840, any allegations related to waste of corporate assets would necessarily be encompassed within a claim related to a director’s breach of fiduciary duties.

Yet even assuming an independent corporate “waste” claim exists under Utah law, the District Court properly held that Plaintiff’s conclusory allegations cannot surpass the high bar for a claim of corporate waste. Waste occurs if a “payment has *no relation* to the value of services for which it is given.” *Rogers v. Hill*, 289 U.S. 582, 591 (1933) (emphasis added). Utah has not weighed in, but other jurisdictions confirm that this is a “demanding standard.” *Daley v. Alpha Kappa Alpha Sorority, Inc.*, 26 A.3d 723, 730 (D.C. 2011) (allegations of unusual lump-sum payments failed to meet “demanding standard” of showing that claims are “egregious and irrational”); *see also Seidman*, 14

A.3d at 50 (“waste entails an exchange of corporate assets for consideration so disproportionately small as to lie beyond the range at which any reasonable person might be willing to trade” (internal quotation omitted)); *Brehm v. Eisner*, 746 A.2d 244, 263 (Del. 2000) (waste claims are confined to “unconscionable cases where directors irrationally squander or give away corporate assets”); *Smith v. Dunlap*, 111 So. 2d. 1, 4 (Ala. 1959) (waste claims must show “that the directors have not acted in good faith or that the compensation fixed by them is so excessive that it bears no reasonable relation to the services for which it is given”).

Moreover, to challenge executive compensation issued pursuant to a shareholder-approved plan as corporate waste requires allegations that “establish a complete *failure* of consideration, and not merely the insufficiency of the consideration received.” *In re 3COM Corp. S’holders Litig.*, 1999 WL 1009210, at *4 (Del. Ch. Oct. 25, 1999) (emphasis in original). Under this standard, “[t]he company would literally have to get nothing whatsoever for what it gave.” *Id.*

In the face of these exacting legal requirements, Plaintiff contends only that the February 2014 SSARs (or at least the spring-loaded portion of them) constitute “waste” because they serve “no valid corporate purpose.” The awards here have not only served a “valid” corporate purpose, but the specific valid purposes the shareholders have twice blessed: first in the 2006 Incentive Plan, and later, in the 2015 Incentive Plan containing the same relevant language. These awards were issued in line with the Plan’s goals of providing long-term executive compensation to attract the most capable candidates and to incentivize existing management to stay with USANA and devote themselves to the

Company's success. Although Plaintiff purports to challenge only the "amount" of the grant as wasteful given the strike price of \$57.62, that was merely the price mandated by the Plan, such that the Committee's discretionary decision falls well within the confines of the business judgment rule. Even if Utah would recognize a waste claim, Plaintiff's conclusory allegations simply do not state a claim for relief.

CONCLUSION

For the foregoing reasons, the judgment of the District Court should be affirmed.

Respectfully submitted,

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May 23, 2016

CERTIFICATE OF COMPLIANCE

I hereby certify that the foregoing brief is in 13-point Times New Roman proportional font and contains 13,256 words, and thus complies with the typeface requirements of Rule 27(b) and the type-volume limitation of Rule 24(f) of the Utah Rules of Appellate Procedure.

/s/ Erik A. Christiansen

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May 23, 2016

CERTIFICATE OF SERVICE

I hereby certify that on this 23rd day of May, 2016, I caused to be served by first class U.S. mail, postage prepaid, two true and correct copies of the foregoing Response Brief of Appellants upon the following:

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May 23, 2016

No. 20150852-CA

IN THE
UTAH COURT OF APPEALS

JAMES ROBERT RAWCLIFFE,

Plaintiff and Appellant,

v.

ROBERT ANCIAUX, et al.,

Defendants and Appellees.

ADDENDA A-B – VOLUME ONE

Appeal from the Third District Court, Salt Lake County, State of Utah
The Honorable Heather Brereton, District Court No. 140905252

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ORAL ARGUMENT REQUESTED

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 29, 2007

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)

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

(Title of each class)
Common Stock, Par Value \$0.001 Per Share

(Name of each exchange on which registered)
The Nasdaq Stock Market LLC

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 No

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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 definition 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 Act). Yes No

There were 16,392,384 shares of the registrant's common stock outstanding as of March 3, 2008. The aggregate market value of common stock held by non-affiliates of the registrant as of June 29, 2007 was approximately \$342,758,000.

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 the 2008 Annual Shareholders Meeting.

USANA HEALTH SCIENCES, INC.

FORM 10-K

For the Fiscal Year Ended December 29, 2007

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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 Operation. 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.

PART I

Item 1. Business

General

USANA Health Sciences, Inc. ("We," "USANA" or the "Company") is a Utah corporation, founded in 1992 by Myron W. Wentz, Ph.D., that develops and manufactures high-quality, science-based nutritional and personal care products, with a commitment to continuous product innovation and sound scientific research. We distribute and sell our products internationally through a network marketing system, which is a form of direct selling. Our international markets include Canada, Mexico, Australia, New Zealand, Singapore, Malaysia, Hong Kong, Taiwan, Japan, and South Korea, and direct sales from the United States to the United Kingdom and the Netherlands. 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 their personal use and are not permitted to resell or to distribute the products. As of December 29, 2007, we had 176,000 active Associates and 78,000 active Preferred Customers worldwide. For purposes of this report, we only count as "active" those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period. Our net sales in fiscal year 2007 were \$423.1 million, of which 87% was generated by Associates, and 13% by Preferred Customers.

Associates are encouraged to build and manage their own sales force by recruiting, managing, and training others to sell our products, and they are compensated on sales generated by their business group. Associates can also receive compensation by purchasing products at wholesale prices and selling them at retail prices. We believe that network marketing is an effective way to distribute our products because it allows person-to-person product education, which is not readily available through traditional distribution channels. This personal touch may enhance consumers' awareness of the health benefits of our products, as well as motivate them to live and support a healthier lifestyle. Additionally, we feel that network marketing appeals to a broad cross-section of people, particularly those seeking to supplement their income, start a home-based business, or pursue entrepreneurial opportunities other than conventional full-time employment. We consider our high-quality products, compact product lines, the rewarding USANA Associate compensation plan (the "Compensation Plan"), distributor support and recognition, and weekly Associate incentive payments to be attractive components of the USANA network marketing system.

We sell products from two primary product lines: USANA® Nutritionals, which includes high-quality supplements and functional foods, and Sensé—beautiful science® (Sensé), a unique line of skin and personal care products. We also offer sales and marketing tools that are designed to assist our Associates in building their businesses and in selling our products, as well as combination packs, which include a variety of products from each product line. In 2007, the USANA Nutritionals and Sensé™ product lines represented approximately 87% and 10%, respectively, of our total product sales. Sales from other items, the majority of which include marketing and sales tools, accounted for the remaining 3% of total product sales. We limit our product lines to include only science-based products that we believe can provide health benefits to a significant percentage of our customers. Additionally, while not required, our products are designed, manufactured, packaged, and labeled at levels that we believe are consistent with the more rigorous pharmaceutical standards.

From July 2003 through August 2007, we also operated a third-party contract manufacturing business at a facility located in Draper, Utah, which we historically disclosed as a separate reportable business segment. We acquired the contract manufacturing business as part of a vertical integration strategy to manufacture and package our Sensé™ line of skin and beauty care products. On August 10, 2007, we sold our third-party contract manufacturing business in order to focus on our direct selling business. We retained the assets that are associated with manufacturing and packaging our Sensé

products. We currently lease space from the Draper facility, where we continue to manufacture and package our Sensé products. As a result of the sale of the third-party contract manufacturing business, we now consider our operations to be a single reportable segment: Direct Selling.

Products

Our primary product lines consist of USANA® Nutritionals and Sensé™. The USANA® Nutritionals product line is further categorized into three separate classifications: Essentials, Optimizers, and Macro-Optimizers.

USANA® Nutritionals

The Essentials include core vitamin and mineral supplements that provide a foundation of advanced nutrition for every age group. To help meet the "essential" nutrient needs of children and teens during the years of development, when good nutrition is especially important, USANA offers: Usanimals™, a formulation of vitamins, minerals, and antioxidants, in an easy-to-take, chewable tablet for children who are 13 months to 12 years old; and Body Rox™, a nutritional supplement containing 31 essential vitamins, minerals, antioxidants, and cofactors for adolescents who are 12 to 18 years old. USANA® Essentials for adults consists of two products: Mega Antioxidant, a balanced, high-potency blend of 30 vitamins, antioxidants, and other important nutrients to support cellular metabolism and to counteract free-radical damage; and Chelated Mineral, a complete spectrum of essential minerals, in balanced, highly absorbable forms. The USANA® Essentials are also a part of the HealthPak 100™, a convenient pillow pack that also includes some key Optimizers. During the third quarter of 2007, we introduced a new product concept for our customers called MyHealthPak™. This concept offers a fully customizable packaging system for our supplement products that allows customers to create their own personalized selection of our full line of nutritional supplements in a pillow pack that is similar to our HealthPak 100 product.

Optimizers are more targeted supplements that are designed to meet individual health and nutritional needs. Products in this category include Proflavanol®, Poly C®, Procosa® II, CoQuinone® 30, BiOmega-3™, E-Prime™, BodyRox™—Active Calcium™ Chewable, Active Calcium™, PhytoEstrin™, Palmetto Plus™, Ginkgo-PS™, Garlic EC™, Visionex®, OptOmega®, Hepasil DTX™, and TenX™ Antioxidant Blast.

The Macro Optimizers include healthy, low-glycemic functional foods and other related products: Nutrimeal™, Fibergy®, and SoyaMax™ drink mixes, as well as Nutrition and Fibergy Bars™. Our RESET™ weight management program and the accompanying RESET kit are also part of the Macro Optimizers. The RESET kit is conveniently packaged in a self-contained box with all of the USANA products that are needed to complete a five-day regimen, which is designed to assist adults in losing weight and in beginning a positive, long-term change in their diet.

Sensé—beautiful science®

The Sensé product line includes premium, science-based, personal care products that support healthy skin and hair by providing advanced topical nourishment, moisturization, and protection. These products 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. Products in this line include Perfecting Essence, Gentle Daily Cleanser, Hydrating Toner, Daytime Protective Emulsion, Eye Nourisher, Night Renewal, Serum Intensive, Rice Bran Polisher, Crème Masque, Revitalizing Shampoo, Nourishing Conditioner, Firming Body Nourisher, Energizing Shower Gel, and Intensive Hand Therapy.

All Other

In addition to these principal product lines, we develop and sell materials and online tools that are designed to assist our Associates in building their businesses and in marketing our products. These resource materials and sales tools include product brochures and business forms that are designed by us and are printed by outside publishers. In addition, we occasionally provide reprints of other commercial publications that feature USANA and may be used as a sales tool. We also periodically contract with authors and publishers to produce or provide books, tapes, and other items that deal with health topics and personal motivation, which we then sell to our Associates. New Associates are required to purchase a starter kit, which contains USANA training materials that help them to build their businesses. Associates do not earn commissions on the sale of starter kits or sales tools.

The following table summarizes the approximate percentages of total product sales that were contributed by our major product lines for the last three fiscal years:

	Year Ended		
	2005	2006	2007
USANA® Nutritionals			
Essentials*	38%	37%	36%
Optimizers	34%	34%	38%
Macro Optimizers	10%	13%	13%
Sense—beautiful science®	15%	11%	10%
All Other	3%	5%	3%

* The Essentials category (under the USANA® Nutritionals) includes USANA Essentials™, HealthPak 100™, Body Rox™, and Usanimals™.

Key Products

The following table highlights sales data for our top-selling products as a percentage of total product sales for the last three fiscal years.

	Year Ended		
	2005	2006	2007
USANA® Essentials	22%	21%	20%
HealthPak 100™	13%	14%	13%
Proflavanol®	10%	9%	10%

Geographic Presence

Our products are distributed and sold in 13 countries throughout the world. We have historically presented information for these countries in two geographic regions: North America and Asia Pacific. North America included the United States, Canada, Mexico, and direct sales to the United Kingdom and the Netherlands; and Asia Pacific included Australia-New Zealand, Hong Kong, Japan, Taiwan, South Korea, Singapore, and Malaysia. As our international presence has continued to grow, we now present this information in four geographic regions:

- North America—United States, Canada, Mexico, and direct sales from the United States to the United Kingdom and the Netherlands
- Southeast Asia/Pacific—Australia-New Zealand, Singapore, and Malaysia*

* We commenced operations in Malaysia in January 2007.

- East Asia—Hong Kong and Taiwan
- North Asia—Japan and South Korea

Currently, a significant portion of our net sales are concentrated in the North America region, which represented 63.1% of net sales in 2007. The United States continues to be our largest market, representing 40.1% of net sales during 2007. As we continue to expand internationally, our operating results will likely become more sensitive to economic and political conditions in foreign markets, as well as to foreign currency fluctuations. Net sales reported for each geographic region are determined by the location from which the product shipment originates and are reported for the last three fiscal years below. Additional financial information relating to our geographic regions can be found in Note M to the Consolidated Financial Statements.

Region	Year Ended					
	2005		2006		2007	
North America	\$ 209,445	66.5%	\$ 246,489	67.5%	\$ 267,235	63.1%
Southeast Asia/Pacific	58,300	18.5%	65,104	17.8%	90,690	21.4%
East Asia	32,349	10.3%	37,478	10.3%	49,314	11.7%
North Asia	14,923	4.7%	16,095	4.4%	15,910	3.8%
	\$ 315,017	100.0%	\$ 365,166	100.0%	\$ 423,149	100.0%

Research and Development

We focus our research and development efforts on developing and providing the highest quality, science-based products that reduce the risk of chronic degenerative disease and promote long-term health. 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 scientists are continually reviewing the latest published research on nutrition, attending scientific conferences, and working in collaboration with a number of outside research institutions and researchers to identify possible new products and opportunities to reformulate existing products.

In 2007, we expanded our existing relationship with the Linus Pauling Institute ("LPI") at Oregon State University in an effort to better determine 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 will collaborate with LPI on nutritional and clinical research. Additionally, we plan to contribute \$500,000 annually to LPI to help fund research on the role of nutrition in preventing oxidative stress, glycemic stress, and chronic inflammation, as well as the development of physiological markers of these conditions.

Our goal is to maintain a sharp focus on nutrition—both inside and outside the body—in the prevention of chronic degenerative diseases, and on healthy weight management. Because we believe in focusing on key health issues within our society rather than on fads, we do not introduce a new product unless we believe that it can provide health benefits to a significant percentage 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 Associates and Preferred Customers.

We follow pharmaceutical standards established by the U.S. Pharmacopeia in the development and reformulation of our products. Our ingredients are selected to meet a number of criteria, including, but not limited to: safety, potency, purity, stability, bio-availability, natural versus synthetic, and whether the ingredients are readily available. 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 2005, 2006, and 2007, we expended \$2.2 million,

\$3.0 million, and \$3.4 million, respectively, on research and development activities. We intend to continue dedicating resources at similar levels for the research and development of new products and the reformulation of existing products.

Manufacturing and Quality Assurance

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: 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.

Our Salt Lake City manufacturing facility is registered with the U.S. Food and Drug Administration ("FDA"), Health Canada, 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 GMP, and the TGA in compliance with the Therapeutic Goods Act of 1989.

For the last several years, the manufacture of nutritional or dietary supplements and related products in the United States has required compliance with food-model GMPs. On June 22, 2007, however, the FDA published GMPs for dietary supplements, which will become effective June 1, 2008. The dietary supplement GMPs are based on the food-model GMPs, with additional requirements that are specific to dietary supplements. We believe that our processes comply with the FDA's more demanding drug-model GMPs and, therefore, do not anticipate making any significant changes to our current processes to comply with these stricter requirements.

Personal Care Manufacturing

In addition to tablet manufacturing, we manufacture our personal care products at the Draper, Utah manufacturing facility. 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 the Draper facility, we have standard technology for producing batches of personal care items, and we have semi-automatic packaging equipment for packaging the end product. We employ qualified staff to develop, implement, and maintain a quality system. Although the FDA has not promulgated GMP requirements for manufacturing personal care products, we voluntarily maintain compliance with the product development and GMP guidance of the Cosmetic, Toiletry and Fragrance Association.

Third-Party Suppliers and Manufacturers

We contract with third-party suppliers and manufacturers for the production of some of our products. 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 gelatin-capsuled supplements, Garlic EC™, OptOmega®, certain powdered drink mixes, and nutrition bars.

Quality Control

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.

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, as needed, and believe we will be able to do so in the future, if the need arises. Our raw material suppliers must demonstrate stringent process and product quality control before we use their products in our manufacturing process.

Distribution and Marketing

General

We distribute our products internationally through a network marketing system, which is a form of person-to-person direct selling through a network of vertically organized independent distributors. These distributors purchase products at wholesale prices from the manufacturer and then make retail sales to consumers. 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, which is not as readily available through other distribution channels.

Structure of Network Marketing Program

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 downline sales organization. New Associates sign a written contract and agree to adhere to the USANA policies and procedures. New Associates are also required to purchase a starter kit that includes a detailed manual, including our policies and procedures. We sell starter kits at our cost for a price of approximately U.S. \$49. We also offer starter kits in an electronic format at a lower price, which we also sell at our cost. Subject to payment of a minimal annual renewal fee, Associates may continue to distribute products until they voluntarily withdraw or are terminated for failing to adhere to our policies and procedures.

We also sell directly to customers who purchase products only for personal consumption. This program is our "Preferred Customer" program. Preferred Customers may not resell or distribute our

products. We believe this program gives us access to a market that would otherwise be missed, by targeting customers who enjoy USANA products, but who prefer not to maintain a selling, distribution, or other business relationship with us. Although our policies prohibit Preferred Customers from engaging in retail sales of products, they may enroll as Associates at any time, if they desire. Preferred Customers are not eligible to earn commissions, nor to participate in our Compensation Plan.

Associate Training and Motivation

Initial training of Associates about the products, the Compensation Plan, network marketing, and about USANA is provided primarily by an Associate's sponsor and others in their sales organization. We develop and sell training materials and sales tools to assist Associates in building their businesses, as well as provide reprints from other commercial publications that feature USANA and may be used as sales tools. We also sponsor and conduct regional, national, and international Associate events, as well as intensive leadership training seminars. Attendance at these sessions is voluntary, and we undertake no generalized effort to provide individualized training to Associates, although experience shows that the most effective and successful Associates participate in training activities.

Associate Compensation

The Compensation Plan provides several opportunities for Associates to earn compensation, provided they are willing to consistently work at building, training, and retaining their downline organizations to sell USANA products to consumers. We believe this Compensation Plan is distinctive for its weekly payouts, which are designed to create appropriate incentives for the sale of USANA products. Associates cannot simply recruit others for the purpose of developing a downline and earn income passively, depending solely on the efforts of their downline. The primary way in which an Associate can earn compensation is by generating sales volume points through our base Compensation Plan. Sales volume points are assigned to each of our products and are generally targeted to represent a certain percent of the price in U.S. dollars. Each Associate is required to purchase a certain amount of product each month ("Qualifying Purchases"), which they must either resell to consumers or use personally in order to qualify to earn commissions or bonuses under USANA's Compensation Plan. Associates do not earn commissions on these Qualifying Purchases. The purpose of our Compensation Plan is to reward Associates for actively selling our products and for recruiting and retaining others to sell our products.

Associates can earn compensation in four ways:

- Generating sales volume points, which are based on product sales of their downline sales organization;
- Participating in a leadership bonus pool, which is based on certain performance requirements;
- Purchasing products at wholesale prices from USANA and selling them to consumers at higher retail prices; and
- Earning prizes or bonuses through Company-sponsored promotions and contests.

Most Associates sell our products on a part-time basis and consume them personally. The sponsoring of new Associates results in the creation of multiple levels within our network marketing structure. Sponsored Associates are referred to as the "downline" of the sponsoring Associate. Downline Associates may also sponsor new Associates, creating additional levels in their network, but also forming a part of the same downline as the original sponsoring Associate. Associates who are interested in earning additional income and who successfully expand their business network or downline can qualify for higher levels of compensation, as well as leadership bonuses, by attaining certain sales volume levels and by demonstrating leadership abilities. We do not pay commissions based on recruiting or sponsorship activity. Associates may not sell competitive products to other USANA

Associates or solicit USANA Associates to participate in other network marketing opportunities. Our policies and procedures also restrict Associates' advertising and representations or claims concerning USANA products or our Compensation Plan.

We endeavor to seamlessly integrate this Compensation Plan across all markets in which USANA products are sold, allowing Associates to receive commissions for global—not merely local—product sales. This seamless downline structure is designed to allow an Associate to build a global network by establishing downlines in any of the markets where we operate. Associates may expand their downline organizations into new markets without establishing new downlines or requalifying for higher levels of compensation in the newly opened markets. We believe this seamless Compensation Plan significantly enhances our ability to expand internationally, and we intend, where permitted, to continue to integrate new markets into our Compensation Plan.

Industry Overview

As both a manufacturer and a direct seller of nutritional and personal care products, we compete within two industries: nutrition and direct selling. The nutrition industry includes many small- and medium-sized companies that manufacture and distribute products that are generally intended to maintain the body's health and general well being, including the following:

- Nutritional Supplements—products such as vitamins and minerals, specialty supplements, herbs and botanicals, meal replacements, dietary supplements, and derivative compounds;
- Natural and Organic Foods—products such as cereals, milk, non-dairy beverages, and frozen entrees;
- Functional Foods—products with added ingredients or fortification that are designed specifically for health or performance purposes; and
- Natural Personal Care—products combining nutrition with skin care.

We believe that the following factors drive growth in the nutrition industry:

- The general public's heightened awareness and understanding of the connection between diet and health;
- The aging population in most of our markets, particularly the baby-boomer generation in the U.S., who tend to use more nutritional supplementation as they age;
- Rising health care costs and the worldwide trend toward preventative health care; and
- Product introductions in response to new scientific findings.

Nutritional products are distributed through six major sales channels. Each channel has changed in recent years, primarily due to advances in technology and communications that have resulted in improved product distribution and faster dissemination of information. The major sales channels are as follows:

- Mass market retailers, including mass merchandisers, drug stores, supermarkets, and discount stores;
- Natural health food retailers;
- Network marketing;
- Mail order;
- Healthcare professionals and practitioners; and
- The Internet.

We distribute our products through a network marketing system, which is a common form of direct selling. According to the World Federation of Direct Selling Associations ("WFDSA"), the direct selling industry currently generates approximately \$110 billion annually in worldwide retail sales, through approximately 60 million independent distributors.

According to statistics compiled by the Direct Selling Association (the U.S. member of the WFDSA), the United States remains the largest market for direct selling, with \$32 billion in annual retail sales and 15 million independent distributors in 2006. According to the Direct Selling Association, wellness products, which include nutritional supplements and functional foods, accounted for 20.3% of the U.S. direct retail sales in 2006, and personal care products accounted for 33.7% of such sales.

We believe that we are well positioned to capitalize on growth trends in direct sales, as both a developer and manufacturer of nutritional supplements and personal care products.

Operating Strengths

Our principal objective is to be a leading developer and manufacturer of science-based nutritional and personal care products and to create a rewarding opportunity through network marketing for our Associates to distribute our products. Our strategy is to capitalize on our operating strengths, which include: a strong research and development program; in-house manufacturing capability; science-based products; an attractive Associate Compensation Plan with strong support; a scalable business model; and an experienced management team.

Emphasis on Research and Development. We have a technical team of approximately 20 individuals who contribute to our research and development activities. This team includes experienced scientists, including several scientists holding Ph.D. degrees, quality engineers, and regulatory specialists. In our research and development laboratories, our scientists and researchers:

- Investigate *in vitro* and *in vivo* activity of new natural extracts and formulated products;
- Identify and research combinations of nutrients that may be candidates for new products;
- Develop new nutritional ingredients for use in supplements;
- Study the metabolic activity of existing and newly identified nutritional ingredients;
- Enhance existing products, as new discoveries in nutrition and skin care are made; and
- Formulate products to meet the regulatory requirements in all of our markets.

Our scientists and researchers also perform double-blind, placebo-controlled, clinical studies which are intended to further evaluate the efficacy of our products. We also collaborate with outside research organizations to further support various aspects of our research and development efforts. For example, in 2007 we expanded our existing relationship with LPI at Oregon State University. Additionally, we fund clinical research programs at Boston University and the University of Colorado. It is through our research and development efforts and our partnerships with outside research organizations that we can provide what we believe to be some of the highest quality health products in the industry.

In-house Manufacturing. We manufacture products that account for approximately 74% of product sales. We believe that our ability to manufacture our own products is a significant competitive advantage for the following reasons:

- We can better control the quality of raw materials and the purity and potency of finished products;
- We can more reliably monitor the manufacturing process to reduce the risk of product contamination;

- We can better control production schedules to increase the likelihood of maintaining an uninterrupted supply of products for our customers;
- We are able to produce most of our own prototypes in the research phase of product development; and
- We believe we can better manage the underlying costs associated with manufacturing our products.

Science-based Products. As a result of our emphasis on research and development and our in-house manufacturing capabilities we have developed a focused and compact line of high-quality health products that we believe provide health benefits to a significant percentage of our customers. Our products have been developed based on a combination of published research, *in vitro* and *in vivo* testing, in-house and third-party clinical studies, and sponsored research. Additionally, we design, manufacture, package, and label our products in a manner that we believe is consistent with pharmaceutical standards.

Attractive Associate Compensation Plan and Support. We are committed to providing a highly competitive compensation plan to attract and retain Associates who constitute our sales force. We believe that our Compensation Plan is one of the most financially rewarding in the network marketing industry. Associate incentives totaled \$170.4 million, or 40.3% of net sales in 2007. We pay Associate incentives weekly and our Compensation Plan is a global-seamless plan, meaning that Associates can be compensated each week for their business success in any market in which we conduct business.

To support our Associates, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in business development and to provide a forum for interaction with successful Associates and with the USANA management team. We also provide low-cost sales tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates.

In addition to Company-sponsored meetings and sales tools, we maintain a website exclusively for our Associates, where they can keep up on the latest USANA news, obtain training material, manage their personal information, enroll new customers, shop for products, and register for Company-sponsored events. Additionally, through this website, Associates can access other online services. For example, we offer an online business management service, which includes a tool that helps Associates track and manage their business activity, a personal webpage to which prospects or retail customers can be directed, e-cards for advertising, and a tax management tool.

Business Model. We believe our business model provides, among others, the following advantages:

- Our business model does not require a company-employed sales force to sell our products, and we experience a minimal incremental cost to add a new Associate;
- Commissions paid to our Associates are tied to sales performance;
- Because payment is required at the time an Associate or Preferred Customer purchases product, we have virtually no accounts receivable;
- We have a monthly product subscription program known as "Autoship," which provides a stream of recurring revenue, (for the year ended December 29, 2007, this program represented 51% of our net sales); and
- We can readily expand into new international markets with only moderate investment, because we generally maintain only one administrative and customer support office and one or two warehouses in each of these markets.

Experienced Management Team. Our management team includes individuals with expertise in various scientific and managerial disciplines, including nutrition, product research and development, international development, marketing, customer network development, information technology, finance, and operations. The current executive management team has been in place for several years and is responsible for supporting growth, research and development, international expansion, strengthening our financial condition, and improving our internal controls.

Growth Strategy

We seek to grow our business by pursuing the following strategies:

Attract and Retain Associates and Preferred Customers. We recognize the need to continue to attract and retain Associates. We maintain emphasis on the partnership between the USANA management team and our Associate leaders. Through this partnership, our Associate leaders continue to host "Health & Freedom" meetings and online presentations, both aimed at presenting the business opportunity to potential Associates and providing additional training and resources for existing Associates. In addition to our Annual International Convention and our Asia Pacific Convention, we hold several regional events in key growth areas to provide support and training to new Associates in these areas. We intend to continue growing our business by maintaining a focus on our two core values, "True Health" and "True Wealth." We plan to accomplish this by increasing the number of active Associates and teaching them how to build a strong customer base. By leveraging the growth we have in our Associate field, we believe we can continue to attract individuals that are interested in joining a winning team and starting a home-based business with USANA.

We will continue to make it easier for our customers to order product from USANA and to learn about the many products that we offer. This will be accomplished with an improved online shopping cart and website, a product catalog dedicated to Preferred Customers, product sampling, and target marketing. We are also working on a Preferred Customer referral system, which will include awards and incentives for bringing in new customers. We believe we offer the finest web-based business tools in the industry. We will continue to make improvements and enhancements to these tools, which offer a convenient and simple way for our Associates to manage their business and be more productive.

Enter New Markets. We believe that significant growth opportunities continue to exist in markets where we currently conduct business and in new international markets. New markets are selected following an assessment of several factors, including market size, anticipated demand for USANA products, receptiveness to network marketing, and the market entry process, which includes consideration of possible regulatory restrictions on our products or our network marketing system. We have begun to register certain products with regulatory and government agencies in preparation for further international expansion. Wherever possible, we expect to seamlessly integrate the Compensation Plan in each market to allow Associates to receive commissions for global—not merely local—product sales. The seamless downline structure is designed to allow an Associate to build a global network by creating downlines across national borders. Associates are not required to establish new downlines or to re-qualify for higher levels of compensation in newly opened markets. We believe this seamless Compensation Plan can significantly enhance our ability to expand internationally, and we intend, where permitted, to integrate future markets into this plan.

Introduce New and Re-formulate Existing Products. Our research and development team is continually researching the latest scientific findings related to nutrition, looking at new technology and attending scientific conferences. If, in the process, we see potential for a new product that provides a true health benefit addressing a particular health issue, and if we believe its benefits can be realized by a significant percentage of our customers, we will generally pursue development of that product. At our International Convention in August, 2007, we introduced a new product and technology, called

MyHealthPak. This technology allows customers to create their own personalized selection of our line of nutritional supplements in daily AM and PM pillow packs.

If in the process of our research activities mentioned above, our research and development team identifies a new or existing ingredient that could possibly be used to enhance one of our existing products, we will generally pursue a product upgrade. Our intention is to ensure that all of our products, new and existing, incorporate the latest science in nutrition. We typically upgrade at least one of our products each year.

Pursue Strategic Acquisitions. We believe that attractive acquisition opportunities may arise in the future. We intend to pursue strategic acquisition opportunities that would grow our customer base, expand our product lines, enhance our manufacturing and technical expertise, allow vertical integration, or otherwise complement our business or further our strategic goals.

Capital Investment. During 2007 and continuing in 2008, we have significantly added to our capital and human resources in order to support the growth of our business. In Salt Lake City, we have largely completed an expansion and upgrade of our corporate campus. In addition to the expansion of the corporate headquarters and manufacturing facilities, in 2007 we purchased a facility in Sydney, Australia and are working on the remodel and fit-out of this facility, to where our Australian operations will be moved. We also added to our human resources during 2007, increasing "bench strength" in key functions at our corporate and regional offices. Another significant investment during 2007 was the addition of a new automated packaging system, which should be fully functioning by the second quarter of 2008.

Product Returns

Product returns have not been a material factor in our business, totaling approximately 1.6% of net sales during each of the fiscal years 2005 and 2006, and 1.5% of net sales during fiscal year 2007. Because our emphasis on satisfaction is a hallmark of our business model, we permit Associates to return any unused product from their first purchase within the first 30 days following their purchase for a 100% refund of the sales price. Thereafter, any returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price less a 10% restocking fee. According to the terms of the Associate agreement, return of product that was not damaged at the time of receipt by the Associate, where the purchase amount exceeds \$100, may result in cancellation of the Associate's distributorship. Depending upon the conditions under which product was returned, Associates and Preferred Customers may receive their refunded amount either based on their original form of payment or with product or credit on account.

Major Customers

Sales are made to independent Associates and Preferred Customers. No single customer accounted for 10% or more of net sales in any of the last three fiscal years. Associates may sell products only in countries where we have approved the sale of our products.

Compliance by Associates

From time to time some Associates will fail to adhere to the USANA policies and procedures, including those governing the marketing of our products or the permissible representations regarding the Compensation Plan. We systematically review reports of alleged Associate misbehavior. Infractions of the policies and procedures are reported to a compliance committee that determines what disciplinary action may be warranted in each case. If we determine that an Associate has violated any of the USANA policies and procedures, we may take a number of disciplinary actions. For example, we may impose sanctions, such as warnings, fines or probation. We also may withdraw or deny awards, suspend privileges, withhold commissions until specific conditions are satisfied, or take other

appropriate actions in our discretion. More serious infractions may result in termination of the Associate's purchase and distribution rights completely.

Information Technology

We believe that the ability to efficiently manage distribution, compensation, manufacturing, inventory control, and communications functions through the use of sophisticated and dependable information processing systems is critical to our success. Our information technology resources are maintained primarily by our in-house staff to optimally support our customer base and core business processes. This staff manages an array of systems and processes which support our global operations 24 hours a day and 365 days a year. Three of our critical applications include the following:

- A web-based application that provides online services to Associates, such as training sessions and presentations, online shopping, enrollment, company and product information, and other tools to help Associates effectively manage their downline organizations. Our web applications are supported by a clustered environment and a redundant system outside of our home office, which serves as a disaster recovery site.
- A web-enabled order-entry system that handles order entry, customer information, compensation, the hierarchy of Associates, returns, invoices, and other transactional-based processes.
- A fully integrated worldwide Enterprise Resource Planning ("ERP") system that handles accounting, inventory management, production processes, quality assurance, and reporting requirements in a multinational environment. This ERP system supports global data integrity and multinational corporate governance and compliance.

Regulatory Matters

Product Regulation. Numerous governmental agencies in the United States and other countries regulate the manufacturing, packaging, labeling, advertising, promoting, distributing, and the selling of nutrition, health, beauty, and weight management products. In the United States, advertisement of our products is regulated by the Federal Trade Commission ("FTC") under the FTC Act and, where such advertising is considered to be product labeling by the FDA, under the Food, Drug, and Cosmetic Act ("FD&C") and the regulations thereunder. USANA products are also subject to regulation by, among others, the Consumer Product Safety Commission, the US Department of Agriculture, and the Environmental Protection Agency. The manufacturing, labeling, and advertising of products are also regulated by various governmental agencies in each foreign country in which they are distributed. For example, in Australia, we are subject to the Therapeutic Goods Administration and, in Japan, to the Ministry of Health, Labor and Welfare.

Our largest selling product group includes products that are regulated as dietary supplements under the FD&C. Dietary supplements are also regulated in the United States under the Dietary Supplement Health and Education Act of 1994 ("DSHEA"). We believe that the DSHEA provides a favorable regulatory climate to the dietary supplement industry. Some of our powdered drink, food bar, and other nutrition products are regulated as foods under the Nutrition Labeling and Education Act of 1990 ("NLEA"). The NLEA establishes requirements for ingredient and nutritional labeling including labeling claims. Although we believe our product claims comply with the law, we may need to revise some product labeling at a future date, if these labeling requirements change.

Under these regulations, a dietary supplement that contains a new dietary ingredient (defined as an ingredient not on the market before October 15, 1994) must have a history of use or other evidence of safety establishing that it is reasonably expected to be safe. The manufacturer must notify the FDA at least 75 days before marketing products containing new dietary ingredients and must provide the FDA with the information upon which the manufacturer has based its conclusion that the product has a reasonable expectation of safety.

For the last several years, the manufacture of dietary supplements and related products in the United States has required compliance with food-model GMPs. However, on June 22, 2007, the FDA published GMPs for dietary supplements, which will be effective June 1, 2008. The dietary supplement GMPs are based on the food-model GMPs, with additional requirements that are specific to dietary supplements. We believe that our processes comply with the FDA's more demanding drug-model GMPs and, therefore, do not anticipate making any significant changes to our current processes to comply with these more strict requirements.

In general, our personal care products, which are regulated as cosmetic products by the FDA, are not subject to pre-market approval by that agency. Cosmetics, however, are subject to regulation by the FDA under the FD&C adulteration and misbranding provisions. Cosmetics also are subject to specific labeling regulations, including warning statements, if the safety of a cosmetic is not adequately substantiated or if the product may be hazardous, as well as ingredient statements and other packaging requirements under the Fair Packaging and Labeling Act. Cosmetics that meet the definition of a drug (i.e., that are intended to treat or prevent disease or affect the structure or function of the body), such as sunscreens, are regulated as drugs. OTC drug products may be marketed if they conform to the requirements of the OTC monograph that is applicable to that drug. Drug products not conforming to monograph requirements require an approved New Drug Application ("NDA") before marketing may begin. Under these provisions, if the agency were to find that a product or ingredient of one of our OTC drug products is not generally recognized as safe and effective or is not included in a final monograph that is applicable to one of our OTC drug products, we will have to reformulate or cease marketing that product until it is the subject of an approved NDA or until the time, if ever, that the monograph is amended to include such product. If such an agency ruling were to become final, we would be required to stop marketing the product as currently formulated. Whether or not an OTC drug product conforms to a monograph or is subject to an approved NDA, the drug must comply with other requirements under the FDCA, including GMP's, labeling, and the FDCA's regulations regarding misbranding and adulteration.

Advertising of products is subject to regulation by the FTC under the FTC Act. Section 5 of the FTC Act prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce. Section 12 of the FTC Act provides that disseminating any false advertisement pertaining to drugs or foods, which includes dietary supplements, is an unfair or deceptive act or practice. Under the FTC's Substantiation Doctrine, an advertiser is required to have a "reasonable basis" for all objective product claims before the claims are made. Failure to adequately substantiate claims may be considered either deceptive or unfair practices. Pursuant to this FTC requirement, we are required to have adequate substantiation for all material advertising claims that we make for our products.

In recent years, the FTC has initiated numerous investigations of and actions against companies that sell dietary supplement, weight management, and cosmetic products. The FTC has issued guidance to assist companies in understanding and complying with its substantiation requirement. We believe that we have adequate substantiation for all material advertising claims that we make for our products, and we believe that we have organized the documentation to support our advertising and promotional practices in compliance with these guidelines.

The FTC may enforce compliance with the law in a variety of ways, both administratively and judicially, using compulsory process, cease and desist orders, and injunctions. FTC enforcement can result in orders requiring, among other things, limits on advertising, corrective advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as the agency deems necessary to protect the public. Violation of these orders could result in substantial financial or other penalties. We have not been notified that we were the subject of any action by the FTC, but any action in the future by the FTC could materially and adversely affect our ability to successfully market our products.

The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 ("Bioterrorism Act") includes several provisions that have resulted in additional regulatory compliance issues for us. For example, one provision in the Bioterrorism Act requires the Secretary of Health and Human Services to develop regulations that mandate that domestic and foreign facilities, which manufacture, process, pack, or hold food for human or animal consumption in the United States, register with the FDA. On November 24, 2003, we fulfilled this requirement by registering with the FDA. Another provision of the Bioterrorism Act mandates that the FDA receive prior notification of all food importation. Our TenX™ Antioxidant Blast is purchased from a manufacturer located in Canada, and therefore, we are required to comply with this notification requirement upon importation of this product. Although some of our raw materials and other certain manufactured product may originate outside of the United States, we procure these items from entities in the United States. From time to time, we may bring consumable products that we have sent from our Salt Lake facility to our international locations back into the United States from one or more of these locations. When bringing these products back into the United States from any international location, we are also required to comply with this notification requirement.

On December 9, 2006, President Bush signed the Dietary Supplement & Nonprescription Drug Consumer Protection Act into law. The legislation requires manufacturers of dietary supplement and over-the-counter products to notify the FDA when they receive reports of serious adverse events. USANA already has an internal adverse event reporting system that has been in place for several years. Based on our understanding of the new law's requirements, we made some changes to our existing reporting system, and believe that we now comply with these new regulations.

In markets outside the United States, prior to commencing operations or marketing products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or comparable agency. Approvals or licensing may be conditioned on reformulation of USANA products for the market or may be unavailable with respect to certain products or product ingredients. We must also comply with local product labeling and packaging regulations that vary from country to country. Foreign regulatory requirements have not placed a significant burden on our ability to operate in current foreign countries.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business. Future changes could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuation of certain products that cannot be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, and results of operations.

Network Marketing Regulation. Laws and regulations in each country in which we operate prevent the use of deceptive or fraudulent practices that have sometimes been inappropriately associated with legitimate direct selling and network marketing activities. These laws include anti-pyramiding, securities, lottery, referral selling, anti-fraud and business opportunity statutes, regulations, and court cases. Illegal schemes, typically referred to as "pyramid," "chain distribution," or "endless chain" schemes, compensate participants primarily or solely for the introduction or enrollment of additional participants into the scheme. Often these schemes are characterized by large up-front entry or sign-up fees, over-priced products of low value, little or no emphasis on the sale or use of products, high-pressure recruiting tactics, and claims of huge and quick financial rewards requiring little or no effort. Generally these laws are directed at ensuring that product sales ultimately are made to consumers and that advancement within sales organizations is based on sales of the enterprise's products, rather than on investments in the organizations or on other criteria or activity that are not related to retail sales. Where required by law, we obtain regulatory approval of our network marketing system, or, where

approval is not required or available, the favorable opinion of local counsel as to regulatory compliance.

In addition to federal regulation in the United States, each state has enacted its own "Little FTC Act" to regulate sales and advertising. Occasionally, we receive requests to supply information regarding our network marketing plan to regulatory agencies. Although we have, from time to time, modified our network marketing system to comply with interpretations of various regulatory authorities, we believe that our network marketing program is in compliance with the laws and regulations relating to network marketing activities in our current markets. Nevertheless, we remain subject to the risk that, in one or more of our present or future markets, the marketing system or the conduct of certain Associates could be found not to be in compliance with applicable laws and regulations. Failure by an Associate or by us to comply with these laws and regulations could have a material adverse effect on our business in a particular market or in general. Any or all of these factors could adversely affect the way we do business and could affect our ability to attract potential Associates or enter into new markets. In the United States, the FTC has been active in its enforcement efforts against both pyramid schemes and legitimate network marketing organizations with certain legally problematic components, having instituted several enforcement actions resulting in signed settlement agreements and the payment of large fines. Although, to our knowledge, we have not been the target of an FTC investigation, there can be no assurance that the FTC will not investigate us in the future.

On April 5, 2006, the FTC released a proposed New Business Opportunity Rule. This proposed rule would require pre-sale disclosures for all business opportunities, which might include network marketing compensation plans. The New Business Opportunity Rule is currently only a proposed rule. If implemented at all, the rule ultimately may not be implemented in a form that applies to network marketing compensation plans, or it may change significantly before it is implemented. If this proposed rule were adopted as it is currently proposed, it would require us to change some of our current practices regarding pre-sale disclosures.

We cannot predict the nature of any future law, regulation, interpretation, or application, nor can we predict what effect additional governmental legislation or regulations, judicial decisions, or administrative orders, when and if promulgated, would have on our business. It is possible that future legal requirements may require that we revise our network marketing program. Such new requirements could have a material adverse effect on our business, results of operations, and financial condition.

Transfer Pricing Regulation. We have adopted transfer prices, which are supported by a formal transfer pricing study for the sale of products to our subsidiaries in accordance with applicable transfer pricing laws. In addition, agreements between our subsidiaries and us have been entered into for services and contractual obligations, such as the payment of Associate incentives that are also supported by the same formal transfer pricing study. If the United States Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge these agreements or require changes in our standard transfer pricing practices for products, we could become subject to higher taxes and our earnings may be adversely affected. The tax treaties between the United States and most foreign countries provide for competent authority relief to avoid any double taxation. We believe that we operate in compliance with all applicable transfer pricing regulations. There can be no assurance, however, that we will continue to be found to be operating in compliance with transfer pricing regulations or that those laws will not be modified, which may require that we change our operating procedures.

Competition

We compete with other network marketing companies for distributors. We also compete with manufacturers, distributors, and retailers of nutritional products for consumers. On both fronts, some of our competitors are significantly larger than we are and have greater financial resources and better

name recognition than we do. We compete with these entities by emphasizing the underlying science, value, and superior quality of our products, simplicity in our product offerings, and the convenience and financial benefits afforded by our network marketing system and global seamless Compensation Plan.

Our business is driven primarily by our distributors, whom we refer to as Associates. Our ability to compete with other network marketing companies depends, in significant part, on our success in recruiting and retaining Associates. There can be no assurance that our programs for recruiting and retaining Associates will be successful. The pool of individuals interested in network marketing is limited in each market and is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although we believe that we offer an attractive opportunity for our Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

We believe that the leading network marketing company in the world, based on total sales, is Amway Corporation and its affiliates, and that Avon Products, Inc. is the leading direct seller of beauty and related products worldwide. Leading competitors in the nutritional network marketing and nutritional product industry include Herbalife Ltd., Inc.; Market America, Inc.; Nu Skin Enterprises, Inc.; NBTY, Inc.; Mannatech; and Schiff Nutrition International, Inc. Based on information that is publicly available, 2006 net sales of the aforementioned companies range from \$178 million to \$8.7 billion. We believe there are other manufacturers of competing product lines that may launch direct selling enterprises, which will compete with us in certain product lines and in the recruiting of Associates. There can be no assurance that we will be able to successfully meet the challenges posed by this increased competition.

Intellectual Property

Trademarks. We have developed and we use registered trademarks in our business, particularly relating to our corporate and product names. We own 13 trademarks that are registered with the United States Patent and Trademark Office. Federal registration of a trademark enables the registered owner of the mark to bar the unauthorized use of the registered mark in connection with a similar product in the same channels of trade by any third-party anywhere in the United States, regardless of whether the registered owner has ever used the trademark in the area where the unauthorized use occurs. We have filed applications and own trademark registrations, and we intend to register additional trademarks in foreign countries where USANA products are or may be sold in the future. Protection of registered trademarks in some jurisdictions may not be as extensive as the protection in the United States.

We also claim ownership and protection of certain product names, unregistered trademarks, and service marks under common law. Common law trademark rights do not provide the same level of protection that is afforded by the registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used. We believe these trademarks, whether registered or claimed under common law, constitute valuable assets, adding to recognition of USANA and the effective marketing of USANA products. We therefore believe that these proprietary rights have been and will continue to be important in enabling us to compete.

Trade Secrets. We own certain intellectual property, including trade secrets, that we seek to protect, in part, through confidentiality agreements with employees and other parties, although some employees who are involved in research and development activities have not entered into these agreements. Even where these agreements exist, there can be no assurance that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known to or independently developed by competitors. Our proprietary product

formulations are generally considered trade secrets, but are not otherwise protected under intellectual property laws.

Patents. We have three U.S. patents. Two of our patents relate to the method of extracting an antioxidant from olives and the byproducts of olive oil production. These patents were issued in 2002 and will continue in force for 17 years from the date of issue. In 2003, we entered into a licensing agreement with a supplier to make olive extract using our patented process. Our third patent relates to a method of self preserving our Sensé™ line of products. This patent was issued in May 2007 and will continue in force for approximately 11 years from the date of issue. Currently, it is very difficult to determine the exact future benefit of these patents. We believe, however, that these patents have the potential to generate additional revenue in the future through new product development and royalties from licensing.

We intend to protect our legal rights concerning intellectual property by all appropriate legal action. Consequently, we may become involved from time to time in litigation to determine the enforceability, scope, and validity of any of the foregoing proprietary rights. Any patent litigation could result in substantial cost and divert the efforts of management and technical personnel.

Seasonality

The third quarter is seasonally our softest quarter of each year. In North America, which represents about two thirds of our consolidated net sales, Associate activity tends to slow down as a result of the summer vacation season. Additionally, we hold our International Convention during the third quarter each year, when we typically announce new products. Because our Associates anticipate these new products, they tend to order fewer products in the months preceding this Convention.

Backlog

Our products are typically shipped within 72 hours after receipt of an order. As of March 3, 2008 we had no significant backlog of orders.

Working Capital Practices

We maintain sufficient amounts of inventory in stock in order to provide a high level of service to our Associates and Preferred Customers. Substantial inventories are required to meet the needs of our dual role as manufacturer and distributor. We also watch seasonal commodity markets and may buy ahead of normal demand to hedge against cost and supply risks.

Environment

We are not aware of any instance in which we have contravened federal, state, or local laws relating to protection of the environment or in which we otherwise may be subject to liability for environmental conditions that could materially affect operations.

Employees

As of March 3, 2008, we had 956 employees worldwide, as measured by full-time equivalency. Our employees are not currently represented by a collective bargaining agreement, and we have not experienced work stoppages as a result of labor disputes. We believe that we have a good relationship with our employees.

Additional Available Information

We maintain executive offices and principal facilities at 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. Our telephone number is (801) 954-7100. We maintain a World Wide Web site at

www.usanahealthsciences.com. The information on our web site should not be considered part of this report on Form 10-K.

We make available, free of charge at our corporate web site, copies of our annual reports on SEC Form 10-K, quarterly reports on SEC Form 10-Q, current reports on SEC Form 8-K, proxy statements, and all amendments to these reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. This information may also be obtained from the SEC's on-line database, which is located at www.sec.gov.

Item 1A. Risk Factors

Forward-Looking Statements and Certain Risks

The statements contained in this report that are not purely historical are "forward-looking statements" within the meaning of Section 21E of the Exchange Act. These statements relate to our expectations, hopes, beliefs, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases, such as "believe," "expect," "anticipate," "should," "plan," "estimate," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operation" regarding our financial performance, revenue and expense levels in the future, and the sufficiency of our existing assets to fund future operations and capital spending needs. Actual results could differ materially from the anticipated results or other expectations expressed in these forward-looking statements or for the reasons discussed below. The fact that some of these risk factors may be the same or similar to those that we have filed with the Securities and Exchange Commission in past reports means only that the risks are present in multiple periods. We believe that many of the risks that are described here are part of doing business in the industry in which we operate and will likely be present in all periods. The fact that certain risks are endemic to the industry does not lessen their significance. The forward-looking statements in this report are made as of the date of this report, and we assume no obligation to update them or to update the reasons why our actual results could differ from those that we have projected in these forward-looking statements. Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include the following:

As a network marketing company, we are dependent upon an independent sales force and we do not have direct control over the marketing of our products. We rely on non-employee, independent Associates to market and sell our products. Associates are independent contractors who purchase products directly for their own use or for resale. Associates typically work at the distribution of the products on a part-time basis and likely will engage in other business activities, some of which may compete with us. We have a large number of Associates and a relatively small corporate staff to implement our marketing programs and to provide motivational support to our Associates. We undertake minimal effort to provide individual training to Associates. Our net sales are directly dependent upon the efforts of these non-employee, independent Associates. Our ability to maintain and increase sales in the future will depend in large part upon our success in increasing the number of new Associates, retaining our existing Associates, and in improving the productivity of our Associates.

We can provide no assurances that the number of Associates will increase or remain constant or that their productivity will increase. We experienced a 15.0% increase in active Associates during 2007 and 2006, and a 16.7% increase during 2005. The number of active Associates may not increase and could decline in the future. Associates may terminate their services at any time, and, like most direct selling companies, we experience a high turnover among new Associates from year to year. We cannot accurately predict any fluctuation in the number and productivity of Associates because we primarily rely upon existing Associates to sponsor and train new Associates and to motivate new and existing

Associates. Operating results could be adversely affected if our existing and new business opportunities and products do not generate sufficient economic incentive or interest to retain existing Associates and to attract new Associates.

The loss of a significant Associate or downline sales organization could adversely affect our business. We rely on the successful efforts of our Associates that become leaders within our Compensation Plan. Our Compensation Plan is designed to permit Associates to sponsor new Associates, creating multiple "business centers," or levels in the downline organization. Sponsored Associates are referred to as "downline" Associates within the sponsoring Associate's "downline network." If these downline Associates in turn sponsor new Associates, additional business centers are created, with the new downline Associates becoming part of the original sponsor's downline network. As a result of this network marketing system, Associates develop business relationships with other Associates. The loss of a key Associate or group of Associates, large turnovers or decreases in the size of the Associate force, seasonal or other decreases in purchase volume, sales volume reduction, the costs associated with training new Associates, and other related expenses may adversely affect our business, financial condition, or results of operations. Moreover, our ability to continue to attract and retain Associates can be affected by a number of factors, some of which are beyond our control, including:

- General business and economic conditions;
- Public perceptions about network marketing programs;
- High-visibility investigations or legal proceeding against network marketing companies by federal or state authorities or private citizens;
- Public perceptions about the value and efficacy of nutritional, personal care, or weight management products generally;
- Other competing network marketing organizations entering into the marketplace that may recruit our existing Associates or reduce the potential pool of new Associates; and
- Changes to the Compensation Plan required by law or implemented for business reasons that make attracting and retaining Associates more difficult.

There can be no assurance that we will be able to continue to attract and retain Associates in sufficient numbers to sustain future growth or to maintain our present growth levels, which could have a material adverse effect on our business, financial condition, or results of operations.

The violation of marketing or advertising laws by Associates in connection with the sale of our products or the promotion of our Compensation Plan could adversely affect our business. New Associates sign a written contract and agree to adhere to the USANA policies and procedures. Although these policies and procedures prohibit Associates from making false, misleading and other improper claims regarding products or income potential from the distribution of the products, Associates may, from time to time, without our knowledge and in violation of our policies, create promotional materials or otherwise provide information that does not accurately describe our marketing program. They also may make statements regarding potential earnings, product claims, or other matters in violation of our policies or applicable laws and regulations concerning these matters. These violations may result in legal action against us by regulatory agencies, state attorneys general, or private parties. Legal actions against our Associates or others who are associated with us could lead to increased regulatory scrutiny of our business, including our network marketing system. We take what we believe to be commercially reasonable steps to monitor the activities of our Associates to guard against misrepresentation and other illegal or unethical conduct by Associates and to assure that the terms of our policies and procedures and Compensation Plan are observed. There can be no assurance, however, that our efforts in this regard will be sufficient to accomplish this objective. Adverse publicity resulting

from such activities could also make it more difficult for us to attract and retain Associates and may have an adverse effect on our business, financial condition, and results of operations.

Network marketing is subject to intense government scrutiny and regulation, which adds to the expense of doing business and the possibility that changes in the law might adversely affect our ability to sell some of our products in certain markets. Network marketing systems, such as ours, are frequently subject to laws and regulations that are directed at ensuring that product sales are made to consumers of the products and that compensation, recognition, and advancement within the marketing organization are based on the sale of products rather than on investment in the sponsoring company. Regulatory authorities, in one or more of our present or future markets, could determine that our network marketing system does not comply with these laws and regulations or that it is prohibited. Failure to comply with these laws and regulations or such a prohibition could have a material adverse effect on our business, financial condition, or results of operations. Further, we may simply be prohibited from distributing products through a network-marketing channel in some foreign countries, or we may be forced to alter our Compensation Plan.

We are also subject to the risk that new laws or regulations might be implemented or that current laws or regulations might change, which could require us to change or modify the way we conduct our business in certain markets. This could be particularly detrimental to us if we had to change or modify the way we conduct business in markets that represent a significant percentage of our net sales. For example, the United States Federal Trade Commission released a proposed New Business Opportunity Rule on April 5, 2006. The proposed rule would require pre-sale disclosures for all business opportunities, which might include network marketing compensation plans. The New Business Opportunity Rule is currently only a proposed rule. If implemented at all, the rule ultimately may not be implemented in a form that applies to network marketing compensation plans, or it may change significantly before it is implemented. If the proposed rule were adopted as it is currently proposed, it would require USANA to change its current practices regarding pre-sale disclosures.

We may have or incur obligations relating to the activities of our distributors. Our distributors are subject to taxation, and, in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as sales taxes or value added taxes, and to maintain appropriate records of such transactions. In addition, we are subject to the risk in some jurisdictions of being responsible for social security and similar taxes with respect to our distributors. In the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our independent distributors as employees, or if our distributors are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors, under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results.

Our business is subject to the effects of adverse publicity and negative public perception. Our ability to attract and retain Associates and to sustain and enhance sales through our Associates can be affected by adverse publicity or negative public perception regarding our industry, our competition, or our business generally. This negative public perception may include publicity regarding the legality of network marketing, the quality or efficacy of nutritional supplement products or ingredients in general or our products or ingredients specifically, and regulatory investigations, regardless of whether those investigations involve us or our Associates or the business practices or products of our competitors or other network marketing companies. In 2007, we were the victim of false statements made to the press and regulatory agencies, causing us to incur significant expense in defending and dispelling the allegations. This adverse publicity also adversely impacted the market price of our stock and caused some insecurity among our Associates. There can be no assurance that we will not be subject to

adverse publicity or negative public perception in the future or that such adverse publicity will not have a material adverse effect on our business, financial condition, or results of operations.

The loss of key management personnel could adversely affect our business. Our Founder, Dr. Myron Wentz, is a highly visible spokesman for our products and our business, and our message is based in large part on his vision and reputation, which helps distinguish us from our competitors. Any loss or limitation on Dr. Wentz as a lead spokesman for our mission, business, and products could have a material adverse effect upon our business, financial condition, or results of operations. In addition, our executive officers, including executive vice presidents, are primarily responsible for our day-to-day operations, and we believe our success depends in part on our ability to retain our executive officers, to compensate our executive officers at attractive levels, and to continue to attract additional qualified individuals to our management team. We cannot guarantee continued service by our key executive officers. We do not maintain key man life insurance on any of our executive officers, nor do we have an employment agreement with any of our executive officers. The loss or limitation of the services of any of our executive officers or the inability to attract additional qualified management personnel could have a material adverse effect on our business, financial condition, or results of operations.

The beneficial ownership of a significant percentage of our common stock gives Dr. Wentz effective control and limits the influence of other shareholders on important policy and management issues. Gull Holdings, Ltd., an entity that is solely owned and controlled by Dr. Wentz, owned 51.3% of our outstanding common stock at December 29, 2007. By virtue of this stock ownership, Dr. Wentz is able to exert significant influence over the election of the members of our Board of Directors and our business affairs. This concentration of ownership could also have the effect of delaying, deterring, or preventing a change in control that might otherwise be beneficial to shareholders. In addition, Dr. Wentz also currently serves as Chairman of our Board of Directors. There can be no assurance that conflicts of interest will not arise with respect to this directorship or that conflicts will be resolved in a manner favorable to other shareholders of the Company.

Our products and manufacturing activities are subject to extensive government regulation, which could limit or prevent the sale of our products in some markets. The manufacture, packaging, labeling, advertising, promotion, distribution, and sale of our products are subject to regulation by numerous national and local governmental agencies in the United States and other countries, including the U.S. Food and Drug Administration (FDA) and the U.S. Federal Trade Commission (FTC). For example, failure to comply with FDA regulatory requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any action of this type by the FDA could materially adversely affect our ability to successfully market our products. With respect to FTC matters, if the FTC has reason to believe the law is being violated (e.g., failure to possess adequate substantiation for product claims), it can initiate an enforcement action. The FTC has a variety of processes and remedies available to it for enforcement, both administratively and judicially, including compulsory process authority, cease and desist orders, and injunctions. FTC enforcement could result in orders requiring, among other things, limits on advertising, consumer redress, divestiture of assets, rescission of contracts, or such other relief as may be deemed necessary. Violation of these orders could result in substantial financial or other penalties. Any action against us by the FTC could materially and adversely affect our ability to successfully market our products.

The FDA published the final Good Manufacturing Practice (GMP) regulations for dietary supplements in the Federal Register on June 25, 2007. The final rule goes into effect one year from the publication date, or June 25, 2008, for USANA. Until the rule goes into effect, we must continue to adhere to current good manufacturing practices for food. Although not required to do so, we believe that we have always voluntarily manufactured and continue to manufacture our dietary supplement products in accordance with the standards of the FDA's pharmaceutical model GMPs, and we do not anticipate making any significant changes to our manufacturing practices to comply with these new regulations. Nevertheless, manufacturing dietary supplements is a complex process, and there is no

assurance that we will be able to manufacture our existing or future products in compliance with these GMPs.

On December 9, 2006, President Bush signed the Dietary Supplement & Nonprescription Drug Consumer Protection Act into law. This legislation came into effect in December 2007 and requires manufacturers of dietary supplement and over-the-counter products to notify the FDA when they receive reports of serious adverse events involving consumers of their products. Potential FDA responses to any such report could include injunctions, product withdrawals, recalls, product seizures, fines, or criminal prosecutions. USANA has an internal adverse event reporting system that has been in place for several years. Based on our current understanding of this legislation and FDA guidance, we do not anticipate the need to make any significant changes to our existing reporting system. Nevertheless, any action by the FDA in response to a serious adverse event report that may be filed by us could materially and adversely affect our ability to successfully market our products.

In markets outside the United States, prior to commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or a comparable agency. For example, our manufacturing facility has been registered with the FDA and Health Canada and is certified by Australia's Therapeutic Goods Administration. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. We must also comply with product labeling and packaging regulations that vary from country to country. These activities are also subject to regulation by various agencies of the countries in which our products are sold.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, could have on our business. These potential effects could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping and reporting requirements, expanded documentation of the properties of certain products, expanded or different labeling, or additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business.

Our net sales are significantly affected by our success in growing existing markets, as well as opening new markets. As we continue to expand into international markets, our business becomes increasingly subject to political, economic, legal and other risks. Changes in these markets could adversely affect our business. We have a history of expanding into new international markets. We commenced operations in Australia, New Zealand, and the United Kingdom in 1998 and in Hong Kong in 1999. In 2000, we began limited business activity in Japan, where we launched more formal operations in 2001. In 2002, we began business operations in Taiwan. We commenced operations in South Korea and Singapore in 2003 and opened operations in Mexico in 2004. In 2007 we began business operations in Malaysia. We believe that our ability to achieve future growth is dependent in part on our ability to continue our international expansion efforts. There can be no assurance, however, that we will be able to grow in our existing international markets, enter new international markets on a timely basis, or that new markets will be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any foreign market. Also, before marketing commences it is difficult to assess the extent to which our products and sales techniques will be accepted will be or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. No assurance can be given that we will be able to successfully reformulate our products in any of our current or potential international markets to meet local regulatory requirements or to attract local customers. Our failure to do so could have a material adverse effect on our business, financial condition, or results of operations. There can be no assurance that we will be

able to obtain and retain necessary permits and approvals in new markets or that we will have sufficient capital to finance our expansion efforts in a timely manner. In many market areas, other network marketing companies already have significant market penetration, the effect of which could be to desensitize the local Associate population to a new opportunity, such as USANA, or to make it more difficult for us to recruit qualified Associates. Even if we are able to commence operations in foreign countries, there may not be a sufficient population of persons who are interested in our network marketing system. We believe our future success will depend in part on our ability to seamlessly integrate our Compensation Plan across all markets in which our products are sold. There can be no assurance that we will be able to further develop and maintain a seamless compensation program.

On December 1, 2005, China announced the adoption of new regulations governing direct selling. Single-level compensation models are permissible under these new regulations, but multi-level compensation models, as practiced by USANA and many other direct selling companies, are not. If we were to enter the Chinese market, we would be required to adjust our compensation and selling model to comply with these regulations. These adjustments could require more time and effort to enter the Chinese market than would otherwise be necessary, if multi-level compensation models were permissible. Additionally, such adjustments could make it more difficult to be successful there.

An increase in the amount of incentives paid to Associates would reduce profitability. The payment of Associate incentives is our most significant expense. These incentives include commissions, leadership bonuses, and certain awards and prizes. From time to time, we have changed our Compensation Plan to better manage these incentives as a percentage of net sales. Management closely monitors the amount of Associate incentives that are paid as a percentage of net sales, and they may periodically adjust our Compensation Plan to prevent Associate incentives from having a significant adverse effect on our earnings. There can be no assurance that changes to the Compensation Plan or product pricing will be successful in maintaining current levels of Associate incentives as a percentage of net sales. Furthermore, such changes may make it difficult to recruit and retain qualified and motivated Associates. An increase in incentive payments to Associates as a percentage of net sales would reduce our profitability. Associate incentives as a percent of sales in 2005, 2006, and 2007 were 39.4%, 40.1%, and 40.3%, respectively.

We are subject to risks associated with our reliance upon information technology systems. Our success is dependent on the accuracy, reliability, and proper use of information processing systems and management information technology. Our information technology systems are designed and selected in order to facilitate order entry and customer billing, maintain Associate and Preferred Customer records, accurately track purchases and incentive payments, manage accounting, finance and manufacturing operations, generate reports, and provide customer service and technical support. Although off-site data back-up is maintained, it is possible that an interruption in these systems could have a material adverse effect on our business, financial condition, or results of operations.

Our business is subject to the risks associated with intense competition from larger, wealthier, and more established competitors. We face intense competition in the business of distributing and marketing nutritional supplements, vitamins and minerals, personal care products, and other nutritional products, as described in greater detail in "Business—Competition." Numerous manufacturers, Associates, and retailers compete actively for consumers and, in the case of other network marketing companies, for Associates. There can be no assurance that we will be able to compete in this intensely competitive environment. In addition, nutrition and personal care products can be purchased in a wide variety of channels of distribution, including retail stores. Our product offerings in each product category are also relatively small, compared to the wide variety of products offered by many of our competitors.

We are also subject to significant competition from other network marketing organizations for the time, attention, and commitment of new and existing Associates. Our ability to remain competitive

depends, in significant part, on our success in recruiting and retaining Associates. There can be no assurance that our programs for recruiting and retaining Associates will be successful. The pool of individuals who may be interested in network marketing is limited in each market, and it is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although we believe we offer an attractive opportunity for Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

Taxation and transfer pricing considerations affect our operations. In many countries, including the United States, we are subject to transfer pricing and other tax regulations that are designed to ensure that appropriate levels of income are reported by our U.S. and foreign entities and are taxed appropriately. Although we believe that we are in compliance with all material regulations and restrictions in this regard, we are subject to the risk that taxing authorities could audit our transfer pricing and related practices and assert that additional taxes are owed. We are also subject to the risk that taxing authorities in any of our markets could change the laws in a manner that may increase our effective tax rate and/or duties on our products. Under tax treaties, we are eligible to receive foreign tax credits in the United States for foreign taxes actually paid abroad. In the event any audits or assessments are concluded adversely to us, we may or may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Currently, we are utilizing all foreign tax credits in the year in which they arise. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of any foreign tax credits in the future. As a result, adverse outcomes in these matters could have a material impact on our financial condition or operating results.

Exchange rate fluctuations affect our foreign operations and our net sales and earnings. Over the past several years, a significant portion of our net sales have been generated outside the United States. Such sales for the year ended December 29, 2007 represented 59.9% of our total net sales. We will likely continue to expand our foreign operations, exposing us to expanding risks of changes in social, political, and economic conditions in foreign countries, including changes in the laws and policies that govern foreign investment or foreign exchange. Because a significant portion of our sales is in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Further, if exchange rates fluctuate dramatically, it may become uneconomical for us to establish or to continue activities in certain countries. For instance, changes in currency exchange rates may affect the relative prices at which we and our foreign competitors sell similar products in the same market. As our business expands outside the United States, an increasing share of our net sales and operating costs will be transacted in currencies other than the U.S. dollar. Accounting practices require that our non-U.S. financial results be converted to U.S. dollars for reporting purposes. Consequently, our reported net earnings may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. Product purchases by our foreign subsidiaries are transacted in U.S. dollars. As operations expand in countries where foreign currency transactions may be made, our operating results will be increasingly subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes might have on our future business, product pricing, results of operations, or financial condition. In addition, the value of the U.S. dollar in relation to other currencies may also adversely affect our sales to customers outside the United States. From time-to-time we enter into forward and option foreign exchange contracts to manage currency fluctuations on certain commitments that are denominated in foreign currency, including intercompany cash transfers. We do not use derivative instruments for speculative purposes. There can be no assurance that foreign currency contract transactions will protect our operating results or cash flows from potentially adverse effects of currency exchange fluctuations. Those adverse effects would also adversely affect our business, financial condition, or results of operations.

Disruptions to shipping channels that we use to distribute our products to international warehouses may adversely affect our margins and profitability in those markets. In 2004, the financial press reported congestion at West Coast ports caused by increasing cargo volumes, a lack of capacity on the railroads, and a shortage of manpower. We felt the effects in our container shipments to Australia, which required additional use of airfreight to meet demand. Port congestion has since been relieved. Although subsequently there has been no significant port congestion, we continue to watch for signs of upcoming congestion. Congestion to ports can affect previously negotiated contracts with shipping companies, resulting in unexpected increases in shipping costs.

The inability to obtain adequate supplies of raw materials for products at favorable prices, or at all, or the inability to obtain certain products from third-party suppliers, could have a material adverse effect on our business, financial condition, or results of operations. We depend on outside suppliers for raw materials. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. Materials used in manufacturing our products are purchased through purchase order, often invoking pre-negotiated annual supply agreements. We have very few long-term agreements for the supply of these materials. We also contract with third-party manufacturers and suppliers for the production of some of our products, including gelatin-capsuled supplements, Garlic EC™, OptOmega®, certain powdered drink mixes, and nutrition bars. 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. There is a risk that any of our suppliers or manufacturers could discontinue manufacturing our products or selling their products to us. Although we believe that we could establish alternate sources for most of our products, any delay in locating and establishing relationships with other sources could result in product shortages or back orders for products, with a resulting loss of net sales. In certain situations, we may be required to alter our products or to substitute different products from another source. We have, in the past, discontinued or temporarily stopped sales of certain products that were manufactured by third parties while those products were on back order. There can be no assurance that suppliers will provide the raw materials or manufactured products that are needed by us in the quantities that we request or at the prices that we are willing to pay. Because we do not control the actual production of certain raw materials and products, we are also subject to delays caused by any interruption in the production of these materials, based on conditions not within our control, including weather, crop conditions, transportation interruptions, strikes by supplier employees, and natural disasters or other catastrophic events.

Shortages of raw materials may temporarily adversely affect our margins or our profitability related to the sale of those products. In 2003, the demand for Coenzyme Q10 in the nutrition industry began to increase dramatically, which subsequently caused a shortage in supply of this raw material component. As a result, suppliers began re-tooling their manufacturing facilities to increase production capacity in order to meet the growing demand. Certain of our nutritional products were affected by this raw material shortage. Although we identified multiple sources to supply quality raw ingredients, quantities of materials acquired during this shortage were purchased at higher prices, which negatively impacted our gross margins for those products. By mid-2005, some suppliers had re-tooled their manufacturing facilities to increase production capacity of CoQ10, and more competitors entered the market to produce it, which has caused supply to increase and purchase prices to decline to pre-2003 levels. There is no assurance that other raw materials might not be similarly adversely affected in the future.

Nutritional supplement products may be supported by only limited availability of conclusive clinical studies. Our products include nutritional supplements that are made from vitamins, minerals, herbs, and other substances for which there is a long history of human consumption. Some of our products contain innovative ingredients or combinations of ingredients. Although we believe that all of our products are safe when taken as directed, there is little long-term experience with human

consumption of certain of these product ingredients or combinations of ingredients in concentrated form. We conduct research and test the formulation and production of our products, but we have performed or sponsored only limited clinical studies. Furthermore, because we are highly dependent on consumers' perception of the efficacy, safety, and quality of our products, as well as similar products distributed by other companies, we could be adversely affected in the event that those products prove or be asserted to be ineffective or harmful to consumers or in the event of adverse publicity associated with any illness or other adverse effects resulting from consumers' use or misuse of our products or similar products of our competitors.

As a manufacturer, we may be subject to product liability claims. As a manufacturer and a distributor of products for human consumption and topical application, we could become exposed to product liability claims and litigation. Additionally, the manufacture and sale of these products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. To date, we have not been a party to any product liability litigation, although, like any dietary supplement company, we have received reports from individuals who have asserted that they suffered adverse consequences as a result of using our products. The number of reports we have received to date is nominal. These matters historically have been settled to our satisfaction and have not resulted in material payments. We are aware of no instance in which any of our products are or have been defective in any way that could give rise to material losses or expenditures related to product liability claims. Although we maintain product liability insurance, which we believe to be adequate for our needs, there can be no assurance that we will not be subject to such claims in the future or that our insurance coverage will be adequate.

Our business is subject to particular intellectual property risks. Most of our products are not protected by patents. The labeling regulations governing our nutritional supplements require that the ingredients of such products be precisely and accurately indicated on product containers. Accordingly, patent protection for nutritional supplements often is impractical given the large number of manufacturers who produce nutritional supplements having many active ingredients in common. Additionally, the nutritional supplement industry is characterized by rapid change and frequent reformulations of products, as the body of scientific research and literature refines current understanding of the application and efficacy of certain substances and the interactions among various substances. In this respect, we maintain an active research and development program that is devoted to developing better, purer, and more effective formulations of our products. We protect our investment in research, as well as the techniques we use to improve the purity and effectiveness of our products, by relying on trade secret laws. We have also entered into confidentiality agreements with certain of our employees involved in research and development activities. Additionally, we endeavor to seek, to the fullest extent permitted by applicable law, trademark and trade dress protection for our products, which protection has been sought in the United States, Canada, and in many of the other countries in which we are either presently operating or plan to commence operations in the future. Notwithstanding our efforts, as described above, there can be no assurance that these efforts to protect our trade secrets and trademarks will be successful. Nor can there be any assurance that third-parties will not assert claims against us for infringement of the intellectual proprietary rights. If an infringement claim is asserted, we may be required to obtain a license of such rights, pay royalties on a retrospective or prospective basis, or terminate our manufacturing and marketing of our infringing products. Litigation with respect to such matters could result in substantial costs and diversion of management and other resources and could have a material adverse effect on our business, financial condition, or operating results. There can be no assurance that third-party claims will not in the future adversely affect our business, financial condition, or results of operations.

Our manufacturing activity is subject to certain risks. We manufacture approximately 74% of the products sold to our customers. As a result, we are dependent upon the uninterrupted and efficient operation of our manufacturing facilities in Salt Lake City, and Draper, Utah. Those operations are

subject to power failures, the breakdown, failure, or substandard performance of equipment, the improper installation or operation of equipment, natural or other disasters, and the need to comply with the requirements or directives of government agencies, including the FDA. There can be no assurance that the occurrence of these or any other operational problems at our facility would not have a material adverse effect on our business, financial condition, or results of operations. We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, manufacture, use and disposal of chemicals, solid and hazardous waste, and other toxic and hazardous materials. Our manufacturing operations presently do not result in the generation of material amounts of hazardous or toxic substances. Nevertheless, complying with new or more stringent laws or regulations, or more vigorous enforcement of current or future policies of regulatory agencies, could require substantial expenditures by us that could have a material adverse effect on our business, financial condition, or results of operations. Environmental laws and regulations require us to maintain and comply with a number of permits, authorizations, and approvals and to maintain and update training programs and safety data regarding materials used in our processes. Violations of those requirements could result in financial penalties and other enforcement actions and could require us to halt one or more portions of our operations until a violation is cured. The combined costs of curing incidents of non-compliance, resolving enforcement actions that might be initiated by government authorities, or of satisfying new legal requirements could have a material adverse effect on our business, financial condition, or results of operations.

Our stock price has been volatile and subject to various market conditions. There can be no assurance that an active market in our stock will be sustained. The trading price of our common stock has been subject to wide fluctuations. The price of our common stock may fluctuate in the future in response to quarter-to-quarter variations in operating results, material announcements by us or our competitors, governmental regulatory action, conditions in the nutritional supplement industry, negative publicity, or other events or factors, many of which are beyond our control. In addition, the stock market has historically experienced significant price and volume fluctuations, which have particularly affected the market prices of many dietary and nutritional supplement companies and which have, in certain cases, not had a strong correlation to the operating performance of these companies. Our operating results in future quarters may be below the expectations of securities analysts and investors. If that were to occur, the price of our common stock would likely decline, perhaps substantially.

We may incur liability under our "Athlete Guarantee" program, if and to the extent participating athletes make a successful claim against USANA for testing positive for certain banned substances while taking USANA nutritional supplements. USANA believes that its nutritional supplement products are free from substances that have been banned by world-class training and competitive athletic programs. The Company retains independent testing agencies to conduct periodic checks for banned substances. The Company further believes that, while its products promote good health, they are not otherwise considered to be "performance enhancing" as that term has been used in defining substances that are banned from use in international competition by the World Anti-Doping Agency ("WADA"). For many years, USANA has been a sponsor of Olympic athletes and professional competitors around the world. These athletes have been tested on many occasions and have never tested positive for banned substances as a result of taking USANA nutritional products. To back up its claim that athletes who use the Company's products as part of their training regimen will not be consuming banned substances, the Company has offered to enter into agreements with select athletes, some of whom have high-profiles and are highly compensated, which state that, during the term of the agreement, should the athlete test positive for a banned substance included in the WADA, and should such positive result be the result of taking USANA nutritional products, USANA will compensate that athlete two times their current annual earnings up to one million dollars, based on the athlete's personal level of competition, endorsement, and other income, as well as other factors. To mitigate potential exposure under these agreements, we:

- Designate lots identified as dedicated to the program and retain additional samples;

- Store designated lot samples externally with a third-party; and
- Establish a chain of custody that requires signatures on behalf of USANA and the third-party to transfer possession of the product lots and that restricts access by USANA employees after the transfer.

All applicants to this Athlete Guarantee program are subject to screening and acceptance by the Company in its sole discretion. Contracts are tailored to fit the athlete's individual circumstances and the amount of the Company's exposure is limited based on the level of sponsorship of the participating athlete. Although the Company believes that the pool of current and potential participants in the program is small, there is no guarantee that an athlete who is accepted in the program will not successfully make a claim against us. The Company currently has no insurance to protect it from potential claims under this program.

Item 1B. Unresolved Staff Comments

We received no written comments from the Commission staff that remain unresolved regarding periodic or current reports under the Exchange Act in the 180 days prior to December 29, 2007.

Item 2. Properties

We own and lease administrative, manufacturing and distribution facilities throughout the world to conduct our operations.

Owned and Leased Facilities

In Salt Lake City, Utah, we own a 354,000 square foot facility, which we utilize as our world-wide corporate headquarters. This facility is located on a company-owned 16-acre parcel of land. In 2006, we began construction of an addition to this facility, which is nearing completion. At December 29, 2007, approximately 275,000 square feet of this facility was complete and allocated primarily for manufacturing, distribution, research and development, and administrative purposes. The uncompleted portion of the building will add approximately 79,000 square feet to the facility and will provide us with flexibility to add additional manufacturing, distribution and administrative space, based on our needs as we experience future growth. We expect to have the construction of the uncompleted portion of the building completed by the end of 2008.

In addition to our corporate headquarters, we own a 10,000 square-foot production studio and office building in Salt Lake City, Utah, a 31,000 square foot manufacturing facility in Tianjin, China and a 48,000 square foot office/warehouse building in Sydney, Australia. We purchased the production studio in connection with our acquisition of FMG Productions, which is now doing business as USANA Studios. USANA Studios now operates at our corporate headquarters facility, and the former facility in which they operated is currently held for sale. We purchased our Australia facility in 2007 to replace the facility that we currently lease there. We are in the process of remodeling and fitting this facility out and anticipate moving our Australian operations to this facility in mid-2008, at which time we will terminate our existing lease there.

We lease regional offices and distribution warehouses located in Canada, New Zealand, Hong Kong, Japan, Taiwan, South Korea, Singapore, Mexico, and Malaysia. Although we sold our contract manufacturing business during 2007, we continue to lease a portion of the facility in Draper, Utah for the manufacture and packaging of our Sensé™ products.

Productive Capacity

Based on equipment capacity and current product mix, the average manufacturing and packaging utilization rate at our corporate headquarters building is at approximately 90% of capacity. The

Draper, Utah facility, where our personal care products are manufactured, is at approximately 70% of manufacturing and packaging capacity.

Current monthly lease commitments for the properties under lease total approximately \$330,000.

Item 3. Legal Proceedings

USANA Health Sciences, Inc. v. Barry Minkow and Fraud Discovery Institute, Inc.

On March 15, 2007, USANA commenced this action against Barry Minkow and his company, the Fraud Discovery Institute, in the United States District Court, District of Utah, Central Division, claiming that the defendants engaged in activity resulting in defamation, business disparagement, and other claims for relief. USANA amended the complaint in June 2007 to include claims under federal law and California state law that defendant's activity resulted in fraudulent stock manipulation and dropped the claim of defamation. On August 2, 2007 the Court approved our motion for expedited discovery as to the identity of other participants in this alleged manipulation, and we will add them as defendants to the suit, as appropriate. On September 6, 2007, the defendants filed their response to our initial complaint and petitioned the court to dismiss the case or, in the alternative, transfer the venue to the State of California. We subsequently filed our response and requested that the case remain in the State of Utah. In December 2007, the court denied the motion to transfer venue. In March 2008, the Court denied the defendant's motion to dismiss USANA's federal stock manipulation claim, but dismissed USANA's state law claims. The court's ruling also overturned a previous decision awarding the defendants expedited discovery against USANA. We will continue to aggressively pursue this litigation.

Consolidated Shareholder Class Action Lawsuit: Case No. 2:07cv177DAK

During 2007, three shareholder class action lawsuits were filed in the United States District Court, District of Utah, Central Division, against the Company; Myron W. Wentz, our Chief Executive Officer; David A. Wentz, our President; and Gilbert A. Fuller, our Chief Financial Officer. These lawsuits were prompted by the allegations against the Company by Barry Minkow. By order dated October 17, 2007, the court consolidated these three lawsuits into one action and appointed the lead plaintiff and counsel for the class. The consolidated amended complaint claims, among other things, that we violated Sections 10(b) and 20(a) and SEC Rule 10b-5 under the Exchange Act by knowingly or recklessly failing to make certain statements that the plaintiffs allege should have been made, including statements regarding the multi-level marketing industry and anti-pyramid laws, sustainability of our marketing plan, Associate sales to end-user customers, and Associate turnover, income, and profitability. Plaintiffs assert that because of such alleged omissions, our statements about our future business prospects were lacking in a reasonable basis and that our reported results and financial statements were misstated. These complaints seek damages, pre-judgment interest, costs, attorney's fees, and other further relief deemed appropriate by the court. We believe these claims are distorted, ignore the documented history of public disclosures by the Company on the very subjects allegedly omitted, are not actionable under established interpretations of Sections 10(b) and 20(a) of the Exchange Act, and are without merit. In December 2007, we filed a motion to dismiss this lawsuit. Plaintiffs filed an opposition to our motion to dismiss and the court has ordered a hearing on the motion in April 2008. We will continue to vigorously defend the Company and related defendants in this action. Nevertheless, there can be no assurance that this litigation will not have a material adverse impact on our business, financial condition, or results of operation.

Larson on behalf of USANA Health Sciences, Inc. v. Certain Officers and Directors of USANA

On September 4, 2007, a shareholder derivative lawsuit was filed in the Third Judicial District Court of Salt Lake County, State of Utah, against certain of our present and former directors and

officers. This lawsuit was also prompted by the allegations against the Company by Barry Minkow. The derivative complaint contained allegations similar to those asserted in the shareholder class action litigation described above and asserted that, as a result of such allegations, the defendant directors and officers breached their fiduciary duties of good faith and loyalty to the Company and were unjustly enriched. Similar to the shareholder class action, we believed the claims in the derivative complaint were distorted, not actionable under applicable law, and without merit. Consequently, we filed a motion to dismiss the lawsuit during the fourth quarter of 2007. In December 2007, the plaintiff offered to withdraw the lawsuit rather than respond to our motion to dismiss. On December 28, 2007, the court granted the motion to dismiss with prejudice.

Johnson vs. USANA

In June 2007, two former Associates filed a class action lawsuit against USANA in state court in San Diego, California. The proposed class consists of distributors who were California residents at any time since 1995. The complaint alleges a number of purported material misrepresentations to the market in violation of state pyramid, deceptive business practices, and business fraud law based on some of the same facts alleged in the shareholder class action. This lawsuit was also prompted by the allegations against the Company by Barry Minkow. On September 4, 2007, we filed our answer to the complaint, which contained a general denial of the allegations in the complaint and set forth our affirmative defenses. Plaintiffs and USANA have stipulated to an agreement, which entails USANA producing a limited amount of discovery beginning in February 2008, subject to a confidentiality agreement. Similar to the shareholder class action, we believe the claims in this complaint are distorted, not actionable under applicable law, and without merit. Nevertheless, there can be no assurance that this litigation will not have a material adverse impact on our business, financial condition, or results of operation.

Informal Inquiry by the United States Securities and Exchange Commission

During the first quarter of 2007, we received notification from the SEC, Salt Lake District Office, that it had begun an informal inquiry regarding the Company. This inquiry was also prompted by the allegations against the Company by Barry Minkow. We cooperated fully with the SEC during the course of this inquiry. In January 2008, we received a letter from the SEC which indicated that the matter had been closed and no enforcement action would be recommended against the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders during the quarter ended December 29, 2007.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on The NASDAQ Global Select Market under the symbol "USNA." The following table contains the reported high and low sale prices for our common stock as reported on The NASDAQ Global Select Market for the periods indicated:

2006		High	Low
	First Quarter	\$ 43.42	\$ 37.38
	Second Quarter	\$ 42.70	\$ 35.81
	Third Quarter	\$ 47.33	\$ 35.06
	Fourth Quarter	\$ 52.84	\$ 42.76
2007		High	Low
	First Quarter	\$ 61.80	\$ 45.27
	Second Quarter	\$ 49.71	\$ 36.70
	Third Quarter	\$ 51.50	\$ 28.51
	Fourth Quarter	\$ 48.50	\$ 36.90

On March 3, 2008, the high and low sales prices of our common stock as reported by NASDAQ were \$31.14 and \$30.20, respectively.

Shareholders

As of March 3, 2008, we had approximately 511 holders of record of our common stock.

Dividends

We have never declared or paid cash dividends on our common stock. Future cash dividends, if any, will be determined by our Board of Directors and will be based on earnings, available capital, our financial condition, and other factors that the Board of Directors deems to be relevant.

Share Repurchases

There were no share repurchases made during the quarter ended December 29, 2007.

Item 6. Selected Financial Data

Due to the sale of certain assets related to our former third-party contract manufacturing business, we now operate as one reportable business segment, Direct Selling. Our financial results have been adjusted to reflect the reclassification of sales and related expenses in our former Contract Manufacturing segment to "discontinued operations" for all periods presented. Further information on this can be found in Note B to the Consolidated Financial Statements herein under—"Discontinued Operations."

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the Consolidated Financial Statements and related notes thereto that are included in this report.

	Fiscal Year*				
	2003	2004	2005	2006**	2007
(in thousands, except per share data)					
Consolidated Statements of Earnings Data:					
Net sales	\$ 195,980	\$ 259,040	\$ 315,017	\$ 365,166	\$ 423,149
Cost of sales	43,125	57,697	68,703	79,836	87,891
Gross profit	152,855	201,343	246,314	285,330	335,258
Operating expenses:					
Associate incentives	76,486	100,960	124,045	146,251	170,383
Selling, general, and administrative	43,992	53,973	59,920	72,410	90,811
Research and development	1,367	1,796	2,212	2,968	3,363
Total operating expenses	121,845	156,729	186,177	221,629	264,557
Earnings from continuing operations	31,010	44,614	60,137	63,701	70,701
Other income (expense), net	192	233	479	1,408	471
Earnings from continuing operations before income taxes	31,202	44,847	60,616	65,109	71,172
Income taxes	10,477	14,243	20,444	22,966	25,243
Income from continuing operations	20,725	30,604	40,172	42,143	45,929
Income (loss) from discontinued operations, net of tax	92	173	(1,178)	(877)	(612)
Net earnings	\$ 20,817	\$ 30,777	\$ 38,994	\$ 41,266	\$ 45,317
Earnings per common share:					
Basic					
Continuing operations	\$ 1.09	\$ 1.60	\$ 2.13	\$ 2.34	\$ 2.74
Discontinued operations	—	0.01	(0.06)	(0.05)	(0.03)
Net earnings	\$ 1.09	\$ 1.61	\$ 2.07	\$ 2.29	\$ 2.71
Diluted					
Continuing operations	\$ 0.98	\$ 1.50	\$ 2.04	\$ 2.25	\$ 2.67
Discontinued operations	—	0.01	(0.06)	(0.05)	(0.04)
Net earnings	\$ 0.98	\$ 1.51	\$ 1.98	\$ 2.20	\$ 2.63
Weighted average common shares outstanding:					
Basic	19,018	19,163	18,873	18,053	16,734
Diluted	21,319	20,415	19,721	18,724	17,206
Dividends per share	—	—	—	—	—

	As of				
	Jan. 3, 2004	Jan. 1, 2005	Dec. 31, 2005	Dec. 30, 2006	Dec. 29, 2007
(in thousands, except other data)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 18,965	\$ 15,067	\$ 10,579	\$ 27,029	\$ 12,865
Working capital	\$ 18,330	\$ 18,073	\$ 15,274	\$ 20,810	\$ 5,807
Current assets	\$ 38,249	\$ 40,823	\$ 41,830	\$ 60,615	\$ 45,992
Total assets	\$ 65,127	\$ 71,664	\$ 73,708	\$ 100,002	\$ 109,128
Line of credit	\$ —	\$ —	\$ —	\$ —	\$ 28,000
Other long-term liabilities	\$ 837	\$ 1,017	\$ 1,414	\$ —	\$ 2,305
Stockholders' equity	\$ 44,371	\$ 47,843	\$ 45,738	\$ 60,197	\$ 38,638
Other Data:					
Active Associates	88,000	114,000	133,000	153,000	176,000
Active Preferred Customers	51,000	63,000	70,000	78,000	78,000

Total Active Customers	139,000	177,000	203,000	231,000	254,000
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* The Company's fiscal year ends on the Saturday that is closest to December 31. The 2004, 2005, 2006, and 2007 fiscal years were 52-week years. Fiscal year 2003 was a 53-week year.

** Effective January 1, 2006, the Company began recognizing equity-based compensation expense in its statements of earnings.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing elsewhere in this report.

Overview

We develop and manufacture high-quality nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. Our customer base comprises two types of customer; "Associates" and "Preferred Customers." Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products.

Our results of operations and financial condition are directly related to the recruitment and retention of Associates and Preferred Customers. We believe that our high quality products and our financially rewarding Compensation Plan are the key components to attracting and retaining Associates. Additionally, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in business development and to provide a forum for interaction with successful Associates and members of the USANA management team. We also provide low cost sales tools, which we believe are an integral part of building and maintaining a successful home-based business for Associates.

In addition to Company-sponsored meetings and sales tools, we maintain a website exclusively for our Associates where they can keep up on the latest USANA news, obtain training materials, manage their personal information, enroll new customers, shop, and register for Company-sponsored events. Additionally, through this website, Associates can access other online services to which they may subscribe. For example, we offer an online business management service, which includes a tool that helps Associates track and manage their business activity, a personal webpage to which their prospects or retail customers can be directed, e-cards for advertising, and a tax management tool.

We have ongoing operations in the following markets, which are grouped and presented in four geographic regions:

- North America—United States, Canada, Mexico, and direct sales from the United States to the United Kingdom and the Netherlands
- Southeast Asia/Pacific—Australia-New Zealand, Singapore, and Malaysia*

* Operations in Malaysia commenced in January 2007.

- East Asia—Hong Kong and Taiwan
- North Asia—Japan and South Korea

The number of active Associates and Preferred Customers are used by management as a key non-financial measure because they are a leading indicator for net sales. For purposes of this report, we only count as "active" those Associates and Preferred Customers who have purchased product from USANA at any time during the most recent three-month period. During the years presented, changes in net sales were not significantly affected by product price changes, rather, they were affected by increased product sales volume resulting from an increasing number of Associates and Preferred Customers.

The tables below summarize the changes in our active customer base by geographic region as of the dates indicated.

**Active Associates By Region
(rounded to the nearest thousand)**

	As of December 30, 2006		As of December 29, 2007		Change from Prior Year	Percent Change
North America	94,000	61.4%	100,000	56.8%	6,000	6.4%
Southeast Asia/Pacific	30,000	19.6%	39,000	22.2%	9,000	30.0%
East Asia	23,000	15.1%	30,000	17.0%	7,000	30.4%
North Asia	6,000	3.9%	7,000	4.0%	1,000	16.7%
	153,000	100.0%	176,000	100.0%	23,000	15.0%

**Active Preferred Customers By Region
(rounded to the nearest thousand)**

	As of December 30, 2006		As of December 29, 2007		Change from Prior Year	Percent Change
North America	70,000	89.7%	70,000	89.8%	—	0.0%
Southeast Asia/Pacific	7,000	9.0%	6,000	7.6%	(1,000)	(14.3)%
East Asia	**	0.0%	1,000	1.3%	1,000	N/A
North Asia	1,000	1.3%	1,000	1.3%	—	0.0%
	78,000	100.0%	78,000	100.0%	—	0.0%

** Active Preferred Customer count was less than 500.

**Total Active Customers By Region
(rounded to the nearest thousand)**

	As of December 30, 2006		As of December 29, 2007		Change from Prior Year	Percent Change
North America	164,000	71.0%	170,000	66.9%	6,000	3.7%
Southeast Asia/Pacific	37,000	16.0%	45,000	17.7%	8,000	21.6%
East Asia	23,000	10.0%	31,000	12.2%	8,000	34.8%
North Asia	7,000	3.0%	8,000	3.2%	1,000	14.3%
	231,000	100.0%	254,000	100.0%	23,000	10.0%

Presentation

Due to the sale of our third-party contract manufacturing business, we now operate as one reportable business segment, Direct Selling. Our financial results have been adjusted to reflect the reclassification of sales and related expenses in our former Contract Manufacturing segment to "discontinued operations" for all periods presented. Further information on this sale of assets can be found in Note B to the Consolidated Financial Statements herein under "Discontinued Operations."

Sales and shipping and handling billed to our customers are recorded as revenue when the product is delivered, title has transferred, and risk of loss passes to the customer, net of applicable sales discounts. Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. A provision for product returns and allowances is included and is

founded on our historical experience. Additionally, the Company collects an annual renewal fee from Associates that is deferred on receipt and is recognized as income on a straight-line basis over a twelve-month period.

Cost of sales primarily consists of expenses related to raw materials, labor, quality assurance, and overhead costs that are directly associated with the production and distribution of our products and sales materials, as well as duties and taxes that are associated with the import and export of products. As our international sales increase as a percentage of net sales, cost of sales are increasingly affected by additional duties, freight, and other factors, such as changes in foreign currency.

Associate incentive expenses represent our most significant expense at 40.3% of net sales in 2007. Associate incentives include commissions and leadership bonuses that are paid weekly, based on group sales volume points. Compensation paid to our Associates for promotions and contests are also reported as a component of Associate incentives. Products are assigned a sales volume point value that is independent of the product's price. Associates earn commissions based on sales volume points that are generated in their downline organization. Items such as our starter kits and sales tools have no sales volume point value, and commissions are not paid on the sale of these items. Although insignificant to our financial statements, an Associate may earn commissions on sales volume points that are generated from personal purchases that are not considered to be part of their "Qualifying Purchases." Qualifying Purchases are the amount of product that Associates must purchase each month, which they must either resell to consumers or personally use in order to qualify to earn commissions or bonuses under USANA's Compensation Plan. Commissions paid to an Associate on personal purchases are considered a sales discount and are reported as a reduction to our net sales.

Selling, general, and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate events, advertising, and professional fees, along with other marketing and administrative expenses. Wages and benefits represent the largest component of selling, general, and administrative expenses. Significant depreciation and amortization expense is incurred as a result of investments in physical facilities, computer and telecommunications equipment, and systems to support international expansion. We anticipate that additional capital investments will be required in future periods to promote and support our anticipated growth in sales and customers.

Research and development expenses include costs incurred in developing new products, enhancing existing products, and in formulating products for introduction into international markets.

Sales to customers outside the United States are made in the respective local currencies and are translated to U.S. dollars at weighted-average currency exchange rates for the period. Most of our raw material purchases from suppliers and our product purchases from third-party manufacturers are transacted in U.S. dollars. Consequently, our sales and net earnings may be affected by changes in currency exchange rates, with sales and earnings generally increasing with a weakening U.S. dollar and decreasing with a strengthening U.S. dollar.

Results of Operations

The following table summarizes our consolidated operating results as a percentage of net sales, respectively, for the periods indicated:

	Fiscal Year		
	2005	2006	2007
Consolidated Statements of Earnings Data:			
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	21.8 %	21.9 %	20.8 %
Gross profit	78.2 %	78.1 %	79.2 %
Operating expenses:			
Associate incentives	39.4 %	40.1 %	40.3 %
Selling, general, and administrative	19.0 %	19.8 %	21.5 %
Research and development	0.7 %	0.8 %	0.8 %
Total operating expenses	59.1 %	60.7 %	62.6 %
Earnings from continuing operations	19.1 %	17.4 %	16.6 %
Other income, net	0.2 %	0.4 %	0.1 %
Earnings from continuing operations before income taxes	19.3 %	17.8 %	16.7 %
Income taxes	6.5 %	6.3 %	6.0 %
Income from continuing operations	12.8 %	11.5 %	10.7 %
Loss from discontinued operations, net of tax	(0.4) %	(0.2) %	(0.1) %
Net earnings	12.4 %	11.3 %	10.6 %

Summary of 2007 Financial Results and Developments

Fiscal 2007 marked the sixth consecutive year of net sales and earnings growth for USANA, with net sales increasing nearly 16% to \$423.1 million and with income from continuing operations increasing 9.0% to \$45.9 million. Overall sales growth during the year can be attributed to an increased number of active Associates who purchased our products. Additionally, in January 2007, we began operations in Malaysia, which contributed \$17.1 million to net sales for the year. Also, during 2007, we benefited from changes in foreign currency, which added \$10.9 million to net sales for the full year. The increase in income from continuing operations can be attributed in large part to increased net sales and to improved gross profit margin, which were offset partially by higher operating costs.

During fiscal 2007, we held our second Asia Pacific Convention in Sydney, Australia, as well as our 15th annual International Convention in Salt Lake City, Utah. At our International Convention, we introduced MyHealthPak™, a new, customizable packaging system for our supplement products that allows customers to create personalized selections of nutritional supplements in daily AM and PM pillow packs. MyHealthPak is currently available only to U.S. and Canadian customers. Because MyHealthPak is simply a new packaging system of the bottled products that many customers currently consume, we expect that sales of this product will increase gradually as customers begin to see the benefits of custom pillow packs and consume their existing supplies of bottled products.

Also, during the year, we sold our third-party contract manufacturing business, which resulted in operations for the Contract Manufacturing segment being accounted for as "discontinued operations" in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." We retained the assets that are associated with manufacturing and packaging our Sense™ skin and beauty care products and will continue to manufacture these products.

Fiscal Year 2007 compared to Fiscal Year 2006

The following table summarizes the changes in our net sales by geographic region for the fiscal years ended December 30, 2006 and December 29, 2007:

	Net Sales by Region (in thousands) Year Ended				Change from Prior Year	Percent Change
	2006		2007			
North America	\$ 246,489	67.5%	\$ 267,235	63.1%	\$ 20,746	8.4%
Southeast Asia/Pacific	65,104	17.8%	90,690	21.4%	25,586	39.3%
East Asia	37,478	10.3%	49,314	11.7%	11,836	31.6%
North Asia	16,095	4.4%	15,910	3.8%	(185)	(1.1)%
	<u>\$ 365,166</u>	<u>100.0%</u>	<u>\$ 423,149</u>	<u>100.0%</u>	<u>\$ 57,983</u>	<u>15.9%</u>

North America. Net sales in North America, our largest region, increased \$20.7 million, or 8.4%, in 2007, compared with 2006. This growth consisted of modest growth in our most mature market, the United States, of 6.4%, strong growth in Mexico of 23.1%, and growth in Canada, much of which came from changes in foreign currency, resulting in a benefit of approximately \$4.2 million. Sales growth in this region, however, was adversely affected by various false allegations against the Company that were disseminated in the mass media. We believe these challenges are now largely behind us. During 2008, we plan to implement several new Associate-related initiatives that are designed to regain our momentum in this region.

Southeast Asia/Pacific. Net sales in Southeast Asia/Pacific increased \$25.6 million, or 39.3%, in 2007, compared with 2006. This growth was bolstered by the opening of our Malaysia market in January 2007, which contributed \$17.1 million in net sales during the year. Also contributing to growth in this region during 2007 were changes in foreign currency, which resulted in a benefit of approximately \$6.9 million, most of which came from Australia-New Zealand.

Although Malaysia added significantly to net sales in this region, we believe that a portion of the sales generated in Malaysia would have otherwise been generated in existing markets within this region, as well as in the North Asia and East Asia regions, due to the seamless nature of our Compensation Plan.

East Asia. Net sales in East Asia increased \$11.8 million, or 31.6%, in 2007, compared with 2006. This growth included strong growth in Hong Kong of 62.2% to \$26.4 million, and modest growth in Taiwan of 8.0% to \$22.9 million. Sales growth in this region was largely driven by an increase in the number of active Associates in this region.

North Asia. Net sales in North Asia decreased \$185 thousand, or 1.1%, in 2007, compared with 2006. This decline was due to a 2.0% decrease in South Korea sales to \$6.8 million. Net sales in this region continue to be soft due to the lack of Associate leadership. A strategic decision was made during mid-2007 to reorganize our internal reporting structure with our vice president of East Asia now having oversight in this region. We believe this change will help bolster trust with our Associate leadership and foster growth in this region.

Gross Profit

Gross profit increased to 79.2% of net sales in 2007 from 78.1% in 2006. This improvement in gross profit margin can be attributed to reduced inventory scrap of about \$1.5 million, and lower relative freight costs on shipments to our customers. Also contributing to the improvement in gross profit was a reduction of sales of the edition of *Success From Home* magazine that features the

Company (which were sold at cost and included free shipping during the third and fourth quarters of 2006).

Associate Incentives

Associate incentives were slightly higher during 2007, at 40.3% of net sales, compared with 40.1% in 2006. This increase is the result of a higher payout of base Compensation Plan commissions, which was partially offset by reduced amounts spent on contests and promotions relative to 2006.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased to 21.5% of net sales in 2007 from 19.8% in 2006. In absolute terms, our selling, general and administrative expenses increased in 2007 by \$18.4 million. This increase, both as a percentage of net sales and in absolute terms, can be attributed to the following:

- Wage-related increases of \$9.8 million, which includes a strategic initiative to hire additional employees to add "bench strength," and additional wages expense related to Malaysia, and increased equity compensation expense;
- A \$6.1 million increase in spending to support growing sales and an increased number of customers, which includes \$1.2 million spent to support our Malaysia market that commenced operations in January 2007; and
- Legal and other professional services of \$2.5 million that related to defending false allegations against the Company that were disseminated in the mass media.

Other Income

Other income decreased from \$1.4 million in 2006 to \$471 thousand in 2007. This decrease can largely be attributed to an increase in interest expense, resulting from our line of credit, of \$696 thousand (net of \$705 thousand related to funds borrowed for the expansion of our corporate and Australia facilities, which was capitalized). Additionally, and to a lesser extent, interest income also decreased due to lower cash balances and to lower foreign currency gains.

Income Taxes

Income taxes totaled 35.5% of earnings before income taxes in 2007, compared with 35.3% in 2006. This change was due to the complete phase-out of the Extraterritorial Income Exclusion ("EIE"), which provided an effective tax rate reduction of 1.8% in 2006. In 2007, the complete EIE phase-out was partially offset by tax benefits from a 6.0% deduction for qualified production activities, a favorable adjustment due to the expiration of statutes of limitations on uncertain tax positions, and favorable 2006 tax return adjustments.

Income from Continuing Operations

Income from continuing operations increased 9.0% to \$45.9 million in 2007, which is an increase of \$3.8 million from \$42.1 million in 2006. This increase is due primarily to increased net sales and an improved gross profit margin, which were offset partially by higher operating costs.

Diluted earnings per share from continuing operations improved to \$2.67 during 2007, which is an increase of \$0.42, or 18.7%, from \$2.25 in 2006. This improvement resulted from share repurchases and retirements during the first nine months of 2007, which lowered the diluted shares outstanding by 8.1%, resulting in an \$0.18 benefit per share. Also contributing to the improvement was an increase in income from continuing operations.

Fiscal Year 2006 compared to Fiscal Year 2005

Net Sales

Changes in net sales are primarily associated with the recruitment and retention of Associates and Preferred Customers. The following tables summarize the changes in our active customer base by geographic region as of the dates indicated:

**Active Associates By Region
(rounded to the nearest thousand)**

	As of December 31, 2005		As of December 30, 2006		Change from Prior Year	Percent Change
North America	82,000	61.6%	94,000	61.4%	12,000	14.6%
Southeast Asia/Pacific	27,000	20.3%	30,000	19.6%	3,000	11.1%
East Asia	17,000	12.8%	23,000	15.1%	6,000	35.3%
North Asia	7,000	5.3%	6,000	3.9%	(1,000)	(14.3)%
	133,000	100.0%	153,000	100.0%	20,000	15.0%

**Active Preferred Customers By Region
(rounded to the nearest thousand)**

	As of December 31, 2005		As of December 30, 2006		Change from Prior Year	Percent Change
North America	63,000	90.0%	70,000	89.7%	7,000	11.1%
Southeast Asia/Pacific	6,000	8.6%	7,000	9.0%	1,000	16.7%
East Asia	**	0.0%	**	0.0%	—	N/A
North Asia	1,000	1.4%	1,000	1.3%	—	0.0%
	70,000	100.0%	78,000	100.0%	8,000	11.4%

** Active Preferred Customer count was less than 500.

**Total Active Customers By Region
(rounded to the nearest thousand)**

	As of December 31, 2005		As of December 30, 2006		Change from Prior Year	Percent Change
North America	145,000	71.4%	164,000	71.0%	19,000	13.1%
Southeast Asia/Pacific	33,000	16.2%	37,000	16.0%	4,000	12.1%
East Asia	17,000	8.4%	23,000	10.0%	6,000	35.3%
North Asia	8,000	4.0%	7,000	3.0%	(1,000)	(12.5)%
	203,000	100.0%	231,000	100.0%	28,000	13.8%

The following table summarizes the changes in net sales by geographic region for the fiscal years ended December 31, 2005 and December 30, 2006:

	Net Sales by Region (in thousands) Year Ended				Change from Prior Year	Percent Change
	2005		2006			
North America	\$ 209,445	66.5%	\$ 246,489	67.5%	\$ 37,044	17.7%
Southeast Asia/Pacific	58,300	18.5%	65,104	17.8%	6,804	11.7%
East Asia	32,349	10.3%	37,478	10.3%	5,129	15.9%
North Asia	14,923	4.7%	16,095	4.4%	1,172	7.9%
	\$ 315,017	100.0%	\$ 365,166	100.0%	\$ 50,149	15.9%

North America. Net sales in North America, our largest and most mature region, increased \$37.0 million, or 17.7%, in 2006, compared with 2005. This growth consisted of strong growth in our most mature market, the United States, of 18.7%, and strong growth in Mexico of 29.3%. Canada also had a strong increase in sales of 12.7%, however much of this increase came from changes in foreign currency, resulting in a benefit of approximately \$4.4 million. This increase was driven by an increase in the number of active Associates and, to a lesser extent, to an increase in the number of active Preferred Customers. The increase in customers was a result of unique contests and promotions, Company-sponsored events, and the introduction of new products and sales tools.

Southeast Asia/Pacific. Net sales in Southeast Asia/Pacific increased \$6.8 million, or 11.7%, during 2006, compared with 2005. This change included an 8.1% increase in sales in Australia-New Zealand to \$48.3 million, and a 23.5% increase in sales in Singapore to \$16.8 million. This growth was due to an 11.1% increase in the number of active Associates and a 16.7% increase in the number of Preferred Customers.

East Asia. Net sales in East Asia increased \$5.1 million, or 15.9%, during 2006, compared with 2005. This increase was driven primarily by 32.8% growth in Hong Kong to \$16.3 million. Sales in Taiwan increased a modest 5.5% on a year-over-year basis to \$21.2 million. The growth in this region in 2006 was due to a 35.3% increase in the number of Associates.

North Asia. Net sales in North Asia increased by \$1.2 million, or 7.9%, in 2006, compared with 2005. Although changes in foreign currency did not significantly affect overall sales growth in this region, it did considerably affect each market within this region. The overall year-over-year change in this region comprised a 10.1% decrease in sales in Japan to \$9.2 million, and a 46.1% increase in sales in South Korea to \$6.9 million.

Gross Profit

Gross profit decreased slightly to 78.1% of net sales in 2006 from 78.2% in 2005. This decrease can be attributed primarily to the following:

- Higher freight costs on shipments to customers;
- The required inclusion of equity-based compensation expense; and
- Additional costs relating to our promotions on the *Success from Home* magazine, which included selling them to our Associates at cost and offering free shipping on packs of 56 magazines when such orders were placed on our monthly product subscription program known as "Autoship."

This increase was partially offset by lower costs on certain key raw materials, such as Coenzyme Q10.

Associate Incentives

Expenses related to Associate incentives represent our most significant cost as a percentage of net sales. Associate incentives increased to 40.1% of net sales in 2006, compared with 39.4% in 2005. This increase can be primarily attributed to an increase in amounts paid on incentive promotions, including higher-paying contests and promotions.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased to 19.8% of net sales in 2006 from 19.0% in 2005. This increase, as a percentage of net sales, can be attributed largely to the recognition of equity-based compensation expense, the selling, general and administrative portion of which totaled 1.0% of net sales in 2006. This increased cost, as a percentage of sales, was partially offset by modest operating leverage that resulted from our growing sales base.

In absolute terms, our selling, general and administrative expenses increased by \$12.5 million from 2005 to 2006. This absolute increase in selling, general and administrative expenses can, in great part, be attributed to the following:

- Increased spending of \$8.8 million including that related to supporting growth in our existing markets as well as our international expansion efforts (mostly in Malaysia, which totaled \$210 thousand); and
- Expensing of equity-based compensation of \$3.7 million;

Other Income

Other income increased to \$1.4 million in 2006 from \$479 thousand in 2005. This improvement can be attributed to foreign currency gains.

Income Taxes

Income taxes totaled 35.3% of earnings from continuing operations before income taxes in 2006, compared with 33.7% in 2005. This increase reduced diluted earnings per share from continuing operations in 2006 by approximately \$0.05. This increase can be attributed to a 40% phase-out of the Extraterritorial Income Exclusion in 2006, a tax expense associated with non-deductible value-added taxes, and taxes associated with equity-based compensation under SFAS No. 123(R). This increase in our 2006 effective tax rate increase was partially offset by an increase in the 2006 Federal Incremental Research Credit.

Income From Continuing Operations

Income from continuing operations increased 4.9% to \$42.1 million in 2006, an increase of \$1.9 million, from \$40.2 million in 2005. Income from continuing operations slowed during 2006 due to the following:

- The inclusion of equity-based compensation expense that impacted income from continuing operations by \$3.2 million;
- Higher relative incentives to our Associates;
- Increased expenses that were associated with our international expansion efforts; and
- A higher effective tax rate.

Diluted earnings per share from continuing operations improved to \$2.25 in 2006, an increase of \$0.21, from \$2.04 in 2005. Diluted earnings per share from continuing operations in 2006 included

equity-based compensation expense that reduced earnings per share by \$0.17, whereas the diluted earnings per share from continuing operations of \$2.04 in 2005 did not include equity-based compensation expense. Share repurchases and retirements during 2006 added \$0.06 to diluted earnings per share from continuing operations.

Quarterly Financial Information (Unaudited)

The following tables set forth unaudited quarterly operating results for each of the last eight fiscal quarters, as well as percentages of net sales for certain data for the periods indicated. This information is consistent with the Consolidated Financial Statements herein and includes normally recurring adjustments that management considers to be necessary for a fair presentation of the data. Due to the sale of certain assets related to our former third-party contract manufacturing business, we now operate as one reportable business segment, Direct Selling. Our financial results have been adjusted to reflect the reclassification of sales and related expenses in our former Contract Manufacturing segment to "discontinued operations" for all periods presented. Further information on this can be found in Note B to the Consolidated Financial Statements herein under—"Discontinued Operations." Quarterly results are not necessarily indicative of future results of operations. This information should be read in

conjunction with the audited Consolidated Financial Statements and notes thereto that are included elsewhere in this report.

Quarter Ended

	April 1, 2006	July 1, 2006	Sept. 30, 2006	Dec. 30, 2006	March 31, 2007	June 30, 2007	Sept. 29, 2007	Dec. 29, 2007
(in thousands, except per share data)								
Consolidated Statements of Earnings Data:								
Net sales	\$ 85,384	\$ 89,694	\$ 91,967	\$ 98,121	\$ 100,678	\$ 107,542	\$ 106,181	\$ 108,748
Cost of sales	18,378	19,319	20,274	21,865	20,586	22,443	21,960	22,902
Gross profit	67,006	70,375	71,693	76,256	80,092	85,099	84,221	85,846
Operating expenses:								
Associate incentives	34,006	36,025	36,994	39,226	39,549	43,280	43,021	44,533
Selling, general, and administrative	17,489	17,910	17,798	19,213	21,501	22,531	23,053	23,726
Research and development	674	756	830	708	930	902	864	667
Total operating expenses	52,169	54,691	55,622	59,147	61,980	66,713	66,938	68,926
Earnings from continuing operations	14,837	15,684	16,071	17,109	18,112	18,386	17,283	16,920
Other income (expense), net	295	336	65	712	471	(13)	(270)	283
Earnings from continuing operations before income taxes	15,132	16,020	16,136	17,821	18,583	18,373	17,013	17,203
Income taxes	5,373	5,462	5,698	6,433	6,783	6,966	5,350	6,144
Income from continuing operations	9,759	10,558	10,438	11,388	11,800	11,407	11,663	11,059
Loss from discontinued operations	(199)	(214)	(215)	(249)	(114)	(93)	(405)	—
Net earnings	\$ 9,560	\$ 10,344	\$ 10,223	\$ 11,139	\$ 11,686	\$ 11,314	\$ 11,258	\$ 11,059
Earnings (loss) per common share*:								
Basic								
Continuing operations	\$ 0.53	\$ 0.58	\$ 0.59	\$ 0.64	\$ 0.66	\$ 0.68	\$ 0.72	\$ 0.68
Discontinued operations	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	—	(0.02)	—
Net earnings	\$ 0.52	\$ 0.57	\$ 0.57	\$ 0.62	\$ 0.65	\$ 0.68	\$ 0.70	\$ 0.68
Diluted								
Continuing operations	\$ 0.51	\$ 0.56	\$ 0.56	\$ 0.62	\$ 0.64	\$ 0.66	\$ 0.70	\$ 0.67
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	—	(0.02)	—
Net earnings	\$ 0.50	\$ 0.55	\$ 0.55	\$ 0.61	\$ 0.63	\$ 0.66	\$ 0.68	\$ 0.67
Weighted average shares outstanding:								
Basic	18,460	18,149	17,780	17,824	17,896	16,709	16,173	16,160
Diluted	19,228	18,777	18,486	18,405	18,463	17,163	16,613	16,586

* Earnings per common share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts does not necessarily equal the total for the year.

Consolidated Statements of Earnings as a percentage of Net Sales:

	Quarter Ended							
	April 1, 2006	July 1, 2006	Sept. 30, 2006	Dec. 30, 2006	March 31, 2007	June 30, 2007	Sept. 29, 2007	Dec. 29, 2007
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	21.5	21.5	22.0	22.3	20.4	20.9	20.7	21.1
Gross profit	78.5	78.5	78.0	77.7	79.6	79.1	79.3	78.9
Operating expenses:								
Associate incentives	39.8	40.2	40.2	40.0	39.3	40.2	40.5	41.0
Selling, general and administrative	20.5	20.0	19.4	19.6	21.4	21.0	21.7	21.8
Research and development	0.8	0.8	0.9	0.7	0.9	0.8	0.8	0.6
Total operating expenses	61.1	61.0	60.5	60.3	61.6	62.0	63.0	63.4
Earnings from continuing operations	17.4	17.5	17.5	17.4	18.0	17.1	16.3	15.5
Other income (expense), net	0.3	0.4	0.1	0.7	0.5	(0.0)	(0.3)	0.3
Earnings from continuing operations before								
Income taxes	17.7	17.9	17.6	18.1	18.5	17.1	16.0	15.8
Income taxes	6.3	6.1	6.2	6.6	6.7	6.5	5.0	5.6
Income from continuing operations	11.4	11.8	11.4	11.5	11.8	10.6	11.0	10.2
Loss from discontinued operations	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.4)	—
Net earnings	11.2%	11.6%	11.2%	11.3%	11.6%	10.5%	10.6%	10.2%

We may experience variations in the results of operations from quarter to quarter as a result of factors that include the following:

- The recruiting and retention of Associates;
- The opening of new markets;
- The timing of Company-sponsored events, contests, and promotions;
- Fluctuations in currency exchange rates;
- New product introductions;
- The timing of holidays, which may reduce the amount of time that our Associates spend selling products or recruiting new Associates;
- The negative impact of changes in or interpretations of regulations that may limit or restrict the sale of certain products in some countries;
- The adverse effect of a failure by us or an Associate (or allegations of such failure) to comply with applicable governmental regulations;
- The integration and operation of new information technology systems;
- The inability to introduce new products or the introduction of new products by competitors;
- Entry into one or more of our markets by competitors;
- Availability of raw materials;

- General conditions in the nutritional supplement, personal care, and weight management industries or the network marketing industry; and
- Consumer perceptions of our products and operations.

Because our products are ingested by consumers or applied to their bodies, we are highly dependent upon consumers' perception of the safety, quality, and efficacy of our products. As a result, substantial negative publicity, whether founded or unfounded, concerning one or more of our products or of other products that are similar to our products could adversely affect our business, financial condition, or results of operations.

As a result of these and other factors, quarterly revenues, expenses, and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance. There can be no assurance that we will be able to increase revenues in future periods or be able to sustain the level of revenue or rate of revenue growth on a quarterly or annual basis that we have sustained in the past. Due to the foregoing factors, future results of operations could be below the expectations of public market analysts and investors. If that occurred, the market price of our common stock would likely decline.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements, including funding for the expansion of our operations, through net cash flows that have been provided by our operating activities and have periodically utilized our line of credit in doing so. Our principal source of liquidity is our operating cash flows, the availability of which is directly affected by variations in the sales of our products. There are no material restrictions on our ability to transfer and remit funds among our international subsidiaries. In 2007, net cash flows from operating activities totaled \$57.2 million, compared with \$60.2 million in 2006. Cash and cash equivalents decreased to \$12.9 million at December 29, 2007, from \$27.0 million at December 30, 2006. Net working capital decreased to \$5.8 million at December 29, 2007, compared with \$20.8 million at December 30, 2006. Most of this decrease resulted from the drop in cash and cash equivalents. During 2007, much of our cash flows from operating activities and cash and cash equivalents, as well as amounts available under our line of credit, were utilized to purchase shares of our common stock under the Company's share repurchase plan, totaling \$79.6 million. Additionally, \$26.3 million was spent on property and equipment, including costs for the expansion of our corporate headquarters in Salt Lake City, Utah, as well as a portion of the purchase, remodel, and fit-out of a new facility in Sydney, Australia, both of which are discussed further below.

We are expanding our corporate headquarters and anticipate that this expansion will involve a total investment of approximately \$21 million, an increase from the \$16 million estimate that we provided in our 2006 Form 10-K. This increase is primarily due to a further increase in the scope of the expansion, as well as to continuing increases in the cost of materials. As of December 29, 2007, billings on this expansion totaled \$17.7 million, of which \$16.6 million was paid and of which \$1.1 million was accrued for work performed through December 29, 2007.

We have purchased a facility in Sydney, Australia, and we expect to move our Australian operations to this new facility in mid-2008. We anticipate that the purchase, remodel, and fit-out of this facility will require a total investment of approximately \$14 million, an increase from the \$9.6 million estimate that we provided in our 2006 Form 10-K. This increase is due to a further increase in the scope of the remodel and fit-out. As of December 29, 2007, billings on this facility, including the remodel and fit-out, totaled \$9.0 million, of which \$8.5 million was paid and of which \$0.5 million was accrued for work performed through December 29, 2007.

During the quarter ended June 30, 2007, our \$25 million credit facility was amended, increasing the line of credit to \$40 million. As of December 29, 2007, our outstanding balance on this line of credit was \$28.0 million. This balance primarily consists of amounts that we have used to expand our facilities in Salt Lake City, Utah, and in Sydney, Australia, as well as to fund share repurchases and retirements.

The credit agreement relating to our line of credit contains restrictive covenants that are based on EBITDA and a specified debt coverage ratio. As of December 29, 2007, we were in compliance with these covenants. This credit agreement also contains other covenants which are customary for a financing transaction, including a covenant that requires us to comply in all material respects with all laws applicable to us, with which we believe we were in compliance as of December 29, 2007.

We believe that current cash balances, cash provided by operations, and amounts available under our line of credit will be sufficient to cover our capital needs in the ordinary course of business for the foreseeable future. If we experience an adverse operating environment or unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available on favorable terms. We might also require or seek additional financing for the purpose of expanding new markets, growing our existing markets, or for other reasons. Such financing may include the sale of additional equity securities. Any financing which involves the sale of equity securities or instruments that are convertible into equity securities could result in immediate and possibly significant dilution to our existing shareholders.

We believe that the future investments in our corporate headquarters, as well as in the new facility in Australia, will be funded with cash flows generated from operations, and, to the extent necessary, with our line of credit. Our total investments in property, plant, and equipment in 2008 are expected to be between \$15 and \$20 million, including the aforementioned facilities.

During the fiscal year ended December 29, 2007, directors, officers, and employees exercised equity awards, resulting in cash proceeds to the Company of \$3.1 million.

Contractual Obligations and Commercial Contingencies

The following table summarizes our expected contractual obligations and commitments subsequent to December 29, 2007:

**Payments Due By Period
(in thousands)**

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases	\$ 8,160	\$ 3,815	\$ 4,021	\$ 324	\$ —
Capital Commitments	11,571	11,571	—	—	—
Other Commitments	5,904	3,096	2,246	562	—
Total Contractual Obligations	\$ 25,635	\$ 18,482	\$ 6,267	\$ 886	\$ —

Included in "Capital Commitments" to be paid in less than one year is the estimated remaining of \$4.4 million for the expansion to our corporate headquarters building, and the \$5.5 million to complete the remodel and fit-out of the Australia facility.

Additionally, we maintain a line of credit, which had a balance of \$28.0 million as of December 29, 2007. We will be required to pay the balance on our line of credit in full at the time of maturity; May 2011. Also, please refer to Note E to the Consolidated Financial Statements for information on our potential obligations under FIN No. 48, "Accounting for Uncertainty in Income Taxes—an

interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income tax positions.

Inflation

We do not believe that inflation has had a material impact on our historical operations or profitability.

Critical Accounting Estimates

Our Consolidated Financial Statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Our significant accounting policies are described in Note A to the Consolidated Financial Statements herein. The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Those estimates and assumptions are derived and are continually evaluated based on our historical experiences, current facts and circumstances, and on changes in the business environment. Actual results, however, may sometimes differ materially from estimates under different conditions. Critical accounting estimates are defined as both those that are material to the portrayal of our financial condition and results of operations and those that require management's most subjective judgments. We believe that our most critical accounting estimates are described in this section.

Revenue Recognition.

- In accordance with Staff Accounting Bulletin 104, "Revenue Recognition," revenue is recognized at the estimated point of delivery of the merchandise, at which point the risks and rewards of ownership have passed to the customer. SAB 104 specifies that revenue is realizable when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured. We require cash or credit card payment prior to shipping and do not extend credit to customers.
- Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities.
- A provision for product returns and allowances is established and is founded on our historical experience.
- In accordance with Emerging Issues Task Force No 00-10, "Accounting of Shipping and Handling Fees and Costs," amounts billed to customers for shipping and handling are classified as revenue.
- In accordance with the guidelines of Emerging Issues Task Force No 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," commissions paid to an Associate on his or her own orders are captured and reported as a reduction to net sales in the form of a sales discounts. Management estimates, based on the structure of USANA's Compensation Plan, that an Associate who places an order with sales volume points in a personal sales position will eventually be paid commission on that purchase. Such reduction of revenue for Associates outside of the United States is converted to U.S. Dollars at the average currency exchange rate for the period.
- We collect an annual renewal fee from our Associates that is deferred when it is collected and is recognized as income on a straight-line basis over the subsequent twelve-month period.

Allowance for Inventory Valuation. Inventories are stated at the lower of cost or market, using the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. An allowance for inventory valuation is maintained and is based on the difference between the cost of the inventory and its estimated market value. To estimate the allowance, various assumptions are made in regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could result in additional reserves.

Valuation of Goodwill and Impairment Analysis. Goodwill represents the excess of purchase price paid over the fair market value of identifiable net assets of companies acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized; however it is tested at least annually for impairment or more frequently if events (or changes in circumstances) indicate impairment. We use a two-step approach to test for impairment. The first step involves testing for impairment of goodwill by estimating the fair values of reporting units. We determine the fair value of reporting units that we have acquired using widely accepted valuation methods, including both a market approach and an income approach. The market approach involves judgment when considering the appropriateness of comparable entities and the use of related multiples to determine fair value in terms of operating activities, size, and scope. The income approach requires the use of estimates and assumptions in projecting future operating results and related cash flows. If the carrying amount of goodwill exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. There were no changes in the carrying amount of goodwill for each of the acquired subsidiaries for the year ended December 29, 2007.

Accounting for Income Taxes. We calculate income taxes in each of the jurisdictions in which we operate in accordance with SFAS No. 109, "Accounting for Income Taxes." This process involves estimating our current tax exposure, together with assessing temporary differences for items treated differently for tax and financial reporting. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Additional information is available in Note E to the Consolidated Financial Statements herein. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or cash flows.

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109," which clarifies the required accounting for uncertainty in income tax positions. FIN 48 defines the threshold for recognizing tax return positions in the financial statements as "more likely than not." FIN 48 also provides guidance on the measurement, classification, and disclosure of tax return positions in the financial statements. FIN 48 was effective for the Company's first quarterly reporting period in 2007. The impact of adopting FIN 48 was not material.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year, and we record a quarterly income tax provision in accordance with this anticipated effective rate. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This estimation process periodically results in changes to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

Equity-Based Compensation. We calculate equity-based compensation expense using the provisions of SFAS No. 123(R), "Share Based Payment." Under the fair value recognition provisions of this statement, equity-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. For more information regarding the assumptions and estimates used in calculating this equity-based compensation expense, see Note L to the Consolidated Financial Statements herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We conduct business in several countries and intend to continue to expand our foreign operations. Net sales, earnings from operations, and net earnings are affected by fluctuations in currency exchange rates, interest rates, and other uncertainties that are inherent in doing business and selling product in more than one currency. In addition, our operations are exposed to risks that are associated with changes in social, political, and economic conditions in our foreign operations, including changes in the laws and policies that govern foreign investment in countries where we have operations, as well as, to a lesser extent, to changes in United States laws and regulations relating to foreign trade and investment.

Foreign Currency Risks. Net sales outside the United States represented 57.4%, 56.4%, and 59.9% of our net sales in 2005, 2006, and 2007 respectively. Inventory purchases are transacted primarily in U.S. dollars from vendors located in the United States. The local currency of each international subsidiary is considered the functional currency, with all revenue and expenses being translated at weighted-average currency exchange rates for the applicable periods. In general, our reported sales and earnings are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Changes in currency exchange rates affect the relative prices at which we sell our products. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect that these fluctuations may have on our future business, product pricing, results of operations, or financial condition.

We seek to reduce exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts. We do not use derivative financial instruments for trading or speculative purposes. Our strategy in this regard includes entering into foreign currency exchange contracts to manage currency fluctuations in our expected net cash flow from certain of our international markets, which are primarily represented by intercompany cash transfers. More specifically, we purchase put options, which give us the right, but not the obligation, to sell foreign currency at a specified exchange rate ("strike price"). These contracts provide protection in the event that the foreign currency weakens beyond the option strike price. The fair value of these contracts is estimated based on period-end quoted market prices, and the resulting asset and expense, which historically has not been material, is recognized in our Consolidated Financial Statements. At various periods throughout 2007, we had contracts in place to offset our exposure to the Canadian Dollar, New Zealand Dollar, New Taiwan Dollar, and the Mexican Peso; none of which, individually or in the aggregate, had a material affect on our results of operations. As of December 29, 2007, we had no contracts in place to offset exposure to foreign currencies. There can be no assurance that our practices will be successful in eliminating all or substantially all of the risks that may be encountered in connection with our foreign currency transactions.

Following are the average exchange rates of foreign currency units to one U.S. dollar for each of our foreign markets for fiscal years 2005, 2006, and 2007:

	Year ended		
	2005	2006	2007
Canadian Dollar	1.21	1.13	1.07
Australian Dollar	1.31	1.33	1.19
New Zealand Dollar	1.42	1.54	1.36
Hong Kong Dollar	7.78	7.77	7.80
Japanese Yen	109.95	116.27	117.67
New Taiwan Dollar	32.13	32.52	32.85
Korean Won	1,023.94	954.46	929.03
Singapore Dollar	1.66	1.59	1.51
Mexican Peso	10.89	10.90	10.93
Chinese Yuan(1)	8.08	7.97	7.61
Malaysian Ringitt	*	*	3.44

(1) The 2005 Chinese Yuan exchange rate represents the average for the first three months of operations of our Chinese manufacturing facility, which we acquired in October 2005.

* USANA operations had not commenced during period indicated.

Interest Rate Risks. As of December 29, 2007, we had a balance of \$28.0 million outstanding on our line of credit, with a weighted-average interest rate of 6.0%. This interest rate is computed at the bank's Prime Rate, or LIBOR, adjusted by features specified in our loan agreements, with fixed rate term options of up to six months. The annual impact on after-tax expense of a 100-basis-point increase in the interest rate on the above balance would not materially affect our earnings.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Supplementary Data required by this Item are set forth at the pages indicated at Item 15 below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information that is required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and

procedures (as defined in Rule 13a- 15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance as of December 29, 2007.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rule 13a- 15 (f) under the Exchange Act). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 29, 2007. In making this assessment, management used the criteria that have been set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on its assessment, using those criteria, management concluded that, as of December 29, 2007, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 29, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the quarter ended December 29, 2007, that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 14. Principal Accounting Fees and Services

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Form:

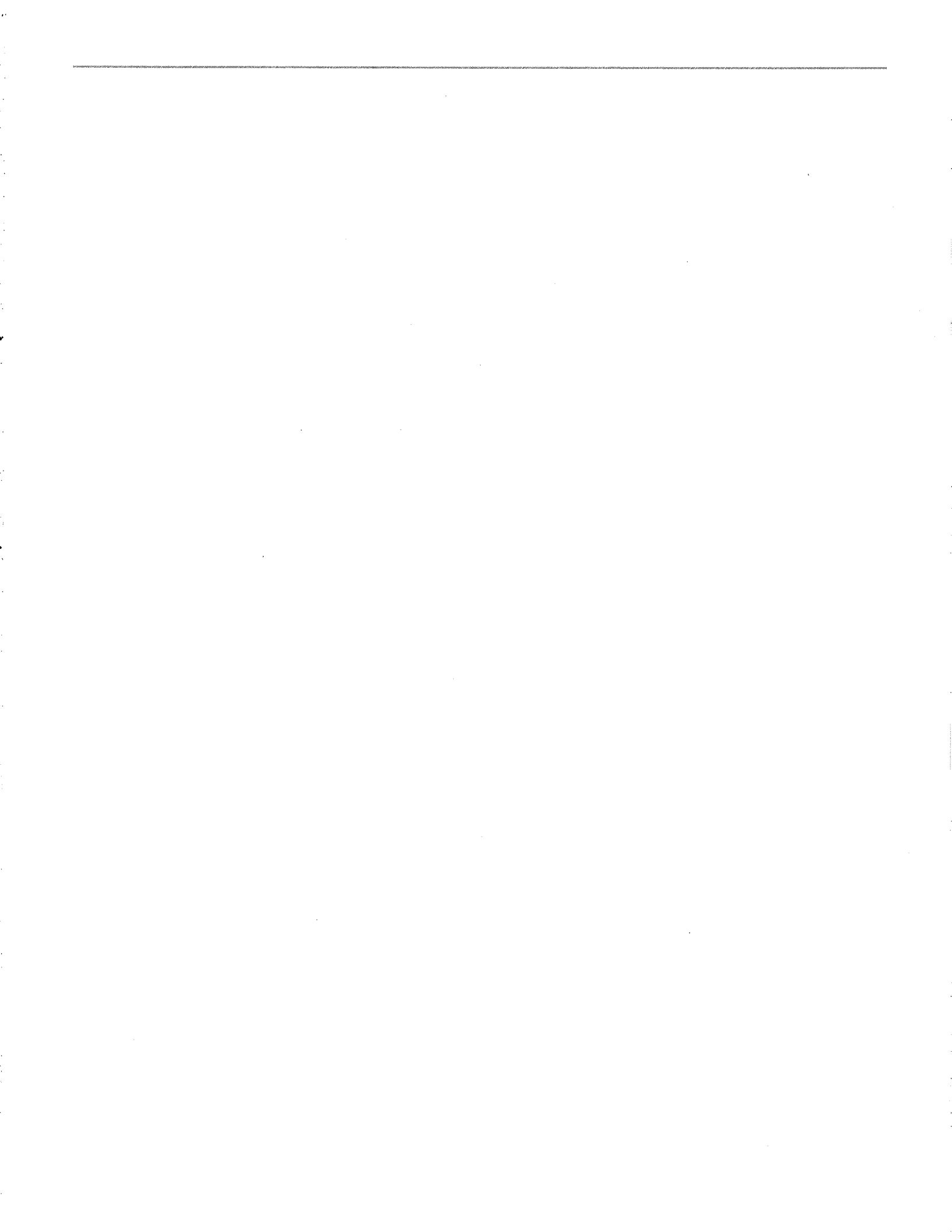
1. *Financial Statements*

<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Earnings</u>	F-4
<u>Consolidated Statements of Stockholders' Equity and Comprehensive</u>	
<u>Income</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7

2. *Financial Statement Schedules.* [Those that are required are included in the Consolidated Financial Statements or Notes thereto.]

3. *Exhibits.*

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)
3.2	Bylaws (Incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)
4.1	Specimen Stock Certificate for Common Stock, no par value (incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993)
10.1	2002 USANA Health Sciences, Inc. Stock Option Plan (incorporated by reference to Registration Statement on Form S-8, filed July 18, 2002)*
10.2	Form of employee or director non-statutory stock option agreement under the 2002 Stock Option Plan (incorporated by reference to Report on Form 10-K, filed March 6, 2006)*
10.3	Form of employee incentive stock option agreement under the 2002 Stock Option Plan (incorporated by reference to Report on Form 10-K, filed March 6, 2006)*
10.4	Credit Agreement by and between Bank of America, N.A. and USANA Health Sciences, Inc. (incorporated by reference to Report on Form 10-Q for the period ended July 3, 2004)
10.5	Amendment, dated May 17, 2006, to Credit Agreement, dated June 16, 2004 (incorporated by reference to Report on Form 10-Q for the period ended September 30, 2006)
10.6	Amendment, dated April 24, 2007, to Credit Agreement, dated June 16, 2004 (incorporated by reference to Report on Form 10-Q for the period ended March 31, 2007)
10.7	USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 25, 2006)*
10.8	Form of Stock Option Agreement for award of non-statutory stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.9	Form of Stock Option Agreement for award of non-statutory stock options to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 26, 2006)*



- 10.10 Form of Incentive Stock Option Agreement for award of incentive stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
- 10.11 Form of Stock-Settled Stock Appreciation Rights Award Agreement for award of stock-settled stock appreciation rights to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
- 10.12 Form of Stock-Settled Stock Appreciation Rights Award Agreement for award of stock-settled stock appreciation rights to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
- 10.13 Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
- 11.1 Computation of Net Income per Share (included in Notes to Consolidated Financial Statements)
- 14 Code of Ethics of USANA Health Sciences, Inc. (posted on the Company's internet web site at www.usanahealthsciences.com)
- 21 Subsidiaries of the Registrant, as of March 3, 2008 (filed herewith)
- 23.1 Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP) (filed herewith)
- 23.2 Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP) (filed herewith)
- 31.1 Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)
- 32.2 Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)

* Denotes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USANA Health Sciences, Inc.

By: /s/ MYRON W. WENTZ

Myron W. Wentz, PhD,
Chairman and Chief Executive Officer

Date: March 13, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u> /s/ MYRON W. WENTZ </u> Myron W. Wentz, PhD	Chairman and Chief Executive Officer (Principal Executive Officer)	March 13, 2008
<u> /s/ DAVID A. WENTZ </u> David A. Wentz	President	March 13, 2008
<u> /s/ RONALD S. POELMAN </u> Ronald S. Poelman	Director	March 13, 2008
<u> /s/ ROBERT ANCIAUX </u> Robert Anciaux	Director	March 13, 2008
<u> /s/ JERRY G. MCCLAIN </u> Jerry G. McClain	Director	March 13, 2008
<u> /s/ GILBERT A. FULLER </u> Gilbert A. Fuller	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 13, 2008

**REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of USANA Health Sciences, Inc.

In our opinion, the consolidated balance sheet and the related consolidated statements of earnings, stockholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of USANA Health Sciences, Inc. and its subsidiaries at December 29, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in, Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Salt Lake City, UT
March 4, 2008

**REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders
USANA Health Sciences, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of USANA Health Sciences, Inc. and Subsidiaries (the "Company") as of December 30, 2006, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the two years in the period ended December 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of USANA Health Sciences, Inc. and Subsidiaries as of December 30, 2006, and the consolidated results of their operations and their consolidated cash flows for each of the two years in the period ended December 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the consolidated financial statements, the Company adopted Statement 123R, Share-Based Payment, on a modified prospective basis as of January 1, 2006.

As discussed in Note B to the consolidated financial statements, on June 5, 2007, the Company adopted a plan to discontinue the operations of its third-party contract manufacturing business. The financial statements referred to above include the effects of the adjustments which have been retrospectively applied.

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
February 19, 2007, except for Note B as to which the date is March 12, 2008.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 30, 2006	December 29, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,029	\$ 12,865
Inventories	22,483	19,439
Prepaid expenses and other current assets	8,908	11,639
Deferred income taxes	2,195	2,049
Total current assets	60,615	45,992
Property and equipment, net	30,323	52,061
Assets held for sale	—	607
Goodwill	5,690	5,690
Other assets	3,374	4,778
	\$ 100,002	\$ 109,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 10,241	\$ 8,111
Other current liabilities	29,564	32,074
Total current liabilities	39,805	40,185
Line of credit	—	28,000
Other long-term liabilities	—	2,305
Stockholders' equity		
Common stock, \$0.001 par value; authorized 50,000 shares, issued and outstanding 17,859 as of December 30, 2006 and 16,198 as of December 29, 2007	18	16
Additional paid-in capital	15,573	7,525
Retained earnings	44,251	30,108
Accumulated other comprehensive income	355	989
Total stockholders' equity	60,197	38,638
	\$ 100,002	\$ 109,128

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

	Year ended		
	2005	2006	2007
Net sales	\$ 315,017	\$ 365,166	\$ 423,149
Cost of sales	68,703	79,836	87,891
Gross profit	246,314	285,330	335,258
Operating expenses:			
Associate incentives	124,045	146,251	170,383
Selling, general and administrative	59,920	72,410	90,811
Research and development	2,212	2,968	3,363
Total operating expenses	186,177	221,629	264,557
Earnings from continuing operations	60,137	63,701	70,701
Other income (expense):			
Interest income	561	654	555
Interest expense	(12)	(110)	(806)
Other, net	(70)	864	722
Other income (expense), net	479	1,408	471
Earnings from continuing operations before income taxes	60,616	65,109	71,172
Income taxes	20,444	22,966	25,243
Income from continuing operations	40,172	42,143	45,929
Loss from discontinued operations, net of tax benefit	(1,178)	(877)	(612)
Net earnings	\$ 38,994	\$ 41,266	\$ 45,317
Earnings (loss) per common share			
Basic			
Continuing operations	\$ 2.13	\$ 2.34	\$ 2.74
Discontinued operations	(0.06)	(0.05)	(0.03)
Net earnings	\$ 2.07	\$ 2.29	\$ 2.71
Diluted			
Continuing operations	\$ 2.04	\$ 2.25	\$ 2.67
Discontinued operations	(0.06)	(0.05)	(0.04)
Net earnings	\$ 1.98	\$ 2.20	\$ 2.63
Weighted average common shares outstanding			
Basic	18,873	18,053	16,734
Diluted	19,721	18,724	17,206

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended December 31, 2005; December 30, 2006; and December 29, 2007

(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at January 1, 2005	18,953	\$ 19	\$ 11,853	\$ 34,496	\$ 1,475	\$ 47,843
Comprehensive income						
Net earnings for the year	—	—	—	38,994	—	38,994
Foreign currency translation adjustment, net of tax benefit of \$420	—	—	—	—	(636)	(636)
Comprehensive income						38,358
Common stock repurchased and retired	(1,160)	(1)	(11,428)	(37,770)	—	(49,199)
Common stock issued under stock option plan, including tax benefit of \$5,775	550	—	8,736	—	—	8,736
Balance at December 31, 2005	18,343	\$ 18	\$ 9,161	\$ 35,720	\$ 839	\$ 45,738
Comprehensive income						
Net earnings for the year	—	—	—	41,266	—	41,266
Foreign currency translation adjustment, net of tax benefit of \$152	—	—	—	—	(484)	(484)
Comprehensive income						40,782
Common stock repurchased and retired	(1,045)	(1)	(8,222)	(32,735)	—	(40,958)
Common stock awarded to Associates	2	1	100	—	—	101
Equity-based compensation expense	—	—	4,789	—	—	4,789
Common stock issued under stock option and equity incentive award plans, including tax benefit of \$6,198	559	—	9,745	—	—	9,745
Balance at December 30, 2006	17,859	\$ 18	\$ 15,573	\$ 44,251	\$ 355	\$ 60,197
Comprehensive income						
Net earnings for the year	—	—	—	45,317	—	45,317
Foreign currency translation adjustment, net of tax expense of \$385	—	—	—	—	634	634
Comprehensive income						45,951
Common stock repurchased and retired	(1,892)	(2)	(20,118)	(59,460)	—	(79,580)
Common stock awarded to Associates	1	—	47	—	—	47
Equity-based compensation expense	—	—	6,108	—	—	6,108
Common stock issued under equity incentive award plan, including tax benefit of \$2,767	230	—	5,915	—	—	5,915
Balance at December 29, 2007	16,198	\$ 16	\$ 7,525	\$ 30,108	\$ 989	\$ 38,638

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended		
	2005	2006	2007
Cash flows from operating activities			
Net earnings	\$ 38,994	\$ 41,266	\$ 45,317
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	5,904	5,562	5,333
(Gain) loss on sale of property and equipment	10	(1)	53
Equity-based compensation expense	—	4,789	6,108
Excess tax benefit from equity-based payment arrangements	—	(5,288)	(2,532)
Common stock awarded to Associates	—	101	47
Deferred income taxes	(631)	(1,304)	(1,565)
Provision for inventory valuation	1,830	2,346	1,323
Changes in operating assets and liabilities:			
Inventories	(6,420)	(2,224)	2,681
Prepaid expenses and other assets	(1,625)	(3,266)	(2,556)
Accounts payable	(107)	4,374	(3,140)
Other liabilities	10,063	13,840	6,150
Total adjustments	9,024	18,929	11,902
Net cash provided by operating activities	48,018	60,195	57,219
Cash flows from investing activities			
Acquisitions, net of cash acquired	(1,406)	—	—
Receipts on notes receivable	—	—	123
Increase in notes receivable	—	(660)	(666)
Proceeds from sale of property and equipment	19	18	797
Purchases of property and equipment	(4,311)	(11,038)	(26,264)
Net cash used in investing activities	(5,698)	(11,680)	(26,010)
Cash flows from financing activities			
Proceeds from stock options exercised	\$ 2,961	\$ 3,547	\$ 3,148
Excess tax benefits from equity-based payment arrangements	—	5,288	2,532
Repurchase of common stock	(49,199)	(40,958)	(79,580)
Borrowings on line of credit	—	—	104,093
Payments on line of credit	—	—	(76,093)
Net cash used in financing activities	(46,238)	(32,123)	(45,900)
Effect of exchange rate changes on cash and cash equivalents	(570)	58	527
Net increase (decrease) in cash and cash equivalents	(4,488)	16,450	(14,164)
Cash and cash equivalents, beginning of year	15,067	10,579	27,029
Cash and cash equivalents, end of year	\$ 10,579	\$ 27,029	\$ 12,865
<i>Supplemental disclosures of cash flow information</i>			
Cash paid during the year for:			
Interest, net of amount capitalized	\$ 11	\$ 6	\$ 659
Income taxes	15,156	19,040	25,421

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The accounting and reporting policies of USANA Health Sciences, Inc. and its Subsidiaries (the Company) conform with accounting principles generally accepted in the United States of America (US GAAP).

Principles of consolidation

The Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly owned subsidiaries in four geographic regions: "North America" includes the United States, Canada, Mexico, and direct sales from the United States to the United Kingdom and the Netherlands; "Southeast Asia/Pacific" includes Australia, New Zealand, Singapore, and Malaysia; "East Asia" includes Hong Kong, and Taiwan; and "North Asia" includes Japan and South Korea. All significant inter-company accounts and transactions have been eliminated in this consolidation.

Business activity

The Company operates in one reportable business segment manufacturing high-quality nutritional and personal care products that are distributed through a network marketing system throughout the United States, Canada, Mexico, the United Kingdom, the Netherlands, Australia, New Zealand, Singapore, Malaysia, Hong Kong, Taiwan, Japan, and South Korea. The Company manages its business primarily by managing its worldwide Associate base. No Associate accounted for more than 10% of net sales for the years ended 2005, 2006, or 2007. An immaterial amount of third-party manufacturing is conducted at the Company's facility located in Tianjin, China.

Prior to the sale of assets that were related to its third-party contract manufacturing business, the Company operated two reportable business segments: Direct Selling and Contract Manufacturing. The Company's financial results have since been adjusted to reflect the reclassification of sales and related expenses in the former Contract Manufacturing segment to "discontinued operations" for all periods presented. Further information on this sale can be found in Note B—Discontinued Operations below.

Fiscal year

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 2005, 2006 and 2007 were 52-week years. Fiscal year 2005 covered the period January 2, 2005 to December 31, 2005 (hereinafter 2005). Fiscal year 2006 covered the period January 1, 2006 to December 30, 2006 (hereinafter 2006). Fiscal year 2007 covered the period December 31, 2006 to December 29, 2007 (hereinafter 2007).

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Significant estimates for the Company include revenue recognition, obsolescence, goodwill, equity-based compensation, and income taxes. Actual results could differ from

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

those estimates. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Fair value of financial instruments

The Company's financial instruments include: cash and cash equivalents, accounts receivable, accounts payable, and line of credit. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values, based on their short-term nature. The recorded value of the line of credit approximates fair value as interest adjusts to market based on LIBOR and prime rates.

Translation of foreign currencies

The Company's foreign subsidiaries' asset and liability accounts, which are originally recorded in the appropriate local currency, are translated, for consolidated financial reporting purposes, into U.S. dollar amounts at period-end exchange rates. Revenue and expense accounts are translated at the weighted-average rates for the period. Equity accounts are translated at historical rates. Foreign currency translation adjustments are accumulated as a component of other comprehensive income.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company is required to maintain cash deposits with banks in certain subsidiary locations for various operating purposes.

Inventories

Inventories consist of raw materials, work in progress and finished goods and are stated at the lower of cost or market, using the first-in, first-out method.

Income taxes

The Company accounts for income taxes using the asset and liability method as prescribed by SFAS No. 109, "Accounting for Income Taxes." This method requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the differences between the financial statement assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates liabilities is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the "more-likely-than-not" criteria for recognition. The Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" on December 31, 2006. The Company recognizes interest and penalties related to unrecognized tax benefits in income taxes.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest cost capitalized

In accordance with SFAS No. 34, "Capitalization of Interest Cost," the Company capitalizes interest cost that it has incurred on funds that it has used to construct property, plant, and equipment. This capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life once placed in service.

Depreciation and amortization

Property and equipment are recorded at cost. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the related assets. The straight-line method of depreciation and amortization is followed for financial statement purposes. Leasehold improvements are amortized over the shorter of the life of the respective lease or the useful life of the improvements. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets of acquired companies. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized; however it is tested at least annually for impairment (or more frequently if events or changes in circumstances indicate impairment). During 2007, the Company's goodwill was tested in July.

Self insurance

The Company is self-insured, up to certain limits, for employee group health claims. The Company has purchased stop-loss insurance on both an individual and an aggregate basis, which will reimburse the Company for individual claims in excess of \$100,000, and aggregate claims that are greater than 125% of projected claims. The Company reports the cost of claims with an estimate of claims that have been incurred but not reported. A liability for unpaid claims and the associated claim expenses, including losses that have been incurred but not reported, is estimated and reflected in the Balance Sheet as an accrued liability. Total expense under this program was approximately \$2,497, \$3,303 and \$3,499 in 2005, 2006 and 2007, respectively.

Common stock and additional paid-in capital

The Company records cash that it received upon the exercise of equity awards by crediting common stock and additional paid-in capital. The Company received \$3,148 in cash proceeds from the exercise of equity awards in 2007. The Company also realizes an income tax benefit from the exercise of certain equity awards. For equity awards earned prior to January 1, 2006, this tax benefit resulted in a decrease in current income taxes payable and an increase in additional paid-in capital. For equity awards earned after January 1, 2006, the tax benefits are recorded in accordance with SFAS

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

No. 123(R), "Share-Based Payment." Under SFAS No. 123(R), the Company establishes deferred tax assets for the value of certain equity awards. Upon exercise, the deferred tax assets are reversed and the difference between the deferred tax assets and the realized tax benefit creates a tax windfall or shortfall that increases or decreases the additional paid-in capital pool ("APIC Pool") explained further in Note L below. If the APIC Pool is reduced to zero, additional shortfalls are treated as a current tax expense. The total tax benefit recorded in additional paid-in capital was \$5,775 in 2005, \$6,198 in 2006, and \$2,767 in 2007.

The Company has a stock repurchase plan in place that has been authorized by the Board of Directors. As of December 29, 2007, \$50,261 was available to repurchase shares under this plan.

Revenue recognition and deferred revenue

The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders. Sales and related fees billed to customers are recorded as revenue when the product is delivered and when title and the risk of ownership passes to the customer, net of applicable sales discounts. Payments received for unshipped products are recorded as deferred revenue and are included in other current liabilities. Certain incentives offered to Associates, including sales discounts, are classified as a reduction of revenue. A provision for product returns and allowances is included and is founded on historical experience. Additionally, the Company collects an annual renewal fee from Associates that is deferred on receipt and is recognized as income on a straight-line basis over the subsequent twelve-month period.

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, are presented on a net basis (excluded from net sales) as permitted under EITF 06-3.

Product return policy

All product that is returned within the first 30 days following purchase is refunded at 100% of the sales price to retail customers and Preferred Customers. This 30-day return policy is offered to Associates only on their first order. All other returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price less a 10% restocking fee. According to the terms of the Associate agreement, return of product that was not damaged at the time of receipt by the Associate, where the purchase amount exceeds one hundred dollars, may result in cancellation of the Associate's distributorship. Depending upon the conditions under which product was returned, Associates and Preferred Customers may receive their refunded amount either based on their original form of payment or with product or credit on account. Product returns totaled approximately 1.6% of net sales during fiscal years 2005 and 2006, and 1.5% of net sales during fiscal year 2007.

Shipping and handling costs

The Company's shipping and handling costs are included in cost of sales for all periods presented.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-based compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R) and began recording compensation expense associated with equity awards. SFAS No. 123(R) requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards (with limited exceptions). Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based employee compensation using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation expense had only been recorded in the consolidated financial statements for any equity awards that had been granted below the fair market value of the underlying stock as of the date of grant.

The Company adopted the modified prospective transition method provided for under SFAS No. 123(R) and, accordingly, prior period results have not been retroactively adjusted. The modified prospective transition method requires that stock-based compensation expense be recorded for (i) all new equity awards granted on or after January 1, 2006, based on the fair value of the equity award on the date of grant and (ii) all unvested equity awards granted prior to January 1, 2006, based on the fair value. The fair values of these awards are determined in accordance with SFAS No. 123(R).

Upon adoption of SFAS No. 123(R) in 2006, the Company presented the cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for equity awards exercised ("excess tax benefit") as a financing activity in the Consolidated Statements of Cash Flows. Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from exercises of equity awards as an operating activity in the Consolidated Statements of Cash Flows.

Further information regarding equity awards can be found in Note L—Equity-Based Compensation below.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$648 in 2005, \$656 in 2006, and \$1,219 in 2007.

Research and development

Research and development costs are charged to expense as incurred.

Earnings per share

Basic earnings per common share (EPS) are based on the weighted-average number of common shares that were outstanding during each period. Diluted earnings per common share are based on shares that were outstanding (computed as under basic EPS) and potentially dilutive common shares. Potential common shares that are included in the diluted earnings per share calculation include in-the-money, equity-based awards that have been granted but have not been exercised.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157." FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities that are not re-measured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. Any amounts recognized upon adoption of this rule as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. The Company has evaluated SFAS No. 157 and has determined that it will not have a material impact on its Consolidated Financial Statements.

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits an entity to choose to measure eligible items at fair value at specified election dates. An entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years that begin after November 15, 2007. The Company has evaluated SFAS No. 159 and has determined that it will not have a material impact on its Consolidated Financial Statements and the Company has not early adopted.

NOTE B—DISCONTINUED OPERATIONS

Consistent with the Company's long-term objectives of focusing on its Direct Selling Segment, on June 5, 2007, the Company adopted a plan to discontinue the operations of its third-party contract manufacturing business at its Draper, Utah facility. On August 10, 2007, the Company completed the sale of certain assets of its third-party contract manufacturing business for total cash proceeds of \$3,444. These assets consisted of accounts receivable, inventories, and property and equipment. 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. The results of the third-party contract manufacturing operations have been classified as "discontinued operations" for all periods.

The Company's sales reported in discontinued operations for the years ended December 31, 2005, December 30, 2006, and December 29, 2007 were \$8,072, \$9,024 and \$4,460, respectively.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE B—DISCONTINUED OPERATIONS (Continued)

The following table shows the composition of discontinued operations on the Consolidated Statement of Earnings for the years ended December 31, 2005, December 30, 2006, and December 29, 2007.

	Year ended		
	2005	2006	2007
Loss from discontinued operations	\$ (1,766)	\$ (1,355)	\$ (938)
Income tax benefit	588	478	343
Loss from disposal, included in other income (expense)	—	—	(17)
Loss from discontinued operations (net of tax benefit)	\$ (1,178)	\$ (877)	\$ (612)

The following table is a summary of the assets that were sold:

Inventory	\$ 1,669
Accounts receivable	1,086
Property, plant and equipment, net of \$594 of accumulated depreciation	706
Net assets of discontinued operations	\$ 3,461

NOTE C—INVENTORIES

Inventories consist of the following:

	December 30, 2006	December 29, 2007
Raw materials	\$ 8,073	\$ 5,730
Work in progress	4,227	5,825
Finished goods	10,183	7,884
	\$ 22,483	\$ 19,439

NOTE D—PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 30, 2006	December 29, 2007
Prepaid insurance	\$ 886	\$ 1,300
Other prepaid expenses	1,264	1,646
Federal income taxes receivable	1,702	2,754
Miscellaneous receivables, net	3,381	4,109
Deferred commissions	682	1,179
Other current assets	993	651
	\$ 8,908	\$ 11,639

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE E—INCOME TAXES

Income tax expense (benefit) included in income from continuing operations consists of the following:

	Year ended		
	2005	2006	2007
Current			
Federal	\$ 17,939	\$ 19,949	\$ 20,849
State	1,881	2,315	2,239
Foreign	1,209	2,033	3,416
	<u>21,029</u>	<u>24,297</u>	<u>26,504</u>
Deferred			
Federal	76	(1,796)	(1,064)
State	5	(127)	(75)
Foreign	(666)	592	(122)
	<u>\$ 20,444</u>	<u>\$ 22,966</u>	<u>\$ 25,243</u>

The income tax provision, as reconciled to the tax computed at the federal statutory rate of 35% for 2005, 2006, and 2007, is as follows:

	Year ended		
	2005	2006	2007
Federal income taxes at statutory rate	\$ 21,216	\$ 22,788	\$ 24,910
State income taxes, net of federal tax benefit	1,623	1,380	1,762
Difference between U.S. statutory rate and foreign rate	29	14	(15)
Foreign taxes net of foreign tax credit	86	195	—
Extraterritorial income exclusion	(1,875)	(1,370)	—
Qualified production activities deduction	(343)	(332)	(991)
R&D tax credit	(418)	(598)	(436)
Equity-based compensation—incentive stock options	—	234	138
Non-deductible VAT Expense	—	406	133
All other, net	126	249	(258)
	<u>\$ 20,444</u>	<u>\$ 22,966</u>	<u>\$ 25,243</u>

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE E—INCOME TAXES (Continued)

Deferred tax assets and liabilities consist of the following:

	December 30, 2006	December 29, 2007
Current deferred tax assets (liabilities)		
Inventory capitalization	\$ 480	\$ 588
Intercompany sales	255	241
Prepaid expenses	(583)	(991)
Vacation accrual	355	585
Inventory reserve	1,015	970
Allowance for bad debts	154	130
Sales returns and allowances	354	348
All other, net	165	178
	<u>\$ 2,195</u>	<u>\$ 2,049</u>
Long-term deferred tax assets (liabilities)		
Accumulated depreciation/amortization	\$ (124)	\$ 175
Accumulated other comprehensive income	(353)	(737)
Equity based compensation	1,350	2,810
All other, net	2	34
	<u>\$ 875</u>	<u>\$ 2,282</u>

The Company files income tax returns in the U.S. federal jurisdiction and in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2003.

The Company adopted the provisions of FIN 48 on December 31, 2006. The implementation of FIN 48 did not result in a material change to the Company's previous liability for unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 30, 2006	\$ 1,523
Additions based on tax positions related to the current year	284
Additions for tax positions of prior years	319
Settlements	(9)
Lapse of statute	(439)
Balance at December 29, 2007	<u>\$ 1,678</u>

The Company anticipates that it is reasonably possible that unrecognized tax benefits, including interest and penalties, of up to \$548 could be recognized within the next twelve months due to the lapse of the applicable statute of limitations. Recognition of these uncertain tax positions or any uncertain tax position that is included in the December 29, 2007 balance would result in an adjustment to the Company's effective tax rate.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE E—INCOME TAXES (Continued)

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes. In 2007, the Company recognized \$121 in interest and penalties, compared to \$79 in 2006 and \$52 in 2005. The Company has accrued \$320 and \$352 for the payment of interest and penalties at the end of 2006 and 2007, respectively.

NOTE F—PROPERTY AND EQUIPMENT

	Years	December 30, 2006	December 29, 2007
Buildings	40	\$ 10,682	\$ 23,466
Laboratory and production equipment	5-7	10,863	11,563
Sound and video library	5	600	600
Computer equipment and software	3-5	23,365	25,745
Furniture and fixtures	3-5	2,719	3,839
Automobiles	3-5	242	198
Leasehold improvements	3-5	2,834	3,700
Land improvements	15	931	1,579
		52,236	70,690
Less accumulated depreciation and amortization		33,330	36,459
		18,906	34,231
Land		2,070	1,956
Deposits and projects in process		9,347	15,874
		\$ 30,323	\$ 52,061

During 2007, the Company utilized its line of credit to expand its facilities in Salt Lake City, Utah, and in Sydney, Australia. The interest expense associated with these projects has been capitalized as part of the asset to which it relates and will be amortized over the asset's estimated useful life. Total interest expense incurred during 2006 and 2007 was \$110 and \$1,511, respectively, of which \$0 was capitalized in 2006, and of which \$705 was capitalized in 2007.

NOTE G—ASSETS HELD FOR SALE

Due to the completion of the majority of the construction at the Company's corporate headquarters, the Company placed for sale the facility that had formerly been occupied by its subsidiary, USANA Studios. The carrying amount of these assets as of December 29, 2007 is \$607, comprising \$126 in land and \$481 in building. This amount was determined to be less than the fair market value and, as such, the Company has not recorded an impairment loss on these assets. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has stopped depreciating these assets and classified them as available for sale.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE H—GOODWILL

Goodwill represents the excess of the purchase price paid of acquired entities over the fair market value of the net assets acquired. As of December 29, 2007, goodwill totaled \$5,690, comprising \$4,267 that was associated with the July 1, 2003 acquisition of Wasatch Products Development and \$1,423 that was associated with the February 1, 2004 acquisition of FMG. These acquired entities for which the Company has a goodwill balance both relate to business units within the United States and amounts have not changed since their acquisition.

NOTE I—OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	December 30, 2006	December 29, 2007
Associate incentives	\$ 5,793	\$ 4,733
Accrued employee compensation	7,022	10,139
Income taxes	3,095	2,106
Sales taxes	4,031	4,111
Associate promotions	711	917
Deferred revenue	3,092	4,302
Provision for returns and allowances	947	931
All other	4,873	4,835
	<u>\$ 29,564</u>	<u>\$ 32,074</u>

NOTE J—LONG-TERM DEBT AND LINE OF CREDIT

The Company has a \$40,000 line of credit. At December 29, 2007, there was an outstanding balance of \$28,000 associated with the line of credit, with a weighted-average interest rate of 6.0%. The Company, therefore, had \$12,000 available under the line of credit. The interest rate 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, as set forth in a separate pledge agreement with the bank. The Credit Agreement contains restrictive covenants based on EBITDA and a debt coverage ratio.

NOTE K—COMMITMENTS AND CONTINGENCIES

1. *Operating leases*

With the exception of the Company's headquarters, facilities are generally leased. Each of the facility lease agreements is a non-cancelable operating lease and expires prior to or during year 2012.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K—COMMITMENTS AND CONTINGENCIES (Continued)

The Company utilizes equipment under non-cancelable operating leases, expiring through 2012. The minimum rental commitments under operating leases at December 29, 2007 are as follows:

Year ending		
2008		\$ 3,815
2009		2,154
2010		1,198
2011		669
2012		324
		<u>\$ 8,160</u>

These leases generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. The total rent expense for the years ended 2005, 2006, and 2007 was approximately \$3,230, \$3,412, and \$4,530, respectively.

2. *Contingencies*

The Company is involved in various lawsuits and disputes arising in the normal course of business. In the opinion of management, based upon advice of counsel, the probability of an adverse outcome against the Company is remote. As such, management believes that the ultimate outcome of these lawsuits will not have a material impact on the Company's financial position or results of operations.

3. *Employee Benefit Plan*

The Company sponsors an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers employees who are at least 18 years of age and have been employed by the Company longer than three months. The Company makes matching contributions of 50 cents for each one dollar of contribution up to six percent of the participating employees' compensation, subject to the limits of ERISA. In addition, the Company may make a discretionary contribution based on earnings. The Company's matching contributions vest at 25% per year. Contributions made by the Company to the plan in the United States for the years ended 2005, 2006, and 2007 were \$363, \$503, and \$622, respectively. The 401(k) match balances for 2005, 2006, and 2007 were decreased by \$36, \$25, and \$8, respectively, due to the application of prior year forfeitures of the unvested match balances of terminated employees.

4. *Construction Commitments*

As of December 29, 2007, the Company had outstanding commitments for construction projects of approximately \$9.9 million related to the expansion of the Company's corporate headquarters and another facility in Australia. The Company anticipates completion of both projects during 2008.

NOTE L—EQUITY-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) using the modified prospective application. Under this method, compensation expense includes the fair value of equity awards earned during the reported periods. Expense for equity awards earned is determined using the grant date fair value previously calculated for pro forma disclosures under SFAS No. 148,

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE L—EQUITY-BASED COMPENSATION (Continued)

"Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123." Prior to adopting SFAS No. 123(R) the Company accounted for equity-based compensation using the intrinsic value method under the provisions of APB Opinion No. 25, under which no compensation expense was recognized in the Company's Consolidated Statements of Earnings for the year ended December 31, 2005. In connection with the modified prospective method, disclosures made for periods prior to the adoption of SFAS No. 123(R) do not reflect restated amounts.

Equity-based compensation expense for the years ended December 30, 2006 and December 29, 2007 is as follows:

	Year Ended December 30, 2006	Year Ended December 29, 2007
Cost of sales	\$ 558	\$ 650
Selling, general and administrative	3,710	5,078
Research and development	521	380
	4,789	6,108
Related tax benefit	1,544	2,141
Net equity-based compensation expense	\$ 3,245	\$ 3,967

In 2006 and 2007, earnings per basic and diluted share were reduced \$0.17 and \$0.23, respectively, from what earnings would have been if the Company had not been required to accrue equity-based compensation expense. The following table presents the pro forma effects on net earnings and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, to equity-based compensation for 2005:

		Year Ended 2005
Net earnings	As reported	\$ 38,994
Add: Compensation cost included in reported net income		—
Deduct: Total compensation expense under the fair value method for all awards		(7,614)
Net earnings	Pro forma	\$ 31,380
Earnings per share—basic	As reported	\$ 2.07
	Pro forma	\$ 1.66
Earnings per share—diluted	As reported	\$ 1.98
	Pro forma	\$ 1.59

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE L—EQUITY-BASED COMPENSATION (Continued)

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of equity awards outstanding as of December 29, 2007. This table does not include an estimate for future grants that may be issued.

2008	\$ 5,807
2009	3,913
2010	3,452
2011	2,015
Thereafter	435
	\$ 15,622

The cost above is expected to be recognized over a weighted-average period of 2.2 years.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from equity-based compensation as cash flows from operating activities in the condensed consolidated statements of cash flows. SFAS No. 123(R) requires cash flows resulting from tax deductions in excess of the fair value of equity awards on the date of grant to be included in cash flows from financing activities.

The Company has elected to follow the transition guidance indicated in Paragraph 81 of SFAS No. 123(R) for purposes of calculating the pool of excess tax benefits that are available to absorb possible future tax deficiencies. As such, the Company has calculated its historical APIC Pool of windfall tax benefits using the long-form method.

The Company's 2006 Equity Incentive Award Plan (the "2006 Plan"), which was approved by the shareholders at the Annual Shareholders' Meeting held on April 19, 2006, allows for the grant of various equity awards, including stock-settled stock appreciation rights, stock options, deferred stock units, and other types of equity-based awards, to the Company's officers, key employees, and non-employee directors. Prior to the approval of the 2006 Plan, the Company maintained the 2002 Stock Option Plan (the "2002 Plan"), which was limited to the granting of incentive and non-qualified stock options. Options granted under the 2002 Plan generally vest 20% each year on the anniversary of the grant date and expire five to ten years from the date of grant. The 2006 Plan replaced the 2002 Plan for all future grants, and no new awards have been granted under the 2002 Plan. The 2006 Plan authorized 5,000 shares of common stock for issuance, of which 4,187 shares were available for future issuance as of December 29, 2007. Of the 813 shares that have been granted under the 2006 Plan, 765 were stock-settled stock appreciation rights, 42 were stock options, and 6 were deferred stock units. The Company's Compensation Committee has initially determined that awards to be granted to officers and key employees under the 2006 Plan will generally vest 20% each year on the anniversary of the grant date and expire five to five and one-half years from the date of grant.

Awards of stock options and stock-settled stock appreciation rights to be granted to non-employee directors will generally vest 25% each quarter commencing on the last day of the fiscal quarter in which the awards are granted, and will expire five years to five and one-half years from the date of grant. Awards of deferred stock units are full-value shares at the date of grant, vesting over the periods of service, and do not have expiration dates.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE L—EQUITY-BASED COMPENSATION (Continued)

The Company continues to use the Black-Scholes option pricing model to estimate fair value of equity awards, which requires the input of highly subjective assumptions, including the expected stock price volatility. Prior to the implementation of SFAS No. 123(R), expected volatility represented the historical share prices of the Company's common stock over the expected life of the award, and the risk-free interest rate was based on the U.S. Treasury yield curve on the date of grant with respect to the expected life of the award. Expected life was based on the contractual term of the award.

Preceding the adoption of SFAS No. 123(R), the assumptions that were used by the Company in the estimation of fair value of equity awards were analyzed to determine changes that might be necessary in order to more accurately reflect the equity awards that have been granted by the Company. Based on this analysis, the Company decided that, effective January 1, 2006, expected volatility would be calculated by averaging the historical volatility of the Company and a peer group index in order to incorporate volatility of the industry in which the Company operates. The risk-free interest rate would continue to be based on the U.S. Treasury yield curve on the date of grant with respect to the expected life of the award. Also, effective January 1, 2006, due to the "plain vanilla" characteristics of the Company's equity awards, the simplified method, as permitted by the guidance in Staff Accounting Bulletin No. 107 was used to determine expected life for awards granted during 2006 and 2007.

The following table includes weighted-average assumptions that the Company has used to calculate the fair value of equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date of grant and have been excluded from the table below.

	Year Ended		
	2005	2006	2007
Expected volatility	70.4%	57.0%	41.9%
Risk-free interest rate	4.4%	4.8%	4.6%
Expected life	8.6 yrs.	4.1 yrs.	4.2 yrs.
Expected dividend yield	0.0%	0.0%	0.0%
Weighted-average grant price	\$39.94	\$38.00	\$42.21

The weighted-average fair value of stock options and stock-settled stock appreciation rights that were granted in 2005, 2006, and 2007 was \$29.55, \$18.77, and \$16.81, respectively.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE L—EQUITY-BASED COMPENSATION (Continued)

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value*
Outstanding at January 1, 2005	1,932	\$ 9.35	7.3	\$ 48,005
Granted	396	\$ 39.94		
Exercised	(551)	\$ 5.38		
Canceled or expired	(4)	\$ 1.61		
Outstanding at December 31, 2005	1,773	\$ 17.43	7.0	\$ 37,747
Granted	518	\$ 38.00		
Exercised	(559)	\$ 6.35		
Canceled or expired	(12)	\$ 27.69		
Outstanding at December 30, 2006	1,720	\$ 27.15	5.8	\$ 42,172
Granted	464	\$ 42.21		
Exercised	(230)	\$ 13.67		
Canceled or expired	(90)	\$ 35.06		
Outstanding at December 29, 2007	1,864	\$ 32.18	4.9	\$ 12,606
Exercisable at December 31, 2005	640	\$ 20.28	7.7	\$ 11,950
Exercisable at December 30, 2006	535	\$ 26.37	7.2	\$ 13,528
Exercisable at December 29, 2007	782	\$ 24.51	5.6	\$ 10,562

* Aggregate intrinsic value is defined as the difference between the current market value and the exercise price of awards that were in-the-money, and is estimated using the closing price of the Company's common stock on the last trading day of the period.

The total intrinsic value of equity awards that were exercised during 2005, 2006, and 2007, which include stock options and stock-settled stock appreciation rights, was \$21,360, \$20,488, and \$8,430 respectively.

A summary of the Company's deferred stock unit activity for the year ended December 29, 2007 is as follows:

	Shares	Weighted-average Fair Value
Nonvested at December 30, 2006	1	\$ 37.60
Granted	3	\$ 40.59
Vested	(3)	\$ 39.80
Canceled or expired	—	\$ —
Nonvested at December 29, 2007	1	\$ 40.59

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE L—EQUITY-BASED COMPENSATION (Continued)

The total fair value of equity awards that vested during fiscal years 2005, 2006, and 2007 was \$12,180, \$3,767, and \$5,226 respectively. This total fair value includes equity-based awards issued in the form of stock options, stock-settled stock appreciation rights, and deferred stock units.

NOTE M—SEGMENT INFORMATION

USANA operates in one reportable business segment as a direct selling company that develops, manufactures, and distributes high-quality nutritional and personal care products that are sold through a global seamless network marketing system of independent Associates. Over the past three years, the Company's nutritional products have represented between 82% and 87% of net sales, and its personal care products have represented between 10% and 15% of net sales. The Company manages its business primarily by managing its worldwide Associate base. Resources are allocated to markets for the purpose of developing an infrastructure that supports this Associate base and related sales. The Company does not use profitability reports on a regional or market basis for making business decisions. Performance for a region or market is primarily evaluated based on sales. No single customer accounted for 10% or more of net sales in any of the last three fiscal years.

Change in Presentation

Prior to the second quarter of 2007, the Company's operations were reported as two business segments: Direct Selling and Contract Manufacturing. Due to the sale of assets associated with its third-party contract manufacturing business, which was completed on August 10, 2007, the Company currently operates in only one reportable segment, Direct Selling. Therefore, the financial results previously disclosed in segment information for the contract manufacturing business have been reclassified as discontinued operations, and, as such, are excluded from the presentation below.

Historically, selected financial information for the Direct Selling segment was presented for two geographic regions: North America and Asia Pacific. North America included the United States, Canada, and Mexico. Asia Pacific included Australia, New Zealand, Hong Kong, Japan, Taiwan, South Korea, and Singapore. As the Company's international presence has continued to grow, it now presents this information in four geographic regions: North America, Southeast Asia/Pacific, East Asia, and North Asia. "North America" includes the United States, Canada, and Mexico. "Southeast Asia/Pacific" includes Australia, New Zealand, Singapore, and Malaysia. "East Asia" includes Hong Kong and Taiwan. "North Asia" includes Japan and South Korea.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE M—SEGMENT INFORMATION (Continued)

Selected Financial Information

Financial information, presented by geographic region for the years ended December 30, 2006 and December 29, 2007, is listed below:

	2005	2006	2007
Net Sales to External Customers			
North America	\$ 209,445	\$ 246,489	\$ 267,235
Southeast Asia/Pacific	58,300	65,104	90,690
East Asia	32,349	37,478	49,314
North Asia	14,923	16,095	15,910
Consolidated Total	\$ 315,017	\$ 365,166	\$ 423,149
Long-lived Assets			
North America	\$ 27,484	\$ 33,347	\$ 46,964
Southeast Asia/Pacific	971	1,914	10,368
East Asia	1,685	1,771	2,030
North Asia	1,738	1,480	1,492
Consolidated Total	\$ 31,878	\$ 38,512	\$ 60,854
Total Assets			
North America	\$ 56,478	\$ 79,010	\$ 79,697
Southeast Asia/Pacific	7,961	10,218	17,925
East Asia	5,225	6,480	6,911
North Asia	4,044	4,294	4,595
Consolidated Total	\$ 73,708	\$ 100,002	\$ 109,128

The following table provides further net sales information on markets that represent ten percent or more of net sales:

	2005	2006	2007
Net sales:			
United States	\$ 134,227	\$ 159,377	\$ 169,645
Canada	\$ 61,252	\$ 69,053	\$ 75,360
Australia/New Zealand	\$ 44,711	\$ 48,316	\$ 56,471

Due to the centralized structure of the Company's manufacturing operations and its corporate headquarters in the United States, a significant concentration of assets exists in this market. Long-lived assets in the United States totaled \$26,486, \$32,998 and \$46,620, as of December 31, 2005, December 30, 2006 and December 29, 2007, respectively. Additionally, due to the purchase, remodel, and fit-out of a new facility in Sydney, Australia, during 2007, long-lived assets in this market totaled \$9,170. There is no significant concentration of long-lived assets in any other market:

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE N—QUARTERLY FINANCIAL RESULTS (Unaudited)

Summarized quarterly financial information for fiscal years 2006 and 2007 is as follows:

2006	First	Second	Third	Fourth
Net sales	\$ 85,384	\$ 89,694	\$ 91,967	\$ 98,121
Gross profit	\$ 67,006	\$ 70,375	\$ 71,693	\$ 76,256
Income from continuing operations	\$ 9,759	\$ 10,558	\$ 10,438	\$ 11,388
Net earnings	\$ 9,560	\$ 10,344	\$ 10,223	\$ 11,139
Earnings per share:(1)				
Basic	\$ 0.52	\$ 0.57	\$ 0.57	\$ 0.62
Diluted	\$ 0.50	\$ 0.55	\$ 0.55	\$ 0.61
2007	First	Second	Third	Fourth
Net sales	\$ 100,678	\$ 107,542	\$ 106,181	\$ 108,748
Gross profit	\$ 80,092	\$ 85,099	\$ 84,221	\$ 85,846
Income from continuing operations	\$ 11,800	\$ 11,407	\$ 11,663	\$ 11,059
Net earnings	\$ 11,686	\$ 11,314	\$ 11,258	\$ 11,059
Earnings per share:(1)				
Basic	\$ 0.65	\$ 0.68	\$ 0.70	\$ 0.68
Diluted	\$ 0.63	\$ 0.66	\$ 0.68	\$ 0.67

- (1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts does not necessarily equal the total for the year.

NOTE O—EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares outstanding for each period. Weighted-average shares that were redeemed during fiscal years 2005, 2006, and 2007 have been included in the calculation of weighted-average shares that are outstanding for basic earnings per share. Diluted earnings per common share are based on shares that are outstanding (computed under

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE O—EARNINGS PER SHARE (Continued)

basic EPS) and potential dilutive shares. Shares included in the diluted earnings per share calculations include equity awards that are in-the-money but have not yet been exercised.

	Year ended		
	2005	2006	2007
Earnings from continuing operations available to common shareholders	\$ 40,172	\$ 42,143	\$ 45,929
Loss from discontinued operations available to common shareholders	(1,178)	(877)	(612)
Net earnings available to common shareholders	\$ 38,994	\$ 41,266	\$ 45,317
<i>Basic EPS</i>			
Shares			
Common shares outstanding entire period	18,953	18,343	17,859
Weighted average common shares:			
Issued during period	270	257	123
Canceled during period	(350)	(547)	(1,248)
Weighted average common shares outstanding during period	18,873	18,053	16,734
Earnings per common share from continuing operations—basic	\$ 2.13	\$ 2.34	\$ 2.74
Loss per common share from discontinued operations—basic	(0.06)	(0.05)	(0.03)
Earnings per common share from net earnings—basic	\$ 2.07	\$ 2.29	\$ 2.71
<i>Diluted EPS</i>			
Shares			
Weighted average common shares outstanding during period—basic	18,873	18,053	16,734
Dilutive effect of in-the-money equity awards	848	671	472
Weighted average common shares outstanding during period—diluted	19,721	18,724	17,206
Earnings per common share from continuing operations—diluted	\$ 2.04	\$ 2.25	\$ 2.67
Loss per common share from discontinued operations—diluted	(0.06)	(0.05)	(0.04)
Earnings per common share from net earnings—diluted	\$ 1.98	\$ 2.20	\$ 2.63

Equity awards for 17, 163, and 21 shares of stock were not included in the computation of EPS for the years ended 2005, 2006, and 2007, respectively, due to their exercise prices being greater than the average market price of the shares.

During the years ended December 30, 2006, and December 29, 2007, the Company expended \$40,958 and \$79,580 to purchase 1,045 and 1,892 shares, respectively, under the Company's share repurchase plan. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

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EXHIBIT 21

SUBSIDIARIES

Set forth below is a list of all active subsidiaries of the Registrant, the state or other jurisdiction of incorporation or organization of each, and the names under which subsidiaries do business as of March 3, 2008.

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
USANA Canada Co.	Canada
USANA Australia Pty, Ltd.	Australia
USANA Health Sciences (NZ) Corporation	New Zealand
USANA Hong Kong Limited	Hong Kong
USANA Japan, Inc.	Japan
USANA Health Sciences Korea Ltd.	South Korea
USANA Health Sciences Singapore Pte, Ltd.	Singapore
USANA Mexico S.A. de C.V.	Mexico
USANA Health Sciences Tianjin Co. Ltd	People's Republic of China
FMG Productions, Inc. (dba USANA Studios)	Utah
UHS Essential Health Malaysia SND BHD	Malaysia

Except as noted above, each subsidiary listed above is doing business under its corporate name.

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SUBSIDIARIES

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Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 19, 2007, except for Note B as to which the date is March 12, 2008, accompanying the consolidated financial statements in the Annual Report of USANA Health Sciences, Inc. on Form 10-K for the year ended December 29, 2007. We hereby consent to the incorporation by reference of said report in the Registration Statements of USANA Health Sciences, Inc. on Forms S-8 (File Nos. 333-02934, 333-02860, 333-96645, 333-128103, and 333-133385).

/s/ GRANT THORNTON LLP

Salt Lake City, Utah
March 12, 2008

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File Nos. 333-02934, 333-02860, 333-96645, 333-128103, and 333-133385) of USANA Health Sciences, Inc. of our report dated March 4, 2008 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Salt Lake City, UT
March 4, 2008

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Myron W. Wentz, certify that:

1. I have reviewed this Annual Report on Form 10-K of USANA Health Sciences, Inc. (the "Registrant");
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and
 - d) disclosed in this Annual Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: March 13, 2008

/s/ MYRON W. WENTZ

Myron W. Wentz, PhD
Chief Executive Officer
(Principal Executive Officer)

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CHIEF EXECUTIVE OFFICER CERTIFICATION

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Gilbert A. Fuller, certify that:

1. I have reviewed this Annual Report on Form 10-K of USANA Health Sciences, Inc. (the "Registrant");
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Annual Report based on such evaluation; and
 - d) disclosed in this Annual Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: March 13, 2008

/s/ GILBERT A. FULLER

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Gilbert A. Fuller
Chief Financial Officer
(Principal Accounting and Financial Officer)

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CHIEF FINANCIAL OFFICER CERTIFICATION

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EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Annual Report on Form 10-K of USANA Health Sciences, Inc. for the year ended December 29, 2007 as filed March 13, 2008 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: March 13, 2008

/s/ MYRON W. WENTZ

Myron W. Wentz, PhD
Chairman and Chief Executive Officer
(Principal Executive Officer)

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Annual Report on Form 10-K of USANA Health Sciences, Inc. for the year ended December 29, 2007 as filed March 13, 2008 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: March 13, 2008

/s/ GILBERT A. FULLER

Gilbert A. Fuller
Chief Financial Officer
(Principal Accounting and Financial Officer)

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Addendum B

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 2, 2016

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: 001-35024

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)

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 No

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

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 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 No

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.

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
Non-accelerated filer

Accelerated filer
Smaller reporting
company

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

The aggregate market value of common stock held by non-affiliates of the registrant as of July 2, 2015 was approximately \$832,428,673, based on a closing market price of \$141.74 per share.

There were 11,944,164 shares of the registrant's common stock outstanding as of February 26, 2016.

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 2016 Annual Shareholders Meeting.

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For the Fiscal Year Ended January 2, 2016
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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 forward-looking statements include, but are not limited to: any projections of net sales, earnings, or other financial items; any statements of the strategies, plans and objectives of management for future operations; any statements concerning proposed new products or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words "may," "will," "estimate," "intend," "continue," "believe," "expect" or "anticipate" and any other similar words. 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, and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

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., a Utah corporation, 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 20 markets worldwide, where we distribute and sell our products by way of direct selling. We have chosen this distribution method as we believe it is the most conducive to meeting our vision as a company, which is improving the overall health and nutrition of individuals and families around the world. Our net sales in fiscal year 2015 were \$918.5 million, of which 84.8% 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 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 in the United States, China, and the other markets in which we operate with respect 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 share in our company vision by acting as independent distributors of our products in addition to purchasing our products for their personal use. Preferred Customers purchase our products strictly for personal use and are not permitted to resell or to distribute the products. As of January 2, 2016, we had 421,000 active Associates and 89,000 active Preferred Customers worldwide.

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Current Focus and Recent Developments

We have implemented the following strategies and initiatives to increase the number of Associates and Preferred Customers who use our products throughout the world and, thereby, further our company vision:

- *Personalization:* Over the last few years, we have focused heavily on personalizing and improving our customers' experience with USANA.

In August 2015, we introduced our new "MySmart™Foods" line of products, which continues our philosophy and strategy of personalization. MySmart™Foods are science-based, healthy nutrition shakes, bars, boosters and flavor optimizers. We made MySmart™Foods available to our Associates for a limited time at our 2015 International Convention only, as a pre-launch opportunity to purchase and try the products. We intend to officially launch MySmart™Foods during the first half of 2016.

We will continue to personalize each of our product lines going forward. In this regard, we have new product and technology launches planned for 2016 and 2017, which we believe will create a new foundation of personalization for USANA to build on as we go forward.

In 2014, we launched an all-new digital marketing suite for our world-wide Associates, which is designed to personalize and simplify conducting a USANA business. This suite provides our Associates with new tools, consisting of a back office hub, personal websites, and advanced communication and marketing tools, all of which enhance our Associates' ability to personalize, manage, promote and build their business in today's demanding e-business environment.

In 2013, we implemented several strategic changes to our business (referred to throughout this report as the "2013 strategic changes"), which were all aimed at promoting customer loyalty, enjoyment and success with USANA. These changes included: (i) simplification of our pricing structure, which included an overall 10% price reduction, while maintaining a price discount on products ordered through our monthly Auto Order program (collectively "price discounts"), (ii) a new reward based on the amount of a customer's initial product order to then be credited on their subsequent two Auto Orders, and (iii) increased payout under and simplification of our Compensation Plan.

We have experienced growth in several business indicators tied to the strategic changes that we implemented in 2013 and continued promoting in 2014 and 2015. These indicators include: active customer counts; world-wide unit volume; percent of sales processed through our Auto Order program; and the number of Associates earning a commission check.

- *Market-Specific Strategies:* We have implemented market-specific strategies to facilitate growth and strengthen our business around the world.

In 2015, we continued our strategy to increase our brand-recognition to make it easier for our Associates to introduce USANA to customers. In this regard, we expanded our relationship with Dr. Mehmet Oz and became a Trusted Partner and Sponsor of *The Dr. Oz Show*. Under this partnership, USANA products are regularly featured on *The Dr. Oz Show*. This partnership has helped drive growth in North America and our other regions around the world by increasing awareness and recognition of the USANA brand. Each episode of *The Dr. Oz Show* that features a USANA product is translated into the predominant language of a particular USANA market and made available to Associates in that market via YouTube and other social media outlets for use in promoting the USANA brand. Additionally, viewers of *The Dr. Oz Show* are able to purchase USANA products via a direct link on *The Dr. Oz Show* website. We plan on continuing this partnership in 2016.

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In late 2014, after we passed the anniversary of the 2013 strategic changes, we began offering short-term incentives and promotions for our Associates around the world to generate excitement and additional customer growth. One particular incentive that we offered in late 2014 and early 2015 increased compensation to Associates for sales generated by new Associates and accelerated our sales and customer growth during the fourth quarter of 2014 and the first half of 2015. We plan to continue offering market-specific incentives and promotions going forward to generate excitement in our business.

In 2013, we implemented a price reduction in several of our mature markets to make our products and business opportunity more equitable around the world. Although these price reductions initially had an impact on our net sales on a year-over-year basis, they have been successful in the past helping grow our active customer counts and net sales in these markets, where growth had been declining or flat for several years. We followed this pricing initiative with a new worldwide policy to prohibit cross-border purchasing by our customers. We believe that it is in the best interest of the Company and of our customers to have customers purchase products that are approved and offered in their home market. While this policy had a short-term negative impact on net sales in 2013, these policies have strengthened our underlying business and have improved our opportunity for growth going forward.

- *Product Innovation and Information Technology:* Although we originally planned for significant increases in our investment in product and technology innovation to further our Company vision during 2015, much of this investment was delayed as we carefully acquired the necessary human resources. In 2016, we plan to continue to pursue these investment strategies as well as additional investments in our information technology systems and infrastructure to continue to improve our customers' experience with us and to prepare to become a much larger company. These investments will be reflected as both additional SG&A expense and capital expenditures.
- *International Development:* Given the significant opportunity that exists in China, we plan to continue focusing significant time and resources on growing this market. Our efforts in this regard include finalizing our new state-of-the-art manufacturing and production facility in Beijing, which we anticipate will become operational during the first half of 2016. We continue to believe that significant growth opportunities exist in new international markets. During the fourth quarter of 2015 we commenced operations in Indonesia. Indonesia is our 20th market and we believe it offers a promising growth opportunity for us.

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Products

The following table summarizes our product lines.

<u>Product Line/Category</u>	<u>Description</u>	<u>Percent of Product Sales by Fiscal Year</u>	<u>Product examples</u>
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.	2013—26% 2014—24% 2015—22%	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.	2013—54% 2014—55% 2015—59%	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.	2013—12% 2014—13% 2015—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.	2013—6% 2014—7% 2015—7%	Daytime Protective Emulsion Night Renewal Perfecting Essence
All Other	Includes materials and online tools that are designed to assist our Associates in building their businesses and in marketing our products.	2013—2% 2014—1% 2015—1%	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 innovative product opportunities such as our MyHealthPak™ product, which is a fully customized, supplement regimen that can include any of our Essentials and Optimizers.

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

<u>Key Product</u>	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
USANA® Essentials	17%	16%	14%
Proflavanol®	13%	13%	13%
BiOmega-3™	8%	10%	12%

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Other top-selling products include our HealthPak 100™ and CoQuinone ® 30.

Geographic Presence

Our products are distributed and sold in 20 markets. We have organized our markets into two geographic regions: (i) Asia Pacific, which includes three sub-regions, and (ii) Americas and Europe, as noted below.

Asia Pacific

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

- Greater China—Hong Kong, Taiwan, and China⁽¹⁾
- Southeast Asia Pacific—Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand and Indonesia⁽²⁾
- North Asia—Japan and South Korea

Asia Pacific has driven our growth the last several years. Our most recent market expansions in this region include our entry into Indonesia in late 2015, Thailand in 2012 and our entry into China in 2010 through our acquisition of BabyCare. Historically, our growth in this region was led by Hong Kong and the Philippines. Since our acquisition of BabyCare, however, our strategy in Asia Pacific has been centered on generating growth in China. Consequently, our growth in Asia Pacific over the last few years has been led by China, and our results in Hong Kong have declined. Our Hong Kong market has now reached our projected size, in terms of customers and sales, and we anticipate modest organic growth for this market going forward. We also anticipate that China and the Philippines will continue to drive our growth in this region going forward, but expect our business to grow in most of our other markets in this region.

Americas and Europe

Americas and Europe is our most mature region. Our most recent market expansions in this region include our entry into Colombia in 2013 and France and Belgium in 2012. Americas and Europe has grown modestly over the last several years due to sales and customer growth in Canada and Mexico. Our results in the United States and our newest markets in this region, however, have not paralleled our success in Canada and Mexico. We remain optimistic about our potential to generate growth in the United States and our newest markets and are confident in the growth strategies we have in place. We also anticipate that our growth in Canada and Mexico will continue in 2016.

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

⁽²⁾ We commenced operations in Indonesia in the fourth quarter of 2015.

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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 K to the Consolidated Financial Statements included in this report.

	2013		2014		2015	
	(in thousands)					
Asia Pacific						
Greater China	\$ 271,812	37.9%	\$ 326,134	41.3%	\$ 441,284	48.0%
Southeast Asia Pacific	155,362	21.6%	177,940	22.5%	183,828	20.0%
North Asia	29,319	4.1%	32,667	4.1%	39,751	4.4%
Asia Pacific Total	<u>456,493</u>	<u>63.6%</u>	<u>536,741</u>	<u>67.9%</u>	<u>664,863</u>	<u>72.4%</u>
Americas and Europe	<u>261,682</u>	<u>36.4%</u>	<u>253,730</u>	<u>32.1%</u>	<u>253,636</u>	<u>27.6%</u>
	<u>\$ 718,175</u>	<u>100.0%</u>	<u>\$ 790,471</u>	<u>100.0%</u>	<u>\$ 918,499</u>	<u>100.0%</u>

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 USANA brand formulas to keep them current with the latest science, and adapting existing formulas to meet ever-changing regulations in new and existing international markets. In addition, we have an active clinical studies program in place to verify the efficacy of our existing products and our new formulations. 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 and also to reformulate our existing products.

Our in-house research team is working closely with scientists at a number of universities and top research institutes, including the University of Washington, the University of Texas, the University of Colorado Health Sciences Center in Denver, Utah State University, the Linus Pauling Institute at Oregon State University, The Foods for Health Institute at The University of California, Davis, McGill University, in Montreal, Canada, and The Orthopedic Specialty Hospital ("TOSH"), in Salt Lake City, Utah, to maintain our leadership in clinical research in nutrition, oxidative stress, glycemic stress, chronic inflammation and health implications of the microbiome.

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 efficacy. 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 2013, 2014, and 2015, we expended \$5.1 million, \$5.1 million, and \$6.4 million, respectively, on product research and development activities. Going forward, we expect to increase our spending and resources for research and development in connection with our personalization and product innovation strategies.

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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 manufacturing, production and quality control operations is set out below.

Tablet Manufacturing

Our tablet production process uses automatic and semi-automatic equipment and includes the following activities: auditing and qualifying 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 current Good Manufacturing Practices ("GMPs") and with labeling claims. Additionally, our Salt Lake City manufacturing facility is also certified, through inspection and audits, with 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 current Therapeutic Goods Act in Australia.

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 and pharmaceutical GMPs, with additional requirements that are specific to dietary supplements. We are audited by the FDA, specifically for dietary supplements, and have been found in full compliance with GMPs for dietary supplements.

Personal Care Manufacturing

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 the FDA and the Personal Care Products Council.

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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 24% 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, nutrition bars, and certain of our personal care products. In particular, we have entered into a strategic relationship with a third-party manufacturer of our nutrition bars. Under this relationship we have extended credit to this supplier in the form of a secured loan to allow the supplier to acquire the necessary equipment to manufacture our bars. This relationship improves our supply chain stability and creates a mutually beneficial relationship between both parties. Products manufactured by third-party suppliers at their locations must also pass through quality control and assurance procedures to ensure they are manufactured in conformance with our specifications. We require products manufactured at these facilities to be shipped to USANA, where a quality inspection and release also takes place.

Quality Control/Assurance

We have microbiology and analytical chemistry labs in which we conduct quality control processes. 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 Salt Lake City laboratory staff also performs chemical assays on vitamin and mineral constituents, using U.S. Pharmacopoeia methods and other internally validated methods. In addition to our quality control and clinical laboratories, our headquarters and China facilities also house a laboratory designated for research and development.

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. Our raw material suppliers must demonstrate stringent process and quality control before we use their products in our manufacturing process.

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.

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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 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.

Once a person becomes an Associate, she or he may 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. Associates are not required to recruit or sponsor new Associates and we do not compensate Associates for sponsoring or recruiting Associates. 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 sales organization of the sponsoring Associate. New Associates may also sponsor new Associates, creating additional levels in their network, but also forming a part of the same sales organization 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 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 may do so by joining BabyCare as an Associate. The process for joining BabyCare is very similar to the process for joining USANA and requires an initial Associate application and an agreement by the Associate to adhere to the policies and procedures in China. Much like our operations in other markets, an Associate in China is provided with opportunities to build a sales organization and receive compensation for sales generated by that organization. Associates in China are compensated under a compensation plan created and implemented by BabyCare specifically for China.

Preferred Customers. We also sell directly to customers who purchase products only for personal use. This program is our "Preferred Customer" program. Preferred Customers may not resell or distribute our products. We believe this program gives us access to a market that would otherwise be missed, by targeting customers who enjoy USANA products, but who prefer not to maintain a distribution relationship with us. Although our policies prohibit Preferred Customers from engaging in retail sales of products, they may enroll as Associates at any time, if they desire. Preferred Customers are not eligible to earn commissions or to participate in our Compensation Plan. Our China operations also utilize a Preferred Customer program, which is based on USANA's Preferred Customer program in our other markets with modifications that we have made specifically for our China market.

Associate Training and Motivation

Initial training of Associates about the products, the Compensation Plan, network marketing, and USANA is provided primarily by an Associate's sponsor and others in their sales organization. We develop and sell training materials and sales tools to assist Associates in building their businesses, as well as provide reprints from other commercial publications that feature USANA and may be used as

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sales tools. We also sponsor and conduct regional, national, and international Associate events, as well as intensive leadership training seminars. Attendance at these sessions is voluntary, and we undertake no generalized effort to provide individualized training to Associates, although experience shows that the most effective and successful Associates participate in training activities. Although we provide leadership training and sales tools, we ultimately rely on our Associates to sell our products, attract new Associates and Preferred Customers to purchase our products, and to educate and train new Associates regarding our products and Compensation Plan.

Associate Compensation

As outlined below, our Compensation Plan provides several opportunities for Associates to earn compensation, provided they are willing to consistently work at building, training, and retaining their sales organizations to sell USANA products to consumers. The purpose behind each form of compensation under our Compensation Plan is to reward Associates for generating product sales either directly or indirectly through their sales organization and network of product consumers. We believe our Compensation Plan is distinctive for its weekly payouts to Associates.

Associates can earn compensation in four ways:

- *Commissions.* The primary way an Associate is compensated is through earning commissions. Associates earn commissions through generating sales volume points, which are a measure of the product sales of their sales organization. Each of our products has an assigned sales volume point value comprised of a certain percent of the product price in U.S. dollars. To be eligible to earn commissions, an Associate must sell a certain amount of product each month ("Qualifying Sales"). Qualifying Sales may include products that the Associates either use personally or that they resell to consumers. Associates do not earn commissions on these Qualifying Sales. Associates may earn commissions on their sale of products above the Qualifying Sales as well as the sale of products by Associates in their organization and to Preferred Customers. Additionally, Associates do not earn commissions for simply recruiting and enrolling others in their organization. Commissions are paid only on the sale of products. We pay Associate commissions on a weekly basis. As noted elsewhere in this report, our China operations maintain their own compensation plan, which has been implemented by BabyCare specifically for China.
- *Bonuses.* We offer Associates several bonus opportunities, including our leadership bonus, elite bonus, and lifetime matching bonus. These bonus opportunities are based on a pay-for-performance philosophy and, therefore, are paid out when the Associate achieves the required performance measures.
- *Retail Mark-Ups.* As discussed previously, in markets where retail mark-ups are permitted, our Associates purchase products from us at the Preferred Price and may resell them to consumers at higher retail prices. In this case, the Associate retains the retail mark-up as another form of compensation.
- *Contests and Promotions.* We periodically sponsor contests and promotions designed to incentivize Associates to generate sales, grow their sales organization, and increase the number of product users. These promotions are also based on a pay-for-performance philosophy and, therefore, are only paid upon the achievement of the promotion objectives.

We endeavor to integrate our Compensation Plan seamlessly across all markets where legally permissible, allowing Associates to receive commissions for global—not merely local—product sales. This seamless sales organization structure is designed to allow Associates to build a global network by establishing or expanding their sales organization in any of the markets where we operate. We believe

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our Compensation Plan significantly enhances our ability to expand internationally, and we intend to continue to integrate new markets, where permitted, into our Compensation Plan.

Operating Strengths

Our principal objective is to improve the overall health and nutrition of individuals and families around the world. We do this through (i) developing and manufacturing high-quality, science-based nutritional and personal care products that promote long-term health, and (ii) providing a rewarding opportunity through network marketing for our Associates who distribute our products. Our strategy is to capitalize on our operating strengths, which include: a strong research and development program; in-house manufacturing capability; science-based products; an attractive Associate Compensation Plan; a scalable business model; and an experienced management team.

Emphasis on Research and Development. We have a technical team of experienced scientists, including several holding Ph.D. degrees, quality engineers, and regulatory specialists who contribute to our research and development activities. In our research and development laboratories, our scientists and researchers:

- Investigate activities of natural extracts and formulated products in laboratory and clinical settings;
- Identify and research combinations of nutrients that may be candidates for new products;
- Develop new nutritional ingredients for use in supplements;
- Study the metabolic activities of existing and newly identified nutritional ingredients;
- Enhance existing USANA brand products, as new discoveries in nutrition and skin care are made;
- Formulate products to meet diverse regulatory requirements across all of our markets; and
- Investigate processes for improving the production of our formulated products.

Our scientists and researchers also conduct double-blind, placebo-controlled, clinical studies, which are intended to further evaluate the efficacy of our products. In addition, we work with outside research organizations to further support various aspects of our research and development efforts. Our in-house research team is working closely with scientists at a number of universities and top research institutes, including those listed under the caption "Research and Development" above, to maintain our leadership in clinical research in nutrition, oxidative stress, glycemic stress, chronic inflammation and health implications of the micro-biome. We have also funded clinical research programs at Boston University, the University of Colorado, the University of Utah, the University of Sydney in Australia, TOSH, and Utah State University. Our R&D team also works closely with the Medical staff at Sanoviv Medical Institute in Rosarito, Mexico to obtain additional perspectives on the use of supplements in a clinical setting and to get feedback on formulas in development. Additionally, our Scientific Advisory Council, comprised of health care professionals and nutritional science experts worldwide, provides us with valuable insights into product applications and efficacy. It is through our internal research and development efforts, as well as our relationships with outside research organizations and health care providers, that we can provide what we believe to be some of the highest quality health products in the industry.

In-house Manufacturing. We manufacture products that account for approximately 76% of our product sales. We believe that our ability to manufacture our own products in-house is a significant competitive advantage for the following reasons:

- We can better control the quality of raw materials and finished products;

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- We can more reliably monitor the manufacturing process to better guarantee potency and bioavailability and to reduce the risk of product contamination;
- We can better control production schedules to increase the likelihood of maintaining an uninterrupted supply of products for our customers;
- We are able to produce most of our own prototypes in the research phase of product development; and
- We are better able to manage the underlying costs associated with manufacturing our products.

Science-based Products. As a result of our emphasis on research and development and our in-house manufacturing capabilities, we have developed a line of high-quality health products that we believe provides health benefits to our customers. Our products have been developed based on a combination of published research, in-house laboratory and third-party clinical studies, and sponsored research.

Attractive Associate Compensation Plan and Support. We are committed to increasing our product sales by providing a highly competitive compensation plan to attract and retain Associates who constitute our sales force. We motivate our Associates by paying incentives on a weekly basis. Additionally, our Compensation Plan is, where permissible, a global-seamless plan, meaning that Associates can be compensated each week for their business success in any market in which they have a sales organization where we conduct business. As noted elsewhere in this report, our China operations maintain their own compensation plan, which is structured differently than USANA's plan in other markets.

To support our Associates, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in business development and to provide a forum for interaction with some of our Associate leaders and with members of the USANA management team. We also provide low-cost sales tools and resources, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. For example, we offer a computer-based, interactive presentation tool, called Health and Freedom Solution, which is designed to help our Associates easily explain and share the USANA opportunity, including the benefits of our products and our Compensation Plan.

In addition to company-sponsored meetings, sales tools and resources, we maintain a website exclusively for our Associates, where they can access the latest USANA news, obtain training materials, manage their personal information, enroll new customers, shop for products, and register for company-sponsored events. Additionally, through this website, Associates can access other online services to which they may subscribe. For example, we offer an online business management service, which includes a tool that helps Associates track and manage their business activity, a personal webpage to which prospects or retail customers can be directed, and e-cards for advertising.

We also believe that recognition is an important factor in supporting and retaining our Associates. We understand that being a successful USANA Associate requires hard work and dedication, and we celebrate key achievements and rank advancements of our Associates. We believe that our recognition programs greatly contribute to our ability to retain our Associates.

Business Model. We believe that our business model provides, among others, the following advantages:

- No requirement for a company-employed sales force to sell our products, with a relatively low incremental cost to add a new Associate;
- Commissions paid to our Associates are tied to sales performance;

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- Accounts receivable are minimal because payment is required at the time an Associate or Preferred Customer purchases product;
- A stream of recurring revenue from our monthly product subscription program known as "Auto Order," which we utilize in all of our markets (for the year ended January 2, 2016, this program represented 48% of our product sales volume); and
- We can typically expand into new international markets with moderate investment because we generally maintain only warehouse facilities, customer support, and minimal administrative facilities in those international markets. Larger markets, including China however, require more significant local investment.

Experienced Management Team. Our management team includes individuals with expertise in various scientific and managerial disciplines, including nutrition, product research and development, international development, marketing, customer network development, information technology, manufacturing, finance, legal, regulatory, and operations. This team is responsible for supporting growth, research and development, international expansion, strengthening our financial condition, and improving our internal controls.

Growth Strategy

We seek to grow our business by pursuing the following strategies:

Attract and Retain Customers. Our customers, and Associates in particular, are central to the growth and success of our business. Accordingly, our primary growth strategy focuses on increasing our overall customer counts throughout the world. We will execute this strategy by applying both world-wide and region-specific initiatives, which include the initiatives set out below. Our management team maintains a close working relationship with our Associate leaders by interacting with them on a regular basis through in-person meetings and phone calls. Further, in addition to our Annual International Convention and our Asia Pacific Convention, we hold several regional events in key growth areas to provide support and training to Associates. We continue to invest in these events and in the marketing of our business to help Associates improve the productivity of their businesses.

Personalization. Our personalization initiative has been a key marketing and operating strategy for us over the last few years and will continue to be a key strategy going forward. This initiative focuses on personalizing and improving our overall business, as well as our customers' experience with USANA. We have already applied personalization to many aspects of our business and have several additional enhancements planned going forward, all of which is further discussed under "Current Focus and Recent Developments" above.

New Product Introductions. Our research and development team continually reviews the latest scientific findings related to nutrition, conducts or manages research and clinical trials, reviews new technologies, and attends scientific conferences. If, in the process, we see potential for a new product or ingredient that provides a measurable and important health benefit, and if we believe this benefit can be realized by a significant number of our customers, we will generally pursue development of that product. Our research and development focus has and will continue to be centered on personalization and innovation. To the extent reasonably possible, we intend to personalize our product offering and product delivery systems to our customers' individual needs. As discussed above, we have several significant new product introductions and launches planned for 2016 and 2017, which we believe will create a new foundation for USANA to build on for years to come.

Successfully Grow each of our Regions through Market Specific Strategies and Incentives. In light of the strength of our Asia Pacific region and our growing Associate base in Asia, we believe that Greater China continues to be the most significant and imminent growth opportunity for us. Our strategy in this

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region is focused on generating customer growth in each market, with an emphasis on China. Our wholly-owned subsidiary, BabyCare, is our operating entity in China. BabyCare has been granted licenses to engage in direct selling in the municipalities of Beijing, Jiangsu, Shaanxi and Tianjin and is working to obtain similar licenses in other provinces. We have spent the last few years registering a portfolio of USANA products for sale by BabyCare in China, educating our customers on our product offering and business model in China, and improving our information systems, technology and infrastructure in China. In 2016, we will continue to execute these strategies and finalize our new state-of-the-art manufacturing and production facility, which we anticipate will become operational during the first half of 2016.

We are also confident in our growth potential in our Southeast Asia Pacific region. While the Philippines and Australia-New Zealand have been key growth markets for us in this region, we generated local currency sales and customer growth in nearly every market in this region in 2015. We have implemented strategies for each market in this region, which are intended to continue our customer growth trend in 2016. Additionally, 2016 will be the first full operational year for Indonesia, our newest market in this region. Indonesia is USANA's 20th market and we believe it offers a promising growth opportunity for us.

Our Americas and Europe region is also very important to our business and a significant part of our growth strategy. We achieved double-digit local currency sales and Associate growth in Mexico and Canada through market-specific initiatives in 2015, and expect growth in these markets to continue in 2016. We also remain focused on customer growth in the United States. Our objective for this region in 2016 is centered on increasing the overall number of customers who consistently use USANA products. To achieve our objective, we will continue to execute our personalization and brand-awareness strategies and also utilize market-specific promotions and incentives.

Brand Awareness: To facilitate customer growth, we plan to continue to promote global awareness of the USANA brand through various strategies, including professional athlete sponsorships and credible associations with individuals and organizations. Examples of this include our sponsorship of the U.S. Ski Team and our partnership with the Women's Tennis Association. We continue to serve as the official health supplement supplier for these teams and organizations and are also increasing our sponsorship of individual athletes who rely on our products and brand. We seek to leverage these relationships to build brand credibility and increase product consumption and loyalty. In addition to our athlete sponsorships, we seek to advertise and collaborate with credible, nationally recognized organizations and individuals to enhance our global brand. We will also continue our relationship with Dr. Mehmet Oz as a Trusted Partner and Sponsor of *The Dr. Oz Show*, as discussed further under "Current Focus and Recent Developments" above. While branding efforts such as this have a global reach, the primary objective of this initiative is to grow sales and customers in the Americas and Europe.

Enter New Markets. We believe that significant growth opportunities continue to exist in markets where we currently conduct business and in new international markets. We commenced operations in Colombia in 2013, and commenced operations in Indonesia during the fourth quarter of 2015. These markets, as well as future markets, are selected following an assessment of several factors, including market size, anticipated demand for USANA products, receptiveness to network marketing, and the market entry process, which includes consideration of possible regulatory restrictions on our products or our network marketing system. We have also begun to register certain products with regulatory and government agencies in other countries in preparation for further international expansion. Wherever possible, we expect to seamlessly integrate the Compensation Plan in each market to allow Associates to receive commissions for global—not merely local—product sales. This seamless sales structure is designed to allow an Associate to build a global network by creating a sales organization across national borders. We believe our seamless Compensation Plan significantly enhances our ability to expand internationally, and we intend, where permitted, to integrate future markets into this

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Compensation Plan. While we deem new market expansion as a key growth strategy, given the significant opportunity that currently exists in China, we plan to focus the majority of our time and resources on growing that market.

Pursue Strategic Acquisitions. We believe that attractive acquisition opportunities may arise in the future. We intend to pursue strategic acquisition opportunities that would grow our customer base, expand our product lines, enhance our manufacturing and technical expertise, allow vertical integration, or otherwise complement our business or further our strategic goals.

Competition

We compete with manufacturers, distributors, and retailers of nutritional products for consumers, and we compete with network marketing companies for distributors. On both fronts, some of our competitors are significantly larger than we are, have a longer operating history, higher visibility and name recognition, and have greater financial resources than we do. We compete with these entities by emphasizing the underlying science, value, and superior quality of our products, the simplicity in our product offerings, and the convenience and financial benefits afforded by our network marketing system and global seamless Compensation Plan.

Our business is driven primarily by our distributors, whom we refer to as Associates. Our ability to compete with other network marketing companies depends, in significant part, on our success in attracting and retaining Associates. There can be no assurance that our programs for attracting and retaining Associates will be successful. The pool of individuals interested in network marketing is limited in each market and is reduced to the extent other network marketing companies successfully attract these individuals into their businesses. Although we believe that we offer an attractive opportunity for our Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

We believe that the leading network marketing company in the world, based on total sales, is Amway Corporation and its affiliates, and that Avon Products, Inc. is the leading direct seller of beauty and related products worldwide. Leading competitors in the nutritional network marketing and nutritional product industry include Herbalife Ltd., Inc.; Nu Skin Enterprises, Inc.; and NBTY, Inc. Based on information that is publicly available, 2015 net sales of the aforementioned companies ranged from \$2.3 billion to \$8.6 billion. There are other manufacturers of competing product lines that have or may launch direct selling enterprises that compete with us in certain product lines and in the recruiting of Associates. There can be no assurance that we will be able to successfully meet the challenges posed by increased competition.

Product Returns

Product returns have not been a material factor in our business, totaling approximately 0.9% in 2013, 0.8% in 2014, and 0.6% in 2015. Customer satisfaction has always been and will continue to be a hallmark of our business. We believe that we have always offered a generous product return policy. Historically, our standard return policy allowed Associates and Preferred Customers to return any unused product from their first purchase within the first 30 days for a 100% refund of the sales price. Thereafter, any returned product that was unused and resalable was refunded up to one year from the date of purchase at 100% of the sales price, less a 10% restocking fee. During 2015 we updated our return policy and eliminated the 10% restocking fee on product returns. Accordingly, Associates and Preferred Customers now receive a 100% refund of the sales price of unused and resalable products that are returned up to one year from the date of purchase. This standard policy differs slightly in a few of our international markets due to the regulatory environment in those markets. To avoid manipulation of our Compensation Plan, return of product where the purchase amount exceeds \$100 and was not damaged at the time of receipt by the Associate may result in cancellation of an Associate's distributorship.

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Major Customers

Sales are made to independent Associates and Preferred Customers. No single customer accounted for 10% or more of net sales. Notwithstanding the foregoing, the nature of our business model results in a significant amount of sales to several different Associate leaders and their sales organizations. Although no single Associate accounted for 10% or more of our net sales, the loss of a key Associate leader or that Associate's sales organization could adversely affect our net sales and our overall operating results.

Compliance by Associates

We continually monitor and review our Associates' compliance with our policies and procedures as well as the laws and regulations applicable to our business around the world. Part of this review entails an assessment of our Associates' sales activities to ensure that Associates are actually selling products to consumers. Our policies and procedures require Associates to present our products and the USANA opportunity ethically and honestly. Associates are not permitted to make claims about our products or Compensation Plan that are not consistent with our policies and procedures and applicable laws and regulations. The majority of our Associates must use marketing and promotional materials provided by USANA. Associates who have achieved a certain leadership level are permitted, however, to produce their own marketing and promotional materials, but only if such materials are approved by USANA prior to use.

From time to time, we have Associates who fail to adhere to our policies and procedures. We systematically review reports of alleged Associate misbehavior. Infractions of the policies and procedures are reported to our compliance group, who determine what disciplinary action is warranted in each case. More serious infractions are reported to our Compliance Committee, which includes USANA executives. If we determine that an Associate has violated any of our policies and procedures, we may take a number of disciplinary actions, such as warnings, fines or probation. We may also withdraw or deny awards, suspend privileges, withhold commissions until specific conditions are satisfied, or take other appropriate actions in our discretion, including termination of the Associate's purchase and distribution rights.

We believe that Associate compliance is critical to the integrity of our business and, therefore, we are aggressive in ensuring that our Associates comply with our policies and procedures. As explained above, when an Associate fails to comply with our policies and procedures, we may terminate their purchase and distribution rights. From time to time, we become involved in litigation with Associates whose purchase and distribution rights have been terminated. We consider such litigation to be routine and incidental to our business and will continue to be aggressive in ensuring that our Associates comply with our policies and procedures.

Information Technology

We believe that the ability to efficiently manage distribution, compensation, manufacturing, inventory, and communication functions through the use of secure, sophisticated, and dependable information processing systems is critical to our success. We continually evaluate changes in the information technology environment to ensure that we are capitalizing on new technologies, keeping pace with regulatory standards, and ensuring that our systems and data are secure. Over the next few years we intend to increase our investment in technology systems and infrastructure as we prepare to become a much larger company.

Our information technology resources are maintained primarily by our in-house staff to optimally support our customer base and core business processes. Our IT staff manages an array of systems and

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processes which support our global operations 24 hours a day and 365 days a year. Three of our most critical applications include:

- A web-based application that provides online services to Associates, such as training sessions and presentations, online shopping, enrollment, a real-time reporting engine, Company and product information, web-hosting, email, and other tools to help Associates effectively manage their business and sales organizations.
- A web-based order-entry system that handles order entry, customer information, compensation, Associate business structure, returns, invoices, and other transactional-based processes.
- A fully integrated world-wide Enterprise Resource Planning ("ERP") system that handles accounting, human resources, inventory management, production processes, quality assurance, and reporting requirements in a multinational environment.

Our web applications are supported by a clustered environment providing high availability. All production systems are fully backed-up and stored off-site so that our business will not suffer significant interruption in the event of a disaster at the locations of our primary servers.

Regulatory Matters

General. In the United States and the other countries where we operate, our business is subject to extensive governmental laws and regulations. These laws and regulations exist at various levels in the United States and other countries and pertain to our products, network marketing program, and other aspects of our business as described in more detail below.

Product Regulation. Numerous governmental agencies in the United States and other countries regulate the manufacturing, packaging, labeling, advertising, promoting, importing, distributing, and the selling of nutrition, health, beauty, and weight-management products. In the United States, advertisement of our products is regulated by the Federal Trade Commission ("FTC") under the FTC Act and, where such advertising is considered to be product labeling by the FDA, under the Food, Drug, and Cosmetic Act ("FDCA") and the regulations thereunder. USANA products in the United States are also subject to regulation by, among others, the Consumer Product Safety Commission, the U.S. Department of Agriculture, and the Environmental Protection Agency.

Our largest selling product group includes products that are regulated as dietary supplements under the FDCA. Dietary supplements are also regulated in the United States under the Dietary Supplement Health and Education Act of 1994 ("DSHEA"), which we believe is generally favorable to the dietary supplement industry. Some of our powdered drink, food bar, and other nutrition products are regulated as foods under the Nutrition Labeling and Education Act of 1990 ("NLEA"). The NLEA establishes requirements for ingredient and nutritional labeling including product labeling claims. 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 and Pharmaceutical GMP's, with additional requirements that are specific to dietary supplements. We are audited annually by the US FDA, specifically for dietary supplements and have been found in full compliance with GMPs for dietary supplements. The Dietary Supplement & Nonprescription Drug Consumer Protection Act requires manufacturers of dietary supplement and over-the-counter products to notify the FDA when they receive reports of serious adverse events occurring within the United States. We have an internal adverse event reporting system that has been in place for several years, and we believe that we are in compliance with this law.

In general, our personal care products, which are regulated as cosmetic products by the FDA, are not subject to pre-market approval by that agency. Cosmetics, however, are subject to regulation by the FDA under the FDCA adulteration and misbranding provisions. Cosmetics also are subject to specific labeling regulations, including warning statements, if the safety of a cosmetic is not adequately

not conforming to monograph requirements require an approved New Drug Application (NDA) before marketing may begin. Under these provisions, if the agency were to find that a product or ingredient of one of our OTC drug products is not generally recognized as safe and effective or is not included in a final monograph that is applicable to one of our OTC drug products, we would be required to reformulate or cease marketing that product until it is the subject of an approved NDA or until the time, if ever, that the monograph is amended to include such product.

Advertising of our products in the United States is subject to regulation by the FTC under the FTC Act. Under the FTC's Substantiation Doctrine, an advertiser is required to have a "reasonable basis" for all objective product claims before the claims are made. Failure to adequately substantiate claims may be considered either deceptive or unfair practices. Pursuant to this FTC requirement, we are required to have adequate substantiation for all material advertising claims that we make for our products in the United States. In recent years, the FTC has initiated numerous investigations of and actions against companies that sell dietary supplement, weight-management, and cosmetic products. The FTC has issued guidance to assist companies in understanding and complying with its substantiation requirement. We believe that we have adequate substantiation for all material advertising claims that we make for our products in the United States, and we believe that we have organized the documentation to support our advertising and promotional practices in compliance with these guidelines. However, no assurance can be given that the FTC would reach the same conclusion if it were to review or question our substantiation for our advertising claims in the United States.

The FTC may enforce compliance with the law in a variety of ways, both administratively and judicially, using compulsory process, cease and desist orders, and injunctions. FTC enforcement can result in orders requiring, among other things, limits on advertising, corrective advertising, consumer redress, divestiture of assets, rescission of contracts, and such other relief as the agency deems necessary to protect the public. Violation of these orders could result in substantial financial or other penalties. Although, to our knowledge, we have not been the subject of any action by the FTC, no assurance can be given that the FTC will not question our advertising or other operations in the United States in the future. Any action in the future by the FTC could materially and adversely affect our ability to successfully market our products in the United States.

The manufacturing, labeling, and advertising of our products are also regulated by various governmental agencies outside the United States in each country where they are distributed. For example, in Australia, product registration, labeling and manufacturing is regulated by the TGA and, in Japan, the Ministry of Health, Labor and Welfare. In China, the China Food and Drug Administration ("CFDA") regulates product registration, labeling and manufacturing. In markets outside the United States, prior to commencing operations or marketing products, we may be required to obtain approvals, licenses, or certifications from a country's Food Administration, Ministry of Health or comparable agency. Approval or licensing may be conditioned on reformulation of USANA products for the market or may be unavailable with respect to certain products or product ingredients. We must also comply with local product labeling and packaging regulations that vary from country to country. For example, China extensively regulates the registration, labeling and marketing of our products. In China, our nutritional products are typically classified as "health functional foods" and our personal care products are typically classified as "non-special use cosmetics". The registration process for health functional foods is complex and generally requires extensive analysis and approval by the CFDA. As a result, it may take several years to register a product as a health functional food in China. While all products currently sold by BabyCare in China have been registered with the CFDA, we continue to

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work through the registration process for other health functional food products, which we also hope to begin selling through BabyCare in the future.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, would have on our business. Future changes could include requirements for the reformulation of certain products to meet new standards, the recall or discontinuation of certain products that cannot be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, and additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, and operating results.

Network Marketing Regulation. Various laws and regulations in the United States and other countries regulate network marketing, or direct selling. These laws and regulations exist at many levels of government in many different forms, including statutes, rules, regulations, judicial decisions, and administrative orders. Generally, the regulations are directed at: (i) ensuring that product sales ultimately are made to consumers and that advancement within a sales organization is based on product sales rather than on investments in the organization or on other criteria that are not related to sales; and (ii) preventing the use of deceptive or fraudulent practices that have sometimes been inappropriately associated with legitimate direct selling and network marketing activities. Network marketing regulations are inherently fact-based and often do not include "bright line" rules. Additionally, we are subject to the risk that the regulations, or a regulator's interpretation and enforcement of the regulations, could change. From time to time, we have received requests to supply information regarding our network marketing plan to regulatory agencies. We have also modified our network marketing plan in the past to comply with the interpretation of the regulations by authorities. Where required by law, we obtain regulatory approval of our network marketing plan, or, where approval is not required or available, the favorable opinion of local counsel as to regulatory compliance. Nevertheless, we remain subject to the risk that, in one or more countries, our network marketing plan, or the conduct of certain of our Associates, could be found not to be in compliance with applicable laws and regulations. Additionally, we cannot predict the nature of any future law, regulation, or interpretation, nor can we predict what effect additional governmental regulations, judicial decisions, or administrative orders, when and if promulgated, would have on our business. Failure by us, or our Associates, to comply with these regulations could have a material adverse effect on our business in a particular market or in general.

Network marketing companies, and the industry in general, continue to experience significant media and public scrutiny in many countries. Several companies similar to ours have been scrutinized and penalized in several markets where we operate, including the United States, Canada, China, Japan, and South Korea. This scrutiny, along with the uncertainty of the laws and regulations pertaining to network marketing in many countries, can affect how a regulator or member of the public perceives our Company. For instance, there has been significant media and short-seller attention regarding the viability and legality of network marketing in the United States and China over the past few years. This attention has led to intense public scrutiny of the industry, as well as volatility in our stock price and the stock prices of companies similar to our company. We cannot predict the impact that this scrutiny may have on our business or the industry in general.

The Chinese government has adopted direct selling laws and regulations that are uncertain and evolving. These regulations contain a number of financial and operational restrictions for direct selling companies, most notably on pyramid selling and multi-level compensation. These regulations are also subject to discretionary interpretation and enforcement by various municipal and provincial level officials in China. Our business in China is that of BabyCare, a direct selling company that we indirectly acquired several years ago to facilitate our expansion into China. BabyCare's business model has been developed specifically for China in light of Chinese direct selling laws and regulations.

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BabyCare has been granted licenses from the Chinese government to conduct direct selling in four provinces in China and will be required to obtain licenses from municipalities and provinces in China where it does not hold a license. The process for obtaining government approval in China to conduct direct selling continues to evolve, is time-consuming, and expensive. The complexity of the approval process, as well as the government's continued cautious approach to direct selling in China, make it difficult to predict the timeline for obtaining additional approvals. If the process for obtaining approvals is delayed, changed or interpreted differently than currently understood, such events could have a negative impact on BabyCare's growth prospects in China. Ultimately, there can be no assurance that BabyCare will be successful in obtaining additional direct-selling licenses or the required approvals to expand into additional locations in China that are important to its business there.

Transfer Pricing Regulation. In the United States and many other countries, we are subject to transfer pricing and other tax regulations that are designed to ensure that appropriate levels of income are reported by our U.S. or international entities and are taxed accordingly. We have adopted transfer prices, which are supported by formal transfer pricing studies for the sale of products to our subsidiaries in accordance with applicable transfer pricing laws. In addition, we have entered into agreements with our subsidiaries for services and other contractual obligations, such as the payment of Associate incentives that are also supported by the same formal transfer pricing studies. If the U.S. Internal Revenue Service or the taxing authorities of any other jurisdiction were to successfully challenge these agreements or require changes in our standard transfer pricing practices for products, we could become subject to higher taxes and our earnings could be adversely affected. The tax treaties between the United States and most countries provide competent authority for relief to avoid any double taxation. We believe that we operate in compliance with all applicable transfer pricing regulations. There can be no assurance, however, that we will continue to be found to be operating in compliance with transfer pricing regulations or that those laws will not be modified, which may require that we change our operating procedures.

Intellectual Property

Trademarks. We have developed and use registered trademarks in our business, particularly relating to our corporate and product names. We own 25 trademarks that are registered with the U.S. Patent and Trademark Office. Federal registration of a trademark enables the registered owner of the mark to bar the unauthorized use of the registered mark in connection with a similar product in the same channels of trade by any third-party anywhere in the United States, regardless of whether the registered owner has ever used the trademark in the area where the unauthorized use occurs. We have filed applications and own trademark registrations, and we intend to register additional trademarks in countries outside the United States where USANA products are or may be sold in the future. Protection of registered trademarks in some jurisdictions may not be as extensive as the protection in the United States.

We also claim ownership and protection of certain product names, unregistered trademarks, and service marks under common law. Common law trademark rights do not provide the same level of protection that is afforded by the registration of a trademark. In addition, common law trademark rights are limited to the geographic area in which the trademark is actually used. We believe these trademarks, whether registered or claimed under common law, constitute valuable assets, adding to recognition of USANA and the effective marketing of USANA products. Trademark registration once obtained is essentially perpetual, subject to the payment of a renewal fee. We therefore believe that these proprietary rights have been and will continue to be important in enabling us to compete.

Trade Secrets. We own certain intellectual property, including trade secrets that we seek to protect, in part, through confidentiality agreements with employees and other parties. Even where these agreements exist, there can be no assurance that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known to

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or independently developed by competitors. Our proprietary product formulations are generally considered trade secrets, but are not otherwise protected under intellectual property laws.

Patents. We have three U.S. patents. Two of our patents relate to the method of extracting an antioxidant from olives and the byproducts of olive oil production. These patents were issued in 2002 and will continue in force until December 20, 2019. Our third patent relates to a method of self-preserving our Sensé™ line of personal care products. This patent was issued in May 2007 and will continue in force until August 5, 2024.

We intend to protect our legal rights concerning intellectual property by all appropriate legal action. Consequently, we may become involved from time to time in litigation to determine the enforceability, scope, and validity of any of the foregoing proprietary rights. Any patent litigation could result in substantial cost and divert the efforts of management and technical personnel.

Seasonality

Although we are not significantly affected by seasonality, we do experience variations in the activity of our Associates in many of our markets in the first and fourth quarters around major cultural events such as Chinese New Year and Christmas.

Backlog

Our products are typically shipped within 72 hours after receipt of an order. As of February 26, 2016 we had no significant backlog of orders.

Working Capital Practices

We maintain sufficient amounts of inventory in stock in order to provide a high level of service to our Associates and Preferred Customers. Substantial inventories are required to meet the needs of our dual role as manufacturer and distributor. We also watch seasonal commodity markets and may buy ahead of normal demand to hedge against cost increases and supply risks.

Environment

We are not aware of any instance in which we have contravened federal, state, or local laws relating to protection of the environment or in which we otherwise may be subject to liability for environmental conditions that could materially affect operations.

Employees

As of February 26, 2016 we had approximately 1,664 employees worldwide, as measured by full-time equivalency. Our employees are not currently represented by a collective bargaining agreement, and we have not experienced work stoppages as a result of labor disputes. We believe that we have a good relationship with our employees.

Additional Available Information

We maintain executive offices and principal facilities at 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. Our telephone number is (801) 954-7100. We maintain a World Wide Web site at www.usanahealthsciences.com. The information on our web site should not be considered part of this report on Form 10-K.

We make available, free of charge at our corporate web site, copies of our annual reports on United States Securities and Exchange Commission ("SEC") Form 10-K, quarterly reports on SEC Form 10-Q, current reports on SEC Form 8-K, proxy statements, and all amendments to these reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. This information may also be obtained from the SEC's on-line database, which is located at www.sec.gov.

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Item 1A. Risk Factors

Forward-Looking Statements and Certain Risks

We encounter substantial risks in our business, any one of which may adversely affect our business, results of operations or financial condition. The fact that some of these risk factors may be the same or similar to those that we have filed with the Securities and Exchange Commission in past reports means only that the risks are present in multiple periods. We believe that many of the risks that are described here are part of doing business in the industry in which we operate and will likely be present in all periods. The fact that certain risks are endemic to the industry does not lessen their significance. These risk factors should be read together with the other items in this report, including Item 1, "Business," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include the following:

We are a network marketing company and are dependent upon an independent sales force of "Associates" to sell our products. If we are unable to attract and retain Associates, our business may be harmed. We rely on non-employee, independent Associates to market and sell our products and to generate our sales. Our ability to maintain and increase sales in the future will depend in large part upon our success in increasing the number of new Associates, retaining and motivating our existing Associates, and in improving the productivity of our Associates. Associates typically market and sell our products on a part-time basis and likely will engage in other business activities, some of which may compete with us. We rely primarily upon our Associates to attract, train and motivate new Associates. Our ability to continue to attract and retain Associates can be affected by a number of factors, some of which are beyond our control, including:

- General business and economic conditions;
- Adverse publicity or negative misinformation about our industry, us or our products;
- Negative public perceptions about network marketing programs;
- High-visibility investigations or legal proceedings against network marketing companies by federal or state authorities or private citizens;
- Public perceptions about the value and efficacy of nutritional or dietary supplement, products generally;
- Other competing network marketing organizations entering into the marketplace that may recruit our existing Associates or reduce the potential pool of new Associates; and
- Changes to the Compensation Plan required by law or implemented for business reasons that make attracting and retaining Associates more difficult.

We can provide no assurance that the number of Associates will increase or remain constant or that their productivity will increase. Our Associates may terminate their services at any time, and, like most direct selling companies, we experience a high turnover among new Associates from year to year. While our total number of active Associates has continued to increase during recent years, a few of our markets, including the United States, have experienced a decline in the number of active Associates. If our strategies and initiatives do not drive growth in our Associate numbers, particularly in the United States, China and other markets, our operating results could be harmed. We cannot accurately predict any fluctuation in the number and productivity of Associates because we primarily rely upon existing Associates to sponsor and train new Associates and to motivate new and existing Associates. Our operating results in other markets could also be adversely affected if we and our existing Associates do not generate sufficient interest in our business to successfully retain existing Associates and attract new Associates.

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The loss of a significant USANA Associate or downline sales organization could adversely affect our business. We rely on the successful efforts of our Associates that become leaders within our Compensation Plan. Our Compensation Plan is designed to permit Associates to sponsor new Associates, creating multiple "business centers," or levels in the downline organization. Sponsored Associates are referred to as "downline" Associates within the sponsoring Associate's "downline network." If these downline Associates in turn sponsor new Associates, additional business centers are created, with the new downline Associates becoming part of the original sponsoring Associate's downline network. As a result of this network marketing system, Associates develop business relationships with other Associates. The loss of a key Associate or group of Associates, large turnover or decreases in the size of the key Associate force, seasonal or other decreases in purchase volume, sales volume reduction, the costs associated with training new Associates, and other related expenses may adversely affect our business, financial condition, or results of operations.

The violation of marketing or advertising laws by Associates in connection with the sale of our products or the improper promotion of our Compensation Plan could adversely affect our business. All Associates sign a written contract and agree to adhere to our policies and procedures. Although these policies and procedures prohibit Associates from making false, misleading and other improper claims regarding products or income potential from the distribution of the products, Associates may, from time to time, without our knowledge and in violation of our policies, create promotional materials or otherwise provide information that does not accurately describe our marketing program. They also may make statements regarding potential earnings, product claims, or other matters in violation of our policies or applicable laws and regulations concerning these matters. These violations may result in legal action against us by regulatory agencies, state attorneys general, or private parties. Legal actions against our Associates or others who are associated with us could lead to increased regulatory scrutiny of our business, including our network marketing system. We take what we believe to be commercially reasonable steps to monitor the activities of our Associates to guard against misrepresentation and other illegal or unethical conduct by Associates and to assure that the terms of our policies and procedures and Compensation Plan are observed. There can be no assurance, however, that our efforts in this regard will be sufficient to accomplish this objective, particularly in times/regions where we may experience rapid growth. Adverse publicity resulting from such activities could also make it more difficult for us to attract and retain Associates and may have an adverse effect on our business, financial condition, and results of operations.

We may have or could incur obligations relating to the activities of our Associates. Our Associates are subject to taxation, and, in some instances, legislation or governmental agencies impose an obligation on us to collect taxes, such as sales taxes or value added taxes, and to maintain appropriate records of such transactions. In addition, we are subject to the risk in some jurisdictions of being responsible for social security and similar taxes with respect to our Associates. In the event that local laws and regulations or the interpretation of local laws and regulations change to require us to treat our independent Associates as employees, or if our Associates are deemed by local regulatory authorities in one or more of the jurisdictions in which we operate to be our employees rather than independent contractors, under existing laws and interpretations, we may be held responsible for a variety of obligations that are imposed upon employers relating to their employees, including social security and related taxes in those jurisdictions, plus any related assessments and penalties, which could harm our financial condition and operating results.

Network marketing is subject to intense government scrutiny, and regulation and changes in the law, or the interpretation and enforcement of the law, might adversely affect our business. Various laws and regulations in the United States and other countries regulate network marketing, or direct selling. These laws and regulations exist at many levels of government in many different forms, including statutes, rules, regulations, judicial decisions, and administrative orders. Network marketing regulations are inherently fact-based and often do not include "bright line" rules. As a result, regulators and courts

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have broad discretion in their application, interpretation and enforcement of these laws and regulations, and any of the foregoing can change. We are subject to the risk that, in one or more countries, our network marketing plan, or the conduct of certain of our Associates, could be found not to be in compliance with applicable laws and regulations. Further, we may simply be prohibited from distributing products through a network-marketing channel in some countries, or we may be forced to alter our Compensation Plan.

We are also subject to the risk that new laws or regulations might be implemented or that current laws or regulations might change, or be interpreted or enforced differently, which could require us to change or modify the way we conduct our business in certain markets. This could be particularly detrimental to us if we had to change or modify the way we conduct business in markets that represent a significant percentage of our net sales.

We are aware of regulatory challenges, investigations and litigation against other network marketing companies in the industry in the United States and other countries where we operate. Any adverse ruling in these investigations could harm our business and industry if the laws and regulations are interpreted in a manner that results in additional burdens or restrictions on network marketing companies. Additionally, we cannot assure you that we will not be subject to challenges by regulators regarding our network marketing plan.

Our products and manufacturing activities are subject to extensive government regulation, which could limit or prevent the sale of our products in some markets. The manufacture, packaging, labeling, advertising, promotion, distribution, and sale of our products are subject to regulation by numerous national and local governmental agencies in the United States and other countries, including the FDA and the FTC. For example, failure to comply with FDA regulatory requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Any action of this type by the FDA could materially adversely affect our ability to successfully market our products. With respect to FTC matters, if the FTC has reason to believe the law is being violated, it can initiate an enforcement action. The FTC has a variety of processes and remedies available to it for enforcement, both administratively and judicially. Any action against us by the FTC could materially and adversely affect our ability to successfully market our products.

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 these GMPs for dietary supplements. Nevertheless, any action by the FDA which determined that our processes were non-compliant with dietary supplement GMPs, could materially adversely affect our ability to manufacture and market our products. Additionally, the Dietary Supplement & Nonprescription Drug Consumer Protection Act requires manufacturers of dietary supplement and over-the-counter products to notify the FDA when they receive reports of serious adverse events occurring within the United States. Potential FDA responses to any such report could include injunctions, product withdrawals, recalls, product seizures, fines, or criminal prosecutions. We have an internal adverse event reporting system that has been in place for several years and believe that we are in compliance with this new law. Nevertheless, any action by the FDA in response to a serious adverse event report that may be filed by us could materially and adversely affect our ability to successfully market our products.

In markets outside the United States, prior to commencing operations or marketing our products, we may be required to obtain approvals, licenses, or certifications from a country's ministry of health or a comparable agency. For example, our manufacturing facility has been registered with the FDA and Health Canada and is certified by Australia's TGA. Approvals or licensing may be conditioned on reformulation of products or may be unavailable with respect to certain products or product ingredients. China also extensively regulates the registration, labeling and marketing of our products.

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Consequently, the registration process for our products in China is complex and generally requires extensive analysis and approval by the CFDA. As a result, it may take several years to register a product in China. We must also comply with product labeling and packaging regulations that vary from country to country. These activities are also subject to regulation by various agencies of the countries in which our products are sold.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, could have on our business. These potential effects could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping and reporting requirements, expanded documentation of the properties of certain products, expanded or different labeling, or additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, or results of operations.

Our manufacturing activity is subject to certain risks. We manufacture approximately 76% of the products sold to our customers. As a result, we are dependent upon the uninterrupted and efficient operation of our manufacturing facilities. Those operations are subject to power failures, the breakdown, failure, or substandard performance of equipment, the improper installation or operation of equipment, natural or other disasters, and the need to comply with the requirements or directives of government agencies, including the FDA. There can be no assurance that the occurrence of these or any other operational problems at our facility would not have a material adverse effect on our business, financial condition, or results of operations. We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, manufacture, use and disposal of chemicals, solid and hazardous waste, and other toxic and hazardous materials. Our manufacturing operations presently do not result in the generation of material amounts of hazardous or toxic substances. Nevertheless, complying with new or more stringent laws or regulations, or more vigorous enforcement of current or future policies of regulatory agencies, could require substantial expenditures by us that could have a material adverse effect on our business, financial condition, or results of operations. Environmental laws and regulations require us to maintain and comply with a number of permits, authorizations, and approvals and to maintain and update training programs and safety data regarding materials used in our processes. Violations of those requirements could result in financial penalties and other enforcement actions and could require us to halt one or more portions of our operations until a violation is cured. The combined costs of curing incidents of non-compliance, resolving enforcement actions that might be initiated by government authorities, or of satisfying new legal requirements could have a material adverse effect on our business, financial condition, or results of operations.

We may incur liability with respect to our products. As a manufacturer and a distributor of products for human consumption and topical application, we could become exposed to product liability claims and litigation. Additionally, the manufacture and sale of these products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. To date, we have not been a party to any product liability litigation, although, like any dietary supplement company, we have received reports from individuals who have asserted that they suffered adverse consequences as a result of using our products. The number of reports we have received to date is nominal. These matters historically have been settled to our satisfaction and have not resulted in material payments. We are aware of no instance in which any of our products are or have been defective in any way that could give rise to material losses or expenditures related to product liability claims. Although we maintain product liability insurance, which we believe to be adequate for our needs, there can be no assurance that we will not be subject to such claims in the future or that our insurance coverage will be adequate.

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Our Greater China region accounts for a significant part of our business and expected growth. Any decline in sales or customers in this region would harm our business, financial condition and results of operations. Our Greater China region consists of China, Hong Kong and Taiwan and is currently our largest and most rapidly growing region. Since our acquisition of BabyCare, Ltd. in China in 2010, our international growth strategy has been centered on growing BabyCare's business in China. As a result of this strategy, China has been our fastest growing market over the last few years and is now our largest individual market. As we have focused on China, we have also experienced a meaningful decline in sales and customers in our Hong Kong market and our results in this market may continue to decline in the future. If we are not successful in continuing to grow BabyCare's sales and customer base in China, our consolidated growth as a company will be negatively affected and our business, financial condition and results of operations may be harmed. BabyCare must comply with significant operational, financial, and other regulatory requirements to engage in direct selling in China. Although we believe that, in light of our successful Asian Associate base, we will be successful in growing BabyCare's business in China, it is difficult to assess the extent to which BabyCare's Chinese business model and Associate compensation plan will be successful in that market or deemed to be compliant with applicable laws and regulations by the Chinese government. Although we are required to conduct our operations in China through BabyCare, we believe that our long-term success in China will depend on our ability to successfully integrate, to the extent possible, our operations with BabyCare's operations. In light of the factors listed above, and the other risks to our business, there can be no assurance that we will be successful in growing sales and customers in China through BabyCare.

Our operations in China are subject to significant government regulation and scrutiny, as well as a variety of legal, political, and economic risks. If the government modifies the direct selling regulations, or interprets and enforces the regulations in a manner that is adverse to our business in China, our consolidated business and results of operations may be materially harmed. Our business in China is that of BabyCare, a direct selling company that we indirectly acquired several years ago to facilitate our expansion into China. BabyCare has been granted licenses from the Chinese government to conduct direct selling operations in four provinces in China and has applied for licenses in additional municipalities and provinces. BabyCare's business model has been designed specifically for China based on a number of factors, including: (i) BabyCare's communications with the Chinese government, (ii) BabyCare's interpretation of the direct selling regulations, as well as their understanding of how the government interprets and enforces the regulations, and (iii) BabyCare's understanding of how other multinational direct selling companies operate in China. Notwithstanding the foregoing, BabyCare has not received confirmation from the Chinese government that its business model and operations in China comply with applicable laws and regulations, including those pertaining to direct selling.

The Chinese government has adopted direct selling laws and regulations that are uncertain and evolving. These regulations contain a number of financial and operational restrictions for direct selling companies, most notably on pyramid selling and multi-level compensation. These regulations are also subject to discretionary interpretation and enforcement by various municipal and provincial level officials in China. We cannot assure you that BabyCare's business model or the activities of its employees, promoters or direct sellers will be deemed by regulatory authorities to be compliant with current or future laws and regulations. In the past, the Chinese government has fined, penalized, and, in some cases, terminated direct selling licenses and shut down companies that it believed were in violation of applicable laws and regulations. As such, there can be no assurance that the Chinese government's interpretation and enforcement of applicable laws and regulations will not negatively impact BabyCare's business, result in regulatory investigations or lead to fines or penalties against BabyCare, USANA or our Associates in China.

The direct selling regulations in China prevent persons who are not Chinese nationals from engaging in direct selling in China. Although we have implemented internal policies that are designed to promote our Associates' compliance with these regulations, we cannot guarantee that any of our

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Associates living outside of China or any of BabyCare's promoters or Associates in China have not engaged or will not engage in activities that violate our policies in this market or that violate Chinese law or other applicable laws and regulations and, therefore, might result in regulatory action and adverse publicity, which would harm our business in China.

BabyCare is required to obtain various licenses and approvals from municipalities and provinces within China to operate its direct selling business model. Currently, BabyCare holds four such licenses and will be required to obtain licenses from municipalities and provinces within China where it does not hold a license. If BabyCare is unable to obtain additional direct selling licenses as quickly as we would like, it would have a negative impact our ability to expand and grow our business. The process for obtaining the necessary government approvals to conduct direct selling continues to evolve, is time-consuming and expensive. The complexity of the approval process, as well as the government's continued cautious approach for direct selling in China, makes it difficult to predict the timeline for obtaining additional approvals. If the current processes for obtaining approvals are delayed for any reason or are changed or are interpreted differently than currently understood, these events could have a negative impact on BabyCare's growth prospects in China. Ultimately, there can be no assurance that BabyCare will be successful in obtaining additional direct-selling licenses or the required approvals to expand into additional locations in China that are important to its business.

If BabyCare's operations in China are successful, we may experience rapid growth in China, and there can be no assurances that we will be able to successfully manage rapid expansion of BabyCare's direct selling activities under license in China or the related manufacturing and retail operations required to support this expansion. If we are unable to effectively manage BabyCare's growth and expansion, including expansion of branches, warehouses, and manufacturing operations, BabyCare's government relations may be compromised and our operations in China may be harmed.

Risks associated with operating in international markets could restrict our ability to expand globally and harm our business and prospects, and we could be adversely affected by our failure to comply with the laws applicable to our foreign activities, including the U.S. Foreign Corrupt Practices Act and other similar worldwide anti-bribery laws. Our international operations are presently conducted in various foreign countries, and we expect that the number of countries in which we operate could expand over the next few years. Economic conditions, including those resulting from wars, civil unrest, acts of terrorism and other conflicts or volatility in the global markets, may adversely affect our customers, their demand for our products and their ability to pay for our products. In addition, there are numerous risks inherent in conducting our business internationally, including, but not limited to, potential instability in international markets, changes in regulatory requirements applicable to international operations, currency fluctuations in foreign countries, political, economic and social conditions in foreign countries and complex U.S. and foreign laws and treaties, including tax laws, the U.S. Foreign Corrupt Practices Act (FCPA), and the Bribery Act of 2010 (U.K. Anti-Bribery Act). These risks could restrict our ability to sell products, obtain international customers, or to operate our international business profitably, which would have a negative impact on our overall business and results of operations.

The FCPA prohibits U.S.-based companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. We are also subject to the U.K. Anti-Bribery Act, which prohibits both domestic and international bribery as well as bribery across both public and private sectors. We pursue opportunities in certain parts of the world that experience government corruption and, in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices. Our policies mandate compliance with all applicable anti-bribery laws. Further, we require our partners, subcontractors, agents and others who work for us or on our behalf to comply with the FCPA and other anti-bribery laws. Although we have policies and procedures designed to ensure that we, our employees, our agents and others who work with us in foreign countries comply with the FCPA and other anti-bribery laws, there is no assurance that such policies or procedures will protect us against liability under the FCPA or other laws for actions taken

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by our agents, employees and intermediaries. If we are found to be liable for violations of these acts (either due to our own acts or our inadvertence or due to the acts or inadvertence of others), we could incur severe criminal or civil penalties or other sanctions, which could have a material adverse effect on our reputation, business, results of operations or cash flows. In addition, detecting, investigating and resolving actual or alleged violations of these acts is expensive and could consume significant time and attention of our senior management.

We believe that our ability to achieve future growth is dependent in part on our ability to continue our international expansion efforts. There can be no assurance, however, that we will be able to grow in our existing international markets, enter new international markets on a timely basis, or that new markets will be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any international market. Also, before marketing commences in a new country or market, it is difficult to assess the extent to which our products and sales techniques will be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. No assurance can be given that we will be able to successfully reformulate our products in any of our current or potential international markets to meet local regulatory requirements or to attract local customers. Our failure to do so could have a material adverse effect on our business, financial condition, or results of operations. There can be no assurance that we will be able to obtain and retain necessary permits and approvals in new markets or that we will have sufficient capital to finance our expansion efforts in a timely manner.

In many market areas, other network marketing companies already have significant market penetration, the effect of which could be to desensitize the local Associate population to a new opportunity, such as USANA, or to make it more difficult for us to attract qualified Associates. Even if we are able to commence operations in new markets, there may not be a sufficient population of persons who are interested in our network marketing system. We believe our future success will depend in part on our ability to seamlessly integrate our Compensation Plan across all markets where legally permissible. There can be no assurance, however, that we will be able to utilize our Compensation Plan seamlessly in all existing or future markets. For example, in August 2010, we indirectly acquired BabyCare, a nutritional supplement company that is now licensed by the government of China to engage in direct selling in the Municipalities of Beijing, Jiangsu, Shaanxi, and Tianjin. In accordance with Chinese law, we utilize a compensation plan that has been designed specifically for China and implemented by BabyCare separately from our Compensation Plan in our other markets.

Fluctuation in the value of currency exchange rates with the U.S. dollar affects our operations and our net sales and earnings. Over the past several years, a majority of our net sales have been generated outside the United States. Such sales for the year ended January 2, 2016 represented 84.8% of our total net sales. We will likely continue to expand our operations into new markets, exposing us to expanding risks of changes in social, political, and economic conditions, including changes in the laws and policies that govern investment or exchange in these markets. Because a significant portion of our sales are generated outside the United States, exchange rate fluctuations will have a significant effect on our sales and earnings. Further, if exchange rates fluctuate dramatically, it may become uneconomical for us to establish or to continue activities in certain countries. For instance, changes in currency exchange rates may affect the relative prices at which we and our competitors sell similar products in the same market. As our business expands outside the United States, an increasing share of our net sales and operating costs will be transacted in currencies other than the U.S. dollar. Accounting practices require that our non-U.S. financial results be converted to U.S. dollars for reporting purposes. Consequently, our reported net earnings may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a

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strengthening U.S. dollar. Product purchases by our subsidiaries are transacted in U.S. dollars. As our operations expand in countries where transactions may be made in currencies other than the U.S. dollar, our operating results will be increasingly subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes might have on our future business, product pricing, results of operations, or financial condition. In addition, the value of the U.S. dollar in relation to other currencies may also adversely affect our sales to customers outside the United States. Currently our strategy for reducing our exposure to currency fluctuation includes the timely and efficient repatriation of earnings from international markets where such earnings are not considered to be indefinitely reinvested, and settlement of intercompany transactions. We also from time to time enter into currency exchange contracts to offset foreign currency exposure in various international markets. We do not use derivative instruments for speculative purposes. There can be no assurance that we will be successful in protecting our operating results or cash flows from potentially adverse effects of currency exchange fluctuations. Any such adverse effects could also adversely affect our business, financial condition, or results of operations.

Difficult economic conditions may adversely affect our business. Over the past few years, economic conditions in many of the markets where we sell our products have resulted in challenges to our business. This is particularly true in our Americas and Europe region, where, although we have seen a recent improvement, we continue to experience difficulty generating meaningful growth. We cannot predict whether world or market-specific economies will improve or deteriorate in the future. If difficult economic conditions continue or worsen, we could experience declines in net sales, profitability and cash flow due to lower demand for our products or other factors caused by economic challenges faced by our customers, potential customers or suppliers. Additionally, these conditions may result in a material adverse effect on our liquidity and capital resources or otherwise negatively impact our operations or overall financial condition.

Our business is subject to the effects of adverse publicity and negative public perception. Our ability to attract and retain Associates and to sustain and enhance sales through our Associates can be affected by adverse publicity or negative public perception regarding our industry, our competition, or our business generally. Our business prospects, financial condition and results of operations could be adversely affected if our public image or reputation were to be tarnished by negative publicity including dissemination via print, broadcast or social media, or other forms of Internet-based communications. This negative public perception may include publicity regarding the legality of network marketing, the quality or efficacy of nutritional supplement products or ingredients in general or our products or ingredients specifically, and regulatory investigations, regardless of whether those investigations involve us or our Associates or the business practices or products of our competitors or other network marketing companies.

In 2007, we were the victim of false statements made to the press and regulatory agencies, causing us to incur significant expense in defending and dispelling the allegations during 2007 and 2008. More recently, in November 2012, we were again the target of false and misleading statements concerning our business practices, particularly in China and Hong Kong. This adverse publicity also had an adverse impact on the market price of our stock and caused insecurity among our Associates.

Additionally, there has been significant media and short-seller attention regarding the viability and legality of network marketing in the United States and internationally over the past few years. This attention has led to intense public scrutiny of the industry, as well as volatility in our stock price and the stock price of companies similar to ours. There can be no assurance that we will not be subject to adverse publicity or negative public perception in the future or that such adverse publicity will not have a material adverse effect on our business, financial condition, or results of operations.

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Our Associate Compensation Plan, or changes we make to it, may be viewed negatively by some Associates, could fail to achieve our desired objectives, and could have a negative impact on our business. Our line of business is highly competitive and sensitive to the introduction of new competitors, new products and/or new distributor compensation plans. Network marketing companies commonly attempt to attract new distributors by offering generous distributor compensation plans. From time to time, we modify components of our Compensation Plan in an effort to (i) keep it competitive and attractive to existing and potential Associates, (ii) cause or address a change in Associate behavior, (iii) incent Associates to grow our business, (iv) conform to legal and regulatory requirements, and (v) address other business needs. In light of the size and diversity of our Associate force and the complexity of our Compensation Plan, it is difficult to predict how any changes to the plan will be viewed by Associates and whether such changes will achieve their desired results. In 2013, we made several changes to our product pricing structure and Associate Compensation Plan to improve our business, including to increase Associate loyalty and satisfaction and to attract new Associates. There can be no assurance that the foregoing changes, or any future changes, to our Associate Compensation Plan will allow us to successfully attract new Associates or retain existing Associates, nor can we assure that any changes we make to our Compensation Plan will achieve our desired results.

Additionally, the payment of Associate incentives under our Compensation Plan is our most significant expense. These incentives include commissions, bonuses, and certain awards and prizes. Adjusting or enhancing our Compensation Plan directly affects the incentives we pay as a percentage of net sales. We may periodically adjust our Compensation Plan to prevent Associate incentives from having a significant adverse effect on our earnings. There can be no assurance that changes to the Compensation Plan or product pricing will be successful in achieving target levels of Associate incentives as a percentage of net sales. Furthermore, such changes may make it difficult to attract and retain qualified and motivated Associates or cause us to lose some of our longer-standing Associates.

Legal action by former Associates or third parties against us could harm our business. We continually monitor and review our Associates' compliance with our policies and procedures as well the laws and regulations applicable to our business. From time to time, some Associates fail to adhere to our policies and procedures. If this happens, we may take disciplinary action against the particular Associate. This disciplinary action is based on the facts and circumstances of the particular case and may include anything from warnings for minor violations to termination of an Associate's purchase and distribution rights for more serious violations. From time to time, we become involved in litigation with an Associate whose purchase and distribution rights have been terminated. We consider this type of litigation to be routine and incidental to our business. While neither the existence nor the outcome of this type of litigation is typically material to our business, in the past we have been involved in litigation of this nature that resulted in a large cash award against the Company. Our competitors have also been involved in this type of litigation, and in some cases class actions, where the result has been a large cash award against the competitor or a large cash settlement by the competitor. These types of challenges, awards or settlements could provide incentives for similar actions by other former Associates against us in the future. Any such challenge involving us or others in our industry could harm our business by resulting in fines or damages against us, creating adverse publicity about us or our industry, or hurting our ability to attract and retain customers. We believe that Associate compliance is critical to the integrity of our business, and, therefore, we will continue to be aggressive in ensuring that our Associates comply with our policies and procedures. As such, there can be no assurance that this type of litigation will not occur again in the future or result in an award or settlement that has a materially adverse effect on our business.

The inability to obtain adequate supplies of raw materials for products at favorable prices, or at all, or the inability to obtain certain products from third-party suppliers, could have a material adverse effect on our business, financial condition, or results of operations. We acquire all of our raw materials for the manufacture of our products from third-party suppliers. Materials used in manufacturing our products

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are purchased through purchase order, often invoking pre-negotiated annual supply agreements. We have very few long-term agreements for the supply of these materials. We also contract with third-party manufacturers and suppliers for the production of some of our products, including most of our gelatin-capsuled supplements, Probiotic, Rev3 Energy™ Drink, our powdered drink mixes and nutrition bars, and certain of our personal care products. 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. There is a risk that any of our suppliers or manufacturers could discontinue manufacturing our products or selling their products to us. Although we believe that we could establish alternate sources for most of our products, any delay in locating and establishing relationships with other sources could result in product shortages or back orders for products, with a resulting loss of net sales. In certain situations, we may be required to alter our products or to substitute different products from another source. We have, in the past, discontinued or temporarily stopped sales of certain products that were manufactured by third parties while those products were on back order. There can be no assurance that suppliers will provide the raw materials or manufactured products that are needed by us in the quantities that we request or at the prices that we are willing to pay. Because we do not control the actual production of certain raw materials and products, we are also subject to delays caused by any interruption in the production of these materials, based on conditions not within our control, including weather, crop conditions, transportation interruptions, strikes by supplier employees, and natural disasters or other catastrophic events.

Shortages of raw materials may temporarily adversely affect our margins or our profitability related to the sale of those products. In the past, we have experienced temporary shortages of the raw materials used in certain of our nutritional products. Although we had identified multiple sources to supply such raw material ingredients, quantities of the materials we purchased during these shortages were at higher prices, which had a negative impact on our gross margins for those products. While we periodically experience price increases due to unexpected raw material shortages and other unanticipated events, we have been able to manage this by increasing the price at which we sell our products, therefore, this has historically not resulted in a material effect on our overall cost of goods sold. However, there is no assurance that our raw materials will not be significantly adversely affected in the future, causing our profitability to be reduced.

Disruptions to shipping channels that we use to distribute our products to international warehouses may adversely affect our margins and profitability in those markets. In the past, we have felt the impact of disruptions to the shipping channels used to distribute our products. These disruptions have included increased port congestion, a lack of capacity on the railroads, and a shortage of manpower. Most recently, we experienced the impact of the West Coast port congestion that started late in 2014 due to worker strikes. In response to this congestion, we increased lead-times for shipments to our international markets, which caused an increase in our inventory levels. We also pursued alternative routes of transportation, which increased our shipping costs. Although the west coast ports are now fully functioning, we cannot assure you that we will not experience port congestion in the future. Congestion to ports can affect previously negotiated contracts with shipping companies, resulting in unexpected increases in shipping costs and reduction in our net sales.

Nutritional supplement products may be supported by only limited availability of conclusive clinical studies. Our products include nutritional supplements that are made from vitamins, minerals, herbs, and other substances for which there is a long history of human consumption. Some of our products contain innovative ingredients or combinations of ingredients. Although we believe that all of our products are safe when taken as directed, there is little long-term experience with human consumption of certain of these product ingredients or combinations of ingredients in concentrated form. We conduct research and test the formulation and production of our products, but we have performed or sponsored only limited clinical studies. Furthermore, because we are highly dependent on consumers' perception of the efficacy, safety, and quality of our products, as well as similar products distributed by

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other companies, we could be adversely affected in the event that those products prove or are asserted to be ineffective or harmful to consumers or in the event of adverse publicity associated with any illness or other adverse effects resulting from consumers' use or misuse of our products or similar products of our competitors.

Our business is subject to the risks associated with intense competition from larger, wealthier, and more established competitors. We face intense competition in the business of distributing and marketing nutritional supplements, vitamins and minerals, personal care products, and other nutritional products, as described in greater detail in "Business—Competition." Numerous manufacturers, distributors, and retailers compete actively for consumers and, in the case of other network marketing companies, for Associates. There can be no assurance that we will be able to compete in this intensely competitive environment. In addition, nutrition and personal care products can be purchased in a wide variety of channels of distribution, including retail stores. Our product offerings in each product category are also relatively small, compared to the wide variety of products offered by many of our competitors.

We are also subject to significant competition from other network marketing organizations for the time, attention, and commitment of new and existing Associates. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining Associates. There can be no assurance that our programs for recruiting and retaining Associates will be successful. The pool of individuals who may be interested in network marketing is limited in each market, and it is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although we believe we offer an attractive opportunity for Associates, there can be no assurance that other network marketing companies will not be able to recruit our existing Associates or deplete the pool of potential Associates in a given market.

Taxation and transfer pricing considerations affect our operations. In many countries, including the United States, we are subject to transfer pricing and other tax regulations that are designed to ensure that appropriate levels of income are reported by our U.S. and foreign entities and are taxed appropriately. Although we believe that we are in compliance with all material regulations and restrictions in this regard, we are subject to the risk that taxing authorities could audit our transfer pricing and related practices and assert that additional taxes are owed. We are also subject to the risk that taxing authorities in any of our markets could change the laws in a manner that may increase our effective tax rate and/or duties on our products. Under tax treaties, we are eligible to receive foreign tax credits in the United States for foreign taxes paid abroad. In the event any audits or assessments are concluded adversely to us, we may or may not be able to offset the consolidated effect of foreign income tax assessments through the use of U.S. foreign tax credits. Currently, we are utilizing all foreign tax credits in the year in which they arise. Because the laws and regulations governing U.S. foreign tax credits are complex and subject to periodic legislative amendment, we cannot be sure that we would in fact be able to take advantage of any foreign tax credits in the future. As a result, adverse outcomes in these matters could have a material impact on our financial condition or operating results.

Our business is subject to particular intellectual property risks. Most of our products are not protected by patents. The labeling regulations governing our nutritional supplements require that the ingredients of such products be precisely and accurately indicated on product containers. Accordingly, patent protection for nutritional supplements often is impractical given the large number of manufacturers who produce nutritional supplements having many active ingredients in common. Additionally, the nutritional supplement industry is characterized by rapid change and frequent reformulations of products, as the body of scientific research and literature refines current understanding of the application and efficacy of certain substances and the interactions among various substances. In this respect, we maintain an active research and development program that is devoted to developing better, purer, and more effective formulations of our products. We protect our investment in research, as well as the techniques we use to improve the purity and effectiveness of our products,

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by relying on trade secret laws. We have also entered into confidentiality agreements with certain of our employees involved in research and development activities. Additionally, we endeavor to seek, to the fullest extent permitted by applicable law, trademark and trade dress protection for our products, which protection has been sought in the United States, Canada, and in many of the other countries in which we are either presently operating or plan to commence operations in the future. Notwithstanding our efforts, there can be no assurance that our efforts to protect our trade secrets and trademarks will be successful. Nor can there be any assurance that third-parties will not assert claims against us for infringement of their intellectual proprietary rights. If an infringement claim is asserted, we may be required to obtain a license of such rights, pay royalties on a retrospective or prospective basis, or terminate our manufacturing and marketing of our infringing products. Litigation with respect to such matters could result in substantial costs and diversion of management and other resources and could have a material adverse effect on our business, financial condition, or operating results.

A failure of our information technology systems would harm our business. The global nature of our business and our seamless global compensation plan requires the development and implementation of robust and efficiently functioning information technology systems. Such systems are vulnerable to a variety of potential risks, including damage or interruption resulting from natural disasters and telecommunication failures and human error or intentional acts of sabotage, vandalism, break-ins and similar acts. Although we have adopted and implemented a business continuity and disaster recovery plan, which includes routine back-up, off-site archiving and storage, and certain redundancies, the occurrence of any of these events could result in costly interruptions or failures adversely affecting our business and the results of our operations.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer. In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations, and damage our reputation, which could adversely affect our business, revenues and competitive position.

We may incur liability under our "Athlete Guarantee" program, if and to the extent participating athletes make a successful claim against USANA for testing positive for certain banned substances while taking USANA nutritional supplements. USANA believes that its nutritional supplement products are free from substances that have been banned by world-class training and competitive athletic programs. We retain independent testing agencies to conduct periodic checks for banned substances. We further believe that, while our products promote good health, they are not otherwise considered to be "performance enhancing" as that term has been used in defining substances that are banned from use in international competition by the World Anti-Doping Agency ("WADA"). For many years, USANA has been a sponsor of Olympic athletes and professional competitors around the world. These athletes have been tested on many occasions and have never tested positive for banned substances as a result of taking USANA nutritional products. To back up our claim that athletes who use USANA products as part of their training regimen will not be consuming banned substances, we have offered to enter into agreements with select athletes, some of whom have high-profiles and are highly compensated, which state that, during the term of the agreement, should the athlete test positive for a banned substance included in the WADA, and should such positive result be the result of taking USANA nutritional

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products, we will compensate that athlete at an amount equal to two times their current annual earnings up to \$1.0 million dollars, based on the athlete's personal level of competition, endorsement, and other income, as well as other factors. To mitigate potential exposure under these agreements, we:

- Designate lots identified as dedicated to the Athlete Guarantee program and retain additional samples;
- Store designated lot samples externally with a third-party; and
- Establish a chain of custody that requires signatures on behalf of USANA and the third-party to transfer possession of the product lots and that restricts access by USANA employees after the transfer.

All applicants to this Athlete Guarantee program are subject to screening and acceptance by the Company in its sole discretion. Contracts are tailored to fit the athlete's individual circumstances and the amount of our exposure is limited based on the level of sponsorship of the participating athlete. Although we believe that the pool of current and potential participants in the program is small, there is no guarantee that an athlete who is accepted in the program will not successfully make a claim against us. We currently have no insurance to protect us from potential claims under this program.

The loss of key management personnel could adversely affect our business. Our executive officers are primarily responsible for our day-to-day operations, and we believe our success depends in part on our ability to retain our executive officers, to compensate our executive officers at attractive levels, and to continue to attract additional qualified individuals to our management team. We cannot guarantee continued service by our key executive officers. We do not maintain key man life insurance on any of our executive officers, nor do we have an employment agreement with any of our executive officers. The loss or limitation of the services of any of our executive officers or the inability to attract additional qualified management personnel could have a material adverse effect on our business, financial condition, or results of operations.

Failure to maintain effective internal controls in accordance with the Sarbanes-Oxley Act of 2002 could negatively impact our business. We are required by federal securities laws to document and test our internal control procedures in order to satisfy the requirements of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of internal control over financial reporting. Effective internal controls are necessary for us to provide reliable financial reports and to effectively prevent fraud. The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report by management on the effectiveness of our internal control over financial reporting in the companies' Annual Reports on Form 10-K. In addition, our independent registered public accounting firm must report on the effectiveness of the internal control over financial reporting. Although we review internal control over financial reporting in order to ensure compliance with the Section 404 requirements, if we fail to maintain effective internal control over financial reporting, we could be required to take costly and time-consuming corrective measures, be required to restate the affected historical financial statements, be subjected to investigations and/or sanctions by federal and state securities regulators, and be subjected to civil lawsuits by security holders. Any of the foregoing could also cause investors to lose confidence in our reported financial information and in our company and would likely result in a decline in the market price of our stock and in our ability to raise additional financing if needed in the future.

The beneficial ownership of a significant percentage of our common stock gives our founder and parties related to or affiliated with him effective control, and limits the influence of other shareholders on important policy and management issues. Gull Global, Ltd., an entity that is solely owned and controlled by our founder Dr. Wentz, owned 51.4% of our outstanding common stock at January 2, 2016. By virtue of this stock ownership, Dr. Wentz is able to exert significant influence over the election of the members of our Board of Directors and our business affairs. This concentration of ownership could also have the

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effect of delaying, deterring, or preventing a change in control that might otherwise be beneficial to shareholders. In addition, Dr. Wentz currently serves as Chairman of our Board of Directors and his son, David Wentz, is our Co-Chief Executive Officer. There can be no assurance that conflicts of interest will not arise with respect to these relationships or that conflicts will be resolved in a manner favorable to other shareholders of the Company.

Sales by our shareholders of a substantial number of shares of our common stock in the public market could adversely affect the market price of our common stock. A large number of outstanding shares of our common stock are held by several of our principal shareholders. If any of these principal shareholders were to decide to sell large amounts of stock over a short period of time such sales could cause the market price of our common stock to decline.

Our stock price has been volatile and subject to various market conditions. There can be no assurance that an active market in our stock will be sustained. The trading price of our common stock has been subject to wide fluctuations. We have a relatively small public float compared to the number of our shares outstanding. Accordingly, we cannot predict the extent to which investors' interest in our common stock will provide an active and liquid trading market. Due to our limited public float, we are vulnerable to investors taking a "short position" in our common stock, which is likely to have a depressing effect on the price of our common stock and add increased volatility to our trading market. The price of our common stock also may fluctuate in the future in response to quarter-to-quarter variations in operating results, material announcements by us or our competitors, governmental regulatory action, conditions in the nutritional supplement industry, negative publicity, or other events or factors, many of which are beyond our control. In addition, the stock market has historically experienced significant price and volume fluctuations, which have particularly affected the market prices of many dietary and nutritional supplement companies and which have, in certain cases, not had a strong correlation to the operating performance of these companies. Our operating results in future quarters may be below the expectations of securities analysts and investors. If that were to occur, the price of our common stock would likely decline, perhaps substantially.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Corporate Headquarters

Our world-wide corporate headquarters is a 354,000 square foot company-owned facility located in Salt Lake City, Utah. This facility includes space for manufacturing and quality control, distribution, administrative functions, and research and development.

Additional Manufacturing

We own a 31,000 square foot manufacturing facility in Tianjin, China, which is currently used to manufacture our Sensé products that are sold in China. The majority of our other China products are manufactured at leased facilities in this market.

In 2014, we began construction of a state-of-the-art manufacturing facility in China similar in size, potential capacity, and nature to our headquarters facility located in Salt Lake City, Utah. Construction of this facility is expected to be completed in the first part of 2016. Leases on the China facilities noted above will be terminated shortly following completion of our new facility, and all manufacturing and production activities in China will be transferred to our new facility. This new facility has been designed to provide for 10 to 20 years of growth in China.

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Other Office and Distribution Warehouse Facilities

We own a 45,000 square foot office/warehouse building in Sydney, Australia. In each of the remainder of our markets, we lease regional offices and distribution warehouses. Additionally, we lease retail centers for our operations in China and a packaging facility in Singapore, which fulfills orders for our MyHealthPak™ in our Asia Pacific markets.

We believe that the facilities referenced above are in good condition and are adequately utilized. Further, we believe that our current and planned manufacturing facilities provide for the productive capacity to meet our foreseeable needs.

Item 3. Legal Proceedings

Rawcliffe on behalf of USANA Health Sciences, Inc. v. Certain Directors and Officers of USANA

In August 2014, a purported shareholder derivative lawsuit was filed in the Third Judicial District Court of Salt Lake County, State of Utah (James Robert Rawcliffe v. Robert Anciaux, et al.,) against certain of our directors and officers. The derivative complaint, which also names USANA as a nominal defendant but is asserted on USANA's behalf, contains claims of breach of fiduciary duty, waste of corporate assets and unjust enrichment against the defendant directors and officers in connection with certain equity awards granted by the Compensation Committee of the Company's Board of Directors in February 2014. In October 2014, we filed a motion to dismiss the complaint and, in March 2015, the court granted that motion and dismissed the complaint without prejudice. On May 6, 2015, the plaintiffs filed an appeal with the Utah Supreme Court. The Supreme Court remanded our case to the Utah Court of Appeals, which recently issued a briefing schedule for the parties. We believe that the claims in the complaint are without merit and will continue to vigorously defend this suit. We continue to believe, based on information currently available, that the final outcome of this suit will not have a material adverse effect on the Company's business, results of operations or consolidated financial position.

See also our discussion under Note I to the Condensed Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K, which is incorporated herein by reference.

From time to time we are involved in litigation arising out of our operations. We maintain liability insurance, including product liability coverage, in amounts our management believes is adequate. We are not currently engaged in any legal proceedings that we expect would materially harm our business or financial condition.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on the New York Stock Exchange ("NYSE") under the symbol "USNA." The following table contains the reported high and low sales prices for our common stock as reported on the NYSE for the periods indicated:

<u>2014</u>		<u>High</u>	<u>Low</u>
	First Quarter	\$ 78.35	\$ 55.01
	Second Quarter	\$ 80.77	\$ 66.51
	Third Quarter	\$ 80.86	\$ 63.22
	Fourth Quarter	\$ 118.84	\$ 71.03
<u>2015</u>		<u>High</u>	<u>Low</u>
	First Quarter	\$ 114.99	\$ 96.04
	Second Quarter	\$ 145.05	\$ 112.83
	Third Quarter	\$ 176.88	\$ 122.54
	Fourth Quarter	\$ 140.58	\$ 103.35

The market price of our common shares is subject to fluctuations in response to variations in our quarterly operating results, general trends in the market for our products and product candidates, economic and currency exchange issues in the markets where we operate, as well as other factors, many of which are not within our control. In addition, broad market fluctuations, as well as general economic, business and political conditions may adversely affect the market for our common shares, regardless of our actual or projected performance.

On February 26, 2016, the high and low sales prices of our common stock as reported by NYSE were \$117.99 and \$110.90, respectively.

Shareholders

As of February 26, 2016, we had approximately 294 holders of record of our common stock.

Dividends

We have never declared or paid cash dividends on our common stock. Future cash dividends, if any, will be determined by our Board of Directors and will be based on earnings, available capital, our financial condition, and other factors that the Board of Directors deems to be relevant.

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Share Repurchases

Purchases made under our ongoing share repurchase program during the quarter ended January 2, 2016 are summarized in the following table:

Issuer Purchases of Equity Securities
(amounts in thousands, except per share data)

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*</u>
Fiscal October (Oct. 4, 2015 through Nov. 7, 2015)	56	\$ 129.50	56	\$ 53,981
Fiscal November (Nov. 8, 2014 through Dec. 5, 2015)	401	\$ 134.55	401	\$ 0
Fiscal December (Dec. 6, 2015 through Jan. 2, 2016)	0	\$ 0.00	0	\$ 100,000
	<u>457</u>		<u>457</u>	

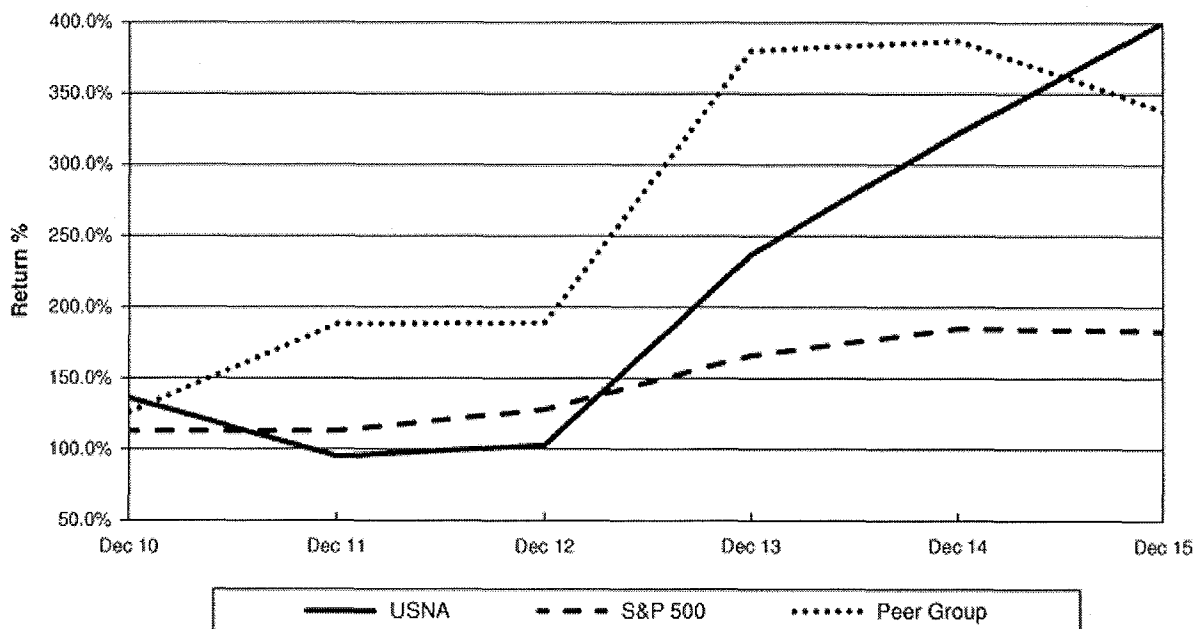
* The Company's share repurchase plan has been ongoing since the fourth quarter of 2000, with the Company's Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. The Company began the fourth quarter of 2015 with \$61,181, remaining under the plan. As announced in a publicly issued press release on December 8, 2015, the Board of Directors authorized \$100,000 for share repurchases under the plan. Subsequent to the year ended January 2, 2016 and through February 26, 2016, the Company repurchased and retired 553 shares for a total of \$64,610 pursuant to a preset trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 as amended. There is no requirement for future share repurchases, and there currently is no expiration date on the approved repurchase amount.

Stock Performance Graph

The following graph and table compares the performance of our common stock to the S&P 500 Index and to a market-weighted index of four companies selected in good faith from our industry (the "Peer Group") over the last five years. The data shown assumes an investment on December 31, 2010, of \$100 and reinvestment of all dividends into additional shares of the same class of equity, if applicable to the stock or index.

Each of the companies included in the Peer Group markets or manufactures products similar to USANA's products or markets its products through a similar marketing channel. The Peer Group includes the following companies: Avon Products, Inc., NuSkin Enterprises, Inc., Herbalife Ltd., and Nature's Sunshine.

Cumulative Shareholder Return
Dec. 2010 - Dec. 2015



	USNA	S&P 500	Peer Group
Dec 10	\$ 136	\$ 113	\$ 126
Dec 11	\$ 95	\$ 113	\$ 188
Dec 12	\$ 103	\$ 128	\$ 189
Dec 13	\$ 237	\$ 166	\$ 380
Dec 14	\$ 322	\$ 185	\$ 387
Dec 15	\$ 400	\$ 183	\$ 338

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes thereto that are included in this report.

	Fiscal Year ⁽¹⁾				
	2011	2012	2013	2014	2015
(in thousands, except per share data)					
Consolidated Statements of Earnings Data:					
Net sales	\$ 581,939	\$ 648,726	\$ 718,175	\$ 790,471	\$ 918,499
Income taxes	26,726	31,993	37,557	39,017	47,917
Net earnings	\$ 50,752	\$ 66,433	\$ 79,024	\$ 76,636	\$ 94,672
Earnings per common share:					
Basic	\$ 3.30	\$ 4.57	\$ 5.77	\$ 5.80	\$ 7.44
Diluted	\$ 3.26	\$ 4.45	\$ 5.56	\$ 5.60	\$ 7.18
Weighted-average common shares outstanding:					
Basic	15,361	14,547	13,695	13,221	12,730
Diluted	15,574	14,923	14,204	13,689	13,177
Percentage of Net Sales Data:					
Gross profit	82.5%	82.1%	82.3%	82.2%	82.6%
Associate incentives	45.7%	43.2%	42.9%	44.2%	44.4%
Selling, general and administrative	23.6%	23.8%	23.1%	23.3%	22.8%
Effective tax rate	34.5%	32.5%	32.2%	33.7%	33.6%
Dividends per share	—	—	—	—	—
Cash Flow Related Data:					
Net cash provided by (used in):					
Operating activities	\$ 70,108	\$ 92,805	\$ 98,893	\$ 105,185	\$ 111,466
Investing activities	(10,609)	(8,278)	(21,589)	(16,266)	(25,124)
Financing activities	(33,372)	(64,542)	(10,165)	(113,015)	(49,157)
Purchase of property and equipment	(10,643)	(8,432)	(8,051)	(20,421)	(23,729)
Repurchase of common stock	(33,459)	(68,294)	(18,085)	(138,819)	(61,181)

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	As of				
	Dec. 31, 2011	Dec. 29, 2012	Dec. 28, 2013	Jan. 3, 2015	Jan. 2, 2016
	(in thousands, except other data)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 50,353	\$ 70,839	\$ 137,343	\$ 111,126	\$ 143,210
Working capital	46,363	61,701	133,174	82,222	112,852
Total assets	244,496	267,355	368,470	350,584	423,237
Other long-term liabilities	942	938	1,211	1,114	1,151
Stockholders' equity	173,910	185,572	260,522	230,164	280,852
Other Data:					
Active Associates	222,000	247,000	265,000	349,000	421,000
Active Preferred Customers	64,000	64,000	78,000	81,000	89,000
Total Active Customers	286,000	311,000	343,000	430,000	510,000

- (I) The Company operates on a 52-53 week year, ending on the Saturday that is closest to December 31. Fiscal years 2011 through 2013, and 2015 were 52-week years. Fiscal year 2014 was a 53-week year.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of USANA's financial condition and results of operations is presented in ten sections:

- Overview
- Customers
- Current Focus and Recent Developments
- Presentation
- Results of Operations
- Quarterly Financial Information
- Liquidity and Capital Resources
- Contractual Obligations and Commercial Contingencies
- Inflation
- Critical Accounting Estimates

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing elsewhere in this report.

Overview

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally through a network marketing system, which is a form of direct selling. We have chosen this distribution method as we believe it is more conducive to meeting our vision as a company, which is improving the overall health and nutrition of individuals and families around the world. Our customer base includes two types of customers: "Associates" and "Preferred Customers." Associates share in our company vision by acting as independent distributors of our products in addition to purchasing our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products.

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As of January 2, 2016, we had approximately 421,000 active Associates and approximately 89,000 active Preferred Customers worldwide.

We have ongoing operations in the following markets, which are grouped and presented as follows:

- Asia Pacific—
 - Greater China—Hong Kong, Taiwan, and China⁽¹⁾
 - Southeast Asia Pacific—Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia⁽²⁾
 - North Asia—Japan and South Korea
- Americas and Europe—United States, Canada, Mexico, Colombia⁽³⁾, the United Kingdom, the Netherlands, France, and Belgium

Asia Pacific has largely driven our growth the last several years. Our most recent market expansions in this region include our entry into Indonesia in late 2015, Thailand in 2012 and our entry into China in 2010 through our acquisition of BabyCare. Since our acquisition of BabyCare, our strategy in Asia Pacific has been centered on generating growth in China. Consequently, our growth in Asia Pacific over the last few years has been led by China, and our results in Hong Kong, which had previously been our fastest growing market, have declined. Our Hong Kong market has now reached our projected size, in terms of customers and sales, and we anticipate modest organic growth for this market going forward. We also anticipate that China will continue to drive our growth in this region going forward, but expect our business to grow in most of our other markets in this region.

Americas and Europe is our most mature region. Our most recent market expansions in this region include our entry into Colombia in 2013. Americas and Europe has grown modestly over the last several years due to sales and customer growth in Canada and Mexico. Our results in the United States and our newest markets in this region, however, have not paralleled our success in Canada and Mexico. We believe that we have the appropriate strategies in place to generate growth in the United States and our newest markets and are optimistic about these markets going forward. We also anticipate that our growth in Canada and Mexico will continue in 2016.

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, our operating results are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. In 2015, net sales outside of the United States represented approximately 84.8% of consolidated net sales.

Customers

Because we sell our products exclusively to a customer base of independent Associates and Preferred Customers, in order to increase net sales, we must either increase the number of, or the productivity of, our Associates and Preferred Customers. Increasing the productivity of our Associates and Preferred Customers has not been our primary focus. Rather, we seek to increase the number of Associates and Preferred Customers who use our products. We believe this focus is more consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for the majority of our product sales, representing 92% of product sales during 2015. The remainder of our sales comes from Preferred Customers. Increases or decreases

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

(2) We commenced operations in Indonesia in the fourth quarter of 2015.

(3) We commenced operations in Colombia in the third quarter of 2013.

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in product sales are typically the result of variations in the volume of product sold relating to fluctuations in the number of active Associates and Preferred Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

The tables below summarize the number of active customers and year-over-year percentage growth by geographic region as of the dates indicated (quarterly). These numbers have been rounded to the nearest thousand as of the dates indicated. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period as of the date indicated.

	Active Associates by Region							
	April 4, 2015		July 4, 2015		October 3, 2015		January 2, 2016	
Asia Pacific:								
Greater China	201,000	82.7 %	216,000	72.8 %	218,000	69.0 %	234,000	34.5 %
Southeast Asia Pacific	77,000	20.3 %	79,000	17.9 %	85,000	21.4 %	86,000	8.9 %
North Asia	12,000	33.3 %	13,000	44.4 %	13,000	30.0 %	13,000	18.2 %
Asia Pacific Total	<u>290,000</u>	<u>58.5 %</u>	<u>308,000</u>	<u>53.2 %</u>	<u>316,000</u>	<u>51.2 %</u>	<u>333,000</u>	<u>26.1 %</u>
Americas and Europe	86,000	4.9 %	89,000	8.5 %	89,000	8.5 %	88,000	3.5 %
	<u>376,000</u>	<u>41.9 %</u>	<u>397,000</u>	<u>40.3 %</u>	<u>405,000</u>	<u>39.2 %</u>	<u>421,000</u>	<u>20.6 %</u>

	Active Preferred Customers by Region							
	April 4, 2015		July 4, 2015		October 3, 2015		January 2, 2016	
Asia Pacific:								
Greater China	4,000	33.3 %	4,000	33.3 %	4,000	33.3 %	4,000	33.3 %
Southeast Asia Pacific	12,000	20.0 %	12,000	9.1 %	13,000	18.2 %	13,000	8.3 %
North Asia	7,000	75.0 %	9,000	80.0 %	9,000	50.0 %	9,000	50.0 %
Asia Pacific Total	<u>23,000</u>	<u>35.3 %</u>	<u>25,000</u>	<u>31.6 %</u>	<u>26,000</u>	<u>30.0 %</u>	<u>26,000</u>	<u>23.8 %</u>
Americas and Europe	63,000	3.3 %	66,000	10.0 %	63,000	10.5 %	63,000	5.0 %
	<u>86,000</u>	<u>10.3 %</u>	<u>91,000</u>	<u>15.2 %</u>	<u>89,000</u>	<u>15.6 %</u>	<u>89,000</u>	<u>9.9 %</u>

Current Focus and Recent Developments

We have implemented the following strategies and initiatives to increase the number of Associates and Preferred Customers who use our products throughout the world and, thereby, further our company vision:

- *Personalization:* Over the last few years, we have focused heavily on personalizing and improving our customers' experience with USANA.

In August 2015, we introduced our new "MySmartTMFoods" line of products, which continues our philosophy and strategy of personalization. MySmartTMFoods are science-based, healthy nutrition shakes, bars, boosters and flavor optimizers. We made MySmartTMFoods available to our Associates for a limited time at our 2015 International Convention only, as a pre-launch opportunity to purchase and try the products. We intend to officially launch MySmartTMFoods during the first half of 2016.

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We will continue to personalize each of our product lines going forward. In this regard, we have new product and technology launches planned for 2016 and 2017, which we believe will create a new foundation of personalization for USANA to build on as we go forward.

In 2014, we launched an all-new digital marketing suite for our world-wide Associates, which is designed to personalize and simplify conducting a USANA business. This suite provides our Associates with new tools, consisting of a back office hub, personal websites, and advanced communication and marketing tools, all of which enhance our Associates' ability to personalize, manage, promote and build their business in today's demanding e-business environment.

In 2013, we implemented several strategic changes to our business (referred to throughout this report as the "2013 strategic changes"), which were all aimed at promoting customer loyalty, enjoyment and success with USANA. These changes included: (i) simplification of our pricing structure, which included an overall 10% price reduction, while maintaining a price discount on products ordered through our monthly Auto Order program (collectively "price discounts"), (ii) a new reward based on the amount of a customer's initial product order to then be credited on their subsequent two Auto Orders, and (iii) increased payout under and simplification of our Compensation Plan.

We have experienced growth in several business indicators tied to the strategic changes that we implemented in 2013 and continued promoting in 2014 and 2015. These indicators include: active customer counts; world-wide unit volume; percent of sales processed through our Auto Order program; and the number of Associates earning a commission check.

Market-Specific Strategies: We have implemented market-specific strategies to facilitate growth and strengthen our business around the world.

In 2015, we continued our strategy to increase our brand-recognition to make it easier for our Associates to introduce USANA to customers. In this regard, we expanded our relationship with Dr. Mehmet Oz and became a Trusted Partner and Sponsor of *The Dr. Oz Show*. Under this partnership, USANA products are regularly featured on *The Dr. Oz Show*. This partnership has helped drive growth in our North America region by (i) increasing awareness and recognition of the USANA brand, and (ii) allowing viewers of *The Dr. Oz Show* to purchase USANA products via a direct link on *The Dr. Oz Show* website. We plan on continuing this partnership in 2016.

In late 2014, after we passed the anniversary of the 2013 strategic changes, we began offering short-term incentives and promotions for our Associates around the world to generate excitement and additional customer growth. One particular incentive that we offered in late 2014 and early 2015 increased compensation to Associates for sales generated by new Associates and accelerated our sales and customer growth during the fourth quarter of 2014 and the first half of 2015. We plan to continue offering market-specific incentives and promotions going forward to generate excitement in our business.

In 2013, we implemented a price reduction in several of our mature markets to make our products and business opportunity more equitable around the world. Although these price reductions initially impacted our net sales on a year-over-year basis, they have been successful in the past helping grow our active customer counts and net sales in these markets, where growth had been declining or flat for several years. We followed up this pricing initiative with a new worldwide policy to prohibit cross-border purchasing by our customers. We believe that it is in the best interest of the Company and of our customers to have customers purchase products that are approved and offered in their home market. While this policy had a short-term negative impact on net sales in 2013, these policies have strengthened our underlying business and have improved our opportunity for growth going forward.

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- *Product Innovation and Information Technology:* Although we originally planned for significant increases in our investment in product and technology innovation to further our Company vision during 2015, much of this investment was delayed as we carefully acquired the necessary human resources. In 2016, we plan to continue to pursue these investment strategies as well as additional investments in our information technology systems and infrastructure to continue to improve our customers' experience with us and to prepare to become a much larger company. These investments will be reflected as both additional SG&A expense and capital expenditures.
- *International Development:* Given the significant opportunity that exists in China, we plan to continue focusing significant time and resources on growing this market. Our efforts in this regard include finalizing our new state-of-the-art manufacturing and production facility in Beijing, which we anticipate will become operational during the first half of 2016. We continue to believe that significant growth opportunities exist in new international markets. During the fourth quarter of 2015 we commenced operations in Indonesia. Indonesia is our 20th market and we believe it offers a promising growth opportunity for us.

Presentation

Product sales along with the shipping and handling fees billed to our customers are recorded as revenue net of applicable sales discounts when the product is delivered, title has transferred, and the risk of loss passes to the customer. Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. Also reflected in net sales is a provision for product returns and allowances, which is estimated based on our historical experience. Additionally, the Company collects a nominal annual renewal fee from Associates that is deferred on receipt and is recognized as income on a straight-line basis over a twelve-month period.

Cost of sales primarily consists of expenses related to raw materials, labor, quality assurance, and overhead costs that are all directly associated with the production and distribution of our products and sales materials, as well as duties and taxes that are associated with the import and export of our products. As our international sales increase as a percentage of net sales, cost of sales are increasingly affected by additional duties, freight, and other factors, such as changes in currency exchange rates.

Associate incentives expense includes all forms of commissions, and other incentives paid to our Associates. Incentives paid to Associates include bonuses earned, rewards from contests and promotions, and base commissions, which makes up the majority of our Associate incentives expense. Bonuses are paid out to Associates based on certain business-related criteria, total base commission earnings, and leadership level. Contests and promotions are offered as an incentive and reward to our Associates and are typically paid out only after an Associate achieves specific criteria. Base commissions are paid out on the sale of products. Associates earn their commissions based on sales volume points that are generated in their sales organization. Sales volume points are assigned to each commissionable product and comprise a certain percent of the product price. Items such as our starter kits and sales tools have no sales volume point value, and commissions are not paid on the sale of these items. Although insignificant to our financial statements, an Associate may earn commissions on sales volume points that are generated from personal purchases that are not considered to be part of their "Qualifying Sales." To be eligible to earn commissions, an Associate must reach a certain level of Qualifying Sales each month, which may include product that they use personally or that they resell to consumers. Associates do not earn commissions on their Qualifying Sales. Commissions paid to Associates on personal purchases are considered a sales discount and are reported as a reduction to our net sales.

Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate event costs, advertising, professional fees, marketing, and research and development expenses. Wages and benefits represent the largest component of selling,

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general and administrative expenses. Significant depreciation and amortization expense is incurred as a result of investments in physical facilities, computer and telecommunications equipment, and systems to support our international operations.

Sales to customers outside the United States are transacted in the respective local currencies and are translated to U.S. dollars at weighted-average currency exchange rates for each monthly accounting period to which they relate. Most of our raw material purchases from suppliers and our product purchases from third-party manufacturers are transacted in U.S. dollars. Consequently, our net sales and earnings are affected by changes in currency exchange rates. In general, our operating results are affected positively by a weakening U.S. dollar and negatively by a strengthening U.S. dollar. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year net sales at the average exchange rates in effect during the comparable prior year periods.

Results of Operations

The following table summarizes our consolidated operating results as a percent of net sales, respectively, for the years indicated:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Consolidated Statements of Earnings Data:			
Net sales	100.0%	100.0%	100.0%
Cost of sales	17.7%	17.8%	17.4%
Gross profit	82.3%	82.2%	82.6%
Operating expenses:			
Associate incentives	42.9%	44.2%	44.4%
Selling, general and administrative	23.1%	23.3%	22.8%
Total operating expenses	66.0%	67.5%	67.2%
Earnings from operations	16.3%	14.7%	15.4%
Other income (expense), net	0.0%	-0.1%	0.1%
Earnings before income taxes	16.3%	14.6%	15.5%
Income taxes	5.2%	4.9%	5.2%
Net earnings	11.1%	9.7%	10.3%

Summary of 2015 Financial Results

Net sales in 2015 increased 16.2%, or \$128.0 million, to \$918.5 million, compared with 2014. This increase was driven by higher product sales volume resulting primarily from strong Associate growth in our Asia Pacific region throughout the year. Our business started the year with strong momentum, which was reflected by local currency sales and customer growth in most of our markets. During the year, we also utilized market-specific promotions and incentives to generate growth across our regions. Unfavorable changes in currency exchange rates reduced net sales for the year by an estimated \$53.6 million. Additionally, on a comparative basis, 2014 was a 53-week year and included one additional week of sales, which contributed approximately \$16.0 million to net sales for that year.

Net earnings increased 23.5% to \$94.7 million in 2015, when compared with 2014. This increase was driven primarily by higher net sales, improved gross margins and lower relative selling, general and administrative expense.

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Fiscal Year 2015 compared to Fiscal Year 2014

Net Sales

The following table summarizes the changes in our net sales by geographic region for the fiscal years ended January 3, 2015, and January 2, 2016:

	Net Sales by Region (in thousands) Year Ended				Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
	2014		2015					
Asia Pacific								
Greater China	\$ 326,134	41.3 %	\$ 441,284	48.0 %	\$ 115,150	35.3 %	\$ (8,769)	38.0 %
Southeast Asia								
Pacific	177,940	22.5 %	183,828	20.0 %	5,888	3.3 %	(21,491)	15.4 %
North Asia	32,667	4.1 %	39,751	4.4 %	7,084	21.7 %	(3,318)	31.8 %
Asia Pacific Total	536,741	67.9 %	664,863	72.4 %	128,122	23.9 %	(33,578)	30.1 %
Americas and Europe	253,730	32.1 %	253,636	27.6 %	(94)	0.0 %	(20,053)	7.9 %
	<u>\$ 790,471</u>	<u>100.0 %</u>	<u>\$ 918,499</u>	<u>100.0 %</u>	<u>\$ 128,028</u>	<u>16.2 %</u>	<u>\$ (53,631)</u>	<u>23.0 %</u>

Asia Pacific: The increase in Greater China continues to be driven by growth in Mainland China, where local currency net sales increased nearly 75% resulting from strong growth in the number of active Associates throughout the year. Net sales and Associate growth in Mainland China during 2015 benefited from: (i) momentum created from a short-term incentive that we offered during the first quarter of the year, (ii) a more favorable operating environment for the Company during the first quarter of 2015 when compared with the previous year, and (iii) higher-than-anticipated incremental sales of approximately \$17.0 million that occurred following the announcement of our 2015 price adjustments. Net sales growth in Greater China was partially offset in 2015 by a continued year-over-year decline in Hong Kong sales and Associates, which stabilized during 2015.

The increase in local currency net sales in Southeast Asia Pacific was driven by double-digit local currency sales growth from nearly every market, which is reflective of growth in the number of active Associates and Preferred Customers purchasing our products.

The increase in local currency net sales in North Asia continues to be driven by growth in South Korea, where local currency net sales increased just over 39% resulting from double-digit increases in the number of active Associates and Preferred Customers during the year.

Americas and Europe: The increase in local currency net sales in this region continues to be driven primarily by growth in Canada and Mexico, where local currency net sales increased 17.5% and 19.4%, respectively. This growth is reflective of growth in the number of active Associates and Preferred Customers purchasing our products.

Gross Profit

The 40 basis point relative increase in gross profit from 2014 to 2015 can be attributed to a favorable shift in sales mix by market and by modest product price adjustments that occurred during 2015. These improvements were partially offset by the negative impact from the strengthening of the U.S. dollar.

Associate Incentives

The 20 basis point relative increase in Associate incentives can be attributed to higher relative payout under one of our Associate bonus programs. The increase in Associate incentives expense was partially offset by our annual price adjustment.

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Selling, General and Administrative Expenses

The 50 basis point decrease in selling, general and administrative expense relative to net sales in 2015 was due to leverage gained on increased sales driven by growth in our Asia Pacific region. In absolute terms, our selling, general and administrative expense increased by \$24.5 million. This increase was primarily driven by costs associated with supporting higher sales and customer base as well as our investment in brand-recognition initiatives during 2015. In 2016, we plan to make several strategic investments in our business and expect this impact to selling, general and administrative expense to decrease our earnings from operations around 100 to 140 basis points.

Income Taxes

Our effective income tax rate was 33.6% in 2015, compared with 33.7% in 2014. This change was primarily due to slightly lower 2015 state tax expense compared to 2014 state tax expense as a percentage of income.

Diluted Earnings Per Share

Diluted earnings per share in 2015 increased 28.2% to \$7.18, from \$5.60 in the prior year. This increase was due to higher net earnings and a lower number of diluted shares outstanding resulting from share repurchases under our share buyback program during 2015.

Summary of 2014 Financial Results

Net sales in 2014 increased 10.1%, or \$72.3 million, to \$790.5 million, compared with 2013. Fiscal 2014 was a 53-week year and included, comparatively, one additional week of sales. We estimate that this extra week contributed approximately \$16.0 million to net sales for the year. In addition to the extra week, the increase was driven by higher product sales volumes resulting from Associate and Preferred Customer growth throughout the year, primarily in our Asia Pacific region. The increase in active customers was largely the result of (i) the momentum created from the 2013 strategic changes, which are explained in the business section above, and (ii) a short-term incentive that we announced at our 2014 International Convention in August and offered to our Associates during the fourth quarter of 2014. Net sales in 2014 were also negatively affected by an estimated \$14.9 million from unfavorable changes in currency exchange rates, as well as the price discounts that were implemented in late 2013 as part of the strategic changes.

Net earnings decreased 3.0% to \$76.6 million in 2014, when compared with 2013. This decrease was primarily the result of higher relative Associate incentives expense related to the 2013 strategic changes and to the short-term incentive we offered to our Associates during the fourth quarter of 2014.

Fiscal Year 2014 compared to Fiscal Year 2013

The tables below summarize the number of active customers and year-over-year percentage growth by geographic region as of the dates indicated. These numbers have been rounded to the nearest thousand as of the dates indicated. For purposes of this report, we only count as active customers those

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Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period as of the date indicated.

	Active Associates by Region							
	March 29, 2014		June 28, 2014		September 27, 2014		January 3, 2015	
Asia Pacific:								
Greater China	110,000	26.4 %	125,000	21.4 %	129,000	37.2 %	174,000	56.8 %
Southeast Asia Pacific	64,000	14.3 %	67,000	11.7 %	70,000	16.7 %	79,000	27.4 %
North Asia	9,000	12.5 %	9,000	0.0 %	10,000	11.1 %	11,000	10.0 %
Asia Pacific Total	<u>183,000</u>	<u>21.2 %</u>	<u>201,000</u>	<u>16.9 %</u>	<u>209,000</u>	<u>28.2 %</u>	<u>264,000</u>	<u>44.3 %</u>
Americas and Europe	82,000	5.1 %	82,000	0.0 %	82,000	0.0 %	85,000	3.7 %
	<u>265,000</u>	<u>15.7 %</u>	<u>283,000</u>	<u>11.4 %</u>	<u>291,000</u>	<u>18.8 %</u>	<u>349,000</u>	<u>31.7 %</u>

	Active Preferred Customers by Region							
	March 29, 2014		June 28, 2014		September 27, 2014		January 3, 2015	
Asia Pacific:								
Greater China	3,000	0.0 %	3,000	(25.0)%	3,000	0.0 %	3,000	(40.0)%
Southeast Asia Pacific	10,000	42.9 %	11,000	57.1 %	11,000	37.5 %	12,000	20.0 %
North Asia	4,000	100.0 %	5,000	150.0 %	6,000	200.0 %	6,000	100.0 %
Asia Pacific Total	<u>17,000</u>	<u>41.7 %</u>	<u>19,000</u>	<u>46.2 %</u>	<u>20,000</u>	<u>53.8 %</u>	<u>21,000</u>	<u>16.7 %</u>
Americas and Europe	61,000	10.9 %	60,000	5.3 %	57,000	(1.7)%	60,000	0.0 %
	<u>78,000</u>	<u>16.4 %</u>	<u>79,000</u>	<u>12.9 %</u>	<u>77,000</u>	<u>8.5 %</u>	<u>81,000</u>	<u>3.8 %</u>

Net Sales

The following table summarizes the changes in our net sales by geographic region for the fiscal years ended December 28, 2013, and January 3, 2015:

	Net Sales by Region (in thousands)						Percent change excluding currency impact	
	Year Ended		Change from prior year	Percent change	Currency impact on sales			
	2013	2014						
Asia Pacific								
Greater China	\$ 271,812	37.9 %	\$ 326,134	41.3%	\$ 54,322	20.0%	(1,737)	20.6 %
Southeast Asia Pacific	155,362	21.6 %	177,940	22.5%	22,578	14.5 %	(7,292)	19.2 %
North Asia	29,319	4.1 %	32,667	4.1%	3,348	11.4 %	597	9.4 %
Asia Pacific Total	<u>456,493</u>	<u>63.6 %</u>	<u>536,741</u>	<u>67.9%</u>	<u>80,248</u>	<u>17.6%</u>	<u>(8,432)</u>	<u>19.4 %</u>
Americas and Europe	261,682	36.4 %	253,730	32.1%	(7,952)	(3.0)%	(6,476)	(0.6)%
	<u>\$ 718,175</u>	<u>100.0 %</u>	<u>\$ 790,471</u>	<u>100.0%</u>	<u>\$ 72,296</u>	<u>10.1 %</u>	<u>\$ (14,908)</u>	<u>12.1 %</u>

Asia Pacific: The increase in net sales in this region was driven by double-digit growth in the number of active Associates throughout the year.

The increase in net sales in Greater China included a 103.2% increase in Mainland China resulting from strong growth in the number of active Associates in this market. This growth was partially offset by a continued decline in Hong Kong.

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The increase in Southeast Asia Pacific was driven by sales growth from every market despite a \$7.3 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines, where net sales increased 31.1%. Sales in Australia and New Zealand increased 5.9% despite a \$3.0 million reduction from changes in currency exchange rates.

The increase in net sales in North Asia resulted from a 24.2% increase in net sales in South Korea, which was driven by an increase in the number of active Associates and Preferred Customers in this market.

Americas and Europe: The decrease in net sales in this region was due to lower net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$6.5 million. Net sales in the United States decreased \$13.9 million, or 8.8% due to pressure from price discounts introduced in the prior year, combined with a decrease in the number of active Associates and Preferred Customers throughout 2014. The decrease in the United States, however, was partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 8.7% in Canada and 14.4% in Mexico due to continued growth in the number of active Associates and Preferred Customers in those markets.

Gross Profit

The 10 basis point decrease in gross profit from 2013 to 2014 can be attributed to a strengthening of the U.S. dollar, price discounts introduced in the prior year, and an increase in net freight expense. This decrease was partially offset by annual price changes and favorable changes in product and market mix.

Associate Incentives

The 130 basis point increase in Associate incentives as a percent of net sales was due to the short-term incentive that we offered to our Associates during the fourth quarter of 2014, and to the 2013 strategic changes. The increase in Associate incentives expense was partially offset by annual price changes.

Selling, General and Administrative Expenses

The slight increase in selling, general and administrative expense relative to net sales in 2014 was due to higher expenses in China as a result of our growing sales and customer base in this market. In absolute terms, our selling, general and administrative expense increased by \$18.3 million. This increase was primarily driven by higher wages and benefits expense and other costs associated with supporting a higher sales and customer base.

Income Taxes

Our effective income tax rate was 33.7% in 2014, compared with 32.2% in 2013. This increase was primarily due to a reduction in tax benefits from the U.S. manufacturing deduction which declined due to increased sales of China manufactured product. In addition, tax benefits from lower tax rate jurisdictions and prior year amended returns declined year over year.

Diluted Earnings Per Share

Although net earnings decreased slightly from 2013 to 2014, diluted earnings per share increased to \$5.60 in 2014, from \$5.56 in 2013. This increase was due to a lower number of diluted shares outstanding resulting from activity under our share buyback program during 2014.

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Quarterly Financial Information (Unaudited)

The following tables set forth unaudited quarterly operating results for each of the last eight fiscal quarters, as well as percentages of net sales for certain data for the periods indicated. This information is consistent with the Consolidated Financial Statements herein and includes normally recurring adjustments that management considers to be necessary for a fair presentation of the data. Quarterly results are not necessarily indicative of future results of operations. This information should be read in

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conjunction with the audited Consolidated Financial Statements and notes thereto that are included elsewhere in this report.

	Quarter Ended							
	Mar. 29, 2014	Jun. 28, 2014	Sept. 27, 2014	Jan. 3, 2015	Apr. 4, 2015	Jul. 4, 2015	Oct. 3, 2015	Jan. 2, 2016
	(in thousands, except per share data)							
Consolidated Statements of Earnings Data:								
Net sales	\$ 182,401	\$ 188,256	\$ 191,944	\$ 227,870	\$ 219,378	\$ 233,244	\$ 233,292	\$ 232,585
Cost of sales	33,828	34,865	34,585	37,516	38,364	40,089	41,048	40,181
Gross profit	148,573	153,391	157,359	190,354	181,014	193,155	192,244	192,404
Operating expenses:								
Associate incentives	78,874	81,098	82,605	106,467	101,353	101,877	101,521	103,409
Selling, general and administrative	44,577	43,206	45,499	51,249	49,875	52,505	52,757	53,858
Total operating expenses	123,451	124,304	128,104	157,716	151,228	154,382	154,278	157,267
Earnings from operations	25,122	29,087	29,255	32,638	29,786	38,773	37,966	35,137
Other income (expense), net	125	297	(297)	(574)	168	(86)	441	404
Earnings from operations before income taxes	25,247	29,384	28,958	32,064	29,954	38,687	38,407	35,541
Income taxes	8,710	10,083	9,460	10,764	10,274	13,271	12,798	11,574
Net earnings	\$ 16,537	\$ 19,301	\$ 19,498	\$ 21,300	\$ 19,680	\$ 25,416	\$ 25,609	\$ 23,967
Earnings per common share*:								
Basic	\$ 1.19	\$ 1.40	\$ 1.51	\$ 1.72	\$ 1.56	\$ 1.99	\$ 1.99	\$ 1.89
Diluted	\$ 1.15	\$ 1.36	\$ 1.47	\$ 1.65	\$ 1.50	\$ 1.92	\$ 1.92	\$ 1.83
Weighted-average shares outstanding:								
Basic	13,919	13,768	12,873	12,390	12,648	12,740	12,852	12,680
Diluted	14,395	14,235	13,263	12,920	13,085	13,225	13,317	13,082
Consolidated Statements of Earnings as a percentage of Net Sales:								
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	18.5	18.5	18.0	16.5	17.5	17.2	17.6	17.3
Gross profit	81.5	81.5	82.0	83.5	82.5	82.8	82.4	82.7
Operating expenses:								
Associate incentives	43.2	43.1	43.0	46.7	46.2	43.7	43.5	44.5
Selling, general and administrative	24.4	23.0	23.7	22.5	22.7	22.5	22.6	23.2
Total operating expenses	67.6	66.1	66.7	69.2	68.9	66.2	66.1	67.7
Earnings from operations	13.9	15.4	15.3	14.3	13.6	16.6	16.3	15.0
Other income (expense), net	0.1	0.2	(0.2)	(0.3)	0.1	(0.0)	0.2	0.2
Earnings from operations before income taxes	14.0	15.6	15.1	14.0	13.7	16.6	16.5	15.2
Income taxes	4.8	5.4	4.9	4.7	4.7	5.7	5.5	5.0
Net earnings	9.2%	10.2%	10.2%	9.3%	9.0%	10.9%	11.0%	10.2%

* Earnings per common share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share amounts does not necessarily equal the total for the year.

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We may experience variations in the results of operations from quarter to quarter as a result of factors that include, but are not limited to the following:

- The number of Associates and Preferred Customers who join our business, purchase and sell our products, and stay with our business;
- The opening of new markets;
- The timing of Company-sponsored events, contests, and promotions;
- Fluctuations in currency exchange rates;
- New product introductions;
- The timing of holidays, which may reduce the amount of time that our Associates spend selling products or introducing USANA to potential Associates or Preferred Customers;
- The negative impact of changes in or interpretations of regulations that may limit or restrict our network marketing model or the sale of certain products in some countries;
- The adverse effect of a failure by us or an Associate (or allegations of such failure) to comply with applicable governmental regulations;
- The integration and operation of new information technology systems;
- The inability to introduce new products or the introduction of new products by competitors;
- Entry into one or more of our markets by competitors;
- Availability of raw materials;
- General conditions in the nutritional supplement, personal care, and healthy food industries or the network marketing industry; and
- Consumer perceptions of our products and business.

Because our products are consumed by consumers or applied to their bodies, we are highly dependent upon consumers' perception of the safety, quality, and efficacy of our products and nutritional supplements in general. As a result, substantial negative publicity, whether founded or unfounded, concerning one or more of our products or of other products that are similar to our products could adversely affect our business, financial condition, or results of operations.

As a result of these and other factors, quarterly revenues, expenses, and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance. There can be no assurance that we will be able to increase revenues in future periods or be able to sustain the level of revenue or rate of revenue growth on a quarterly or annual basis that we have sustained in the past. Due to the foregoing factors, future results of operations could be below the expectations of public market analysts and investors. If that occurs, the market price of our common stock would likely decline.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing from our line of credit. Our principal source of liquidity is our operating cash flow. Although we are required to maintain cash deposits with banks in certain of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. In Mainland China, however, our compliance with Chinese accounting and tax regulations promulgated by the State Administration of Foreign Exchange ("SAFE") results in transfer and remittance of our profits and dividends from Mainland China to the

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United States on a delayed basis. If SAFE or other Chinese regulators introduce new regulations, or change existing regulations which allow foreign investors to remit profits and dividends earned in China to other countries, our ability to remit profits or pay dividends from Mainland China may be limited in the future. Notwithstanding the foregoing, if we were to repatriate the \$18.2 million of cumulative earnings that have been indefinitely reinvested in certain of our markets at January 2, 2016, there would be a tax liability to the Company of approximately \$3.1 million.

We have historically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$111.5 million in 2015, compared with \$105.2 million in 2014. Items positively affecting cash flow from operations on a year-over-year basis include: (i) an increase in net earnings (ii) timing of vendor invoices and payments (iii) increase in deferred revenue. These items were partially offset by a high level of cash used to increase inventory in 2015 to build up inventory in support of a facility transition in China, and the launch of a new market.

We generated strong cash flow from operating activities in 2015, cash and cash equivalents increased to \$143.2 million at January 2, 2016, from \$111.1 million at January 3, 2015. This increase in cash and cash equivalents was primarily due to increased sales and lower share repurchases. Of the \$143.2 million cash and cash equivalents held at January 2, 2016, \$16.2 million was held in the United States and \$127.0 million was held by international subsidiaries. Of the \$111.1 million held at January 3, 2015, \$37.8 million was held in the United States and \$73.3 million was held by international subsidiaries. Net working capital increased to \$112.9 million at January 2, 2016, from \$82.2 million at January 3, 2015.

We are building a state-of-the-art manufacturing and production facility in China, which we anticipate will become operational during the first half of 2016. This facility has been designed to accommodate 10-20 years of growth in China. We anticipate that this project will require a total investment of approximately \$40 million, of which \$25.5 million was incurred through 2015. Leases on our existing manufacturing and production facilities in China will be terminated during 2016 following completion of our new facility, and most manufacturing and production activities in China will be transferred to our new facility. In the near term, we will continue to utilize our Tianjin manufacturing facility for our personal care products in China. With our investments in China and expected capital expenditures to support initiatives discussed under "Current Focus and Recent Developments," our total anticipated capital expenditures in 2016 are expected to be between \$35 million and \$40 million.

We have extended non-revolving credit to the supplier of our nutrition bars to allow this supplier to modify its facility and acquire the necessary equipment to manufacture our bars. Notes receivable from this supplier as of January 2, 2016, were \$8.3 million and are included as non-current other assets on the balance sheet.

Line of credit

We have a long-standing relationship with Bank of America. We currently maintain a \$75 million credit facility pursuant to an Amended and Restated Credit Agreement ("Credit Agreement") with the bank, which expires in April 2016. On February 19, 2016 we entered into a Second Amendment ("Amendment") to our Credit Agreement, which among other things, extends the term of the Credit Agreement to April 27, 2021. The Amendment also increases the amount we may borrow under the Credit Agreement from \$75 million to up to \$125 million through October 31, 2016. On November 1, 2016 the amount we may borrow under the Credit Agreement will revert to \$75 million for the term of the agreement. The Amendment also increases our consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") covenant from \$60.0 million to equal to or greater than \$100 million.

Bank guarantees are considered a reduction of the overall availability of credit. As of January 2, 2016, such normal course of business bank guarantees reduced our available borrowing limit by \$4.6 million. During 2015, there were no borrowings on this line of credit. As of February 26, 2016, however, we had a balance of \$63.0 million on this line of credit.

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The agreement for this credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of January 2, 2016, we were in compliance with these covenants. Management is not aware of any issues currently impacting Bank of America's ability to honor their commitment to extend credit under this facility.

Share repurchase

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. The objective of this plan is to return value to our shareholders. Our Board of Directors has periodically approved additional dollar amounts for share repurchases under that plan. Share repurchases are made from time-to-time, in the open market, through block trades or otherwise, and are based on market conditions, the level of our cash balances, general business opportunities, and other factors. During the fourth quarter of 2015, our Board of Directors authorized \$100 million for repurchase under this plan. In 2015, we repurchased and retired 457,000 shares of common stock for \$61.2 million, at a weighted average market price of \$133.94 per share. At January 2, 2016, the remaining approved repurchase amount under the plan was \$100 million. Subsequent to the year ended January 2, 2016 and through February, 26, 2016 the Company repurchased and retired 553 shares for \$64,610 pursuant to a preset trading plan meeting the requirements of a Rule 10b5-1 under the Securities Exchange act of 1934 as amended. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Summary

We believe that current cash balances, future cash provided by operations, and amounts available under our line of credit will be sufficient to cover our operating and capital needs in the ordinary course of business for the foreseeable future. If we experience an adverse operating environment or unanticipated and unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available at all or on favorable terms. We might also require or seek additional financing for the purpose of expanding into new markets, growing our existing markets, or for other reasons. Such financing may include the use of additional debt or the sale of additional equity securities. Any financing which involves the sale of equity securities or instruments that are convertible into equity securities could result in immediate and possibly significant dilution to our existing shareholders.

Contractual Obligations and Commercial Contingencies

The following table summarizes our contractual obligations and commitments as of January 2, 2016 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods:

Payments Due By Period (in thousands)

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>More than 5 years</u>
Operating Leases	\$ 29,967	\$ 10,552	\$ 15,744	\$ 3,671	\$ —
Other Commitments	40,565	32,439	6,996	1,130	—
Line of Credit	840	207	292	292	49
Total Contractual Obligations	<u>\$ 71,372</u>	<u>\$ 43,198</u>	<u>\$ 23,032</u>	<u>\$ 5,093</u>	<u>\$ 49</u>

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"Operating Leases" generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. Such expenses are not included in the operating lease amounts that are outlined in the table above.

"Other Commitments" generally include consulting- and IT-related services, investments in brand awareness through corporate and athlete sponsorships as discussed under "Growth Strategy" within Item 1 of this report, facility maintenance, and services related to the events that we hold for our Associates both locally and internationally. Additionally, throughout the year we will enter into various short-term contracts, mostly for services related to events that we hold for our Associates.

The "Line of Credit" has a maturity date of April 2016. On February 19, 2016 we entered into an Amendment to our Credit Agreement, which among other things, extends the term of the Credit Agreement to April 2021. During 2015, there were no borrowings on this line of credit. As of February 26, 2016, however, we had a balance of \$63.0 million on this line of credit. Fees on the unused portion of this line are due periodically and are reflected in the table above. If we utilize this line of credit prior to its maturity, we will be required to pay it in full at maturity.

As previously discussed, we are building a state-of-the-art manufacturing and production facility in China, which we anticipate will become operational during the first half of 2016. We anticipate that this project will require a total investment of approximately \$40 million, of which \$25.5 million was incurred as of January 2, 2016. Of the estimated \$10 million - \$15 million remaining, approximately \$5.6 million is currently under contract and has been included in "Other Commitments" in the table above.

Inflation

We do not believe that inflation has had a material impact on our historical operations or profitability.

Critical Accounting Estimates

Our Consolidated Financial Statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Our significant accounting policies are described in Note A to the Consolidated Financial Statements included herein. The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Those estimates and assumptions are derived and are continually evaluated based on our historical experiences, current facts and circumstances, and on changes in the business environment. Actual results, however, may sometimes differ materially from estimates under different conditions. Critical accounting estimates are defined as both those that are material to the portrayal of our financial condition and results of operations and those that require management's most subjective judgments. We believe that our most critical accounting estimates are described in this section.

Revenue Recognition.

- Revenue is recognized at the estimated point of delivery of the merchandise, at which point the risks and rewards of ownership have passed to the customer. Revenue is recognized when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured. It is not practical for us to track the actual delivery date of each shipment as we ship a high volume of orders through several carriers. Therefore, we use estimates to determine which shipments are delivered and, therefore, recognized as revenue at the end of a period. Our estimates on delivery date largely relate to orders fulfilled in North America and Australia and are based on average shipping transit times, which are calculated using the following factors: (i) the type of shipping

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carrier (as carriers have different in-transit times); (ii) the delivery destination; and (iii) actual transit time experience, which shows that delivery date is typically one to five business days from the date of shipment. We review and update our estimates on a quarterly basis based on our actual transit time experience. However, actual shipping times may differ from our estimates. The estimated total of shipments that are not delivered at the end of a period is not material nor would a change in the average shipping transit times (1 to 2 days) have a material impact on our consolidated financial statements. Additionally, we require cash or credit card payment prior to shipping and do not extend credit to customers.

- Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. Deferred revenue is recognized at the estimated point of delivery of the merchandise. On the occasion that will-call orders are not picked up by customers, we periodically assess the likelihood that customers will exercise their contractual right to pick up orders and recognize revenue when the likelihood is estimated to be remote.
- A provision for product returns and allowances is established and is based on our historical experience.
- Amounts billed to customers for shipping and handling fees are classified as revenue.
- Sales discounts earned under USANA's initial order reward program are considered part of a multiple element revenue arrangement and accordingly are deferred when the first order is placed and recognized as customers place their subsequent two Auto Orders.
- Any compensation paid to an Associate on their personal orders are captured and reported as a reduction to net sales in the form of a sales discount. Management estimates, based on the structure of USANA's Compensation Plan, that an Associate who places an order with sales volume points in a personal sales position will eventually be paid commission on that purchase. Such reduction of revenue for Associates outside of the United States is converted to U.S. Dollars at the average currency exchange rate for the applicable period.
- We collect an annual renewal fee from our Associates that is deferred when it is collected and is recognized as income on a straight-line basis over the subsequent twelve-month period.

Inventory Valuation. Inventories are stated at the lower of cost or market. Cost is determined using a standard costing system which approximates the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. Market value is determined using various assumptions with regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could affect the valuation of our inventories.

Impairment of Long-Lived Assets, Goodwill, and Indefinite-Lived Intangible Assets. Long-lived assets, including property and equipment and definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of the assets may not be recoverable. Events or changes in circumstances that would indicate the need for impairment testing include, among other factors: operating losses; unused capacity; market value declines; technological developments resulting in obsolescence; changes in demand for products manufactured; changes in competition and competitive practices; uncertainties associated with the world economies; and changes in governmental regulations or actions. When indicators of impairment exist, an estimate of undiscounted net cash flows is used in measuring whether the carrying amount of the asset or related asset group is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset group's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

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Goodwill represents the excess of purchase price paid over the fair market value of identifiable net assets of companies acquired. Goodwill is not amortized, but rather it is tested at the reporting unit level at least annually for impairment (or more frequently if triggering events or changes in circumstances indicate impairment). Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Some of these qualitative factors may include macroeconomic conditions, industry and market considerations, a change in financial performance, entity-specific events, a sustained decrease in share price, and consideration of the difference between the fair value and carrying amount of a reporting unit as determined in the most recent quantitative assessment. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a two-step quantitative impairment analysis is performed to estimate the fair value of goodwill. The first step involves estimating the fair values of a reporting unit using widely-accepted valuation methodologies including the income and market approaches, which requires the use of estimates and assumptions. These estimates and assumptions include revenue growth rates, discounts rates, and determination of appropriate market comparables. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit determined in a manner similar to a purchase price allocation. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill.

Indefinite-lived intangible assets are not amortized; however, they are tested at least annually for impairment or more frequently if events or changes in circumstances exist that may indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, through this qualitative assessment, the conclusion is made that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, a quantitative impairment analysis is performed by comparing the indefinite-lived intangible asset's book value to its estimated fair value. The fair value for indefinite-lived intangible assets is determined through various valuation techniques, including market and income approaches as considered necessary. The amount of any impairment is measured as the difference between the carrying amount and the fair value of the impaired asset. During 2013, 2014, and 2015, no impairment of indefinite-lived intangible assets was recorded.

Determining the fair value of our long-lived assets, goodwill, and indefinite-lived intangible assets as part of these impairment analyses requires significant judgment in estimates and assumptions used under the income and market approaches. A change in any of the estimates or assumptions used could result in impairment.

Accounting for Income Taxes. Income taxes are calculated in each of the jurisdictions in which we operate. This process involves estimating our current tax exposure, together with assessing temporary differences for items treated differently for tax and financial reporting. Tax benefits are recognized from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Deferred income tax assets are reviewed for recoverability, and valuation allowances are provided, when necessary, to reduce deferred income tax assets to the amounts that are more likely than not to be realized based on our estimate of future taxable income. Should our expectations of taxable income change in future periods, it may be necessary to establish a valuation allowance, which could affect our results of operations in the period such a determination is made.

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Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or cash flows. Additional information regarding income taxes is available in Note D to the Consolidated Financial Statements herein.

On an interim basis, an estimate is made of what our effective tax rate will be for the full fiscal year, and a quarterly income tax provision in accordance with this anticipated effective rate is recorded. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This estimation process periodically results in changes to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate.

Equity-Based Compensation. We record compensation expense in the financial statements for equity-based awards based on the grant date fair value and an estimate of forfeitures derived from historical experience. We use the Black-Scholes option pricing model to estimate the fair value of our equity awards, which involves the use of assumptions such as expected volatility, expected term, dividend rate, and risk-free rate. Equity-based compensation expense is recognized on a straight-line basis over the requisite service period, which is generally the vesting period. For more information regarding the assumptions and estimates used in calculating this equity-based compensation expense, see Note J to the Consolidated Financial Statements herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our earnings, cash flows, and financial position are affected by fluctuations in currency exchange rates, interest rates, and other uncertainties that are inherent in doing business and selling product in more than one currency. In addition, our operations are exposed to risks that are associated with changes in social, political, and economic conditions in our international operations. This includes changes in the laws and policies that govern investment in international countries where we have operations, as well as, to a lesser extent, changes in U.S. laws and regulations relating to international trade and investment.

Foreign Currency Risks. Net sales outside the United States represented 78.1%, 81.8%, and 84.8% of our net sales in 2013, 2014, and 2015, respectively. Because a significant portion of our sales are generated outside the United States, currency exchange rate fluctuations may have a significant effect on our sales and earnings. The local currency of each international subsidiary is considered the functional currency, with all revenue and expenses being translated at weighted-average currency exchange rates for the applicable periods. In general, our reported sales and gross profit are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar because we manufacture the majority of our products in the United States and sell them to our international subsidiaries in their respective functional currencies. Currency fluctuations, however, have the opposite effect on our Associate incentives and selling, general and administrative expenses. We are unable to reasonably estimate the effect that currency fluctuations may have on our future business, results of operations, or financial condition. This is due to the uncertainty in, and the varying degrees and type of exposure that we face from, fluctuation of various currencies.

Currently our strategy for reducing our exposure to currency fluctuation includes the timely and efficient repatriation of earnings from international markets where such earnings are not considered to be indefinitely reinvested, and settlement of intercompany transactions. Additionally, we may enter into short-term foreign currency credit arrangements in our international markets, primarily as a way to reduce our exposure to negative effects of changes in foreign currency exchange rates. We also from time to time enter into currency exchange contracts to offset foreign currency exposure in various

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international markets. We do not use derivative financial instruments for trading or speculative purposes. There can be no assurance that our practices will be successful in eliminating all or substantially all of the risks that may be encountered in connection with our currency transactions.

Following are the average exchange rates of currency units to one U.S. dollar for each of the international markets in which we operated as of January 2, 2016 for the quarterly periods indicated:

	2014				2015			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Canadian Dollar	1.10	1.09	1.09	1.14	1.24	1.23	1.31	1.34
Australian Dollar	1.11	1.07	1.08	1.17	1.28	1.29	1.39	1.39
New Zealand Dollar	1.20	1.16	1.19	1.28	1.33	1.38	1.54	1.50
Hong Kong Dollar	7.76	7.75	7.75	7.76	7.76	7.75	7.75	7.75
Japanese Yen	102.8	102.1	103.9	114.4	119.2	121.7	121.9	121.5
New Taiwan Dollar	30.32	30.15	30.05	30.86	31.51	30.83	32.13	32.66
Korean Won	1,069.4	1,028.7	1,025.7	1,090.4	1,104.2	1,100.2	1,173.7	1,158.5
Singapore Dollar	1.27	1.25	1.25	1.30	1.36	1.34	1.40	1.41
Mexican Peso	13.23	12.99	13.12	13.88	14.97	15.36	16.51	16.79
Chinese Yuan	6.10	6.23	6.16	6.15	6.24	6.20	6.32	6.40
Malaysian Ringitt	3.30	3.23	3.19	3.36	3.63	3.66	4.09	4.28
Philippine Peso	44.84	44.12	43.80	44.78	44.44	44.71	46.22	46.95
Thailand Baht	32.63	32.46	32.10	32.72	32.62	33.36	35.40	35.83
Euro	0.73	0.73	0.75	0.80	0.89	0.90	0.90	0.92
Colombian Peso	2,006.0	1,912.9	1,908.4	2,169.8	2,483.7	2,504.0	2,970.6	3,072.5
Indonesia Rupiah	*	*	*	*	*	*	*	13,743.19

* USANA operations had not commenced during the period indicated.

Interest Rate Risks. As of January 2, 2016, we had no outstanding debt, and therefore, we had no direct exposure to interest rate risk. On February 26, 2016, we had an outstanding balance of \$63.0 million on our line of credit, with a weighted-average interest rate of 1.3%. This interest rate is computed at the bank's Prime Rate, or LIBOR, adjusted by features specified in our Credit Agreement, with fixed rate term options up to six months. The annual impact on after-tax expense of a 100-basis-point increase in the interest rate on the above balance would not materially affect our earnings. If, however, we are unable to meet the covenants in our Credit Agreement, we would be required to renegotiate the term of the credit under the Credit Agreement, including the interest rate. There can be no assurance that any renegotiated terms of credit would not materially impact our earnings.

Item 8. Financial Statements and Supplementary Data

The Financial Statements and Supplementary Data required by this Item are set forth at the pages indicated at Item 15 below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information that is required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and

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reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

As of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance as of January 2, 2016.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rule 13a-15(f) under the Exchange Act). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Principal Executive Officer and our Principal Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 2, 2016. In making this assessment, management used the criteria that have been set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on its assessment, using those criteria, management concluded that, as of January 2, 2016, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting, as of January 2, 2016, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended January 2, 2016, that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
USANA Health Sciences, Inc.:

We have audited USANA Health Sciences, Inc.'s internal control over financial reporting as of January 2, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). USANA Health Sciences, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, USANA Health Sciences, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of USANA Health Sciences, Inc. and subsidiaries as of January 2, 2016 and January 3, 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 2, 2016, and our report dated March 1, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Salt Lake City, Utah
March 1, 2016

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

Item 14. Principal Accounting Fees and Services

The information for this Item is incorporated by reference to the definitive proxy statement to be filed pursuant to Regulation 14A under the Exchange Act.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Form:

1. *Financial Statements*

<u>Reports of Independent Registered Public Accounting Firms</u>	<u>F-1</u>
<u>Consolidated Balance Sheets</u>	<u>F-2</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-3</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-5</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>F-6</u>

2. *Financial Statement Schedules.*

For the years ended December 28, 2013, January 3, 2015, and January 2, 2016

Schedule II—Valuation and Qualifying Accounts

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3. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)
3.2	Bylaws (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)
4.1	Specimen Stock Certificate for Common Stock (incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993)
10.1	USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 25, 2006)*
10.2	Form of Stock Option Agreement for award of non-statutory stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.3	Form of Stock Option Agreement for award of non-statutory stock options to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.4	Form of Incentive Stock Option Agreement for award of incentive stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.5	Form of Stock-Settled Stock Appreciation Rights Award Agreement for award of stock-settled stock appreciation rights to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.6	Form of Stock-Settled Stock Appreciation Rights Award Agreement for award of stock-settled stock appreciation rights to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.7	Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (incorporated by reference to Current Report on Form 8-K, filed April 26, 2006)*
10.8	Form of Indemnification Agreement between the Company and its directors (incorporated by reference to Current Report on Form 8-K, filed May 24, 2006)*
10.9	Form of Indemnification Agreement between the Company and certain of its officers (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)*
10.10	Share Purchase Agreement, dated as of August 16, 2010, among USANA Health Sciences, Inc., Petlane, Inc., Yaolan Ltd., and BabyCare Holdings Ltd. (Incorporated by Reference to Report on Form 8-K, filed August 16, 2010)
10.11	Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011)
10.12	Form of Executive Confidentiality, Non-Disclosure and Non-Solicitation Agreement (incorporated by reference to Quarterly Report on Form 10-Q for the period ended October 1, 2011, filed November 9, 2011)*

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<u>Exhibit Number</u>	<u>Description</u>
10.13	Separation and Release of Claims Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)*
10.14	Amendment to Confidentiality, Non-Disclosure and Non-Solicitation Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)*
10.15	Amendment to Amended and Restated Credit Agreement, dated as of July 18, 2013 (Incorporated by reference to Report on Form 8-K, filed July 23, 2013)
10.16	USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)
10.17	Form of Stock-Settled Stock Appreciation Rights Award Agreement for employees under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.18	Form of Stock-Settled Stock Appreciation Rights Award Agreement for non-employee directors under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)*
10.19	Form of Restricted Stock Unit Award Agreement for employees under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015) *
10.20	Form of Restricted Stock Unit Award Agreement for non-employee directors under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)
10.21	Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to non-employee director under the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Report on Form 8-K, filed July 31, 2015)
10.22	Second Amendment to the Amended and Restated Credit Agreement and Amendment to loan documents (incorporated by reference to Report on Form 8-K, filed February 23, 2016)
11.1	Computation of Net Income per Share (included in Notes to Consolidated Financial Statements)
14	Code of Ethics of USANA Health Sciences, Inc. (posted on the Company's Internet web site at www.usanahealthsciences.com)
21	Subsidiaries of the Registrant, as of February 26, 2016 (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm (KPMG LLP) (filed herewith)
31.1	Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)

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<u>Exhibit Number</u>	<u>Description</u>
32.2	Certification of Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Denotes a management contract or compensatory plan or arrangement.

**REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
USANA Health Sciences, Inc.:

We have audited the accompanying consolidated balance sheets of USANA Health Sciences, Inc. and subsidiaries as of January 2, 2016 and January 3, 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 2, 2016. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USANA Health Sciences, Inc. and subsidiaries as of January 2, 2016 and January 3, 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended January 2, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), USANA Health Sciences, Inc.'s internal control over financial reporting as of January 2, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Salt Lake City, Utah
March 1, 2016

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	As of January 3, 2015	As of January 2, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 111,126	\$ 143,210
Inventories	45,248	66,119
Prepaid expenses and other current assets	34,553	34,935
Total current assets	190,927	244,264
Property and equipment, net	71,164	87,982
Goodwill	17,941	17,432
Intangible assets, net	40,952	38,269
Deferred tax assets	5,933	9,844
Other assets	23,667	25,446
	<u>\$ 350,584</u>	<u>\$ 423,237</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,779	\$ 10,043
Other current liabilities	100,926	121,369
Total current liabilities	108,705	131,412
Deferred tax liabilities	10,601	9,822
Other long-term liabilities	1,114	1,151
Stockholders' equity		
Common stock, \$0.001 par value; Authorized—50,000 shares, issued and outstanding 12,633 as of January 3, 2015 and 12,488 as of January 2, 2016	13	13
Additional paid-in capital	61,613	69,740
Retained earnings	166,406	214,875
Accumulated other comprehensive income	2,132	(3,776)
Total stockholders' equity	230,164	280,852
	<u>\$ 350,584</u>	<u>\$ 423,237</u>

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

	Year Ended		
	2013	2014	2015
Net sales	\$ 718,175	\$ 790,471	\$ 918,499
Cost of sales	127,435	140,794	159,682
Gross profit	590,740	649,677	758,817
Operating expenses:			
Associate incentives	307,820	349,044	408,160
Selling, general and administrative	166,208	184,531	208,995
Total operating expenses	474,028	533,575	617,155
Earnings from operations	116,712	116,102	141,662
Other income (expense):			
Interest income	464	500	1,116
Interest expense	(1)	(129)	(15)
Other, net	(594)	(820)	(174)
Other income (expense), net	(131)	(449)	927
Earnings before income taxes	116,581	115,653	142,589
Income taxes	37,557	39,017	47,917
Net earnings	\$ 79,024	\$ 76,636	\$ 94,672
Earnings per common share			
Basic	\$ 5.77	\$ 5.80	\$ 7.44
Diluted	\$ 5.56	\$ 5.60	\$ 7.18
Weighted average common shares outstanding			
Basic	13,695	13,221	12,730
Diluted	14,204	13,689	13,177
Comprehensive income:			
Net earnings	\$ 79,024	\$ 76,636	\$ 94,672
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(1,458)	(4,492)	(9,283)
Tax benefit (expense) related to foreign currency translation adjustment	316	830	3,375
Other comprehensive income (loss), net of tax	(1,142)	(3,662)	(5,908)
Comprehensive income	\$ 77,882	\$ 72,974	\$ 88,764

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 28, 2013; January 3, 2015; and January 2, 2016

(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 29, 2012	13,821	\$ 14	\$ 43,822	\$ 134,800	\$ 6,936	\$ 185,572
Net earnings				79,024		79,024
Other comprehensive income (loss), net of tax					(1,142)	(1,142)
Equity-based compensation expense			7,624			7,624
Common stock repurchased and retired	(414)		(4,284)	(13,801)		(18,085)
Common stock issued under equity award plans	479		454			454
Tax benefit from equity award activity			7,075			7,075
Balance at December 28, 2013	13,886	14	54,691	200,023	5,794	260,522
Net earnings				76,636		76,636
Other comprehensive income (loss), net of tax					(3,662)	(3,662)
Equity-based compensation expense			9,805			9,805
Common stock repurchased and retired	(1,927)	(2)	(28,564)	(110,253)		(138,819)
Common stock issued under equity award plans	674	1	10,969			10,970
Tax benefit from equity award activity			14,712			14,712
Balance at January 3, 2015	12,633	13	61,613	166,406	2,132	230,164
Net earnings				94,672		94,672
Other comprehensive income (loss), net of tax					(5,908)	(5,908)
Equity-based compensation expense			11,081			11,081
Common stock repurchased and retired	(457)		(14,978)	(46,203)		(61,181)
Common stock issued under equity award plans	312					—
Tax benefit from equity award activity			12,024			12,024
Balance at January 2, 2016	12,488	\$ 13	\$ 69,740	\$ 214,875	\$ (3,776)	\$ 280,852

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended		
	2013	2014	2015
Cash flows from operating activities			
Net earnings	\$ 79,024	\$ 76,636	\$ 94,672
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities			
Depreciation and amortization	9,044	8,810	9,978
(Gain) loss on sale of property and equipment	(16)	46	3
Equity-based compensation expense	7,624	9,805	11,081
Excess tax benefits from equity-based payment arrangements	(7,466)	(14,834)	(12,024)
Deferred income taxes	814	(1,039)	(2,572)
Changes in operating assets and liabilities:			
Inventories	(11,783)	1,102	(23,071)
Prepaid expenses and other assets	(8,465)	(3,789)	(2,047)
Income tax payable related to tax benefit from equity award activity	7,075	14,712	12,024
Accounts payable	2,790	(1,337)	2,481
Other liabilities	20,252	15,073	20,941
Net cash provided by (used in) operating activities	98,893	105,185	111,466
Cash flows from investing activities			
Additions to notes receivable	(4,942)	(4,495)	(1,580)
Purchases of investment securities held-to-maturity	(8,643)	(3,871)	—
Maturities of investment securities	—	12,511	—
Proceeds from sale of property and equipment	47	10	185
Purchases of property and equipment	(8,051)	(20,421)	(23,729)
Net cash provided by (used in) investing activities	(21,589)	(16,266)	(25,124)
Cash flows from financing activities			
Proceeds from equity awards exercised	454	10,970	—
Excess tax benefits from equity-based payment arrangements	7,466	14,834	12,024
Repurchase of common stock	(18,085)	(138,819)	(61,181)
Borrowings on line of credit	—	30,000	—
Payments on line of credit	—	(30,000)	—
Net cash provided by (used in) financing activities	(10,165)	(113,015)	(49,157)
Effect of exchange rate changes on cash and cash equivalents	(635)	(2,121)	(5,101)
Net increase (decrease) in cash and cash equivalents	66,504	(26,217)	32,084
Cash and cash equivalents, beginning of period	70,839	137,343	111,126
Cash and cash equivalents, end of period	\$ 137,343	\$ 111,126	\$ 143,210
Supplemental disclosures of cash flow information			
Cash paid during the period for:			
Interest	\$ 1	\$ 136	\$ 15
Income taxes	26,952	26,955	35,782
Non-cash investing activities:			
Credits on notes receivable	198	720	966
Accrued purchases of property and equipment	—	1,805	6,863

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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: 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, Belgium, and the Netherlands.

Principles of consolidation and basis of presentation

The accompanying Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("US GAAP").

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates for the Company relate to revenue recognition, inventory obsolescence, goodwill and other intangible assets, equity-based compensation, and income taxes. Actual results could differ from those estimates. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Fiscal year

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 2013 and 2015, were 52-week years. Fiscal year 2014 was a 53-week year. Fiscal year 2013 covered the period December 30, 2012 to December 28, 2013 (hereinafter 2013). Fiscal year 2014 covered the period December 29, 2013 to January 3, 2015 (hereinafter 2014). Fiscal year 2015 covered the period January 4, 2015 to January 2, 2016 (hereinafter 2015).

Fair value measurements

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

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 January 3, 2015 and January 2, 2016, 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			
	January 3, 2015	Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 4,833	\$ 4,833	\$ —	\$ —

	Fair Value Measurements Using			
	January 2, 2016	Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	\$ 14,460	\$ 14,460	\$ —	\$ —

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the years ended 2014 and 2015.

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. For the years ended 2013, 2014, and 2015, there were no non-financial assets measured at fair value on a non-recurring basis.

Fair value of financial instruments

At January 3, 2015 and January 2, 2016, the Company's financial instruments include cash equivalents, 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. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Translation of foreign currencies

The functional currency of the Company's foreign subsidiaries is the local currency of their country of domicile. Assets and liabilities of the foreign subsidiaries are translated into U.S. dollar amounts at month-end exchange rates. Revenue and expense accounts are translated at the weighted-average rates for the monthly accounting period to which they relate. Equity accounts are translated at historical rates. Foreign currency translation adjustments are accumulated as a component of other comprehensive income. Gains and losses from foreign currency transactions are included in the "Other, net" component of Other income (expense) in the Company's consolidated statements of comprehensive income.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents as of January 3, 2015 and January 2, 2016 consisted primarily of money market fund investments, and amounts receivable from credit card processors.

Amounts receivable from credit card processors are considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Amounts receivable from credit card processors as of January 3, 2015 and January 2, 2016 totaled \$6,209 and \$12,516, respectively.

Restricted Cash

The Company is required to maintain cash deposits with banks in certain subsidiary locations for various operating purposes. The most significant of these cash deposits relates to a deposit held at a bank in China, the balance of which was \$3,222 as of January 3, 2015, and \$3,080 as of January 2, 2016. This deposit is required for the application of direct sales licenses by the Ministry of Commerce and the State Administration for Industry & Commerce of the People's Republic of China, and will continue to be restricted during the periods while the Company holds these licenses. Restricted cash is included in the "Other assets" line item in the Company's consolidated balance sheets.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a standard costing system which approximates the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. Market value is determined using various assumptions with regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could result in an adjustment to inventory.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts regularly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts Receivable is included in "Prepaid expenses and other current assets" line item in the Company's consolidated balance sheets.

Income taxes

The Company accounts for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the differences between the financial statement assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the "more-likely-than-not" criteria for recognition. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits in income taxes. Deferred taxes are not provided on the portion of undistributed earnings of subsidiaries outside of the United States when these earnings are considered indefinitely reinvested.

Property and equipment

Property and equipment are recorded at cost. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the related assets. The straight-line method of depreciation and amortization is followed for financial statement purposes. Leasehold improvements are amortized over the shorter of the life of the respective lease or the useful life of the improvements. Property and equipment are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Notes receivable

Notes receivable consists primarily of a secured loan to a third-party supplier of the Company's nutrition bars and are included in the "Other assets" line item in the Company's consolidated balance

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

sheets. The Company has extended non-revolving credit to this supplier to allow them to acquire equipment that is necessary to manufacture the USANA nutrition bars. This relationship provides improved supply chain stability for USANA and creates a mutually beneficial relationship between the parties. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. Manufacturing credits applied during 2014 and 2015 were \$720 and \$966, respectively. There is no prepayment penalty. Notes receivable from this supplier as of January 3, 2015, and January 2, 2016, were \$8,519, and \$8,339, respectively.

The third-party supplier is considered to be a variable interest entity; however, the Company is not the primary beneficiary due to the inability to direct the activities that most significantly affect the third-party supplier's economic performance. The Company does not absorb a majority of the third-party supplier's expected losses or returns. Consequentially, the financial information of the third-party supplier is not consolidated. The maximum exposure to loss as a result of the Company's involvement with the third-party supplier is limited to the carrying value of the note receivable due from the third-party supplier.

Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets of acquired companies. Goodwill is not amortized, but rather is tested at the reporting unit level at least annually for impairment or more frequently if triggering events or changes in circumstances indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Some of these qualitative factors may include macroeconomic conditions, industry and market considerations, a change in financial performance, entity-specific events, a sustained decrease in share price, and consideration of the difference between the fair value and carrying amount of a reporting unit as determined in the most recent quantitative assessment. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a two-step quantitative impairment analysis is performed. The first step involves estimating the fair value of a reporting unit using widely-accepted valuation methodologies including the income and market approaches, which requires the use of estimates and assumptions. These estimates and assumptions include revenue growth rates, discounts rates, and determination of appropriate market comparables. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit determined in a manner similar to a purchase price allocation. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. During 2013, 2014, and 2015, no impairment of goodwill was recorded.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets represent long-lived and indefinite-lived intangible assets acquired in connection with the purchase of the Company's China subsidiary in 2010. Long-lived intangible assets are amortized over their related useful lives, using a straight-line or accelerated method consistent with the underlying expected future cash flows related to the specific intangible asset. Long-lived intangible assets are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When indicators of impairment exist, an estimate of undiscounted net cash flows is used in measuring whether the carrying amount of the asset or related asset group is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset group's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

Indefinite-lived intangible assets are not amortized; however, they are tested at least annually for impairment or more frequently if events or changes in circumstances exist that may indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, through this qualitative assessment, the conclusion is made that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, a quantitative impairment analysis is performed by comparing the indefinite-lived intangible asset's book value to its estimated fair value. The fair value for indefinite-lived intangible assets is determined through various valuation techniques, including market and income approaches as considered necessary. The amount of any impairment is measured as the difference between the carrying amount and the fair value of the impaired asset. During 2013, 2014, and 2015, no impairment of indefinite-lived intangible assets was recorded.

Self insurance

The Company is self-insured, up to certain limits, for employee group health claims. The Company has purchased stop-loss insurance on both an individual and an aggregate basis, which will reimburse the Company for individual claims in excess of \$125 and aggregate claims that are greater than 100% of projected claims. A liability is accrued for all unpaid claims. Total expense under this self insurance program was \$5,281, \$7,019 and \$7,287 in 2013, 2014 and 2015, respectively.

Common stock and additional paid-in capital

The Company records cash that it receives upon the exercise of equity awards by crediting common stock and additional paid-in capital. The Company received \$454, and \$10,970 in cash proceeds from the exercise of equity awards in 2013 and 2014, respectively. There were no cash proceeds from the exercise of equity awards in 2015. The Company also realizes an income tax benefit from the exercise of certain equity awards.

Upon exercise, the related deferred tax assets are reversed and the difference between the deferred tax assets and the realized tax benefit creates a tax windfall or shortfall that increases or decreases the additional paid-in capital pool ("APIC Pool"). If the APIC Pool is reduced to zero,

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

additional shortfalls are treated as a current tax expense. The total tax benefit recorded in additional paid-in capital was \$7,075, \$14,712, and \$12,024, in 2013, 2014, and 2015, respectively.

The Company has a stock repurchase plan in place that has been authorized by the Board of Directors. As of January 2, 2016, \$100,000 was available to repurchase shares under this plan. The Company expended \$18,085, \$138,819, and \$61,181 to repurchase and retire shares during 2013, 2014, and 2015, respectively. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Revenue recognition and deferred revenue

Revenue is recognized at the estimated point of delivery of the merchandise, at which point the risks and rewards of ownership have passed to the customer. Revenue is realizable when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured.

The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders. Sales and related fees such as shipping and handling, net of applicable sales discounts, are recorded as revenue when the product is delivered and when title and the risk of ownership passes to the customer. Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. Deferred revenue is recognized at the estimated point of delivery of the merchandise. On the occasion that will-call orders are not picked up by customers, we periodically assess the likelihood that customers will exercise their contractual right to pick up orders and recognize revenue when the likelihood is estimated to be remote. Certain incentives offered on the sale of our products, including sales discounts, are classified as a reduction of revenue. Sales discounts earned under USANA's initial order reward program are considered part of a multiple element revenue arrangement and accordingly are deferred when the first order is placed and recognized as customers place their subsequent two Auto Orders. A provision for product returns and allowances is recorded and is based on historical experience. Additionally, the Company collects an annual account renewal fee from Associates that is deferred upon receipt and is recognized as income on a straight-line basis over the subsequent twelve-month period.

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, are presented on a net basis in the consolidated statements of comprehensive income (excluded from net sales).

Product return policy

All first-time product orders that are returned within the first 30 days following purchase are refunded at 100% of the sales price. After the first order, all other returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price. This standard policy differs slightly in a few of our international markets due to the regulatory environment in those markets. According to the terms of the Associate agreement, return of product where the purchase amount exceeds one hundred dollars and was not damaged at the time of receipt by the

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associate may result in cancellation of the Associate's distributorship. Depending upon the conditions under which product was returned, customers may either receive a refund based on their original form of payment, or credit on account for a product exchange. Product returns totaled approximately 0.9% of net sales in 2013, 0.8% of net sales in 2014, and 0.6% of net sales in 2015.

Shipping and handling costs

The Company's shipping and handling costs are included in cost of sales for all periods presented.

Associate incentives

Associate incentives expenses include all forms of commissions, and other incentives paid to our Associates, less commissions paid to Associates on personal purchases, which are considered a sales discount and are reported as a reduction to net sales.

Selling, general and administrative

Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate event costs, advertising and professional fees, marketing, and research and development expenses.

Equity-based compensation

The Company records compensation expense in the financial statements for equity-based awards based on the grant date fair value and an estimate of forfeitures derived from historical experience. Equity-based compensation expense is recognized under the straight-line method over the period that service is provided, which is generally the vesting term. Further information regarding equity awards can be found in Note J—Equity-Based Compensation.

Advertising

Advertising costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Advertising expense totaled \$3,650 in 2013, \$4,942 in 2014 and \$13,766 in 2015.

Research and development

Research and development costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Research and development expense totaled \$5,083 in 2013, \$5,128 in 2014 and \$6,420 in 2015.

Earnings per share

Basic earnings per common share (EPS) are based on the weighted-average number of common shares that were outstanding during each period. Diluted earnings per common share include the effect of potentially dilutive common shares calculated using the treasury stock method, which include in the money, equity based awards that have been granted but have not been issued.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will 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. The standard also will require 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. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". This standard modifies existing consolidation guidance for reporting companies that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the impact ASU 2015-02 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement". This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact ASU 2015-05 will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory". For entities that do not measure inventory using the last-in, first-out or retail inventory method, ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2015-11 will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The ASU requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The ASU is effective for annual and interim periods

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in fiscal years beginning after December 15, 2016. Early adoption is permitted at the beginning of an interim or annual period and requires either a prospective or retrospective approach to adoption. The Company is currently evaluating the impact ASU 2015-17 will have on its consolidated financial statements.

NOTE B—INVENTORIES

Inventories consist of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Raw materials	\$ 15,127	\$ 22,529
Work in progress	7,545	8,701
Finished goods	22,576	34,889
	<u>\$ 45,248</u>	<u>\$ 66,119</u>

NOTE C—PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Prepaid insurance	\$ 1,507	\$ 1,727
Other prepaid expenses	3,094	3,862
Federal income taxes receivable	7,370	7,080
Miscellaneous receivables, net	3,656	4,704
Deferred commissions	3,618	3,305
Deferred tax assets	9,683	9,674
Other current assets	5,625	4,583
	<u>\$ 34,553</u>	<u>\$ 34,935</u>

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE D—INCOME TAXES

Income tax expense (benefit) included in income from net earnings consists of the following:

	Year ended		
	2013	2014	2015
Current			
Federal	\$ 26,233	\$ 22,362	\$ 17,492
State	94	1,056	464
Foreign	9,626	16,265	32,198
Total Current	35,953	39,683	50,154
Deferred			
Federal	5,507	(1,096)	(5,220)
State	(5)	(43)	(155)
Foreign	(3,898)	473	3,138
Total Deferred	1,604	(666)	(2,237)
	<u>\$ 37,557</u>	<u>\$ 39,017</u>	<u>\$ 47,917</u>

The income tax provision, as reconciled to the tax computed at the federal statutory rate of 35% for 2013, 2014, and 2015, is as follows:

	Year ended		
	2013	2014	2015
Federal income taxes at statutory rate	\$ 40,803	\$ 40,479	\$ 49,906
State income taxes, net of federal tax benefit	102	653	670
Qualified production activities deduction	(1,700)	(887)	(952)
Foreign rate differential	(890)	(603)	(461)
U.S. research credit	(206)	(293)	(425)
All other, net	(552)	(332)	(821)
	<u>\$ 37,557</u>	<u>\$ 39,017</u>	<u>\$ 47,917</u>

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE D—INCOME TAXES (Continued)

The significant categories of deferred taxes are as follows:

	January 3, 2015	January 2, 2016
Deferred tax assets		
Inventory	\$ 3,024	\$ 3,341
Accruals not currently deductible	4,427	5,892
Equity-based compensation expense	2,822	4,476
Intangible assets	10,107	9,283
Net operating losses	526	110
Accumulated other comprehensive income	—	988
Other	4,543	3,428
Gross deferred tax assets	25,449	27,518
Valuation allowance	(526)	(607)
Net deferred tax assets	24,923	26,911
Deferred tax liabilities		
Depreciation/amortization	(6,171)	(6,137)
Accumulated other comprehensive income	(1,994)	—
Prepaid expenses	(1,431)	(1,566)
Intangible assets	(10,107)	(9,283)
Other	(5,473)	(4,663)
Gross deferred tax liabilities	(25,176)	(21,649)
Net deferred taxes	\$ (253)	\$ 5,262

The Components of deferred taxes, net on a jurisdiction basis are as follows:

	January 3, 2015	January 2, 2016
Net current deferred tax assets	\$ 9,683	\$ 9,674
Net noncurrent deferred tax assets	5,933	9,844
Net current deferred tax liabilities	(5,268)	(4,434)
Net noncurrent deferred tax liabilities	(10,601)	(9,822)
Net deferred taxes	\$ (253)	\$ 5,262

At January 2, 2016, the Company had foreign operating loss carry forwards of approximately \$384. If these operating losses are not used, a portion of them will begin to expire in 2017. A valuation allowance of \$110 has been placed on these foreign operating loss carry forwards. The valuation allowance is determined using a more likely than not realization criteria and is based upon all available positive and negative evidence, including future reversals of temporary differences. A future increase or decrease in the current valuation allowance is not expected to impact the income tax provision due to the Company's ability to fully utilize foreign tax credits associated with taxable income in these jurisdictions.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE D—INCOME TAXES (Continued)

The Company has not recognized a deferred tax liability for the undistributed earnings of certain of its foreign operations that arose during 2015 and in prior years as the Company considers these earnings to be indefinitely reinvested. As of January 2, 2016, the undistributed earnings of these subsidiaries was \$18,163. The repatriation of these earnings would result in a tax liability to the Company of approximately \$3,071.

The Company recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. As of January 3, 2015 and January 2, 2016, the Company had no significant unrecognized tax benefits.

From time to time, the Company is subject to federal, state, and foreign tax authority income tax examinations. The Company remains subject to income tax examinations for each of its open tax years, which extend back to 2012 under most circumstances. Certain taxing jurisdictions may provide for additional open years depending upon their statutes or if an audit is on-going.

NOTE E—PROPERTY AND EQUIPMENT

Cost of property and equipment and their estimated useful lives is as follows:

	<u>Years</u>	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Buildings	39.5	\$ 38,920	\$ 38,242
Laboratory and production equipment	5 - 7	24,864	27,027
Sound and video library	5	600	600
Computer equipment and software	3 - 5	30,842	34,497
Furniture and fixtures	3 - 5	5,354	5,214
Automobiles	3 - 5	327	385
Leasehold improvements	3 - 5	10,857	11,591
Land improvements	15	2,068	2,052
		<u>113,832</u>	<u>119,608</u>
Less accumulated depreciation and amortization		<u>64,372</u>	<u>71,030</u>
		49,460	48,578
Land		6,843	6,360
Deposits and projects in process		14,861	33,043
		<u>\$ 71,164</u>	<u>\$ 87,982</u>

Depreciation of property and equipment for the years ended 2013, 2014, and 2015 was \$8,152, \$8,414, and \$9,034, respectively.

NOTE F—INTANGIBLE ASSETS

The Company performed its annual goodwill impairment test during the third quarter of 2015. The Company performed a qualitative assessment of each reporting unit and determined that it was not more-likely-than-not that the fair value of any reporting unit was less than its carrying amount. As a

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE F—INTANGIBLE ASSETS (Continued)

result, the two-step goodwill impairment test was not required and no impairments of goodwill were recognized in 2015.

The Company also performed its annual indefinite-lived intangible asset impairment test during the third quarter of 2015. The Company performed a qualitative assessment of the indefinite-lived intangible assets and determined that it was not more-likely-than-not that the fair value of any indefinite-lived intangible asset was less than the carrying amount. As a result, the quantitative impairment test was not required and no impairments of indefinite-lived intangible assets were recognized in 2015.

The changes in the carrying amount of goodwill are as follows:

	January 3, 2015	January 2, 2016
Balance at beginning of year:		
Gross goodwill	\$ 18,243	\$ 17,941
Accumulated impairment losses	—	—
Net goodwill as of beginning of year	18,243	17,941
Goodwill acquired during the year	—	—
Impairment loss	—	—
Currency translation adjustment	(302)	(509)
Balance as of end of year		
Gross goodwill	17,941	17,432
Accumulated impairment losses	—	—
Net goodwill as of end of year	<u>\$ 17,941</u>	<u>\$ 17,432</u>

Historically, the indefinite-lived intangible assets included the BabyCare direct sales license and BabyCare product formulas. The Company evaluates the remaining useful life of the indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. During the third quarter of 2015, a process was initiated in China to approve additional USANA products, which will limit the life of certain of the acquired BabyCare product formulas. As a result, the product formulas intangible asset was determined to no longer have an indefinite life. Accordingly, the Company began amortization of the product formulas intangible asset on a straight-line basis over its estimated remaining useful life of 8 years. Upon determining that

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE F—INTANGIBLE ASSETS (Continued)

the product formulas intangible asset no longer has an indefinite life, it was tested for impairment and no impairment was noted.

	As of January 3, 2015			Weighted-average amortization period (years)
	Gross carrying amount	Accumulated amortization	Net carrying amount	
Amortized intangible assets				
Trade name and trademarks	\$ 4,274	\$ (1,898)	\$ 2,376	10
Indefinite-lived intangible assets				
Product formulas	9,425		9,425	
Direct sales license	29,151		29,151	
	<u>38,576</u>		<u>38,576</u>	
	<u>\$ 42,850</u>		<u>\$ 40,952</u>	

	As of January 2, 2016			Weighted-average amortization period (years)
	Gross carrying amount	Accumulated amortization	Net carrying amount	
Amortized intangible assets				
Trade name and trademarks	\$ 4,086	\$ (2,205)	\$ 1,881	10
Product formulas	9,010	(489)	8,521	8
Indefinite-lived intangible assets				
Direct sales license	27,867		27,867	
	<u>\$ 40,963</u>		<u>\$ 38,269</u>	
Estimated Amortization Expense:				
2016	1,535			
2017	1,535			
2018	1,535			
2019	1,535			
2020	1,378			
Thereafter	2,884			
	<u>\$ 10,402</u>			

Aggregate amortization of intangible assets for the years ended 2013, 2014, and 2015 was \$897, \$431, and \$900, respectively.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE G—OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	January 3, 2015	January 2, 2016
Associate incentives	\$ 34,297	\$ 38,852
Accrued employee compensation	18,360	24,489
Income taxes	4,110	5,561
Sales taxes	9,643	10,109
Deferred tax liabilities	5,268	4,434
Associate promotions	1,982	2,712
Deferred revenue	15,717	17,637
Provision for returns and allowances	718	521
Accrued purchases of property and equipment	1,805	6,863
All other	9,026	10,191
	<u>\$ 100,926</u>	<u>\$ 121,369</u>

NOTE H—LINE OF CREDIT

The Company has a \$75,000 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. Part of the credit agreement is that any existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$4,575, and \$4,153 reduction in the available borrowing limit as of January 3, 2015 and January 2, 2016, respectively, 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 balance on this line of credit at January 3, 2015 or at January 2, 2016. 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 I—COMMITMENTS AND CONTINGENCIES

1. *Operating leases*

With the exception of the Company's Salt Lake City headquarters, Australian facility, Beijing, China and Tianjin, China facility, facilities are generally leased. Each of the facility lease agreements is a non-cancelable operating lease generally structured with renewal options and expires prior to or

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE 1—COMMITMENTS AND CONTINGENCIES (Continued)

during 2020. The Company utilizes equipment under non-cancelable operating leases, expiring through 2019. The minimum commitments under operating leases at January 2, 2016 are as follows:

Year ending	
2016	\$ 10,552
2017	9,263
2018	6,481
2019	2,684
2020	987
Thereafter	<u> </u>
	<u>\$ 29,967</u>

These leases generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. Such expenses are not included in the operating lease amounts outlined in the table above or in the rent expense amounts that follow. The total rent expense for the years ended 2013, 2014, and 2015 was approximately \$9,254, \$11,129, and \$10,503, respectively.

The Company has other unconditional purchase obligations relating to capital projects and advertising agreements of \$14,758 that will be paid in the next year.

2. *Contingencies*

The Company is involved in various lawsuits, claims, and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company records a liability when a particular contingency is probable and estimable. The Company has not accrued for any contingency at January 2, 2016 as the Company does not consider any contingency to be probable nor estimable. The Company faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated. 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 the Company's financial condition, liquidity or results of operations.

In August 2014, a purported shareholder derivative lawsuit was filed in the Third Judicial District Court of Salt Lake County, State of Utah (James Robert Rawcliffe v. Robert Anciaux, et al.) against certain of our directors and officers. The derivative complaint, which also names USANA as a nominal defendant but is asserted on USANA's behalf, contains claims of breach of fiduciary duty, waste of corporate assets and unjust enrichment against the defendant directors and officers in connection with certain equity awards granted by the Compensation Committee of the Company's Board of Directors in February 2014. In October 2014, The Company filed a motion to dismiss the complaint and, in March 2015, the court granted that motion and dismissed the complaint without prejudice. In May 2015, the plaintiffs filed an appeal with the Utah Supreme Court. The Supreme Court remanded The Company's case to the Utah Court of Appeals, which recently issued a briefing schedule for the parties. The Company believes that the claims in the complaint are without merit and will continue to vigorously defend this suit. The Company continues to believe, based on information currently available, that the

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE I—COMMITMENTS AND CONTINGENCIES (Continued)

final outcome of this suit will not have a material adverse effect on the Company's business, results of operations or consolidated financial position.

3. *Employee Benefit Plan*

The Company sponsors an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers employees who are at least 18 years of age and have met a one-month service requirement. The Company makes a matching contribution equal to 100 percent of the first one percent of a participant's compensation that is contributed by the participant, and 50 percent of that deferral that exceeds one percent of the participant's compensation, not to exceed six percent of the participant's compensation, subject to the limits of ERISA. In addition, the Company may make a discretionary contribution based on earnings. The Company's matching contributions cliff vest at two years of service. Contributions made by the Company to the plan in the United States for the years ended 2013, 2014, and 2015 were \$1,149, \$1,324, and \$1,458, respectively.

NOTE J—EQUITY-BASED COMPENSATION

Equity-based compensation expense for fiscal years 2013, 2014, and 2015 was \$7,624, \$9,805, and \$11,081 respectively. The related tax benefit for these periods was \$2,575, \$3,308, and \$3,766, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of January 2, 2016. This table does not include an estimate for future grants that may be issued.

2016	\$ 17,856
2017	16,744
2018	14,024
2019	8,889
2020+	943
	<u>\$ 58,456</u>

The cost above is expected to be recognized over a weighted-average period of 3.4 years.

Following Company shareholder approval in May of 2015, the Company adopted its 2015 Equity Incentive Award Plan (the "2015 Plan") to replace its 2006 Equity Incentive Award Plan (the "2006 Plan"), which is set to expire in April of 2016. Similar to the 2006 Plan, the 2015 Plan allows for the grant of various equity awards including stock-settled stock appreciation rights, stock options, deferred stock units, and other types of equity-based awards to the Company's officers, key employees, and non-employee directors. Since its inception 10,000 shares had been authorized under the 2006 Plan. As of January 2, 2016, a total of 6,920 awards had been granted under the 2006 Plan, of which 6,798 were stock-settled stock appreciation rights, 8 were stock options, and 114 were deferred stock units. Also, as of January 2, 2016, a total of 1,166 awards had been forfeited and added back to the number of shares available for issuance under the 2006 Plan. No further awards will be issued under the 2006 Plan. Under the 2015 Plan, 5,000 shares have been authorized. As of January 2, 2016, a total of 1,005 awards

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE J—EQUITY-BASED COMPENSATION (Continued)

had been issued under the 2015 Plan, all of which have been in the form of stock-settled stock appreciation rights. Of the 1,005 awards issued under the 2015 Plan, 50 awards have been forfeited and added back to the number of shares available for issuance under the 2015 Plan.

General terms of awards issued under the 2015 Plan are similar in nature to those issued under the 2006 Plan. The Company's Compensation Committee utilizes two types of vesting methods when granting awards to officers and key employees based upon the nature of the grant. Awards granted to officers and key employees upon hire or promotion to such a position will generally vest 20% each year on the anniversary of the grant date and expire five and one-half years from the date of grant. Awards granted as a supplement to existing equity awards held by officers and key employees vest each year beginning on the first grant date anniversary following the final vesting of previous grants. The expiration of these supplemental awards is generally within 12 months following the last vest date of such award. Awards of stock options and stock-settled stock appreciation rights to be granted to non-employee directors generally vest 25% each quarter, commencing on the first vest date anniversary following the final vesting of the previous award. The expiration of these awards is generally within 12 months following the last vest date of the previous award. Awards of deferred stock units are full-value shares at the date of grant, vesting over the periods of service, and do not have expiration dates. Beginning in 2015, new grants of stock-settled stock appreciation rights became subject to a mandatory post-vesting holding requirement of 10% of the shares derived upon exercise for the sooner of five years following the exercise or at such time the grantee no longer qualifies as a participant under the Plan. As a result of this requirement, the Company has included an illiquidity discount in the fair value calculation of these awards.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value, net of illiquidity discount, of stock-settled stock appreciation rights that were granted in 2013, 2014, and 2015 was \$17.59, \$18.91, and \$46.99, respectively.

Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date of grant and have been excluded from the table below.

	Year ended		
	2013	2014	2015
Expected volatility(1)	41.9 %	40.2 %	44.0%
Risk-free interest rate(2)	0.7 %	1.2 %	1.3%
Expected life(3)	3.9 yrs.	3.6 yrs.	3.8 yrs.
Expected dividend yield(4)	0.0 %	0.0 %	0.0%
Weighted-average exercise price(5)	\$ 53.83	\$ 60.61	\$ 135.41

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE J—EQUITY-BASED COMPENSATION (Continued)

- (3) Depending upon the terms of the award, one of two methods will be used to calculate expected life:
- (i) a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period, or (ii) the simplified method.
- (4) The Company historically has not paid and currently has no plan to pay dividends.
- (5) Exercise price is the closing price of the Company's common stock on the date of grant.

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

	Shares	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value*
Outstanding at January 3, 2015	1,555	\$ 49.20	2.9	\$ 82,564
Granted	1,135	135.41		
Exercised	(442)	37.93		
Forfeited	(73)	102.12		
Expired	—	—		
Outstanding at January 2, 2016	<u>2,175</u>	\$ 94.68	3.3	\$ 83,475
Exercisable at January 2, 2016	<u>121</u>	\$ 45.26	1.8	\$ 9,998

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at January 3, 2015, and January 2, 2016, was \$102.28 and \$127.75, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised was \$32,837 in 2013, \$51,795 in 2014, and \$41,548 in 2015. The Company currently has no deferred stock units that are nonvested.

The total fair value of equity awards that vested during fiscal years 2013, 2014, and 2015 was \$8,096, \$7,568, and \$7,184, respectively. This total fair value includes equity-based awards issued in the form of stock-settled stock appreciation rights.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K—SEGMENT INFORMATION

USANA operates 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^m"). As such, management aggregates its operating segments into one reportable segment as management believes that the Company's segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. 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.

	Year Ended		
	2013	2014	2015
USANA® Nutritionals	80%	79%	81%
USANA Foods	11%	13%	11%
Sensé—beautiful science®	6%	7%	7%

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

- Asia Pacific—
 - Greater China—Hong Kong, Taiwan and China⁽¹⁾
 - Southeast Asia Pacific—Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia⁽²⁾
 - North Asia—Japan and South Korea
- Americas and Europe—United States, Canada, Mexico, Colombia⁽³⁾, the United Kingdom, France, Belgium, and the Netherlands.

(1) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

(2) The Company commenced operations in Indonesia in the fourth quarter of 2015.

(3) The Company commenced operations in Colombia at the beginning of the third quarter of 2013.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K—SEGMENT INFORMATION (Continued)

Selected Financial Information

Financial information, presented by geographic region is listed below:

	Year Ended		
	2013	2014	2015
Net Sales to External Customers			
Asia Pacific			
Greater China	\$ 271,812	\$ 326,134	\$ 441,284
Southeast Asia Pacific	155,362	177,940	183,828
North Asia	29,319	32,667	39,751
Asia Pacific Total	<u>456,493</u>	<u>536,741</u>	<u>664,863</u>
Americas and Europe	261,682	253,730	253,636
Consolidated Total	<u>\$ 718,175</u>	<u>\$ 790,471</u>	<u>\$ 918,499</u>

	January 3, 2015	January 2, 2016
Long-lived Assets		
Asia Pacific		
Greater China	\$ 83,471	\$ 94,792
Southeast Asia Pacific	14,175	13,463
North Asia	1,621	1,938
Asia Pacific Total	<u>99,267</u>	<u>110,193</u>
Americas and Europe	54,457	58,936
Consolidated Total	<u>\$ 153,724</u>	<u>\$ 169,129</u>
Total Assets		
Asia Pacific		
Greater China	\$ 154,153	\$ 231,018
Southeast Asia Pacific	38,404	40,038
North Asia	5,622	6,695
Asia Pacific Total	<u>198,179</u>	<u>277,751</u>
Americas and Europe	152,405	145,486
Consolidated Total	<u>\$ 350,584</u>	<u>\$ 423,237</u>

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE K—SEGMENT INFORMATION (Continued)

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

	Year Ended		
	2013	2014	2015
Net sales:			
China	\$ 106,710	\$ 216,842	\$ 371,737
United States	\$ 157,543	\$ 143,669	\$ 141,758
Hong Kong	\$ 132,285	N/A	N/A
Long-lived Assets:			
China		\$ 81,704	\$ 92,835
United States		\$ 53,322	\$ 57,797

NOTE L—QUARTERLY FINANCIAL RESULTS (Unaudited)

The following table summarizes quarterly financial information for fiscal years 2014 and 2015.

2014	First	Second	Third	Fourth
	Net sales	\$ 182,401	\$ 188,256	\$ 191,944
Gross profit	\$ 148,573	\$ 153,391	\$ 157,359	\$ 190,354
Net earnings	\$ 16,537	\$ 19,301	\$ 19,498	\$ 21,300
Earnings per share:				
Basic	\$ 1.19	\$ 1.40	\$ 1.51	\$ 1.75
Diluted	\$ 1.15	\$ 1.36	\$ 1.47	\$ 1.65
2015	First	Second	Third	Fourth
Net sales	\$ 219,378	\$ 233,244	\$ 233,292	\$ 232,585
Gross profit	\$ 181,014	\$ 193,155	\$ 192,244	\$ 192,404
Net earnings	\$ 19,680	\$ 25,416	\$ 25,609	\$ 23,967
Earnings per share:				
Basic	\$ 1.56	\$ 1.99	\$ 1.99	\$ 1.89
Diluted	\$ 1.50	\$ 1.92	\$ 1.92	\$ 1.83

NOTE M—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 based on the time they were outstanding in any period. 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

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE M—EARNINGS PER SHARE (Continued)

under the treasury stock method include equity awards that are in-the-money but have not yet been exercised.

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net earnings available to common shareholders	\$ 79,024	\$ 76,636	\$ 94,672
Weighted average common shares outstanding—basic	13,695	13,221	12,730
Dilutive effect of in-the-money equity awards	509	468	447
Weighted average common shares outstanding—diluted	14,204	13,689	13,177
Earnings per common share from net earnings—basic	\$ 5.77	\$ 5.80	\$ 7.44
Earnings per common share from net earnings—diluted	\$ 5.56	\$ 5.60	\$ 7.18

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	344	287	393

During the years ended 2013, 2014, and 2015, the Company repurchased and retired 414 shares for \$18,085, 1,927 shares for \$138,819, and 457 shares for \$61,181, respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

NOTE N—RELATED-PARTY TRANSACTIONS

The Company's Founder and Chairman of the Board, Myron W. Wentz, PhD is the sole beneficial owner of the largest shareholder of the Company, Gull Global, Ltd. As of January 2, 2016, Gull Global, Ltd. owned 51.39% of the Company's issued and outstanding shares. Dr. Wentz devotes much of his personal time, expertise, and resources to a number of business and professional activities outside of USANA. The most significant of these is the Sanoviv Medical Institute, which is a unique, fully integrated health and wellness center located near Rosarito, Mexico that Dr. Wentz founded in 1998. Dr. Wentz's private entity, Sanoviv S.A. de C.V. ("Sanoviv"), contracts with Medicis, S.C. ("Medicis"), an entity that is owned and operated independently of Dr. Wentz, to conduct the operations of the Sanoviv Medical Institute. Sanoviv leases the medical building to Medicis and Medicis carries out all of the operations of the medical institute, which include employing all of the medical and healthcare professionals who provide services at the medical institute. The Medicis medical and

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

NOTE N—RELATED-PARTY TRANSACTIONS (Continued)

healthcare professionals possess expertise in the fields of human health, digestive health, nutritional medicine, lifestyle medicine and other medical fields that are important to USANA.

Medicis performs research and development of novel product formulations for future development and production by USANA, and they also perform research and development of improvements in existing USANA product formulations. In addition to providing contract research services, Medicis provides physicians and other medical staff to speak at USANA Associate events. Finally, Medicis performs health assessments and physical examinations for the Company's Executives. In consideration for these services, USANA paid Medicis \$381 in 2013, \$239 in 2014, and \$383 in 2015. The Company's agreements with Medicis were approved by the Audit Committee in advance of the Company's entry into the agreements. USANA's collaboration with Medicis is terminable at will by USANA at any time, without any continuing commitment by USANA.

NOTE O—SUBSEQUENT EVENTS

Subsequent to January 2, 2016, and through February 26, 2016, the Company repurchased and retired 553 shares of common stock for \$64,610, at an average market price of \$116.82 per share.

On February 19, 2016, the Company entered into an Amended and Restated Credit Agreement ("Credit Agreement"), which among other things, extends the term of the Credit Agreement to April 27, 2021. The Credit Agreement also increases the amount the Company may borrow under the credit facility from \$75,000 to up to \$125,000, through October 31, 2016. On November 1, 2016, the amount the Company may borrow under the Credit Agreement will revert to \$75,000 for the term of the agreement. The only other modification to Credit Agreement was an increase in the Company's consolidated rolling four-quarter adjusted EBITDA covenant from \$60,000 to equal to or greater than \$100,000.

Subsequent to January 2, 2016, the Company made draws on its line of credit, and on February 26, 2016, the Company had an outstanding balance of \$63,000 on this line of credit, with a weighted average rate of 1.27%. The Company will be required to pay any balance on this line of credit in full at the time of maturity in April 2021 unless the line of credit is replaced or terms are renegotiated.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Charged to other accounts</u>	<u>Deductions</u>	<u>Balance at end of period</u>
December 28, 2013					
Allowance for sales returns	717	44	—	170	591
Allowance for doubtful accounts	1,808	98	—	26	1,880
Valuation allowance—deferred tax assets	1,598	—	—	1,068	530
January 3, 2015					
Allowance for sales returns	591	194	—	67	718
Allowance for doubtful accounts	1,880	26	—	118	1,788
Valuation allowance—deferred tax assets	530	—	—	4	526
January 2, 2016					
Allowance for sales returns	718	49	—	246	521
Allowance for doubtful accounts	1,788	162	—	14	1,936
Valuation allowance—deferred tax assets	526	81	—	—	607

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EXHIBIT 21

SUBSIDIARIES

Set forth below is a list of all active subsidiaries of the Registrant, the state or other jurisdiction of incorporation or organization of each, and the names under which subsidiaries do business as of March 1, 2016.

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
USANA Canada Holding, Inc.	Delaware
USANA Health Sciences, China, Inc.	Delaware
USANA Health Sciences New Zealand, Inc.	Delaware
International Holdings, Inc.	Delaware
FMG Productions, Inc. (dba USANA Studios)	Utah
UHS Essential Health Philippines, Inc.	Utah
USANA Sense Company, Inc.	Utah
Pet Lane Inc.	Delaware
USANA Acquisition Corporation	Utah
USANA Canada Co.	Canada
USANA Australia Pty, Ltd.	Australia
USANA Health Sciences (NZ) Corporation	New Zealand
USANA Hong Kong Limited	Hong Kong
USANA Health Sciences Japan, LLC.	Japan
USANA Health Sciences Korea Ltd.	South Korea
USANA Health Sciences Singapore Pte, Ltd.	Singapore
USANA Mexico S.A. de C.V.	Mexico
Mercadotecnia Nutricional S de R.L. de C.V.	Mexico
UHS Essential Health Malaysia SND BHD	Malaysia
BabyCare Holding Ltd.	Utah / Cayman Islands
BabyCare Ltd.	People's Republic of China
Tianjin BabyCare Biological Science and Technology Ltd	People's Republic of China
Tianjin Health Resources Sales Co., Ltd	People's Republic of China
USANA Health Sciences (Thailand) Ltd	Thailand
USANA Health Sciences (France) SAS	France

USANA Asia Holding Ltd.

Singapore

USANA Health Sciences (Colombia) SAS

Colombia

PT. USANA Health Sciences Indonesia

Indonesia

Except as noted above, each subsidiary listed above is doing business under its corporate name.

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EXHIBIT 21

SUBSIDIARIES

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EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
USANA Health Sciences, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-96645, 333-128103, 333-133385, 333-174695, and 333-206070) and Form S-3 (No. 333-169946) of USANA Health Sciences, Inc. of our reports dated March 1, 2016, with respect to the consolidated balance sheets of USANA Health Sciences, Inc. as of January 2, 2016 and January 3, 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 2, 2016, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of January 2, 2016, which reports appear in the January 2, 2016 annual report on Form 10-K of USANA Health Sciences, Inc.

/s/ KPMG LLP

Salt Lake City, Utah
March 1, 2016

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EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, David A. Wentz, certify that:

1. I have reviewed this Annual Report on Form 10 K of USANA Health Sciences, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: March 1, 2016

/s/ DAVID A. WENTZ

David A. Wentz
Principal Executive Officer

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EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Paul A. Jones, certify that:

1. I have reviewed this Annual Report on Form 10-K of USANA Health Sciences, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: March 1, 2016

/s/ PAUL A. JONES

Paul A. Jones
Principal Financial and Accounting Officer

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EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

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EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Annual Report on Form 10-K of USANA Health Sciences, Inc. for the period ended January 2, 2016 as filed March 1, 2016 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: March 1, 2016

/s/ DAVID A. WENTZ

David A. Wentz
Principal Executive Officer

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Annual Report on Form 10-K of USANA Health Sciences, Inc. for the period ended January 2, 2016 as filed March 1, 2016 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: March 1, 2016

/s/ PAUL A. JONES

Paul A. Jones

Principal Financial and Accounting Officer

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EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

**Document And Entity
Information - USD (\$)**

**12 Months Ended
Jan. 02, 2016**

Feb. 26, 2016 Jul. 02, 2015

Document And Entity Information [Abstract]

<u>Document Type</u>	10-K		
<u>Amendment Flag</u>	false		
<u>Document Period End Date</u>	Jan. 02, 2016		
<u>Document Fiscal Period Focus</u>	FY		
<u>Entity Central Index Key</u>	0000896264		
<u>Entity Registrant Name</u>	USANA HEALTH SCIENCES INC		
<u>Current Fiscal Year End Date</u>	--01-02		
<u>Document Fiscal Year Focus</u>	2015		
<u>Entity Filer Category</u>	Large Accelerated Filer		
<u>Entity Current Reporting Status</u>	Yes		
<u>Entity Well-known Seasoned Issuer</u>	No		
<u>Entity Voluntary Filers</u>	No		
<u>Entity Common Stock, Shares Outstanding</u>		11,944,164	
<u>Entity Public Float</u>			\$ 832,428,673
<u>Trading Symbol</u>	usna		

Consolidated Balance Sheets
- USD (\$)
\$ in Thousands

Jan. 02, **Jan. 03,**
2016 **2015**

Current assets

<u>Cash and cash equivalents</u>	\$ 143,210	\$ 111,126
<u>Inventories</u>	66,119	45,248
<u>Prepaid expenses and other current assets</u>	34,935	34,553
<u>Total current assets</u>	244,264	190,927
<u>Property and equipment, net</u>	87,982	71,164
<u>Goodwill</u>	17,432	17,941
<u>Intangible assets, net</u>	38,269	40,952
<u>Deferred tax assets</u>	9,844	5,933
<u>Other assets</u>	25,446	23,667
<u>Total assets</u>	423,237	350,584

Current liabilities

<u>Accounts payable</u>	10,043	7,779
<u>Other current liabilities</u>	121,369	100,926
<u>Total current liabilities</u>	131,412	108,705
<u>Deferred tax liabilities</u>	9,822	10,601
<u>Other long-term liabilities</u>	1,151	1,114

Stockholders' equity

<u>Common stock, \$0.001 par value; Authorized -- 50,000 shares, issued and outstanding 12,633 as of January 3, 2015 and 12,488 as of January 2, 2016</u>	13	13
<u>Additional paid-in capital</u>	69,740	61,613
<u>Retained earnings</u>	214,875	166,406
<u>Accumulated other comprehensive income</u>	(3,776)	2,132
<u>Total stockholders' equity</u>	280,852	230,164
<u>Total liabilities and stockholder's equity</u>	\$ 423,237	\$ 350,584

Consolidated Balance Sheets
(Parenthetical) - \$ / shares
shares in Thousands

Jan. 02, 2016 Jan. 03, 2015

Consolidated Balance Sheets [Abstract]

<u>Common stock, par value</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	50,000	50,000
<u>Common stock, shares issued</u>	12,488	12,633
<u>Common stock, shares outstanding</u>	12,488	12,633

**Consolidated Statements Of
Comprehensive Income -
USD (\$)
shares in Thousands, \$ in
Thousands**

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Consolidated Statements Of Comprehensive Income [Abstract]

<u>Net sales</u>	\$ 918,499	\$ 790,471	\$ 718,175
<u>Cost of sales</u>	159,682	140,794	127,435
<u>Gross profit</u>	758,817	649,677	590,740
<u>Operating expenses:</u>			
<u>Associate incentives</u>	408,160	349,044	307,820
<u>Selling, general and administrative</u>	208,995	184,531	166,208
<u>Total operating expenses</u>	617,155	533,575	474,028
<u>Earnings from operations</u>	141,662	116,102	116,712
<u>Other income (expense):</u>			
<u>Interest income</u>	1,116	500	464
<u>Interest expense</u>	(15)	(129)	(1)
<u>Other, net</u>	(174)	(820)	(594)
<u>Other income (expense), net</u>	927	(449)	(131)
<u>Earnings before income taxes</u>	142,589	115,653	116,581
<u>Income taxes</u>	47,917	39,017	37,557
<u>Net earnings</u>	\$ 94,672	\$ 76,636	\$ 79,024
<u>Earnings per common share</u>			
<u>Basic</u>	\$ 7.44	\$ 5.80	\$ 5.77
<u>Diluted</u>	\$ 7.18	\$ 5.60	\$ 5.56
<u>Weighted average common shares outstanding</u>			
<u>Basic</u>	12,730	13,221	13,695
<u>Diluted</u>	13,177	13,689	14,204
<u>Comprehensive income:</u>			
<u>Net earnings</u>	\$ 94,672	\$ 76,636	\$ 79,024
<u>Other comprehensive income (loss), net of tax:</u>			
<u>Foreign currency translation adjustment</u>	(9,283)	(4,492)	(1,458)
<u>Tax benefit (expense) related to foreign currency translation adjustment</u>	3,375	830	316
<u>Other comprehensive income (loss), net of tax</u>	(5,908)	(3,662)	(1,142)
<u>Comprehensive income</u>	\$ 88,764	\$ 72,974	\$ 77,882

Consolidated Statement Of Stockholders' Equity - USD (\$) shares in Thousands, \$ in Thousands	Common Stock [Member]	Additional Paid-in Capital [Member]	Retained Earnings [Member]	Accumulated Other Comprehensive Income (Loss) [Member]	Total
<u>Balance, shares at Dec. 29, 2012</u>	13,821				
<u>Balance, value at Dec. 29, 2012</u>	\$ 14	\$ 43,822	\$ 134,800	\$ 6,936	\$ 185,572
<u>Net earnings</u>			79,024		79,024
<u>Other comprehensive income (loss), net of tax</u>				(1,142)	(1,142)
<u>Equity-based compensation expense</u>		7,624			\$ 7,624
<u>Common stock repurchased and retired, shares</u>	(414)				(414)
<u>Common stock repurchased and retired, value</u>		(4,284)	(13,801)		\$ (18,085)
<u>Common stock issued under equity award plans, shares</u>	479				
<u>Common stock issued under equity award plans, value</u>		454			454
<u>Tax benefit from equity award activity</u>		7,075			7,075
<u>Balance, shares at Dec. 28, 2013</u>	13,886				
<u>Balance, value at Dec. 28, 2013</u>	\$ 14	54,691	200,023	5,794	260,522
<u>Net earnings</u>			76,636		76,636
<u>Other comprehensive income (loss), net of tax</u>				(3,662)	(3,662)
<u>Equity-based compensation expense</u>		9,805			\$ 9,805
<u>Common stock repurchased and retired, shares</u>	(1,927)				(1,927)
<u>Common stock repurchased and retired, value</u>	\$ (2)	(28,564)	(110,253)		\$ (138,819)
<u>Common stock issued under equity award plans, shares</u>	674				
<u>Common stock issued under equity award plans, value</u>	\$ 1	10,969			10,970
<u>Tax benefit from equity award activity</u>		14,712			\$ 14,712
<u>Balance, shares at Jan. 03, 2015</u>	12,633				12,633
<u>Balance, value at Jan. 03, 2015</u>	\$ 13	61,613	166,406	2,132	\$ 230,164
<u>Net earnings</u>			94,672		94,672
<u>Other comprehensive income (loss), net of tax</u>				(5,908)	(5,908)
<u>Equity-based compensation expense</u>		11,081			\$ 11,081
<u>Common stock repurchased and retired, shares</u>	(457)				(457)
<u>Common stock repurchased and retired, value</u>		(14,978)	(46,203)		\$ (61,181)
<u>Common stock issued under equity award plans, shares</u>	312				
<u>Tax benefit from equity award activity</u>		12,024			\$ 12,024

<u>Balance, shares at Jan. 02, 2016</u>	12,488				12,488
<u>Balance, value at Jan. 02, 2016</u>	\$ 13	\$ 69,740	\$ 214,875	\$ (3,776)	\$ 280,852

**Consolidated Statements Of
Cash Flows - USD (\$)
\$ in Thousands**

12 Months Ended

**Jan. 02, Jan. 03, Dec. 28,
2016 2015 2013**

Cash flows from operating activities

Net earnings \$ 94,672 \$ 76,636 \$ 79,024

Adjustments to reconcile net earnings to net cash provided by (used in) operating activities

Depreciation and amortization 9,978 8,810 9,044

(Gain) loss on sale of property and equipment 3 46 (16)

Equity-based compensation expense 11,081 9,805 7,624

Excess tax benefits from equity-based payment arrangements (12,024) (14,834) (7,466)

Deferred income taxes (2,572) (1,039) 814

Changes in operating assets and liabilities:

Inventories (23,071) 1,102 (11,783)

Prepaid expenses and other assets (2,047) (3,789) (8,465)

Income tax payable related to tax benefit from equity award activity 12,024 14,712 7,075

Accounts payable 2,481 (1,337) 2,790

Other liabilities 20,941 15,073 20,252

Net cash provided by (used in) operating activities 111,466 105,185 98,893

Cash flows from investing activities

Additions to notes receivable (1,580) (4,495) (4,942)

Purchases of investment securities held-to-maturity (3,871) (8,643)

Maturities of investment securities 12,511

Proceeds from sale of property and equipment 185 10 47

Purchases of property and equipment (23,729) (20,421) (8,051)

Net cash provided by (used in) investing activities (25,124) (16,266) (21,589)

Cash flows from financing activities

Proceeds from equity awards exercised 0 10,970 454

Excess tax benefits from equity-based payment arrangements 12,024 14,834 7,466

Repurchase of common stock (61,181) (138,819) (18,085)

Borrowings on line of credit 30,000

Payments on line of credit (30,000)

Net cash provided by (used in) financing activities (49,157) (113,015) (10,165)

Effect of exchange rate changes on cash and cash equivalents (5,101) (2,121) (635)

Net increase (decrease) in cash and cash equivalents 32,084 (26,217) 66,504

Cash and cash equivalents, beginning of period 111,126 137,343 70,839

Cash and cash equivalents, end of period 143,210 111,126 137,343

Cash paid during the period for:

Interest 15 136 1

Income taxes 35,782 26,955 26,952

Non-cash investing activities:

Credits on notes receivable 966 720 \$ 198

Accrued purchases of property and equipment \$ 6,863 \$ 1,805

Summary Of Significant
Accounting Policies

12 Months Ended
Jan. 02, 2016

Summary Of Significant
Accounting Policies [Abstract]

Summary Of Significant
Accounting Policies

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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: 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, Belgium, and the Netherlands.

Principles of consolidation and basis of presentation

The accompanying Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (“US GAAP”).

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates for the Company relate to revenue recognition, inventory obsolescence, goodwill and other intangible assets, equity-based compensation, and income taxes. Actual results could differ from those estimates. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Fiscal year

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 2013 and 2015, were 52-week years. Fiscal year 2014 was a 53-week year. Fiscal year 2013 covered the period December 30, 2012 to December 28, 2013 (hereinafter 2013). Fiscal year 2014 covered the period December 29, 2013 to January 3, 2015 (hereinafter 2014). Fiscal year 2015 covered the period January 4, 2015 to January 2, 2016 (hereinafter 2015).

Fair value measurements

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 January 3, 2015 and January 2, 2016, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

		<u>Fair Value Measurements Using</u>						
		<u>Inputs</u>						
	<u>January 3, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>				
Money market funds included in cash equivalents	\$	4,833	\$	4,833	\$	-	\$	-

		<u>Fair Value Measurements Using</u>		
		<u>Inputs</u>		
	<u>January 2, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>

Money market funds included in cash equivalents	\$	14,460	\$	14,460	\$	-	\$
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There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the years ended 2014 and 2015.

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. For the years ended 2013, 2014, and 2015, there were no non-financial assets measured at fair value on a non-recurring basis.

Fair value of financial instruments

At January 3, 2015 and January 2, 2016, the Company's financial instruments include cash equivalents, 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. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates.

Translation of foreign currencies

The functional currency of the Company's foreign subsidiaries is the local currency of their country of domicile. Assets and liabilities of the foreign subsidiaries are translated into U.S. dollar amounts at month-end exchange rates. Revenue and expense accounts are translated at the weighted-average rates for the monthly accounting period to which they relate. Equity accounts are translated at historical rates. Foreign currency translation adjustments are accumulated as a component of other comprehensive income. Gains and losses from foreign currency transactions are included in the "Other, net" component of Other income (expense) in the Company's consolidated statements of comprehensive income.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents as of January 3, 2015 and January 2, 2016 consisted primarily of money market fund investments, and amounts receivable from credit card processors.

Amounts receivable from credit card processors are considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Amounts receivable from credit card processors as of January 3, 2015 and January 2, 2016 totaled \$6,209 and \$12,516, respectively.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Cash

The Company is required to maintain cash deposits with banks in certain subsidiary locations for various operating purposes. The most significant of these cash deposits relates to a deposit held at a bank in China, the balance of which was \$3,222 as of January 3, 2015, and \$3,080 as of January 2, 2016. This deposit is required for the application of direct sales licenses by the Ministry of Commerce and the State Administration for Industry & Commerce of the People's Republic of China, and will continue to be restricted during the periods while the Company holds these licenses. Restricted cash is included in the "Other assets" line item in the Company's consolidated balance sheets.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a standard costing system which approximates the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. Market value is determined using various assumptions with regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could result in an adjustment to inventory.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts regularly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts Receivable is included in "Prepaid expenses and other current assets" line item in the Company's consolidated balance sheets.

Income taxes

The Company accounts for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the differences

between the financial statement assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the "more-likely-than-not" criteria for recognition. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits in income taxes. Deferred taxes are not provided on the portion of undistributed earnings of subsidiaries outside of the United States when these earnings are considered indefinitely reinvested.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and equipment

Property and equipment are recorded at cost. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the related assets. The straight-line method of depreciation and amortization is followed for financial statement purposes. Leasehold improvements are amortized over the shorter of the life of the respective lease or the useful life of the improvements. Property and equipment are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Notes receivable

Notes receivable consists primarily of a secured loan to a third-party supplier of the Company's nutrition bars and are included in the "Other assets" line item in the Company's consolidated balance sheets. The Company has extended non-revolving credit to this supplier to allow them to acquire equipment that is necessary to manufacture the USANA nutrition bars. This relationship provides improved supply chain stability for USANA and creates a mutually beneficial relationship between the parties. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. Manufacturing credits applied during 2014 and 2015 were \$720 and \$966, respectively. There is no prepayment penalty. Notes receivable from this supplier as of January 3, 2015, and January 2, 2016, were \$8,519, and \$8,339, respectively.

The third-party supplier is considered to be a variable interest entity; however, the Company is not the primary beneficiary due to the inability to direct the activities that most significantly affect the third-party supplier's economic performance. The Company does not absorb a majority of the third-party supplier's expected losses or returns. Consequentially, the financial information of the third-party supplier is not consolidated. The maximum exposure to loss as a result of the Company's involvement with the third-party supplier is limited to the carrying value of the note receivable due from the third-party supplier.

Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets of acquired companies. Goodwill is not amortized, but rather is tested at the reporting unit level at least annually for impairment or more frequently if triggering events or changes in circumstances indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Some of these qualitative factors may include macroeconomic conditions, industry and market considerations, a change in financial performance, entity-specific events, a sustained decrease in share price, and consideration of the difference between the fair value and carrying amount of a reporting unit as determined in the most recent quantitative assessment. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a two-step quantitative impairment analysis is performed. The first step involves estimating the fair value of a reporting unit using widely-accepted valuation methodologies including the income and market approaches, which requires the use of estimates and assumptions. These estimates and assumptions include revenue growth rates, discounts rates, and determination of appropriate market comparables. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit determined in a manner similar to a purchase price allocation. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. During 2013, 2014, and 2015, no impairment of goodwill was recorded.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets

Intangible assets represent long-lived and indefinite-lived intangible assets acquired in connection with

the purchase of the Company's China subsidiary in 2010. Long-lived intangible assets are amortized over their related useful lives, using a straight-line or accelerated method consistent with the underlying expected future cash flows related to the specific intangible asset. Long-lived intangible assets are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When indicators of impairment exist, an estimate of undiscounted net cash flows is used in measuring whether the carrying amount of the asset or related asset group is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset group's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

Indefinite-lived intangible assets are not amortized; however, they are tested at least annually for impairment or more frequently if events or changes in circumstances exist that may indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, through this qualitative assessment, the conclusion is made that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, a quantitative impairment analysis is performed by comparing the indefinite-lived intangible asset's book value to its estimated fair value. The fair value for indefinite-lived intangible assets is determined through various valuation techniques, including market and income approaches as considered necessary. The amount of any impairment is measured as the difference between the carrying amount and the fair value of the impaired asset. During 2013, 2014, and 2015, no impairment of indefinite-lived intangible assets was recorded.

Self insurance

The Company is self-insured, up to certain limits, for employee group health claims. The Company has purchased stop-loss insurance on both an individual and an aggregate basis, which will reimburse the Company for individual claims in excess of \$125 and aggregate claims that are greater than 100% of projected claims. A liability is accrued for all unpaid claims. Total expense under this self insurance program was \$5,281, \$7,019 and \$7,287 in 2013, 2014 and 2015, respectively.

Common stock and additional paid-in capital

The Company records cash that it receives upon the exercise of equity awards by crediting common stock and additional paid-in capital. The Company received \$454, and \$10,970 in cash proceeds from the exercise of equity awards in 2013 and 2014, respectively. There were no cash proceeds from the exercise of equity awards in 2015. The Company also realizes an income tax benefit from the exercise of certain equity awards.

Upon exercise, the related deferred tax assets are reversed and the difference between the deferred tax assets and the realized tax benefit creates a tax windfall or shortfall that increases or decreases the additional paid-in capital pool ("APIC Pool"). If the APIC Pool is reduced to zero, additional shortfalls are treated as a current tax expense. The total tax benefit recorded in additional paid-in capital was \$7,075, \$14,712, and \$12,024, in 2013, 2014, and 2015, respectively.

The Company has a stock repurchase plan in place that has been authorized by the Board of Directors. As of January 2, 2016, \$100,000 was available to repurchase shares under this plan. The Company expended \$18,085, \$138,819, and \$61,181 to repurchase and retire shares during 2013, 2014, and 2015, respectively. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition and deferred revenue

Revenue is recognized at the estimated point of delivery of the merchandise, at which point the risks and rewards of ownership have passed to the customer. Revenue is realizable when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured.

The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders. Sales and related fees such as shipping and handling, net of applicable sales discounts, are recorded as revenue when the product is delivered and when title and the risk of ownership passes to the customer. Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. Deferred revenue is recognized at the estimated point of delivery of the merchandise. On the occasion that will-call orders are not picked up by customers, we periodically assess the likelihood that customers will exercise their contractual right to pick up orders and recognize revenue when the likelihood is estimated to be remote. Certain incentives offered on the sale of our products, including sales discounts, are classified as a reduction of revenue. Sales discounts earned under USANA's initial order reward program are considered part of a multiple element revenue arrangement and accordingly are deferred when the first order is placed and recognized as customers place their subsequent two Auto Orders. A provision for product returns and allowances is recorded and is based on historical experience. Additionally, the Company collects an annual account renewal fee from Associates that is deferred upon receipt and is recognized as income on a straight-line basis over the subsequent twelve-month period.

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, are presented on a net basis in the consolidated statements of comprehensive income (excluded from net sales).

Product return policy

All first-time product orders that are returned within the first 30 days following purchase are refunded

at 100% of the sales price. After the first order, all other returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price. This standard policy differs slightly in a few of our international markets due to the regulatory environment in those markets. According to the terms of the Associate agreement, return of product where the purchase amount exceeds one hundred dollars and was not damaged at the time of receipt by the Associate may result in cancellation of the Associate's distributorship. Depending upon the conditions under which product was returned, customers may either receive a refund based on their original form of payment, or credit on account for a product exchange. Product returns totaled approximately 0.9% of net sales in 2013, 0.8% of net sales in 2014, and 0.6% of net sales in 2015.

Shipping and handling costs

The Company's shipping and handling costs are included in cost of sales for all periods presented.

Associate incentives

Associate incentives expenses include all forms of commissions, and other incentives paid to our Associates, less commissions paid to Associates on personal purchases, which are considered a sales discount and are reported as a reduction to net sales.

Selling, general and administrative

Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate event costs, advertising and professional fees, marketing, and research and development expenses.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Equity-based compensation

The Company records compensation expense in the financial statements for equity-based awards based on the grant date fair value and an estimate of forfeitures derived from historical experience. Equity-based compensation expense is recognized under the straight-line method over the period that service is provided, which is generally the vesting term. Further information regarding equity awards can be found in Note J – Equity-Based Compensation.

Advertising

Advertising costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Advertising expense totaled \$3,650 in 2013, \$4,942 in 2014 and \$13,766 in 2015.

Research and development

Research and development costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Research and development expense totaled \$5,083 in 2013, \$5,128 in 2014 and \$6,420 in 2015.

Earnings per share

Basic earnings per common share (EPS) are based on the weighted-average number of common shares that were outstanding during each period. Diluted earnings per common share include the effect of potentially dilutive common shares calculated using the treasury stock method, which include in-the-money, equity-based awards that have been granted but have not been issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will 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. The standard also will require 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. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". This standard modifies existing consolidation guidance for reporting companies that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the impact ASU 2015-02 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement". This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as

a service contract. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact ASU 2015-05 will have on its consolidated financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory”. For entities that do not measure inventory using the last-in, first-out or retail inventory method, ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2015-11 will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”. The ASU requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted at the beginning of an interim or annual period and requires either a prospective or retrospective approach to adoption. The Company is currently evaluating the impact ASU 2015-17 will have on its consolidated financial statements.

Inventories

12 Months Ended

Jan. 02, 2016

Inventories [Abstract]

Inventories

NOTE B – INVENTORIES

Inventories consist of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Raw materials	\$ 15,127	\$ 22,529
Work in progress	7,545	8,701
Finished goods	<u>22,576</u>	<u>34,889</u>
	<u>\$ 45,248</u>	<u>\$ 66,119</u>

**Prepaid Expenses And Other
Current Assets**

**12 Months Ended
Jan. 02, 2016**

Other Assets [Abstract]

Prepaid Expenses And Other Current Assets NOTE C – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Prepaid insurance	\$ 1,507	\$ 1,727
Other prepaid expenses	3,094	3,862
Federal income taxes receivable	7,370	7,080
Miscellaneous receivables, net	3,656	4,704
Deferred commissions	3,618	3,305
Deferred tax assets	9,683	9,674
Other current assets	<u>5,625</u>	<u>4,583</u>
	<u>\$ 34,553</u>	<u>\$ 34,935</u>

Income Taxes

12 Months Ended

Jan. 02, 2016

Income Taxes [Abstract]

Income Taxes

NOTE D – INCOME TAXES

Income tax expense (benefit) included in income from net earnings consists of the following:

	Year ended		
	2013	2014	2015
Current			
Federal	\$ 26,233	\$ 22,362	\$ 17,492
State	94	1,056	464
Foreign	9,626	16,265	32,198
Total Current	35,953	39,683	50,154
Deferred			
Federal	5,507	(1,096)	(5,220)
State	(5)	(43)	(155)
Foreign	(3,898)	473	3,138
Total Deferred	1,604	(666)	(2,237)
	<u>\$ 37,557</u>	<u>\$ 39,017</u>	<u>\$ 47,917</u>

The income tax provision, as reconciled to the tax computed at the federal statutory rate of 35% for 2013, 2014, and 2015, is as follows:

	Year ended		
	2013	2014	2015
Federal income taxes at statutory rate	\$ 40,803	\$ 40,479	\$ 49,906
State income taxes, net of federal tax benefit	102	653	670
Qualified production activities deduction	(1,700)	(887)	(952)
Foreign rate differential	(890)	(603)	(461)
U.S. research credit	(206)	(293)	(425)
All other, net	(552)	(332)	(821)
	<u>\$ 37,557</u>	<u>\$ 39,017</u>	<u>\$ 47,917</u>

NOTE D – INCOME TAXES – CONTINUED

The significant categories of deferred taxes are as follows:

	January 3, 2015	January 2, 2016
Deferred tax assets		
Inventory	\$ 3,024	\$ 3,341
Accruals not currently deductible	4,427	5,892
Equity-based compensation expense	2,822	4,476
Intangible assets	10,107	9,283
Net operating losses	526	110
Accumulated other comprehensive income	-	988
Other	4,543	3,428
Gross deferred tax assets	25,449	27,518
Valuation allowance	(526)	(607)
Net deferred tax assets	<u>24,923</u>	<u>26,911</u>

Deferred tax liabilities		
Depreciation/amortization	(6,171)	(6,137)
Accumulated other comprehensive income	(1,994)	-
Prepaid expenses	(1,431)	(1,566)
Intangible assets	(10,107)	(9,283)
Other	(5,473)	(4,663)
	<u>(25,176)</u>	<u>(21,649)</u>
Gross deferred tax liabilities		
	<u>(25,176)</u>	<u>(21,649)</u>
Net deferred taxes	<u>\$ (253)</u>	<u>\$ 5,262</u>

The Components of deferred taxes, net on a jurisdiction basis are as follows:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Net current deferred tax assets	\$ 9,683	\$ 9,674
Net noncurrent deferred tax assets	5,933	9,844
Net current deferred tax liabilities	(5,268)	(4,434)
Net noncurrent deferred tax liabilities	(10,601)	(9,822)
	<u>\$ (253)</u>	<u>\$ 5,262</u>

At January 2, 2016, the Company had foreign operating loss carry forwards of approximately \$384. If these operating losses are not used, a portion of them will begin to expire in 2017. A valuation allowance of \$110 has been placed on these foreign operating loss carry forwards. The valuation allowance is determined using a more likely than not realization criteria and is based upon all available positive and negative evidence, including future reversals of temporary differences. A future increase or decrease in the current valuation allowance is not expected to impact the income tax provision due to the Company's ability to fully utilize foreign tax credits associated with taxable income in these jurisdictions.

NOTE D – INCOME TAXES – CONTINUED

The Company has not recognized a deferred tax liability for the undistributed earnings of certain of its foreign operations that arose during 2015 and in prior years as the Company considers these earnings to be indefinitely reinvested. As of January 2, 2016, the undistributed earnings of these subsidiaries was \$18,163. The repatriation of these earnings would result in a tax liability to the Company of approximately \$3,071.

The Company recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. As of January 3, 2015 and January 2, 2016, the Company had no significant unrecognized tax benefits.

From time to time, the Company is subject to federal, state, and foreign tax authority income tax examinations. The Company remains subject to income tax examinations for each of its open tax years, which extend back to 2012 under most circumstances. Certain taxing jurisdictions may provide for additional open years depending upon their statutes or if an audit is on-going.

Property And Equipment

12 Months Ended

Jan. 02, 2016

Property And Equipment

[Abstract]

Property And Equipment

NOTE E – PROPERTY AND EQUIPMENT

Cost of property and equipment and their estimated useful lives is as follows:

	<u>Years</u>	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Buildings	39.5	\$ 38,920	\$ 38,242
Laboratory and production equipment	5-7	24,864	27,027
Sound and video library	5	600	600
Computer equipment and software	3-5	30,842	34,497
Furniture and fixtures	3-5	5,354	5,214
Automobiles	3-5	327	385
Leaschold improvements	3-5	10,857	11,591
Land improvements	15	<u>2,068</u>	<u>2,052</u>
		113,832	119,608
Less accumulated depreciation and amortization		<u>64,372</u>	<u>71,030</u>
		49,460	48,578
Land		6,843	6,360
Deposits and projects in process		<u>14,861</u>	<u>33,043</u>
		<u>\$ 71,164</u>	<u>\$ 87,982</u>

Depreciation of property and equipment for the years ended 2013, 2014, and 2015 was \$8,152, \$8,414, and \$9,034, respectively.

Intangible Assets

12 Months Ended

Jan. 02, 2016

Intangible Assets [Abstract]

Intangible Assets

NOTE F – INTANGIBLE ASSETS

The Company performed its annual goodwill impairment test during the third quarter of 2015. The Company performed a qualitative assessment of each reporting unit and determined that it was not more-likely-than-not that the fair value of any reporting unit was less than its carrying amount. As a result, the two-step goodwill impairment test was not required and no impairments of goodwill were recognized in 2015.

The Company also performed its annual indefinite-lived intangible asset impairment test during the third quarter of 2015. The Company performed a qualitative assessment of the indefinite-lived intangible assets and determined that it was not more-likely-than-not that the fair value of any indefinite-lived intangible asset was less than the carrying amount. As a result, the quantitative impairment test was not required and no impairments of indefinite-lived intangible assets were recognized in 2015.

The changes in the carrying amount of goodwill are as follows:

	January 3, 2015	January 2, 2016
Balance at beginning of year:		
Gross goodwill	\$ 18,243	\$ 17,941
Accumulated impairment losses	-	-
Net goodwill as of beginning of year	18,243	17,941
Goodwill acquired during the year	-	-
Impairment loss	-	-
Currency translation adjustment	(302)	(509)
Balance as of end of year		
Gross goodwill	17,941	17,432
Accumulated impairment losses	-	-
Net goodwill as of end of year	\$ 17,941	\$ 17,432

Historically, the indefinite-lived intangible assets included the BabyCare direct sales license and BabyCare product formulas. The Company evaluates the remaining useful life of the indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. During the third quarter of 2015, a process was initiated in China to approve additional USANA products, which will limit the life of certain of the acquired BabyCare product formulas. As a result, the product formulas intangible asset was determined to no longer have an indefinite life. Accordingly, the Company began amortization of the product formulas intangible asset on a straight-line basis over its estimated remaining useful life of 8 years. Upon determining that the product formulas intangible asset no longer has an indefinite life, it was tested for impairment and no impairment was noted.

NOTE F – INTANGIBLE ASSETS – CONTINUED

	As of January 3, 2015			Weighted-aver
	Gross carrying amount	Accumulated amortization	Net carrying amount	amortization period (year)
Amortized intangible assets				
Trade name and trademarks	\$ 4,274	\$ (1,898)	\$ 2,376	10
Indefinite-lived intangible assets				
Product formulas	9,425		9,425	
Direct sales license	29,151		29,151	
	38,576		38,576	
	\$ 42,850		\$ 40,952	

	As of January 2, 2016			Weighted- average
	Gross carrying amount	Accumulated amortization	Net carrying amount	amortization period (years)
Amortized intangible assets				
Trade name and trademarks	\$ 4,086	\$ (2,205)	\$ 1,881	10
Product formulas	9,010	(489)	8,521	8
Indefinite-lived intangible assets				
Direct sales license	27,867		27,867	
	<u>\$ 40,963</u>		<u>\$ 38,269</u>	

Estimated Amortization
Expense:

2016	1,535
2017	1,535
2018	1,535
2019	1,535
2020	1,378
Thereafter	2,884
	<u>\$ 10,402</u>

Aggregate amortization of intangible assets for the years ended 2013, 2014, and 2015 was \$897, \$431, and \$900, respectively.

Other Current Liabilities

12 Months Ended

Jan. 02, 2016

Other Current Liabilities [Abstract]

Other Current Liabilities

NOTE G – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Associate incentives	\$ 34,297	\$ 38,852
Accrued employee compensation	18,360	24,489
Income taxes	4,110	5,561
Sales taxes	9,643	10,109
Deferred tax liabilities	5,268	4,434
Associate promotions	1,982	2,712
Deferred revenue	15,717	17,637
Provision for returns and allowances	718	521
Accrued purchases of property and equipment	1,805	6,863
All other	<u>9,026</u>	<u>10,191</u>
	<u>\$ 100,926</u>	<u>\$ 121,369</u>

Line Of Credit

12 Months Ended

Jan. 02, 2016

Line Of Credit [Abstract]

Line Of Credit

NOTE H – LINE OF CREDIT

The Company has a \$75,000 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. Part of the credit agreement is that any existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$4,575, and \$4,153 reduction in the available borrowing limit as of January 3, 2015 and January 2, 2016, respectively, 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 balance on this line of credit at January 3, 2015 or at January 2, 2016. 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.

**Commitments And
Contingencies**

**12 Months Ended
Jan. 02, 2016**

**Commitments And
Contingencies [Abstract]**

Commitments And Contingencies NOTE I – COMMITMENTS AND CONTINGENCIES

1. Operating leases

With the exception of the Company's Salt Lake City headquarters, Australian facility, Beijing, China and Tianjin, China facility, facilities are generally leased. Each of the facility lease agreements is a non-cancelable operating lease generally structured with renewal options and expires prior to or during 2020. The Company utilizes equipment under non cancelable operating leases, expiring through 2019. The minimum commitments under operating leases at January 2, 2016 are as follows:

Year ending	
2016	\$ 10,552
2017	9,263
2018	6,481
2019	2,684
2020	987
Thereafter	-
	<u>\$ 29,967</u>

NOTE I – COMMITMENTS AND CONTINGENCIES - CONTINUED

These leases generally provide that property taxes, insurance, and maintenance expenses are the responsibility of the Company. Such expenses are not included in the operating lease amounts outlined in the table above or in the rent expense amounts that follow. The total rent expense for the years ended 2013, 2014, and 2015 was approximately \$9,254, \$11,129, and \$10,503, respectively.

The Company has other unconditional purchase obligations relating to capital projects and advertising agreements of \$14,758 that will be paid in the next year.

2. Contingencies

The Company is involved in various lawsuits, claims, and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company records a liability when a particular contingency is probable and estimable. The Company has not accrued for any contingency at January 2, 2016 as the Company does not consider any contingency to be probable nor estimable. The Company faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated. 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 the Company's financial condition, liquidity or results of operations.

In August 2014, a purported shareholder derivative lawsuit was filed in the Third Judicial District Court of Salt Lake County, State of Utah (James Robert Rawcliffe v. Robert Anciaux, et al.) against certain of our directors and officers. The derivative complaint, which also names USANA as a nominal defendant but is asserted on USANA's behalf, contains claims of breach of fiduciary duty, waste of corporate assets and unjust enrichment against the defendant directors and officers in connection with certain equity awards granted by the Compensation Committee of the Company's Board of Directors in February 2014. In October 2014, The Company filed a motion to dismiss the complaint and, in March 2015, the court granted that motion and dismissed the complaint without prejudice. In May 2015, the plaintiffs filed an appeal with the Utah Supreme Court. The Supreme Court remanded The Company's case to the Utah Court of Appeals, which recently issued a briefing schedule for the parties. The Company believes that the claims in the complaint are without merit and will continue to vigorously defend this suit. The Company continues to believe, based on information currently available, that the final outcome of this suit will not have a material adverse effect on the Company's business, results of operations or consolidated financial position.

3. Employee Benefit Plan

The Company sponsors an employee benefit plan under Section 401(k) of the Internal Revenue Code. This plan covers employees who are at least 18 years of age and have met a one-month service requirement. The Company makes a matching contribution equal to 100 percent of the first one percent of a participant's compensation that is contributed by the participant, and 50 percent of that deferral that exceeds one percent of the participant's compensation, not to exceed six percent of the participant's compensation, subject to the limits of ERISA. In addition, the Company may make a discretionary contribution based on earnings. The Company's matching contributions cliff vest at two years of service. Contributions made by the Company to the plan in the United States for the years ended 2013, 2014, and 2015 were \$1,149, \$1,324, and \$1,458, respectively.

Equity Based Compensation

12 Months Ended

Jan. 02, 2016

Equity Based Compensation

[Abstract]

Equity Based Compensation

NOTE J – EQUITY-BASED COMPENSATION

Equity-based compensation expense for fiscal years 2013, 2014, and 2015 was \$7,624, \$9,805, and \$11,081 respectively. The related tax benefit for these periods was \$2,575, \$3,308, and \$3,766, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of January 2, 2016. This table does not include an estimate for future grants that may be issued.

2016	\$	17,856
2017		16,744
2018		14,024
2019		8,889
2020+		943
	\$	<u>58,456</u>

The cost above is expected to be recognized over a weighted-average period of 3.4 years.

Following Company shareholder approval in May of 2015, the Company adopted its 2015 Equity Incentive Award Plan (the “2015 Plan”) to replace its 2006 Equity Incentive Award Plan (the “2006 Plan”), which is set to expire in April of 2016. Similar to the 2006 Plan, the 2015 Plan allows for the grant of various equity awards including stock-settled stock appreciation rights, stock options, deferred stock units, and other types of equity-based awards to the Company’s officers, key employees, and non-employee directors. Since its inception 10,000 shares had been authorized under the 2006 Plan. As of January 2, 2016, a total of 6,920 awards had been granted under the 2006 Plan, of which 6,798 were stock-settled stock appreciation rights, 8 were stock options, and 114 were deferred stock units. Also, as of January 2, 2016, a total of 1,166 awards had been forfeited and added back to the number of shares available for issuance under the 2006 Plan. No further awards will be issued under the 2006 Plan. Under the 2015 Plan, 5,000 shares have been authorized. As of January 2, 2016, a total of 1,005 awards had been issued under the 2015 Plan, all of which have been in the form of stock-settled stock appreciation rights. Of the 1,005 awards issued under the 2015 Plan, 50 awards have been forfeited and added back to the number of shares available for issuance under the 2015 Plan.

General terms of awards issued under the 2015 Plan are similar in nature to those issued under the 2006 Plan. The Company’s Compensation Committee utilizes two types of vesting methods when granting awards to officers and key employees based upon the nature of the grant. Awards granted to officers and key employees upon hire or promotion to such a position will generally vest 20% each year on the anniversary of the grant date and expire five and one-half years from the date of grant. Awards granted as a supplement to existing equity awards held by officers and key employees vest each year beginning on the first grant date anniversary following the final vesting of previous grants. The expiration of these supplemental awards is generally within 12 months following the last vest date of such award. Awards of stock options and stock-settled stock appreciation rights to be granted to non-employee directors generally vest 25% each quarter, commencing on the first vest date anniversary following the final vesting of the previous award. The expiration of these awards is generally within 12 months following the last vest date of the previous award. Awards of deferred stock units are full-value shares at the date of grant, vesting over the periods of service, and do not have expiration dates. Beginning in 2015, new grants of stock-settled stock appreciation rights became subject to a mandatory post-vesting holding requirement of 10% of the shares derived upon exercise for the sooner of five years following the exercise or at such time the grantee no longer qualifies as a participant under the Plan. As a result of this requirement, the Company has included an illiquidity discount in the fair value calculation of these awards.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value, net of illiquidity discount, of stock-settled stock appreciation rights that were granted in 2013, 2014, and 2015 was \$17.59, \$18.91, and \$46.99, respectively.

NOTE J – EQUITY-BASED COMPENSATION - CONTINUED

Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date grant and have been excluded from the table below.

	Year ended		
	2013	2014	2015
Expected volatility (1)	41.9%	40.2%	44.0%

Risk-free interest rate (2)	0.7%	1.2%	1.3%
Expected life (3)	3.9 yrs.	3.6 yrs.	3.8 yrs.
Expected dividend yield (4)	0.0%	0.0%	0.0%
Weighted-average exercise price (5)	\$53.83	\$60.61	\$135.41

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, one of two methods will be used to calculate expected life:

(i) a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period, or (ii) the simplified method.

(4) The Company historically has not paid and currently has no plan to pay dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

	Shares	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value*
Outstanding at January 3, 2015	1,555	\$ 49.20	2.9	\$ 82,564
Granted	1,135	135.41		
Exercised	(442)	37.93		
Forfeited	(73)	102.12		
Expired	-	-		
Outstanding at January 2, 2016	<u>2,175</u>	\$ 94.68	3.3	\$ 83,475
Exercisable at January 2, 2016	<u>121</u>	\$ 45.26	1.8	\$ 9,998

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at January 3, 2015, and January 2, 2016, was \$102.28 and \$127.75, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised was \$32,837 in 2013, \$51,795 in 2014, and \$41,548 in 2015. The Company currently has no deferred stock units that are nonvested.

The total fair value of equity awards that vested during fiscal years 2013, 2014, and 2015 was \$8,096, \$7,568, and \$7,184, respectively. This total fair value includes equity-based awards issued in the form of stock-settled stock appreciation rights.

Segment Information

12 Months Ended

Jan. 02, 2016

Segment Information

[Abstract]

Segment Information

NOTE K – SEGMENT INFORMATION

USANA operates 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 aggregates its operating segments into one reportable segment as management believes that the Company’s segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. 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.

	Year Ended		
	2013	2014	2015
USANA® Nutritionals	80%	79%	81%
USANA Foods	11%	13%	11%
Sensé – beautiful science®	6%	7%	7%

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

- Asia Pacific –
 - Greater China – Hong Kong, Taiwan and China⁽¹⁾
 - Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia⁽²⁾
 - North Asia – Japan and South Korea
- Americas and Europe – United States, Canada, Mexico, Colombia⁽³⁾, the United Kingdom, France, Belgium, and the Netherlands.

⁽¹⁾ The Company’s business in China is that of BabyCare, its wholly-owned subsidiary.

⁽²⁾ The Company commenced operations in Indonesia in the fourth quarter of 2015.

⁽³⁾ The Company commenced operations in Colombia at the beginning of the third quarter of 2013.

NOTE K – SEGMENT INFORMATION – CONTINUED

Selected Financial Information

Financial information, presented by geographic region is listed below:

	Year Ended		
	2013	2014	2015
Net Sales to External Customers			
Asia Pacific			
Greater China	\$ 271,812	\$ 326,134	\$ 441,284
Southeast Asia Pacific	155,362	177,940	183,828
North Asia	29,319	32,667	39,751
Asia Pacific Total	456,493	536,741	664,863
Americas and Europe	261,682	253,730	253,636
Consolidated Total	<u>\$ 718,175</u>	<u>\$ 790,471</u>	<u>\$ 918,499</u>

	January 3, 2015	January 2, 2016
Long-lived Assets		
Asia Pacific		

Greater China	\$	83,471	\$	94,792
Southeast Asia Pacific		14,175		13,463
North Asia		1,621		1,938
Asia Pacific Total		<u>99,267</u>		<u>110,193</u>
Americas and Europe		54,457		58,936
Consolidated Total	\$	<u>153,724</u>	\$	<u>169,129</u>
Total Assets				
Asia Pacific				
Greater China	\$	154,153	\$	231,018
Southeast Asia Pacific		38,404		40,038
North Asia		5,622		6,695
Asia Pacific Total		<u>198,179</u>		<u>277,751</u>
Americas and Europe		152,405		145,486
Consolidated Total	\$	<u>350,584</u>	\$	<u>423,237</u>

NOTE K – SEGMENT INFORMATION – CONTINUED

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

	Year Ended		
	2013	2014	2015
Net sales:			
China	\$ 106,710	\$ 216,842	\$ 371,737
United States	\$ 157,543	\$ 143,669	\$ 141,758
Hong Kong	\$ 132,285	N/A	N/A
Long-lived Assets:			
China	\$ 81,704	\$ 81,704	\$ 92,835
United States	\$ 53,322	\$ 53,322	\$ 57,797

Quarterly Financial Results

12 Months Ended

Jan. 02, 2016

Quarterly Financial Results

[Abstract]

Quarterly Financial Results

NOTE L – QUARTERLY FINANCIAL RESULTS (Unaudited)

The following table summarizes quarterly financial information for fiscal years 2014 and 2015.

<u>2014</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	\$ 182,401	\$ 188,256	\$ 191,944	\$ 227,870
Gross profit	\$ 148,573	\$ 153,391	\$ 157,359	\$ 190,354
Net earnings	\$ 16,537	\$ 19,301	\$ 19,498	\$ 21,300
Earnings per share:				
Basic	\$ 1.19	\$ 1.40	\$ 1.51	\$ 1.75
Diluted	\$ 1.15	\$ 1.36	\$ 1.47	\$ 1.65
<u>2015</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	\$ 219,378	\$ 233,244	\$ 233,292	\$ 232,585
Gross profit	\$ 181,014	\$ 193,155	\$ 192,244	\$ 192,404
Net earnings	\$ 19,680	\$ 25,416	\$ 25,609	\$ 23,967
Earnings per share:				
Basic	\$ 1.56	\$ 1.99	\$ 1.99	\$ 1.89
Diluted	\$ 1.50	\$ 1.92	\$ 1.92	\$ 1.83

Earnings Per Share

12 Months Ended

Jan. 02, 2016

Earnings Per Share | Abstract |

Earnings Per Share

NOTE M – 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 based on the time they were outstanding in any period. 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.

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net earnings available to common shareholders	\$ 79,024	\$ 76,636	\$ 94,672
Weighted average common shares outstanding - basic	13,695	13,221	12,730
Dilutive effect of in-the-money equity awards	509	468	447
Weighted average common shares outstanding - diluted	<u>14,204</u>	<u>13,689</u>	<u>13,177</u>
Earnings per common share from net earnings - basic	<u>\$ 5.77</u>	<u>\$ 5.80</u>	<u>\$ 7.44</u>
Earnings per common share from net earnings - diluted	<u>\$ 5.56</u>	<u>\$ 5.60</u>	<u>\$ 7.18</u>

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	344	287	393

During the years ended 2013, 2014, and 2015, the Company repurchased and retired 414 shares for \$18,085, 1,927 shares for \$138,819, and 457 shares for \$61,181, respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

Related Party Transactions

12 Months Ended

Jan. 02, 2016

Related Party Transactions

[Abstract]

Related Party Transactions

NOTE N – RELATED-PARTY TRANSACTIONS

The Company's Founder and Chairman of the Board, Myron W. Wentz, PhD is the sole beneficial owner of the largest shareholder of the Company, Gull Global, Ltd. As of January 2, 2016, Gull Global, Ltd. owned 51.39% of the Company's issued and outstanding shares. Dr. Wentz devotes much of his personal time, expertise, and resources to a number of business and professional activities outside of USANA. The most significant of these is the Sanoviv Medical Institute, which is a unique, fully integrated health and wellness center located near Rosarito, Mexico that Dr. Wentz founded in 1998. Dr. Wentz's private entity, Sanoviv S.A. de C.V. ("Sanoviv"), contracts with Medicis, S.C. ("Medicis"), an entity that is owned and operated independently of Dr. Wentz, to conduct the operations of the Sanoviv Medical Institute. Sanoviv leases the medical building to Medicis and Medicis carries out all of the operations of the medical institute, which include employing all of the medical and healthcare professionals who provide services at the medical institute. The Medicis medical and healthcare professionals possess expertise in the fields of human health, digestive health, nutritional medicine, lifestyle medicine and other medical fields that are important to USANA.

Medicis performs research and development of novel product formulations for future development and production by USANA, and they also perform research and development of improvements in existing USANA product formulations. In addition to providing contract research services, Medicis provides physicians and other medical staff to speak at USANA Associate events. Finally, Medicis performs health assessments and physical examinations for the Company's Executives. In consideration for these services, USANA paid Medicis \$381 in 2013, \$239 in 2014, and \$383 in 2015. The Company's agreements with Medicis were approved by the Audit Committee in advance of the Company's entry into the agreements. USANA's collaboration with Medicis is terminable at will by USANA at any time, without any continuing commitment by USANA.

Subsequent Events

12 Months Ended

Jan. 02, 2016

Subsequent Events [Abstract]

Subsequent Events

NOTE O – SUBSEQUENT EVENTS

Subsequent to January 2, 2016, and through February 26, 2016, the Company repurchased and retired 553 shares of common stock for \$64,610, at an average market price of \$116.82 per share.

On February 19, 2016, the Company entered into an Amended and Restated Credit Agreement (“Credit Agreement”), which among other things, extends the term of the Credit Agreement to April 27, 2021. The Credit Agreement also increases the amount the Company may borrow under the credit facility from \$75,000 to up to \$125,000, through October 31, 2016. On November 1, 2016, the amount the Company may borrow under the Credit Agreement will revert to \$75,000 for the term of the agreement. The only other modification to Credit Agreement was an increase in the Company’s consolidated rolling four-quarter adjusted EBITDA covenant from \$60,000 to equal to or greater than \$100,000.

Subsequent to January 2, 2016, the Company made draws on its line of credit, and on February 26, 2016, the Company had an outstanding balance of \$63,000 on this line of credit, with a weighted average rate of 1.27%. The Company will be required to pay any balance on this line of credit in full at the time of maturity in April 2021 unless the line of credit is replaced or terms are renegotiated.

Valuation And Qualifying
Accounts

12 Months Ended
Jan. 02, 2016

Valuation and Qualifying Accounts

[Abstract]

Schedule II - Valuation And Qualifying
Accounts

Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
December 28, 2013					
Allowance for sales returns	717	44	-	170	591
Allowance for doubtful accounts	1,808	98	-	26	1,880
Valuation allowance - deferred tax assets	1,598	-	-	1,068	530
January 3, 2015					
Allowance for sales returns	591	194	-	67	718
Allowance for doubtful accounts	1,880	26	-	118	1,788
Valuation allowance - deferred tax assets	530	-	-	4	526
January 2, 2016					
Allowance for sales returns	718	49	-	246	521
Allowance for doubtful accounts	1,788	162	-	14	1,936
Valuation allowance - deferred tax assets	526	81	-	-	607

**Summary Of Significant
Accounting Policies (Policy)**

**12 Months Ended
Jan. 02, 2016**

**Summary Of Significant
Accounting Policies [Abstract]**

**Principles Of Consolidation And
Basis Of Presentation**

Principles of consolidation and basis of presentation

The accompanying Consolidated Financial Statements include the accounts and operations of USANA Health Sciences, Inc. and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("US GAAP").

Use Of Estimates

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates for the Company relate to revenue recognition, inventory obsolescence, goodwill and other intangible assets, equity-based compensation, and income taxes. Actual results could differ from those estimates. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Fiscal Year

Fiscal year

The Company operates on a 52-53 week year, ending on the Saturday closest to December 31. Fiscal years 2013 and 2015, were 52-week years. Fiscal year 2014 was a 53-week year. Fiscal year 2013 covered the period December 30, 2012 to December 28, 2013 (hereinafter 2013). Fiscal year 2014 covered the period December 29, 2013 to January 3, 2015 (hereinafter 2014). Fiscal year 2015 covered the period January 4, 2015 to January 2, 2016 (hereinafter 2015).

Fair Value Measurements

Fair value measurements

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 January 3, 2015 and January 2, 2016, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

		<u>Fair Value Measurements Using</u>			
		<u>Inputs</u>			
		<u>January 3, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds included in cash equivalents	\$	4,833 \$	4,833 \$	- \$	-

		<u>Fair Value Measurements Using</u>			
		<u>Inputs</u>			
		<u>January 2, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds included in cash equivalents	\$	14,460 \$	14,460 \$	- \$	-

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the years ended 2014 and 2015.

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. For the years ended 2013, 2014, and 2015, there were no non-financial assets measured at fair value on a non-recurring basis.

Fair Value Of Financial Instruments

Fair value of financial instruments

At January 3, 2015 and January 2, 2016, the Company's financial instruments include cash equivalents, 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. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates.

Translation Of Foreign Currencies

Translation of foreign currencies

The functional currency of the Company's foreign subsidiaries is the local currency of their country of domicile. Assets and liabilities of the foreign subsidiaries are translated into U.S. dollar amounts at month-end exchange rates. Revenue and expense accounts are translated at the weighted-average rates for the monthly accounting period to which they relate. Equity accounts are translated at historical rates. Foreign currency translation adjustments are accumulated as a component of other comprehensive income. Gains and losses from foreign currency transactions are included in the "Other, net" component of Other income (expense) in the Company's consolidated statements of comprehensive income.

Cash And Cash Equivalents

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Cash equivalents as of January 3, 2015 and January 2, 2016 consisted primarily of money market fund investments, and amounts receivable from credit card processors.

Amounts receivable from credit card processors are considered cash equivalents because they are both short-term and highly liquid in nature and are typically converted to cash within three days of the sales transaction. Amounts receivable from credit card processors as of January 3, 2015 and January 2, 2016 totaled \$6,209 and \$12,516, respectively.

Restricted Cash

Restricted Cash

The Company is required to maintain cash deposits with banks in certain subsidiary locations for various operating purposes. The most significant of these cash deposits relates to a deposit held at a bank in China, the balance of which was \$3,222 as of January 3, 2015, and \$3,080 as of January 2, 2016. This deposit is required for the application of direct sales licenses by the Ministry of Commerce and the State Administration for Industry & Commerce of the People's Republic of China, and will continue to be restricted during the periods while the Company holds these licenses. Restricted cash is included in the "Other assets" line item in the Company's consolidated balance sheets.

Inventories

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a standard costing system which approximates the first-in, first-out method. The components of inventory cost include raw materials, labor, and overhead. Market value is determined using various assumptions with regard to excess or slow-moving inventories, non-conforming inventories, expiration dates, current and future product demand, production planning, and market conditions. A change in any of these variables could result in an adjustment to inventory.

Accounts Receivable

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts regularly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts Receivable is included in "Prepaid expenses and other current assets" line item in the Company's consolidated balance sheets.

Income Taxes

Income taxes

The Company accounts for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the differences between the financial statement assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. The Company evaluates the probability of realizing the future benefits of its deferred tax assets and provides a valuation allowance for the portion of any deferred tax assets where the likelihood of realizing an income tax benefit in the future does not meet the "more-likely-than-not" criteria for recognition. The Company recognizes tax benefits from uncertain tax

positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits in income taxes. Deferred taxes are not provided on the portion of undistributed earnings of subsidiaries outside of the United States when these earnings are considered indefinitely reinvested.

Property And Equipment

Property and equipment

Property and equipment are recorded at cost. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the related assets. The straight-line method of depreciation and amortization is followed for financial statement purposes. Leasehold improvements are amortized over the shorter of the life of the respective lease or the useful life of the improvements. Property and equipment are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Notes Receivable

Notes receivable

Notes receivable consists primarily of a secured loan to a third-party supplier of the Company's nutrition bars and are included in the "Other assets" line item in the Company's consolidated balance sheets. The Company has extended non-revolving credit to this supplier to allow them to acquire equipment that is necessary to manufacture the USANA nutrition bars. This relationship provides improved supply chain stability for USANA and creates a mutually beneficial relationship between the parties. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. Manufacturing credits applied during 2014 and 2015 were \$720 and \$966, respectively. There is no prepayment penalty. Notes receivable from this supplier as of January 3, 2015, and January 2, 2016, were \$8,519, and \$8,339, respectively.

The third-party supplier is considered to be a variable interest entity; however, the Company is not the primary beneficiary due to the inability to direct the activities that most significantly affect the third-party supplier's economic performance. The Company does not absorb a majority of the third-party supplier's expected losses or returns. Consequentially, the financial information of the third-party supplier is not consolidated. The maximum exposure to loss as a result of the Company's involvement with the third-party supplier is limited to the carrying value of the note receivable due from the third party supplier.

Goodwill

Goodwill

Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets of acquired companies. Goodwill is not amortized, but rather is tested at the reporting unit level at least annually for impairment or more frequently if triggering events or changes in circumstances indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Some of these qualitative factors may include macroeconomic conditions, industry and market considerations, a change in financial performance, entity-specific events, a sustained decrease in share price, and consideration of the difference between the fair value and carrying amount of a reporting unit as determined in the most recent quantitative assessment. If, through this qualitative assessment, the conclusion is made that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a two-step quantitative impairment analysis is performed. The first step involves estimating the fair value of a reporting unit using widely-accepted valuation methodologies including the income and market approaches, which requires the use of estimates and assumptions. These estimates and assumptions include revenue growth rates, discounts rates, and determination of appropriate market comparables. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test is performed to measure the amount of the impairment loss. In the second step, the implied fair value of the goodwill is estimated as the fair value of the reporting unit as determined in step one, less fair values of all other net tangible and intangible assets of the reporting unit determined in a manner similar to a purchase price allocation. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. During 2013, 2014, and 2015, no impairment of goodwill was recorded.

Intangible Assets

Intangible assets

Intangible assets represent long-lived and indefinite-lived intangible assets acquired in connection with the purchase of the Company's China subsidiary in 2010. Long-lived intangible assets are amortized over their related useful lives, using a straight-line or accelerated method consistent with the underlying expected future cash flows related to the specific intangible asset. Long-lived intangible assets are reviewed for impairment whenever events or changes in circumstances exist that indicate the carrying amount of an asset may not be recoverable. When indicators of impairment exist, an estimate of undiscounted net cash flows is used in measuring whether the carrying amount of the asset or related asset group is recoverable. Measurement of the amount of impairment, if any, is based upon the difference between the asset group's carrying value and estimated fair value. Fair value is determined through various valuation techniques, including market and income approaches as considered necessary.

Indefinite-lived intangible assets are not amortized; however, they are tested at least annually for

impairment or more frequently if events or changes in circumstances exist that may indicate impairment. Initially, qualitative factors are considered to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, through this qualitative assessment, the conclusion is made that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount, a quantitative impairment analysis is performed by comparing the indefinite-lived intangible asset's book value to its estimated fair value. The fair value for indefinite-lived intangible assets is determined through various valuation techniques, including market and income approaches as considered necessary. The amount of any impairment is measured as the difference between the carrying amount and the fair value of the impaired asset. During 2013, 2014, and 2015, no impairment of indefinite-lived intangible assets was recorded.

Self Insurance

Self insurance

The Company is self-insured, up to certain limits, for employee group health claims. The Company has purchased stop-loss insurance on both an individual and an aggregate basis, which will reimburse the Company for individual claims in excess of \$125 and aggregate claims that are greater than 100% of projected claims. A liability is accrued for all unpaid claims. Total expense under this self insurance program was \$5,281, \$7,019 and \$7,287 in 2013, 2014 and 2015, respectively.

Common Stock And Additional Paid-In Capital

Common stock and additional paid-in capital

The Company records cash that it receives upon the exercise of equity awards by crediting common stock and additional paid-in capital. The Company received \$454, and \$10,970 in cash proceeds from the exercise of equity awards in 2013 and 2014, respectively. There were no cash proceeds from the exercise of equity awards in 2015. The Company also realizes an income tax benefit from the exercise of certain equity awards.

Upon exercise, the related deferred tax assets are reversed and the difference between the deferred tax assets and the realized tax benefit creates a tax windfall or shortfall that increases or decreases the additional paid-in capital pool ("APIC Pool"). If the APIC Pool is reduced to zero, additional shortfalls are treated as a current tax expense. The total tax benefit recorded in additional paid-in capital was \$7,075, \$14,712, and \$12,024, in 2013, 2014, and 2015, respectively.

The Company has a stock repurchase plan in place that has been authorized by the Board of Directors. As of January 2, 2016, \$100,000 was available to repurchase shares under this plan. The Company expended \$18,085, \$138,819, and \$61,181 to repurchase and retire shares during 2013, 2014, and 2015, respectively. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Revenue Recognition And Deferred Revenue

Revenue recognition and deferred revenue

Revenue is recognized at the estimated point of delivery of the merchandise, at which point the risks and rewards of ownership have passed to the customer. Revenue is realizable when the following four criteria are met: persuasive evidence of a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured.

The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders. Sales and related fees such as shipping and handling, net of applicable sales discounts, are recorded as revenue when the product is delivered and when title and the risk of ownership passes to the customer. Payments received for undelivered products are recorded as deferred revenue and are included in other current liabilities. Deferred revenue is recognized at the estimated point of delivery of the merchandise. On the occasion that will-call orders are not picked up by customers, we periodically assess the likelihood that customers will exercise their contractual right to pick up orders and recognize revenue when the likelihood is estimated to be remote. Certain incentives offered on the sale of our products, including sales discounts, are classified as a reduction of revenue. Sales discounts earned under USANA's initial order reward program are considered part of a multiple element revenue arrangement and accordingly are deferred when the first order is placed and recognized as customers place their subsequent two Auto Orders. A provision for product returns and allowances is recorded and is based on historical experience. Additionally, the Company collects an annual account renewal fee from Associates that is deferred upon receipt and is recognized as income on a straight-line basis over the subsequent twelve-month period.

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, are presented on a net basis in the consolidated statements of comprehensive income (excluded from net sales).

Product Return Policy

Product return policy

All first-time product orders that are returned within the first 30 days following purchase are refunded at 100% of the sales price. After the first order, all other returned product that is unused and resalable is refunded up to one year from the date of purchase at 100% of the sales price. This standard policy differs slightly in a few of our international markets due to the regulatory environment in those markets. According to the terms of the Associate agreement, return of product where the purchase amount exceeds one hundred dollars and was not damaged at the time of receipt by the Associate may result in cancellation of the Associate's distributorship. Depending upon the conditions under which product was returned, customers may either receive a refund based on their original form of payment, or credit on account for a product exchange. Product returns totaled approximately 0.9% of net sales in 2013, 0.8% of net sales in 2014, and 0.6% of net sales in 2015.

Shipping And Handling Costs

Shipping and handling costs

The Company's shipping and handling costs are included in cost of sales for all periods presented.

Associate Incentives

Associate incentives

Associate incentives expenses include all forms of commissions, and other incentives paid to our Associates, less commissions paid to Associates on personal purchases, which are considered a sales discount and are reported as a reduction to net sales.

Selling, General And Administrative

Selling, general and administrative

Selling, general and administrative expenses include wages and benefits, depreciation and amortization, rents and utilities, Associate event costs, advertising and professional fees, marketing, and research and development expenses.

Equity-based Compensation

Equity-based compensation

The Company records compensation expense in the financial statements for equity-based awards based on the grant date fair value and an estimate of forfeitures derived from historical experience. Equity-based compensation expense is recognized under the straight-line method over the period that service is provided, which is generally the vesting term. Further information regarding equity awards can be found in Note J – Equity-Based Compensation.

Advertising

Advertising

Advertising costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Advertising expense totaled \$3,650 in 2013, \$4,942 in 2014 and \$13,766 in 2015.

Research And Development

Research and development

Research and development costs are charged to expense as incurred and are presented as part of selling, general and administrative expense. Research and development expense totaled \$5,083 in 2013, \$5,128 in 2014 and \$6,420 in 2015.

Earnings Per Share

Earnings per share

Basic earnings per common share (EPS) are based on the weighted-average number of common shares that were outstanding during each period. Diluted earnings per common share include the effect of potentially dilutive common shares calculated using the treasury stock method, which include in-the-money, equity-based awards that have been granted but have not been issued.

Recent Accounting Pronouncements

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will 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. The standard also will require 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. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis". This standard modifies existing consolidation guidance for reporting companies that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the impact ASU 2015-02 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement". This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact ASU 2015-05 will have on its consolidated

financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory”. For entities that do not measure inventory using the last-in, first-out or retail inventory method, ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2015-11 will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”. The ASU requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted at the beginning of an interim or annual period and requires either a prospective or retrospective approach to adoption. The Company is currently evaluating the impact ASU 2015-17 will have on its consolidated financial statements.

**Summary Of Significant
Accounting Policies (Tables)**

**12 Months Ended
Jan. 02, 2016**

Summary Of Significant Accounting Policies
[Abstract]
Schedule Of Assets And Liabilities Measured At
Fair Value

		<u>Fair Value Measurements Using</u>			
		<u>Inputs</u>			
		<u>January 3, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds included in cash equivalents	\$	4,833	\$ 4,833	\$ -	-

		<u>Fair Value Measurements Using</u>			
		<u>Inputs</u>			
		<u>January 2, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds included in cash equivalents	\$	14,460	\$ 14,460	\$ -	-

Inventories (Tables)

12 Months Ended

Jan. 02, 2016

Inventories [Abstract]

Schedule Of Inventories

Inventories consist of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Raw materials	S 15,127	S 22,529
Work in progress	7,545	8,701
Finished goods	<u>22,576</u>	<u>34,889</u>
	<u>S 45,248</u>	<u>S 66,119</u>

Prepaid Expenses And Other
Current Assets (Tables)

12 Months Ended
Jan. 02, 2016

Other Assets [Abstract]

Schedule Of Prepaid Expenses And Other Current
Assets

Prepaid expenses and other current assets consist
of the following:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Prepaid insurance	\$ 1,507	\$ 1,727
Other prepaid expenses	3,094	3,862
Federal income taxes receivable	7,370	7,080
Miscellaneous receivables, net	3,656	4,704
Deferred commissions	3,618	3,305
Deferred tax assets	9,683	9,674
Other current assets	<u>5,625</u>	<u>4,583</u>
	<u>\$ 34,553</u>	<u>\$ 34,935</u>

Income Taxes (Tables)

12 Months Ended

Jan. 02, 2016

Income Taxes [Abstract]

Schedule Of Income Tax Expense (Benefit)

Income tax expense (benefit) included in income from net earnings consists of the following:

	Year ended		
	2013	2014	2015
Current			
Federal	\$ 26,233	\$ 22,362	\$ 17,492
State	94	1,056	464
Foreign	<u>9,626</u>	<u>16,265</u>	<u>32,198</u>
Total Current	35,953	39,683	50,154
Deferred			
Federal	5,507	(1,096)	(5,220)
State	(5)	(43)	(155)
Foreign	<u>(3,898)</u>	<u>473</u>	<u>3,138</u>
Total Deferred	1,604	(666)	(2,237)
	<u>\$ 37,557</u>	<u>\$ 39,017</u>	<u>\$ 47,917</u>

Reconciliation Of Income Tax Provision

The income tax provision, as reconciled to the tax computed at the federal statutory rate of 35% for 2013, 2014, and 2015, is as follows:

	Year ended		
	2013	2014	2015
Federal income taxes at statutory rate	\$ 40,803	\$ 40,479	\$ 49,906
State income taxes, net of federal tax benefit	102	653	670
Qualified production activities deduction	(1,700)	(887)	(952)
Foreign rate differential	(890)	(603)	(461)
U.S. research credit	(206)	(293)	(425)
All other, net	<u>(552)</u>	<u>(332)</u>	<u>(821)</u>
	<u>\$ 37,557</u>	<u>\$ 39,017</u>	<u>\$ 47,917</u>

Schedule Of Deferred Taxes

The significant categories of deferred taxes are as follows:

	January 3,	January 2,
	2015	2016
Deferred tax assets		
Inventory	\$ 3,024	\$ 3,341
Accruals not currently deductible	4,427	5,892
Equity-based compensation expense	2,822	4,476
Intangible assets	10,107	9,283
Net operating losses	526	110
Accumulated other comprehensive income	-	988
Other	<u>4,543</u>	<u>3,428</u>
Gross deferred tax assets	25,449	27,518
Valuation allowance	<u>(526)</u>	<u>(607)</u>
Net deferred tax assets	<u>24,923</u>	<u>26,911</u>
Deferred tax liabilities		
Depreciation/amortization	(6,171)	(6,137)

Accumulated other comprehensive income	(1,994)	-
Prepaid expenses	(1,431)	(1,566)
Intangible assets	(10,107)	(9,283)
Other	<u>(5,473)</u>	<u>(4,663)</u>
Gross deferred tax liabilities	<u>(25,176)</u>	<u>(21,649)</u>
Net deferred taxes	<u>\$ (253)</u>	<u>\$ 5,262</u>

The Components of deferred taxes, net on a jurisdiction basis are as follows:

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Net current deferred tax assets	\$ 9,683	\$ 9,674
Net noncurrent deferred tax assets	5,933	9,844
Net current deferred tax liabilities	(5,268)	(4,434)
Net noncurrent deferred tax liabilities	<u>(10,601)</u>	<u>(9,822)</u>
Net deferred taxes	<u>\$ (253)</u>	<u>\$ 5,262</u>

**Property And Equipment
(Tables)**

**12 Months Ended
Jan. 02, 2016**

**Property And Equipment [Abstract]
Schedule Of Property And Equipment**

Cost of property and equipment and their estimated useful lives is as follows:

	<u>Years</u>		<u>January 3, 2015</u>	<u>January 2, 2016</u>
Buildings	39.5	\$	38,920	\$ 38,242
Laboratory and production equipment	5-7		24,864	27,027
Sound and video library	5		600	600
Computer equipment and software	3-5		30,842	34,497
Furniture and fixtures	3-5		5,354	5,214
Automobiles	3-5		327	385
Leasehold improvements	3-5		10,857	11,591
Land improvements	15		<u>2,068</u>	<u>2,052</u>
			113,832	119,608
Less accumulated depreciation and amortization			<u>64,372</u>	<u>71,030</u>
			49,460	48,578
Land			6,843	6,360
Deposits and projects in process			<u>14,861</u>	<u>33,043</u>
		\$	<u>71,164</u>	<u>87,982</u>

Intangible Assets (Tables)

**12 Months Ended
Jan. 02, 2016**

Intangible Assets [Abstract]

Schedule Of Goodwill

	<u>January 3, 2015</u>	<u>January 2, 2016</u>
Balance at beginning of year:		
Gross goodwill	\$ 18,243	\$ 17,941
Accumulated impairment losses	-	-
Net goodwill as of beginning of year	<u>18,243</u>	<u>17,941</u>
Goodwill acquired during the year	-	-
Impairment loss	-	-
Currency translation adjustment	<u>(302)</u>	<u>(509)</u>
Balance as of end of year		
Gross goodwill	17,941	17,432
Accumulated impairment losses	-	-
Net goodwill as of end of year	<u>\$ 17,941</u>	<u>\$ 17,432</u>

Schedule Of Finite And Indefinite Lived
Intangible Assets

	<u>As of January 3, 2015</u>			Weighted- average amortization period (year)
	Gross carrying amount	Accumulated amortization	Net carrying amount	
Amortized intangible assets				
Trade name and trademarks	\$ 4,274	\$ (1,898)	\$ 2,376	10
Indefinite-lived intangible assets				
Product formulas	9,425		9,425	
Direct sales license	<u>29,151</u>		<u>29,151</u>	
	38,576		38,576	
	<u>\$ 42,850</u>		<u>\$ 40,952</u>	

	<u>As of January 2, 2016</u>			Weighted- average amortization period (years)
	Gross carrying amount	Accumulated amortization	Net carrying amount	
Amortized intangible assets				
Trade name and trademarks	\$ 4,086	\$ (2,205)	\$ 1,881	10
Product formulas	9,010	(489)	8,521	8
Indefinite-lived intangible assets				
Direct sales license	<u>27,867</u>		<u>27,867</u>	
	<u>\$ 40,963</u>		<u>\$ 38,269</u>	

Schedule Of Estimated Amortization
Expense

Estimated Amortization
Expense:

2016	1,535
2017	1,535
2018	1,535
2019	1,535
2020	1,378
Thereafter	<u>2,884</u>
	<u>S 10,402</u>

Other Current Liabilities
(Tables)

12 Months Ended
Jan. 02, 2016

Other Current Liabilities [Abstract]

Schedule Of Other Current Liabilities

Other current liabilities consist of the following:

	<u>January 3,</u> <u>2015</u>	<u>January 2,</u> <u>2016</u>
Associate incentives	\$ 34,297	\$ 38,852
Accrued employee compensation	18,360	24,489
Income taxes	4,110	5,561
Sales taxes	9,643	10,109
Deferred tax liabilities	5,268	4,434
Associate promotions	1,982	2,712
Deferred revenue	15,717	17,637
Provision for returns and allowances	718	521
Accrued purchases of property and equipment	1,805	6,863
All other	9,026	10,191
	<u>\$ 100,926</u>	<u>\$ 121,369</u>

**Commitments And
Contingencies (Tables)**

**12 Months Ended
Jan. 02, 2016**

Commitments And Contingencies [Abstract]

Schedule Of Minimum Rental Payments For Operating Leases

Year ending		
2016	\$	10,552
2017		9,263
2018		6,481
2019		2,684
2020		987
Thereafter		-
	\$	<u>29,967</u>

**Equity-Based Compensation
(Tables)**

**12 Months Ended
Jan. 02, 2016**

Equity Based Compensation [Abstract]

Schedule Of Remaining Unrecognized Compensation

<u>Expense For Unvested Awards</u>	2016	\$ 17,856
	2017	16,744
	2018	14,024
	2019	8,889
	2020+	943
		<u>\$ 58,456</u>

The cost above is expected to be recognized over a weighted-average period of 3.4 years.

Schedule Of Fair Value Assumptions

	<u>Year ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Expected volatility (1)	41.9%	40.2%	44.0%
Risk-free interest rate (2)	0.7%	1.2%	1.3%
Expected life (3)	3.9 yrs.	3.6 yrs.	3.8 yrs.
Expected dividend yield (4)	0.0%	0.0%	0.0%
Weighted-average exercise price (5)	\$53.83	\$60.61	\$135.41

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, one of two methods will be used to calculate expected life:

(i) a weighted-average that includes historical settlement data of the Company's equity awards and a

hypothetical holding period, or (ii) the simplified method.

(4) The Company historically has not paid and currently has no plan to pay dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

Schedule Of Stock Option Activity

	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term</u>	<u>Aggregate intrinsic value*</u>
Outstanding at January 3, 2015	1,555	\$ 49.20	2.9	\$ 82,564
Granted	1,135	135.41		
Exercised	(442)	37.93		
Forfeited	(73)	102.12		
Expired	-	-		
Outstanding at January 2, 2016	<u>2,175</u>	\$ 94.68	3.3	\$ 83,475
Exercisable at January 2, 2016	<u>121</u>	\$ 45.26	1.8	\$ 9,998

Segment Information (Tables)

12 Months Ended

Jan. 02, 2016

Segment Information [Abstract]

Schedule Of Revenue Percentage By Product

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
USANA* Nutritionals	80%	79%	81%
USANA Foods	11%	13%	11%
Sensé – beautiful science*	6%	7%	7%

Schedule Of Revenues From External Customers By Geographical Areas

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net Sales to External Customers			
Asia Pacific			
Greater China	\$ 271,812	\$ 326,134	\$ 441,284
Southeast Asia Pacific	155,362	177,940	183,828
North Asia	29,319	32,667	39,751
Asia Pacific Total	456,493	536,741	664,863
Americas and Europe	261,682	253,730	253,636
Consolidated Total	\$ 718,175	\$ 790,471	\$ 918,499

Schedule of Disclosure on Geographic Areas, Long-Lived Assets in Individual Foreign Countries by Country [Table Text Block]

	<u>January 3,</u>	<u>January 2,</u>
	<u>2015</u>	<u>2016</u>
Long-lived Assets		
Asia Pacific		
Greater China	\$ 83,471	\$ 94,792
Southeast Asia Pacific	14,175	13,463
North Asia	1,621	1,938
Asia Pacific Total	99,267	110,193
Americas and Europe	54,457	58,936
Consolidated Total	\$ 153,724	\$ 169,129
Total Assets		
Asia Pacific		
Greater China	\$ 154,153	\$ 231,018
Southeast Asia Pacific	38,404	40,038
North Asia	5,622	6,695
Asia Pacific Total	198,179	277,751
Americas and Europe	152,405	145,486
Consolidated Total	\$ 350,584	\$ 423,237

Consolidated Net Sales And Long Lived Assets

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net sales:			

China	\$	106,710\$	216,842\$	371,737
United States	\$	157,543\$	143,669\$	141,758
Hong Kong	\$	132,285	N/A	N/A

Long-lived Assets:

China	\$	81,704\$	92,835
United States	\$	53,322\$	57,797

**Quarterly Financial Results
(Tables)**

**12 Months Ended
Jan. 02, 2016**

Quarterly Financial Results [Abstract]

<u>Summary Of Quarterly Financial Information</u>	<u>2014</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	\$	182,401\$	188,256\$	191,944\$	227,870
Gross profit	\$	148,573\$	153,391\$	157,359\$	190,354
Net earnings	\$	16,537\$	19,301\$	19,498\$	21,300
Earnings per share:					
Basic	\$	1.19\$	1.40\$	1.51\$	1.75
Diluted	\$	1.15\$	1.36\$	1.47\$	1.65
	<u>2015</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	\$	219,378\$	233,244\$	233,292\$	232,585
Gross profit	\$	181,014\$	193,155\$	192,244\$	192,404
Net earnings	\$	19,680\$	25,416\$	25,609\$	23,967
Earnings per share:					
Basic	\$	1.56\$	1.99\$	1.99\$	1.89
Diluted	\$	1.50\$	1.92\$	1.92\$	1.83

Earnings Per Share (Tables)

12 Months Ended

Jan. 02, 2016

Earnings Per Share [Abstract]

Schedule Of Earnings Per Share

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net earnings available to common shareholders	\$ 79,024	\$ 76,636	\$ 94,672
Weighted average common shares outstanding - basic	13,695	13,221	12,730
Dilutive effect of in-the-money equity awards	509	468	447
Weighted average common shares outstanding - diluted	14,204	13,689	13,177
Earnings per common share from net earnings - basic	\$ 5.77	\$ 5.80	\$ 7.44
Earnings per common share from net earnings - diluted	\$ 5.56	\$ 5.60	\$ 7.18

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

	<u>Year Ended</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	344	287	393

Summary Of Significant Accounting Policies (Narrative) (Details)	12 Months Ended		
	Jan. 02, 2016 USD (\$) item	Jan. 03, 2015 USD (\$)	Dec. 28, 2013 USD (\$)
<u>Summary Of Significant Accounting Policies [Line Items]</u>			
<u>Geographical regions item</u>	2		
<u>Sub-geographical regions item</u>	3		
<u>Transfers of financial assets or liabilities</u>	\$ 0	\$ 0	
<u>Non-financial assets</u>	0	0	\$ 0
<u>Receivable from credit card processors</u>	12,516,000	6,209,000	
<u>Restricted cash</u>	\$ 3,080,000	3,222,000	
<u>Maturity date</u>	Feb. 01, 2024		
<u>Credits on notes receivable</u>	\$ 966,000	720,000	198,000
<u>Notes receivable</u>	8,339,000	8,519,000	
<u>Goodwill impairment</u>	0	0	0
<u>Impairment of indefinite-lived intangible assets</u>	0	0	0
<u>Amount of individual claims before reimbursement</u>	\$ 125,000		
<u>Minimum percentage of projected aggregate claims before insurance reimbursement</u>	100.00%		
<u>Self insurance program expense</u>	\$ 7,287,000	7,019,000	5,281,000
<u>Proceeds from Stock Options Exercised</u>	0	10,970,000	454,000
<u>Tax benefit from equity award activity</u>	12,024,000	14,712,000	7,075,000
<u>Amount available to repurchase under the stock repurchase plan</u>	100,000,000		
<u>Repurchase of common stock</u>	\$ 61,181,000	\$ 138,819,000	\$ 18,085,000
<u>Account renewal fee period</u>	12 months		
<u>Duration of product return for first order</u>	30 days		
<u>Percentage of sale refunded</u>	100.00%		
<u>Duration of product return</u>	1 year		
<u>Amount of returned product which could result in cancellation of distributorship</u>	\$ 100		
<u>Product return percentage of net sales</u>	0.60%	0.80%	0.90%
<u>Advertising expense</u>	\$ 13,766,000	\$ 4,942,000	\$ 3,650,000
<u>Research and development expense</u>	6,420,000	5,128,000	\$ 5,083,000
<u>Manufacturing Credits [Member]</u>			
<u>Summary Of Significant Accounting Policies [Line Items]</u>			
<u>Credits on notes receivable</u>	\$ 966,000	\$ 720,000	
<u>LIBOR [Member]</u>			
<u>Summary Of Significant Accounting Policies [Line Items]</u>			
<u>Basis point</u>	4.00%		

**Summary Of Significant
Accounting Policies (Schedule
Of Assets And Liabilities
Measured At Fair Value)
(Details) - Fair Value,
Measurements, Recurring
[Member] - USD (\$)
\$ in Thousands**

**Jan. 02,
2016 Jan. 03,
2015**

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line
Items]**

<u>Money market funds included in cash equivalents</u>	\$ 14,460	\$ 4,833
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Fair Value, Inputs, Level 1 [Member]

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line
Items]**

<u>Money market funds included in cash equivalents</u>	\$ 14,460	\$ 4,833
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Inventories (Details) - USD

(\$)

Jan. 02, 2016 Jan. 03, 2015

\$ in Thousands

Inventories [Abstract]

<u>Raw materials</u>	\$ 22,529	\$ 15,127
<u>Work in progress</u>	8,701	7,545
<u>Finished goods</u>	34,889	22,576
<u>Inventories</u>	\$ 66,119	\$ 45,248

Prepaid Expenses And Other
Current Assets (Details) -
USD (\$)
\$ in Thousands

Jan. 02, 2016 Jan. 03, 2015

Other Assets [Abstract]

<u>Prepaid insurance</u>	\$ 1,727	\$ 1,507
<u>Other prepaid expenses</u>	3,862	3,094
<u>Federal income taxes receivable</u>	7,080	7,370
<u>Miscellaneous receivables, net</u>	4,704	3,656
<u>Deferred commissions</u>	3,305	3,618
<u>Deferred tax assets</u>	9,674	9,683
<u>Other current assets</u>	4,583	5,625
<u>Prepaid expenses and other current assets</u>	\$ 34,935	\$ 34,553

Income Taxes (Narrative)
(Details) - USD (\$)
\$ in Thousands

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Income Taxes [Abstract]

<u>Federal statutory rate</u>	35.00%	35.00%	35.00%
<u>Foreign operating loss carryforward</u>	\$ 384		
<u>Operating loss carryforward valuation allowance</u>	110		
<u>Accumulated undistributed earnings of subsidiaries</u>	18,163		
<u>Deferred tax liability not recognized from undistributed earnings</u>	3,071		
<u>Significant unrecognized tax benefits</u>	\$ 0	\$ 0	

**Income Taxes (Schedule Of
Income Tax Expense
(Benefit)) (Details) - USD (\$)**
\$ in Thousands

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Income Taxes [Abstract]

<u>Current, Federal</u>	\$ 17,492	\$ 22,362	\$ 26,233
<u>Current, State</u>	464	1,056	94
<u>Current, Foreign</u>	32,198	16,265	9,626
<u>Total Current</u>	50,154	39,683	35,953
<u>Deferred, Federal</u>	(5,220)	(1,096)	5,507
<u>Deferred, State</u>	(155)	(43)	(5)
<u>Deferred, Foreign</u>	3,138	473	(3,898)
<u>Total Deferred</u>	(2,237)	(666)	1,604
<u>Income taxes</u>	\$ 47,917	\$ 39,017	\$ 37,557

**Income Taxes (Reconciliation
Of Income Tax Provision)
(Details) - USD (\$)
\$ in Thousands**

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Income Taxes [Abstract]

<u>Federal income taxes at statutory rate</u>	\$ 49,906	\$ 40,479	\$ 40,803
<u>State income taxes, net of federal tax benefit</u>	670	653	102
<u>Qualified production activities deduction</u>	(952)	(887)	(1,700)
<u>Foreign rate differential</u>	(461)	(603)	(890)
<u>U.S research credit</u>	(425)	(293)	(206)
<u>All other, net</u>	(821)	(332)	(552)
<u>Income taxes</u>	\$ 47,917	\$ 39,017	\$ 37,557

**Income Taxes (Schedule Of
Deferred Taxes By
Significant Categories)
(Details) - USD (\$)
\$ in Thousands**

Jan. 02, 2016 Jan. 03, 2015

Income Taxes [Abstract]

<u>Inventory</u>	\$ 3,341	\$ 3,024
<u>Accruals not currently deductible</u>	5,892	4,427
<u>Equity-based compensation expense</u>	4,476	2,822
<u>Intangible assets</u>	9,283	10,107
<u>Net operating losses</u>	110	526
<u>Accumulated other comprehensive income</u>	988	
<u>Other</u>	3,428	4,543
<u>Gross deferred tax assets</u>	27,518	25,449
<u>Valuation allowance</u>	(607)	(526)
<u>Net deferred tax assets</u>	26,911	24,923
<u>Depreciation/amortization</u>	(6,137)	(6,171)
<u>Accumulated other comprehensive income</u>		(1,994)
<u>Prepaid expenses</u>	(1,566)	(1,431)
<u>Intangible assets</u>	(9,283)	(10,107)
<u>Other</u>	(4,663)	(5,473)
<u>Gross deferred tax liabilities</u>	(21,649)	(25,176)
<u>Net current deferred tax assets</u>	9,674	9,683
<u>Net noncurrent deferred tax assets</u>	9,844	5,933
<u>Net current deferred tax liabilities</u>	(4,434)	(5,268)
<u>Net noncurrent deferred tax liabilities</u>	(9,822)	(10,601)
<u>Net deferred taxes</u>	\$ 5,262	
<u>Net deferred taxes</u>		\$ (253)

**Property And Equipment
(Details) - USD (\$)
\$ in Thousands**

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Property, Plant and Equipment [Line Items]

<u>Property and equipment, gross</u>	\$ 119,608	\$ 113,832	
<u>Less accumulated depreciation and amortization</u>	71,030	64,372	
<u>Property and equipment, net</u>	48,578	49,460	
<u>Property and equipment, net</u>	87,982	71,164	
<u>Depreciation</u>	\$ 9,034	8,414	\$ 8,152

Buildings [Member]

Property, Plant and Equipment [Line Items]

<u>Useful life</u>	39 years 6 months		
<u>Property and equipment, gross</u>	\$ 38,242	38,920	

Laboratory And Production Equipment [Member]

Property, Plant and Equipment [Line Items]

<u>Property and equipment, gross</u>	\$ 27,027	24,864	
<u>Sound And Video Library [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Useful life</u>	5 years		
<u>Property and equipment, gross</u>	\$ 600	600	

Computer Equipment And Software [Member]

Property, Plant and Equipment [Line Items]

<u>Property and equipment, gross</u>	34,497	30,842	
<u>Furniture And Fixtures [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Property and equipment, gross</u>	5,214	5,354	
<u>Automobiles [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Property and equipment, gross</u>	385	327	
<u>Leasehold Improvements [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Property and equipment, gross</u>	\$ 11,591	10,857	
<u>Land Improvements [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Useful life</u>	15 years		
<u>Property and equipment, gross</u>	\$ 2,052	2,068	

Land [Member]

Property, Plant and Equipment [Line Items]

<u>Property and equipment, net</u>	6,360	6,843	
<u>Deposits And Projects In Process [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Property and equipment, net</u>	\$ 33,043	\$ 14,861	
<u>Minimum [Member] Laboratory And Production Equipment [Member]</u>			

Property, Plant and Equipment [Line Items]

<u>Useful life</u>	5 years		
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Minimum [Member] | Computer Equipment And Software [Member]

Property, Plant and Equipment [Line Items]

Useful life 3 years

Minimum [Member] | Furniture And Fixtures [Member]

Property, Plant and Equipment [Line Items]

Useful life 3 years

Minimum [Member] | Automobiles [Member]

Property, Plant and Equipment [Line Items]

Useful life 3 years

Minimum [Member] | Leasehold Improvements [Member]

Property, Plant and Equipment [Line Items]

Useful life 3 years

Maximum [Member] | Laboratory And Production Equipment [Member]

Property, Plant and Equipment [Line Items]

Useful life 7 years

Maximum [Member] | Computer Equipment And Software [Member]

Property, Plant and Equipment [Line Items]

Useful life 5 years

Maximum [Member] | Furniture And Fixtures [Member]

Property, Plant and Equipment [Line Items]

Useful life 5 years

Maximum [Member] | Automobiles [Member]

Property, Plant and Equipment [Line Items]

Useful life 5 years

Maximum [Member] | Leasehold Improvements [Member]

Property, Plant and Equipment [Line Items]

Useful life 5 years

Intangible Assets (Narrative)
(Details) - USD (\$)
\$ in Thousands

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Intangible Assets [Abstract]

<u>Goodwill impairment</u>	\$ 0	\$ 0	\$ 0
<u>Impairment of indefinite-lived intangible assets</u>	0	0	0
<u>Aggregate amortization of intangible assets</u>	\$ 900	\$ 431	\$ 897
<u>Estimated remaining useful life</u>	8 years		

**Intangible Assets (Schedule
Of Goodwill) (Details) - USD**

12 Months Ended

(\$)

\$ in Thousands

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Intangible Assets [Abstract]

<u>Gross goodwill, Beginning</u>	\$ 17,941	\$ 18,243	
<u>Accumulated impairment losses, Beginning</u>	0	0	
<u>Net goodwill, Beginning Balance</u>	17,941	18,243	
<u>Goodwill acquired during the year</u>	0	0	
<u>Impairment loss</u>	0	0	\$ 0
<u>Currency translation adjustments</u>	(509)	(302)	
<u>Gross goodwill, Ending</u>	17,432	17,941	18,243
<u>Accumulated impairment losses, Ending</u>	0	0	0
<u>Net goodwill, Ending Balance</u>	\$ 17,432	\$ 17,941	\$ 18,243

**Intangible Assets (Schedule
Of Finite And Indefinite Lived
Intangible Assets) (Details) -
USD (\$)
\$ in Thousands**

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015

Schedule Of Finite and Indefinite Intangible Assets [Line Items]

<u>Amortized intangible assets, Net carrying amount</u>	\$ 10,402	
<u>Weighted-average amortization period (years)</u>	8 years	
<u>Unamortized intangible assets</u>		\$ 38,576
<u>Total, Gross carrying amount</u>	\$ 40,963	42,850
<u>Total, Net carrying amount</u>	38,269	40,952

Trade Name And Trademarks [Member]

Schedule Of Finite and Indefinite Intangible Assets [Line Items]

<u>Amortized intangible assets, Gross carrying amount</u>	4,086	4,274
<u>Accumulated amortization</u>	(2,205)	(1,898)
<u>Amortized intangible assets, Net carrying amount</u>	\$ 1,881	\$ 2,376
<u>Weighted-average amortization period (years)</u>	10 years	10 years

Product Formulas [Member]

Schedule Of Finite and Indefinite Intangible Assets [Line Items]

<u>Accumulated amortization</u>	\$ (489)	
<u>Amortized intangible assets, Net carrying amount</u>	\$ 8,521	
<u>Weighted-average amortization period (years)</u>	8 years	
<u>Unamortized intangible assets</u>	\$ 9,010	\$ 9,425

Direct Sales License [Member]

Schedule Of Finite and Indefinite Intangible Assets [Line Items]

<u>Unamortized intangible assets</u>	\$ 27,867	\$ 29,151
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**Intangible Assets (Schedule
Of Estimated Amortization
Expense) (Details)
\$ in Thousands**

**Jan. 02, 2016
USD (\$)**

Intangible Assets [Abstract]

<u>2016</u>	\$ 1,535
<u>2017</u>	1,535
<u>2018</u>	1,535
<u>2019</u>	1,535
<u>2020</u>	1,378
<u>Thereafter</u>	2,884
<u>Total estimated amortization expense</u>	\$ 10,402

Other Current Liabilities
(Details) - USD (\$)
\$ in Thousands

Jan. 02, 2016 Jan. 03, 2015

Other Current Liabilities [Abstract]

<u>Associate incentives</u>	\$ 38,852	\$ 34,297
<u>Accrued employee compensation</u>	24,489	18,360
<u>Income taxes</u>	5,561	4,110
<u>Sales taxes</u>	10,109	9,643
<u>Deferred tax liabilities</u>	4,434	5,268
<u>Associate promotions</u>	2,712	1,982
<u>Deferred revenue</u>	17,637	15,717
<u>Provision for returns and allowances</u>	521	718
<u>Accrued purchases of property and equipment</u>	6,863	1,805
<u>All other</u>	10,191	9,026
<u>Other current liabilities</u>	\$ 121,369	\$ 100,926

**Line Of Credit (Details) -
USD (\$)
\$ in Thousands**

**12 Months Ended
Jan. 02, 2016 Jan. 03, 2015**

Line Of Credit [Abstract]

<u>Credit facility</u>	\$ 75,000	
<u>Reduction in available borrowing limit</u>	4,153	\$ 4,575
<u>Outstanding debt</u>	\$ 0	\$ 0
<u>Line of credit facility, maturity date</u>	2016-04	

**Commitments And
Contingencies (Narrative)
(Details) - USD (\$)
\$ in Thousands**

	12 Months Ended		
	Jan. 02, 2016	Jan. 03, 2015	Dec. 28, 2013
<u>Commitments And Contingencies [Line Items]</u>			
<u>Total rent expense</u>	\$ 10,503	\$ 11,129	\$ 9,254
<u>Unconditional purchase obligations due in one year</u>	\$ 14,758		
<u>Minimum employee age to partake in 401(k)</u>	18 years		
<u>Requisite service period to partake in 401(k)</u>	1 month		
<u>Employers' percentage match of employee's contribution percentage</u>	100.00%		
<u>Percentage of employee's gross pay that is matched by the employer</u>	1.00%		
<u>Employers' percentage match of employee's contribution percentage over one percent</u>	50.00%		
<u>Employers' maximum contribution of employee's compensation</u>	6.00%		
<u>Requisite service in order to cliff vest</u>	2 years		
<u>Contributions made by the Company</u>	\$ 1,458	\$ 1,324	\$ 1,149
<u>Buildings [Member]</u>			
<u>Commitments And Contingencies [Line Items]</u>			
<u>Lease expiration date</u>	2020		
<u>Equipment [Member]</u>			
<u>Commitments And Contingencies [Line Items]</u>			
<u>Lease expiration date</u>	2019		

**Commitments And
Contingencies (Schedule Of
Minimum Rental Payments
For Operating Leases)
(Details)
\$ in Thousands**

**Jan. 02, 2016
USD (\$)**

Commitments And Contingencies [Abstract]

<u>2016</u>	\$ 10,552
<u>2017</u>	9,263
<u>2018</u>	6,481
<u>2019</u>	2,684
<u>2020</u>	\$ 987
<u>Thereafter</u>	
<u>Total</u>	\$ 29,967

Equity-Based Compensation (Narrative) (Details) - USD (\$) \$/ shares in Units, shares in Thousands, \$ in Thousands	12 Months Ended		
	Jan. 02, 2016	Jan. 03, 2015	Dec. 28, 2013
	<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>		
<u>Equity-based compensation expense</u>	\$ 11,081	\$ 9,805	\$ 7,624
<u>Equity-based compensation related tax benefit</u>	\$ 3,766	\$ 3,308	\$ 2,575
<u>Weighted-average grant date fair value</u>	\$ 46.99	\$ 18.91	\$ 17.59
<u>Total intrinsic value of stock options and stock-settled stock appreciation rights exercised</u>	\$ 41,548	\$ 51,795	\$ 32,837
<u>Closing Price Of Common Stock</u>	\$ 127.75	\$ 102.28	
<u>Total fair value of equity awards vested</u>	\$ 7,184	\$ 7,568	\$ 8,096
2006 Incentive Stock Plan [Member]			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Total shares authorized under the plan</u>	10,000		
<u>Additional shares authorized</u>	0		
<u>Total awards granted</u>	6,920		
<u>Awards canceled</u>	1,166		
2015 Incentive Stock Plan [Member]			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Total shares authorized under the plan</u>	5,000		
<u>Awards canceled</u>	50		
<u>Stock Appreciation Rights (SARs) [Member] 2006 Incentive Stock Plan [Member]</u>			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Total awards granted</u>	6,798		
<u>Stock Appreciation Rights (SARs) [Member] 2015 Incentive Stock Plan [Member]</u>			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Total awards granted</u>	1,005		
<u>Stock Options [Member] 2006 Incentive Stock Plan [Member]</u>			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Total awards granted</u>	8		
<u>Deferred Stock Units [Member] 2006 Incentive Stock Plan [Member]</u>			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Total awards granted</u>	114		
<u>Officers Upon Hire Or Promotion [Member] 2015 Incentive Stock Plan [Member]</u>			
<u>Share-based Compensation Arrangement by Share-based Payment Award</u> <u>[Line Items]</u>			
<u>Vesting percentage</u>	20.00%		
<u>Expiration from grant date</u>	5 years		

Officers [Member] | 2015 Incentive Stock Plan [Member]

Share-based Compensation Arrangement by Share-based Payment Award
[Line Items]

Post-vesting percentage 10.00%

Directors [Member] | 2015 Incentive Stock Plan [Member]

Share-based Compensation Arrangement by Share-based Payment Award
[Line Items]

Vesting percentage 25.00%

**Equity-Based Compensation
(Schedule Of Remaining
Unrecognized Compensation
Expense For Unvested
Awards) (Details)
\$ in Thousands**

12 Months Ended

**Jan. 02, 2016
USD (\$)**

Equity Based Compensation [Abstract]

<u>2016</u>	\$ 17,856
<u>2017</u>	16,744
<u>2018</u>	14,024
<u>2019</u>	8,889
<u>2020+</u>	943
<u>Total</u>	\$ 58,456

Unrecognized compensation expense weighted average period of recognition 3 years 4 months 24 days

**Equity-Based Compensation
(Schedule Of Fair Value
Assumptions) (Details) - \$ /
shares**

12 Months Ended

Jan. 02, 2016

Jan. 03, 2015

Dec. 28, 2013

Equity Based Compensation [Abstract]

<u>Expected volatility</u>	44.00%	40.20%	41.90%
<u>Risk-free interest rate</u>	1.30%	1.20%	0.70%
<u>Expected life</u>	3 years 9 months 18 days	3 years 7 months 6 days	3 years 10 months 24 days
<u>Expected dividend yield</u>	0.00%	0.00%	0.00%
<u>Weighted-average exercise price</u>	\$ 135.41	\$ 60.61	\$ 53.83

Equity-Based Compensation
(Schedule Of Stock Option
Activity) (Details) - USD (\$)
\$ / shares in Units, shares in
Thousands, \$ in Thousands

12 Months Ended

Jan. 02, 2016

Jan. 03, 2015

Equity Based Compensation [Abstract]

<u>Shares, Outstanding</u>	1,555	
<u>Shares, Granted</u>	1,135	
<u>Shares, Exercised</u>	(442)	
<u>Shares, Forfeited</u>	(73)	
<u>Shares, Outstanding</u>	2,175	1,555
<u>Shares, Exercisable</u>	121	
<u>Weighted-average exercise price, Outstanding</u>	\$ 49.20	
<u>Weighted-average exercise price, Granted</u>	135.41	
<u>Weighted-average exercise price, Exercised</u>	37.93	
<u>Weighted-average exercise price, Forfeited</u>	102.12	
<u>Weighted-average exercise price, Outstanding</u>	94.68	\$ 49.20
<u>Weighted-average exercise price, Exercisable</u>	\$ 45.26	
<u>Weighted-average remaining contractual term, Outstanding</u>	3 years 3 months 18 days	2 years 10 months 24 days
<u>Weighted-average remaining contractual term, Exercisable</u>	1 year 9 months 18 days	
<u>Aggregate intrinsic value, Outstanding</u>	\$ 82,564	
<u>Aggregate intrinsic value, Outstanding</u>	83,475	\$ 82,564
<u>Aggregate intrinsic value, Exercisable</u>	\$ 9,998	

**Segment Information
(Narrative) (Details)**

**12 Months Ended
Jan. 02, 2016
item
segment**

Segment Information [Abstract]

Number of reportable segments | segment 1

Sub-geographical regions | item 3

Segment Information
(Percentage Of Total Product
Revenue Contributed By
Company's Nutritional And
Care Products) (Details)

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

USANA Nutritionals [Member]

Revenue from External Customer [Line Items]

<u>Percentage of product revenue</u>	81.00%	79.00%	80.00%
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USANA Foods [Member]

Revenue from External Customer [Line Items]

<u>Percentage of product revenue</u>	11.00%	13.00%	11.00%
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Sense - Beautiful Science [Member]

Revenue from External Customer [Line Items]

<u>Percentage of product revenue</u>	7.00%	7.00%	6.00%
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Segment Information (Schedule Of Revenues From External Customers And Assets By Geographic Region) (Details) - USD (\$) \$ in Thousands	3 Months Ended						12 Months Ended				
	Jan. 02, 2016	Oct. 03, 2015	Jul. 04, 2015	Apr. 04, 2015	Jan. 03, 2015	Sep. 27, 2014	Jun. 28, 2014	Mar. 29, 2014	Jan. 02, 2016	Jan. 03, 2015	Dec. 28, 2013
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net Sales to External Customers	\$ 232,585	\$ 233,292	\$ 233,244	\$ 219,378	\$ 227,870	\$ 191,944	\$ 188,256	\$ 182,401	\$ 918,499	\$ 790,471	\$ 718,175
Greater China [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net Sales to External Customers									441,284	326,134	271,812
Southeast Asia Pacific [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net Sales to External Customers									183,828	177,940	155,362
North Asia [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net Sales to External Customers									39,751	32,667	29,319
Asia Pacific [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net Sales to External Customers									664,863	536,741	456,493
Americas And Europe [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net Sales to External Customers									\$ 253,636	\$ 253,730	\$ 261,682

Segment Information
(Schedule Of Long-Lived
Assets By Geographic
Region) (Details) - USD (\$)
\$ in Thousands

Jan. 02, 2016 Jan. 03, 2015

Revenues from External Customers and Long-Lived Assets [Line Items]

<u>Long-lived Assets</u>	\$ 169,129	\$ 153,724
<u>Assets</u>	423,237	350,584
<u>Greater China [Member]</u>		

Revenues from External Customers and Long-Lived Assets [Line Items]

<u>Long-lived Assets</u>	94,792	83,471
<u>Assets</u>	231,018	154,153
<u>Southeast Asia Pacific [Member]</u>		

Revenues from External Customers and Long-Lived Assets [Line Items]

<u>Long-lived Assets</u>	13,463	14,175
<u>Assets</u>	40,038	38,404
<u>North Asia [Member]</u>		

Revenues from External Customers and Long-Lived Assets [Line Items]

<u>Long-lived Assets</u>	1,938	1,621
<u>Assets</u>	6,695	5,622
<u>Asia Pacific [Member]</u>		

Revenues from External Customers and Long-Lived Assets [Line Items]

<u>Long-lived Assets</u>	110,193	99,267
<u>Assets</u>	277,751	198,179
<u>Americas And Europe [Member]</u>		

Revenues from External Customers and Long-Lived Assets [Line Items]

<u>Long-lived Assets</u>	58,936	54,457
<u>Assets</u>	\$ 145,486	\$ 152,405

Segment Information (Consolidated Net Sales And Long Lived Assets) (Details) - USD (\$) \$ in Thousands	3 Months Ended						12 Months Ended				
	Jan. 02, 2016	Oct. 03, 2015	Jul. 04, 2015	Apr. 04, 2015	Jan. 03, 2015	Sep. 27, 2014	Jun. 28, 2014	Mar. 29, 2014	Jan. 02, 2016	Jan. 03, 2015	Dec. 28, 2013
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net sales	\$ 232,585	\$ 233,292	\$ 233,244	\$ 219,378	\$ 227,870	\$ 191,944	\$ 188,256	\$ 182,401	\$ 918,499	\$ 790,471	\$ 718,175
Long-lived Assets	169,129				153,724				169,129	153,724	
China [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net sales									371,737	216,842	106,710
Long-lived Assets	92,835				81,704				92,835	81,704	
United States [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net sales									141,758	143,669	157,543
Long-lived Assets	\$ 57,797				\$ 53,322				57,797	53,322	
Hong Kong [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net sales											132,285
Americas And Europe [Member]											
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>											
Net sales									\$ 253,636	\$ 253,730	\$ 261,682

Quarterly Financial Results (Details) - USD (\$) \$/ shares in Units, \$ in Thousands	3 Months Ended						12 Months Ended				
	Jan. 02, 2016	Oct. 03, 2015	Jul. 04, 2015	Apr. 04, 2015	Jan. 03, 2015	Sep. 27, 2014	Jun. 28, 2014	Mar. 29, 2014	Jan. 02, 2016	Jan. 03, 2015	Dec. 28, 2013
<u>Quarterly Financial Results</u> <u>[Abstract]</u>											
<u>Net sales</u>	\$ 232,585	\$ 233,292	\$ 233,244	\$ 219,378	\$ 227,870	\$ 191,944	\$ 188,256	\$ 182,401	\$ 918,499	\$ 790,471	\$ 718,175
<u>Gross profit</u>	192,404	192,244	193,155	181,014	190,354	157,359	153,391	148,573	758,817	649,677	590,740
<u>Net income (loss)</u>	\$ 23,967	\$ 25,609	\$ 25,416	\$ 19,680	\$ 21,300	\$ 19,498	\$ 19,301	\$ 16,537	\$ 94,672	\$ 76,636	\$ 79,024
<u>Basic</u>	\$ 1.89	\$ 1.99	\$ 1.99	\$ 1.56	\$ 1.75	\$ 1.51	\$ 1.40	\$ 1.19	\$ 7.44	\$ 5.80	\$ 5.77
<u>Diluted</u>	\$ 1.83	\$ 1.92	\$ 1.92	\$ 1.50	\$ 1.65	\$ 1.47	\$ 1.36	\$ 1.15	\$ 7.18	\$ 5.60	\$ 5.56

**Earnings Per Share
(Narrative) (Details) - USD
(\$)**

12 Months Ended

**shares in Thousands, \$ in
Thousands**

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Earnings Per Share [Abstract]

<u>Shares repurchased and retired</u>	457	1,927	414
<u>Value of shares repurchased and retired</u>	\$ 61,181	\$ 138,819	\$ 18,085

Earnings Per Share (Schedule Of Earnings Per Share) (Details) - USD (\$) \$/ shares in Units, shares in Thousands, \$ in Thousands	3 Months Ended								12 Months Ended		
	Jan. 02, 2016	Oct. 03, 2015	Jul. 04, 2015	Apr. 04, 2015	Jan. 03, 2015	Sep. 27, 2014	Jun. 28, 2014	Mar. 29, 2014	Jan. 02, 2016	Jan. 03, 2015	Dec. 28, 2013
<u>Earnings Per Share [Abstract]</u>											
<u>Net earnings available to common shareholders</u>								\$	\$	\$	
								94,672	76,636	79,024	
<u>Weighted average common shares outstanding - basic</u>								12,730	13,221	13,695	
<u>Dilutive effect of in-the-money equity awards</u>								447	468	509	
<u>Weighted average common shares outstanding - diluted</u>								13,177	13,689	14,204	
<u>Earnings per common share from net earnings - basic</u>	\$ 1.89	\$ 1.99	\$ 1.99	\$ 1.56	\$ 1.75	\$ 1.51	\$ 1.40	\$ 1.19	\$ 7.44	\$ 5.80	\$ 5.77
<u>Earnings per common share from net earnings - diluted</u>	\$ 1.83	\$ 1.92	\$ 1.92	\$ 1.50	\$ 1.65	\$ 1.47	\$ 1.36	\$ 1.15	\$ 7.18	\$ 5.60	\$ 5.56
<u>Equity awards of stock excluded in computation of diluted EPS</u>								393	287	344	

Related Party Transactions
(Details) - USD (\$)
\$ in Thousands

12 Months Ended

Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013

Related Party Transactions [Abstract]

Principal owner beneficial ownership percentage 51.39%

Amount paid to Medicis \$ 383 \$ 239 \$ 381

**Valuation And Qualifying
Accounts (Details) - USD (\$)
\$ in Thousands**

**12 Months Ended
Jan. 02, 2016 Jan. 03, 2015 Dec. 28, 2013**

Allowance For Sales Returns [Member]

Valuation and Qualifying Accounts Disclosure [Line Items]

<u>Balance at beginning of period</u>	\$ 718	\$ 591	\$ 717
<u>Charged to costs and expenses</u>	\$ 49	\$ 194	\$ 44
<u>Charged to other accounts</u>			
<u>Deductions</u>	\$ 246	\$ 67	\$ 170
<u>Balance at end of period</u>	521	718	591

Allowance For Doubtful Accounts [Member]

Valuation and Qualifying Accounts Disclosure [Line Items]

<u>Balance at beginning of period</u>	1,788	1,880	1,808
<u>Charged to costs and expenses</u>	\$ 162	\$ 26	\$ 98
<u>Charged to other accounts</u>			
<u>Deductions</u>	\$ 14	\$ 118	\$ 26
<u>Balance at end of period</u>	1,936	1,788	1,880

Valuation Allowance - Deferred Tax Assets [Member]

Valuation and Qualifying Accounts Disclosure [Line Items]

<u>Balance at beginning of period</u>	526	\$ 530	\$ 1,598
<u>Charged to costs and expenses</u>	\$ 81		
<u>Charged to other accounts</u>			
<u>Deductions</u>		\$ 4	\$ 1,068
<u>Balance at end of period</u>	\$ 607	\$ 526	\$ 530

USANA HEALTH SCIENCES, INC.
2006 EQUITY INCENTIVE AWARD PLAN

STOCK-SETTLED STOCK APPRECIATION RIGHT AWARD
AGREEMENT FOR INDEPENDENT DIRECTORS

Recipient Name:
Grant Date:
Number of SSARs:
Per Share Grant Price: \$

Expiration Date: Fifth Anniversary of the Grant Date

1. Award. USANA Health Sciences, Inc. (the "Company") has awarded you the number of Stock-Settled Stock Appreciation Rights ("SSARs") indicated above, subject to the terms and conditions set forth in the Company's 2006 Equity Incentive Award Plan (the "Plan") and this Award Agreement.

2. Term and Vesting. The term of the SSARs commences on the Grant Date and ends on the Expiration Date, provided that you remain an Independent Director of the Company. In no event may the SSARs be exercised later than the Expiration Date. The SSARs shall become vested and exercisable in four equal quarterly installments of twenty five percent (25%) of the SSARs, so as to be 100% vested and exercisable on the first anniversary of the Grant Date, subject to your continued service as an Independent Director of the Company on each vesting date. If your service as an Independent Director of the Company terminates, the SSARs may be exercised only as described in paragraph 4 below.

3. Exercise of SSAR.

a. Upon exercise of the SSARs, you shall be entitled to receive a number of shares of Common Stock of the Company (the "Stock") for each share with respect to which the SSARs are exercised equal to the quotient of (i) the excess of the Fair Market Value of one share of Stock on the date of exercise over the Per Share Grant Price, divided by (ii) the Fair Market Value of one share of Stock on the date of exercise.

b. To exercise all or part of the SSARs you must deliver to the Company a "Notice of Exercise," in such form as the Company authorizes. You shall not have any rights as a shareholder of the Company with respect to the shares of Stock subject to the SSARs until you have exercised the SSARs for such shares. While you are alive, the SSARs may be exercised only by you or your legal representative.

c. Upon exercise, the number of shares of Stock issued will be reduced to satisfy the minimum statutorily required tax withholding obligations. The remaining shares of Stock will be issued to you or, in case of your death, your beneficiary designated in accordance with the procedures specified by the Committee. If at the time of your death, there is not an effective beneficiary designation on file or you are not survived by your designated beneficiary, the shares will be issued to the legal representative of your estate. Upon any exercise of the SSARs, you must furnish to the Company before the closing of such exercise such other

documents or representations as the Company may require to comply with applicable laws and regulations.

4. Termination. If you cease to be an Independent Director for any reason, all then unvested SSARs awarded hereunder shall immediately terminate without notice to you and shall be forfeited. Vested SSARs will be exercisable according to the following provisions:

a. If you cease to be an Independent Director for any reason other than retirement or Disability (which are governed by paragraph b. below), removal for Cause (which is governed by paragraph c. below) or death (which is governed by paragraph d. below), all SSARs awarded hereunder that are vested at such time shall be exercisable at any time prior to the Expiration Date.

b. If you cease to be an Independent Director on account of your retirement or Disability, all SSARs awarded hereunder that are vested at such time shall be exercisable at any time prior to the Expiration Date.

c. If you are removed as an Independent Director prior to expiration of your term for Cause (as defined below), all outstanding SSARs awarded hereunder which are not exercisable immediately prior to removal, and all outstanding SSARs awarded hereunder which are exercisable immediately prior to removal, shall terminate as of the date of removal for Cause and may not be exercised. For purposes of this Award Agreement, "Cause" shall mean (i) any act of personal dishonesty in connection with your responsibilities to the Company and intended to result in substantial personal enrichment to you, (ii) your conviction of a felony or (iii) your willful act which constitutes gross misconduct and which is injurious to the Company.

d. If your service as an Independent Director of the Company terminates by reason of your death, or if you die within the ninety day period after the date you cease to be an Independent Director of the Company for any reason other than Cause, any of your vested SSARs hereunder may be exercised by your estate, personal representative or beneficiary who has acquired the SSARs by will or by the laws of descent and distribution, at any time prior to the Expiration Date.

5. Tax Withholding. The Company will withhold from the number of shares of Stock otherwise issuable hereunder a number of

shares necessary to satisfy the minimum statutorily required tax withholding obligations. Such shares will be valued at their Fair Market Value when the taxable event occurs.

6. Transferability. The SSARs may not be transferred, pledged, assigned, hypothecated or otherwise disposed of in any way, except by will or by the laws of descent and distribution. In the event that you become legally incapacitated, the SSARs shall be exercisable by your legal guardian, committee or legal representative. If you die, the SSARs shall thereafter be exercisable by your beneficiary as designated by you in the manner prescribed by the Committee or, in the absence of an authorized beneficiary designation, by the legatee of such SSARs under your will, or by your estate in accordance with your will or the laws of descent and distribution, in each case in the same manner and to the same extent that the SSARs were exercisable by you on the date of your death. The SSARs shall not be subject to execution,

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attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the SSARs contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon the SSARs, shall be null and void and without effect.

7. Other Restrictions. The issuance of shares of Stock hereunder is subject to compliance by the Company and you with all applicable legal requirements applicable thereto, including tax withholding obligations, and with all applicable regulations of any stock exchange on which the Stock may be listed at the time of issuance. The Company may delay the issuance of shares of Stock hereunder to ensure at the time of issuance there is a registration statement for the shares in effect under the Securities Act of 1933.

8. No Employment or Continued Service. Neither the award to you of the SSARs nor the delivery to you of this Award Agreement or any other document relating to the SSARs will confer on you the right to employment with the Company or to continued service as an Independent Director.

9. No Shareholder Rights. Neither the award to you of the SSARs nor the delivery to you of this Award Agreement or any other document relating to the SSARs will entitle you to any rights of a shareholder of the Company with respect to the shares of Stock subject to this Award Agreement prior to the exercise of the SSARs and the receipt of shares of Stock in accordance with this Award Agreement.

10. No Fractional Shares. The SSARs granted hereunder may be exercised only with respect to whole shares of Stock, and no fractional share of Stock shall be issued.

11. Mergers, Reorganizations, and Certain Other Changes. In the event of the Company's liquidation, reorganization, separation, merger or consolidation into, or acquisition of property or stock by another corporation, or sale of substantially all assets to another corporation, your rights with respect to the SSARs awarded hereunder shall be governed by the Committee, as provided in the Plan.

12. Additional Provisions.

a. This Award Agreement is subject to the provisions of the Plan. A copy of the Plan is available upon request. Capitalized terms not defined in this Award Agreement are used as defined in the Plan. If the Plan and this Award Agreement are inconsistent, the provisions of the Plan will govern.

b. The Plan and this Award Agreement represent the entire agreement of you and the Company with respect to the SSARs granted pursuant to this Award Agreement and supersedes in their entirety all prior undertakings and agreements of the Company and you with respect to the subject of this Award Agreement and may not be modified except by means of a written agreement between the Company and you.

c. Interpretations of the Plan and this Award Agreement by the Committee are binding on you and the Company.

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d. Neither the Plan nor this Award Agreement shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and any other person. To the extent that any person acquires a right to receive payments from the Company pursuant to an Award Agreement, such right shall be no greater than the right of any unsecured creditor of the Company.

e. Any notice hereunder by you to the Company shall be given in writing and such notice shall be deemed duly given only upon receipt thereof by the Secretary of the Company. Any notice hereunder by the Company to you shall be given in writing and such notice shall be deemed duly given only upon receipt thereof at such address as is reflected on the then-current records of the Company.

f. This Award Agreement shall be construed and enforced in accordance with the laws of the State of Utah, without giving effect to the choice of law principles thereof.

IN WITNESS WHEREOF, the Company and the recipient of the SSARs hereunder have executed this Award Agreement effective as of the date first above written.

USANA HEALTH SCIENCES, INC.

By: _____

Name: _____
Title: _____

RECIPIENT

Signature of Participant

Print Name

Social Security Number

No. 20150852-CA

IN THE
UTAH COURT OF APPEALS

JAMES ROBERT RAWCLIFFE,

Plaintiff and Appellant,

v.

ROBERT ANCIAUX, et al.,

Defendants and Appellees.

ADDENDA C-G – VOLUME TWO

Appeal from the Third District Court, Salt Lake County, State of Utah
The Honorable Heather Brereton, District Court No. 140905252

<p>J. Ryan Mitchell (9362) Steven J. Joffe (13258) Mitchell Barlow & Mansfield, P.C. 9 Exchange Place, Suite 600 Salt Lake City, Utah 84111 rmitchell@mbmlawyers.com</p> <p>Eric L. Zagar Robin Winchester Kristen L. Ross Kessler Topaz Meltzer & Check, LLP 280 King of Prussia Road Radnor, Pennsylvania 19087 ezagar@ktmc.com</p> <p><i>Counsel for Plaintiff/Appellant</i></p>	<p>Erik A. Christiansen (7372) Alan S. Mouritsen (13558) Parsons Behle & Latimer 201 South Main Street, Suite 1800 Salt Lake City, Utah 84111 echristiansen@parsonsbehle.com</p> <p>Douglas A. Rappaport Lucy C. Malcolm Akin Gump Strauss Hauer & Feld LLP One Bryant Park New York, New York 10036 darappaport@akingump.com</p> <p><i>Counsel for Defendants/Appellees</i></p>
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ORAL ARGUMENT REQUESTED

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Addendum C

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported):
March 23, 2016

USANA HEALTH SCIENCES, INC.
(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of incorporation)

001-35024
(Commission File No.)

87-0500306
(IRS Employer Identification
Number)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
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Item 8.01 Other Events.

On March 23, 2016, USANA Health Sciences, Inc. issued a press release announcing changes to the make-up of its Board of Directors, which will be proposed to shareholders at the Company's Annual Shareholder Meeting on May 2, 2016. The release provided an overview of the proposed changes, including the election of three new members to the Board, increasing the size of the Board to seven directors, and the upcoming retirement of two of its current Board members. A copy of the press release is furnished herewith as Exhibit 99 to this Current Report on Form 8-K and is incorporated herein by reference. The company will also post this document on its corporate website, www.usanahealthsciences.com.

The information in this Current Report is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended. The furnishing of the information in this Current Report is not intended to, and does not, constitute a representation that such furnishing is required by Regulation FD or that the information this Current Report contains is material investor information that is not otherwise publicly available.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit 99 Press release issued by USANA Health Sciences, Inc. dated March 23, 2016 (furnished herewith).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

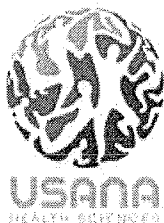
USANA HEALTH SCIENCES, INC.

By: /s/ Paul A. Jones

Paul A. Jones, Chief Financial Officer

Date: March 23, 2016

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Investors contact:

Patrique Richards
Investor Relations
(801) 954-7961
investor.relations@us.usana.com

Media contact:

Dan Macuga
Public Relations
(801) 954-7280

**USANA Health Sciences Announces Proposed
Expansion of its Board of Directors**

SALT LAKE CITY, March 23, 2016 (BUSINESS WIRE)—USANA Health Sciences, Inc. (NYSE:USNA) today announced that it is proposing to shareholders the election of three new members to its Board of Directors at its Annual Shareholder Meeting on May 2, 2016. The proposal would increase the size of the Board to seven directors and expand the breadth of expertise, backgrounds and viewpoints of the Board. David A. Wentz, Co-Chief Executive Officer of the Company, Frederic J. Winssinger and Feng Peng have been nominated by the Board to stand for election at the Annual Shareholder Meeting. D. Richard Williams, who was appointed to the Board in March 2016, will also stand for re-election at the Annual Shareholder Meeting, along with Dr. Myron W. Wentz, Robert Anciaux and Gilbert A. Fuller. Long time Board members Jerry G. McClain and Ronald S. Poelman will retire from the Board when their current terms expire at the 2016 Annual Meeting. Mr. McClain has served as a director of USANA since June 2001, while Mr. Poelman has served as a director since 1995.

Mr. Wentz was appointed Chief Executive Officer of USANA in July 2008 and became Co-Chief Executive Officer in August 2015. He has held a number of other strategic positions with the Company since its inception in 1992. Mr. Wentz's addition to the Board will expand the Board's industry expertise and further unify the Board's partnership with management.

Mr. Winssinger has more than two decades of experience in the financial markets, including serving as a portfolio manager in London with JP Morgan Investment Management, Adelphi Capital, Capital@Work, and, most recently, RW Partners, where he was the managing partner. He is the founder and managing director of PlanningCore Wealth Advisors in Phoenix, Arizona.

Mr. Peng has extensive business experience in China, financial and corporate strategy expertise, and a strong information technology background. Since 2013, Mr. Peng has served as the Chief Financial Officer of Ossen Innovation Company, Ltd., a China-based manufacturing company listed on the NASDAQ exchange. Prior to that, he served as Senior Vice President at MZ Group, where he provided strategic consulting services related to U.S. capital markets to Chinese clients. Prior to working at MZ Group, he served in various capacities at Thomson Financial and Citigroup.

Myron W. Wentz, Ph.D., Chairman of the Board, commented, "Ron's and Jerry's expertise, wisdom and integrity have made immeasurable contributions to the Board and USANA over the years. They have played a significant role in our development into a global nutrition company. On behalf of the Board, employees and shareholders, we are grateful for their many years of service and the significant contributions they have made. We wish them all the best in their future endeavors."

Wentz added, "We are delighted that Dave, Frederic and Feng have accepted nominations to the USANA Board and agreed to serve USANA's shareholders. Their extensive industry, financial, and international expertise will provide significant value to the USANA Board and executive team."

About USANA

USANA develops and manufactures high-quality nutritional supplements, healthy foods and personal care products that are sold directly to Associates and Preferred Customers throughout the United States, Canada, Australia, New Zealand, Hong Kong, China, Japan, Taiwan, South Korea, Singapore, Mexico, Malaysia, the Philippines, the Netherlands, the United Kingdom, Thailand, France, Belgium, Colombia and Indonesia. More information on USANA can be found at <http://www.usanahealthsciences.com>.

Addendum D

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):
May 6, 2015

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of incorporation)

001-35024
(Commission File No.)

87-0500306
(IRS Employer Identification
Number)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 5.07 Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Shareholders on May 6, 2015. A total of 11,684,325 shares (approximately 92%) of the issued and outstanding shares of USANA common stock were represented by proxy or in person at the meeting. The following matters were submitted and voted upon at the Annual Meeting:

1. USANA shareholders voted to elect five individuals to the Board of Directors for the succeeding year as set forth below:

Name	Number of Shares For	Number of Shares Withheld	Number of Shares Abstaining	Broker Non- Votes
Myron W. Wentz, PhD	10,928,959	105,545	—	649,821
Ronald S. Poelman	9,669,463	1,365,041	—	649,821
Robert Anciaux	10,971,616	62,888	—	649,821
Jerry G. McClain	10,941,790	92,714	—	649,821

Gilbert A. Fuller 10,885,530 148,974 — 649,821

2. USANA shareholders voted to approve the company's 2015 Equity Incentive Award Plan as set forth below:

<u>Number of Shares For</u>	<u>Number of Shares Withheld</u>	<u>Number of Shares Abstaining</u>	<u>Broker Non- Votes</u>
7,433,453	3,596,793	4,258	649,821

3. USANA shareholders voted to ratify the Board's selection of KPMG LLP as our independent registered public accounting firm for fiscal year 2015 as set forth below:

<u>Number of Shares For</u>	<u>Number of Shares Withheld</u>	<u>Number of Shares Abstaining</u>	<u>Broker Non- Votes</u>
11,675,912	1,959	6,454	—

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

USANA HEALTH SCIENCES, INC.

By: /s/ Paul A. Jones

Paul A. Jones, Chief Financial Officer

Date: May 8, 2015

Addendum E

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

USANA Health Sciences, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies: _____
 - (2) Aggregate number of securities to which transaction applies: _____
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): _____
 - (4) Proposed maximum aggregate value of transaction: _____
 - (5) Total fee paid: _____
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid: _____
 - (2) Form, Schedule or Registration Statement No.: _____

(3) Filing Party:

(4) Date Filed:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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3838 West Parkway Boulevard
Salt Lake City, Utah 84120-6336
(801) 954-7100

March 25, 2015

Dear Shareholders,

You are cordially invited to attend the 2015 Annual Meeting of Shareholders of USANA Health Sciences, Inc. (the "Annual Meeting") to be held at 11:00 a.m. MDT on Wednesday, May 6, 2015, at our offices at 3838 West Parkway Boulevard, Salt Lake City, Utah. Details regarding the meeting, the business to be conducted, and information about USANA Health Sciences, Inc. that you should consider when you vote your shares are described in the following pages, which contain the formal Notice of Annual Meeting and the Proxy Statement.

At the Annual Meeting, five persons will stand for re-election to the Board of Directors. We will also ask shareholders to approve the Company's 2015 Equity Incentive Award Plan, and to ratify the selection of KPMG LLP as our independent registered public accounting firm for our fiscal year ending January 2, 2016. The Board of Directors recommends the approval of each of these proposals. Such other business will be transacted as may properly come before the Annual Meeting.

Under Securities and Exchange Commission rules that allow companies to furnish proxy materials to shareholders over the Internet, we have elected to deliver our proxy materials to the majority of our shareholders over the Internet. This allows us to mail our shareholders a notice instead of a paper copy of our proxy materials. We believe this process will facilitate accelerated delivery of proxy materials, save costs, and reduce the environmental impact of our Annual Meeting. On or about March 25, 2015, we began sending to our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement for our Annual Meeting and our Annual Report to Shareholders on the Internet. This notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

We hope you will be able to attend the Annual Meeting. Whether you plan to attend the Annual Meeting or not, it is important that you cast your vote. You may vote over the Internet as well as by telephone. In addition, if you requested to receive printed proxy materials, you may vote by completing, signing, dating and returning your proxy card by mail. You are urged to vote promptly in accordance with the instructions set forth in the Notice of Internet Availability of Proxy Materials or on your proxy card. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting, whether or not you can attend.

Sincerely,

David A. Wentz
Chief Executive Officer



3838 West Parkway Boulevard
Salt Lake City, Utah 84120-6336
(801) 954-7100

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 6, 2015**

- TIME: 11:00 a.m. MDT
- DATE: Wednesday, May 6, 2015
- PLACE: The offices of USANA Health Sciences, Inc.
3838 West Parkway Boulevard, Salt Lake City, Utah 84120
- PURPOSES:
1. To elect five directors to serve for one year each, until the next Annual Meeting of Shareholders and until a successor is elected and shall qualify;
 2. To approve the Company's 2015 Equity Incentive Award Plan;
 3. To ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year 2015; and
 4. To consider and act upon such other business as may properly come before the meeting or at any postponement or adjournment thereof.

WHO MAY VOTE:

You will receive notice of and be entitled to vote at the Annual Meeting if you were the record owner of USANA Health Sciences, Inc. common stock at the close of business on March 2, 2015. A list of shareholders of record will be available at the meeting and during the 10 days prior to the meeting, at the office of the Secretary at the above address.

All shareholders are cordially invited to attend the Annual Meeting. Whether you plan to attend the Annual Meeting or not, please vote by following the instructions on the Notice of Internet Availability of Proxy Materials that you have previously received, which we refer to as the Notice, or in the section of the Proxy Statement entitled "Important Information About the Annual Meeting—How Do I Vote," or, if you requested to receive printed proxy materials, your proxy card. You may change or revoke your proxy at any time before it is voted. The Notice contains instructions on how our shareholders may access our proxy materials and Annual Report over the Internet and how our shareholders may receive a paper copy of the proxy materials, including the Proxy Statement, Annual Report on Form 10-K, and a form of proxy card.

On or about March 25, 2015, we began sending the Notice of Internet Availability of Proxy Materials to all shareholders entitled to vote at the annual meeting.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "J. H. Bramble".

James H. Bramble
Corporate Secretary

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE SHAREHOLDER MEETING TO BE HELD ON MAY 6, 2015**

This Proxy Statement and our annual report to shareholders for the fiscal year ended January 3, 2015, along with our proxy card, are available for viewing, printing, and downloading free of charge at www.proxyvote.com. To view these materials please have your 12-digit control number available that appears on your Notice or proxy card. On this website, you can also elect to receive future distributions of our proxy statements and annual reports to shareholders by electronic delivery.

Additionally, you can find a copy of our Annual Report on Form 10-K, which includes our financial statements for the fiscal year ended January 3, 2015, on the website of the Securities and Exchange Commission at www.sec.gov, or on the "Investor Relations" section of our website at www.usanahealthsciences.com. You may also obtain a printed copy of our Annual Report on Form 10-K, including our financial statements, free of charge, from us by sending a written request to: Secretary, USANA Health Sciences, Inc., 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. Exhibits will be provided upon written request and payment of an appropriate processing fee.

USANA HEALTH SCIENCES, INC.
ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT
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**PROXY STATEMENT FOR
THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 6, 2015**

The Board of Directors of USANA Health Sciences, Inc. ("We," "USANA," or the "Company") is soliciting the accompanying proxy to be used at the 2015 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Wednesday, May 6, 2015, at 11:00 a.m., local time, or at any adjournments thereof for the purposes set forth in this Proxy Statement and in the accompanying notice of the meeting. On or about March 25, 2015, we began sending the Notice of Internet Availability of Proxy Materials, which we refer to throughout this Proxy Statement as the Notice, to all shareholders entitled to vote at the Annual Meeting.

IMPORTANT INFORMATION ABOUT THE MEETING

Why is the Company Soliciting My Proxy?

The Board of Directors of USANA is soliciting your proxy to vote at the Annual Meeting to be held at our offices, 3838 West Parkway Boulevard, Salt Lake City, Utah, on Wednesday, May 6, 2015, at 11:00 a.m. MDT and any adjournments of the meeting. The proxy statement along with the accompanying Notice of Annual Meeting of Shareholders summarizes the purposes of the meeting and the information you need to know to vote at the Annual Meeting.

We have sent you the Notice and made this Proxy Statement and our annual report to shareholders for the 2014 fiscal year available to you on the Internet because you owned shares of USANA common stock on the record date, which is March 2, 2015. We have also delivered printed versions of these materials to certain shareholders by mail. The Company commenced distribution of the Notice and the proxy materials to shareholders on or about March 25, 2015.

Why Did I Receive a Notice in the Mail Regarding the Internet Availability of Proxy Materials Instead of a Full Set of Proxy Materials?

As permitted by the rules of the U.S. Securities and Exchange Commission, or the SEC, we have elected to furnish our proxy materials to our shareholders by providing access to such documents on the Internet, rather than mailing printed copies of these materials to each shareholder. Most shareholders will not receive printed copies of the proxy materials unless they request them. We believe that this process should expedite shareholders' receipt of proxy materials, lower the costs of the annual meeting and help to conserve natural resources. If you received a Notice by mail or electronically, you will not receive a printed or email copy of the proxy materials, unless you request one by following the instructions included in the Notice. Instead, the Notice will instruct you how you may access and review all of the proxy materials and submit your proxy on the Internet. If you requested a paper copy of the proxy materials, you may authorize the voting of your shares by following the instructions on the enclosed proxy card, in addition to the other methods of voting described in this Proxy Statement.

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Who Can Vote?

Only shareholders who owned USANA common stock at the close of business on March 2, 2015, or the record date, are entitled to vote at the Annual Meeting. On this record date, there were 12,658,684 shares of our common stock outstanding and entitled to vote. Common stock is our only class of voting stock.

You do not need to attend the Annual Meeting in person to vote your shares. Shares represented by valid proxies, received in time for the meeting and not revoked prior to the meeting, will be voted at the meeting. For instructions on how to change or revoke your proxy, see "May I Change or Revoke My Proxy?" below.

How Many Votes Do I Have?

Each share of USANA common stock that you own as of the record date entitles you to one vote.

How Do I Vote?

Whether you plan to attend the Annual Meeting or not, we urge you to vote by proxy. All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card or as instructed via Internet or telephone. You may specify whether your shares should be voted for or withheld for each nominee for director, and whether your shares should be voted for, against or abstain with respect to any other proposal. If you properly submit a proxy without giving specific voting instructions, your shares will be voted in accordance with the Board's recommendations as noted below. Voting by proxy will not affect your right to attend the Annual Meeting. If your shares are registered directly in your name through our stock transfer agent, American Stock Transfer and Trust Company, or you have stock certificates registered in your name, you may vote:

- By Internet or by telephone. Follow the instructions included in the Notice or, if you received printed materials, in the proxy card, to vote by Internet or telephone.
- By mail. If you received your proxy materials by mail, you can vote by mail by completing, signing, dating and returning the proxy card as instructed on the card. If you sign the proxy card but do not specify how you want your shares voted, they will be voted in accordance with the Board's recommendations as noted below.
- In person at the meeting. If you attend the meeting, you may deliver a completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

Telephone and Internet voting facilities for shareholders of record will be available 24-hours a day and will close at 11:59 p.m. Eastern Time on May 5, 2015.

If your shares are held in "street name" (held in the name of a bank, broker or other holder of record or nominee), you will receive instructions from the holder of record. You must follow the instructions of the nominee in order for your shares to be voted. Telephone and Internet voting also will be offered to shareholders owning shares through certain banks and brokers. If your shares are not registered in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your broker or agent to obtain a legal proxy or broker's proxy card and bring it to the Annual Meeting in order to vote.

How Does the Board of Directors Recommend That I Vote on the Proposals?

The Board of Directors recommends that you vote as follows:

- "FOR" the election of the five nominees for director;

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- "FOR" the approval of the Company's 2015 Equity Incentive Award Plan; and
- "FOR" the ratification of the selection of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year; and

We do not expect any other business to come before the meeting. If any other matter is presented, your proxy provides that your shares will be voted by the proxy holder listed in the proxy in accordance with his or her best judgment. At the time this Proxy Statement was first made available, we knew of no matters that needed to be acted on at the Annual Meeting, other than those discussed in this Proxy Statement.

May I Change or Revoke My Proxy?

If you give us your proxy, you may change or revoke it at any time before the meeting. You may change or revoke your proxy in any one of the following ways:

- by re-voting by Internet or by telephone as instructed above;
- if you received printed proxy materials, by signing a new proxy card with a date later than your previously delivered proxy and submitting it as instructed above;
- by notifying our Secretary in writing before the Annual Meeting that you have revoked your proxy; or
- by attending the meeting in person and voting in person. Attending the meeting in person will not in and of itself revoke a previously submitted proxy unless you specifically request it.

Your most current vote, whether by telephone, Internet or proxy card, is the one that will be counted.

What if I Receive More Than One Notice or Proxy Card?

You may receive more than one Notice or proxy card if you hold shares of our common stock in more than one account, which may be in registered form or held in street name. Please vote in the manner described under "How Do I Vote?" for each account to ensure that all of your shares are voted.

What are "broker non-votes"?

If a broker or other financial institution holds your shares in its name and you do not provide voting instructions to it, New York Stock Exchange, or NYSE, rules allow that firm to vote your shares only on routine matters. Proposal #3, the ratification of the appointment of our independent registered public accounting firm for 2015, is the only matter for consideration at the meeting that NYSE rules deem to be routine. For all matters other than Proposal #3, you must submit voting instructions to the firm (broker, bank, or other nominee) that holds your shares if you want your vote to count. When a firm votes a client's shares on some but not all of the proposals, the missing votes are referred to as "broker non-votes."

Will My Shares be Voted if I Do Not Vote?

If your shares are registered in your name, they will not be voted if you do not vote as described above under "How Do I Vote?" If your shares are held in street name by a bank, broker or other holder of record (nominee) and you do not provide voting instructions to the nominee that holds your shares as described above, the nominee has the authority to vote your unvoted shares only on the ratification of our independent registered public accounting firm (Proposal #3), unless the nominee

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receives instructions from you. Therefore, we encourage you to provide voting instructions. This ensures your shares will be voted at the meeting and in the manner you desire.

What Vote is Required to Approve Each Proposal and How are Votes Counted?

Proposal #1: Election of Directors

Under Utah law, a nominee who receives a plurality of the votes cast at the Annual Meeting will be elected as a director. The "plurality" standard means the nominees who receive the largest number of "for" votes (also known as a "plurality" of the votes) will be elected. The number of shares not voted for the election of a nominee (and the number of "withhold" votes cast with respect to that nominee) are not counted and will not affect the determination of whether that nominee has received the necessary votes for election under Utah law. You may vote either FOR all of the nominees, WITHHOLD your vote from all of the nominees or WITHHOLD your vote from any one or more of the nominees. Votes that are withheld will not be included in the vote tally for the election of directors. Broker non-votes will have no effect on the results of this vote.

Proposal #2: Approval of the Company's 2015 Equity Incentive Award Plan

The affirmative vote of the shareholders representing a majority of the shares present and entitled to vote at the Annual Meeting is required to approve the Company's 2015 Equity Incentive Award Plan. A shareholder who signs and submits a proxy is "present," so an abstention will have the same effect as a vote "Against" this Proposal. Broker non-votes will not be considered entitled to vote with respect to this Proposal and will have no effect on the outcome.

Proposal #3: Ratification of Independent Registered Public Accounting Firm

The affirmative vote of the shareholders representing a majority of the shares present and entitled to vote at the Annual Meeting is required to ratify the selection of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year. Shares present but not voted because of abstention will have the same effect on the results of this vote as a vote "Against." We are not required to obtain the approval of our shareholders to select our independent registered public accounting firm. However, if our shareholders do not ratify the selection of KPMG LLP as our independent registered public accounting firm for the 2015 fiscal year, our Audit Committee of our Board of Directors may reconsider its selection.

Is Voting Confidential?

We will keep all the proxies, ballots and voting tabulations private. We only let our Inspector of Elections examine these documents. Management, other than the Inspector of Elections, will not know

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how you voted on a specific proposal unless it is necessary to meet legal requirements. We will, however, forward to management any written comments you make, on the proxy card or elsewhere.

Who Will Count the Votes?

Broadridge Investor Communications Services will tabulate the votes that are received prior to the Annual Meeting. Representatives of USANA will act as the Inspectors of Election and will tabulate the votes, if any, that are cast in person at the Annual Meeting.

Where Can I Find the Voting Results of the Annual Meeting?

The preliminary voting results will be announced at the Annual Meeting, and we will publish preliminary, or final results if available, in a Current Report on Form 8-K within four business days of the Annual Meeting. If final results are unavailable at the time we file the Form 8-K, then we will file an amended report on Form 8-K to disclose the final voting results within four business days after the final voting results are known.

Who Pays the Costs of Soliciting these Proxies?

These proxies are solicited by our Board of Directors and we will pay all of the costs of soliciting these proxies. Our directors and employees may solicit proxies in person or by telephone, fax or email. We will pay these employees and directors no additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to their principals and to obtain authority to deliver proxies. We will then reimburse them for their expenses.

What Constitutes a Quorum for the Annual Meeting?

The presence, in person or by proxy, of the holders of a majority of the voting power of our common stock outstanding on the record date is necessary to constitute a quorum at the meeting. As of the close of business on the record date, there were 12,658,684 shares of our common stock outstanding. Both abstentions and broker non-votes are counted for purposes of determining whether a quorum exists. For the purpose of determining whether the shareholders have approved matters other than the election of directors, abstentions are treated as shares present or represented and voting, so abstaining has the same effect as a negative vote. Directors are elected based on a plurality of votes cast. Shares held by brokers who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers are counted for determining the presence or absence of a quorum for conducting business but are not counted or deemed to be present or represented for the purpose of determining whether shareholders have approved that matter.

Attending the Annual Meeting

The Annual Meeting will be held at 11:00 a.m. local time on Wednesday, May 6, 2015, at our offices at 3838 West Parkway Boulevard, Salt Lake City, Utah. When you arrive at our offices, our personnel will direct you to the appropriate meeting room. You need not attend the Annual Meeting to vote.

Householding of Annual Disclosure Documents

SEC rules concerning the delivery of annual disclosure documents allow us or your broker to send a single Notice or, if applicable, a single set of our proxy materials to any household at which two or more of our shareholders reside, if we or your broker believe that the shareholders are members of the same family. This practice, referred to as "householding," benefits both you and us. It reduces the volume of duplicate information received at your household and helps to reduce our expenses. The rule applies to our Notices, annual reports, proxy statements and information statements. Once you receive

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notice from your broker or from us that communications to your address will be "household," the practice will continue until you are otherwise notified or until you revoke your consent to the practice. Shareholders who participate in householding will continue to have access to and utilize separate proxy voting instructions.

If your household received a single Notice or, if applicable, set of proxy materials this year, but you would prefer to receive your own copy, please contact Broadridge, by calling their toll free number 1-800-542-1061. If you do not wish to participate in "householding" and would like to receive your own Notice or, if applicable, set of proxy materials in future years, follow the instructions described below. Conversely, if you share an address with another USANA shareholder and together both of you would like to receive only a single Notice or, if applicable, set of proxy materials, follow these instructions:

- If your USANA shares are registered in your own name, please contact Broadridge and inform them of your request by calling them at 1-800-542-1061 or writing them at Broadridge Householding Department, 51 Mercedes Way, Edgewood, NY 11717.
- If a broker or other nominee holds your USANA shares, please contact the broker or other nominee directly and inform them of your request. Be sure to include your name, the name of your brokerage firm and your account number.

Electronic Delivery of Company Shareholder Communications

Most shareholders can elect to receive notices of the availability of future proxy materials by email instead of receiving a paper copy in the mail. You can choose this option and save us the cost of producing and mailing these documents by following the instructions provided on your Notice or proxy card or following the instructions provided when you vote over the Internet at www.proxyvote.com.

How Do I Submit and What are the Deadlines for Submitting a Shareholder Proposal for Next Year's Annual Meeting?

Shareholders are entitled to present proposals for consideration at the next annual meeting of shareholders, provided that they comply with the proxy rules promulgated by the SEC and our Bylaws. Any shareholder who intends to submit a proposal for consideration at the 2016 Annual Meeting of Shareholders must deliver such proposal to the Corporate Secretary, c/o USANA Health Sciences, Inc., 3838 West Parkway Blvd., Salt Lake City, Utah 84120, not later than 120 days prior to the one-year anniversary of the date on which this Proxy Statement is first mailed, which date is November 26, 2015, if the proposal is submitted for inclusion in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 ("Exchange Act").

Who Should I Call if I Have Questions?

If you have questions about the proposals or the Annual Meeting, you may call Patrique Richards, USANA Investor Relations, at (801) 954-7100. You may also send an e-mail to investor.relations@us.usana.com.

PROPOSAL #1—ELECTION OF DIRECTORS

Our Bylaws provide that the shareholders or the Board of Directors shall determine the number of directors from time to time, but that there shall be no less than three directors. The Board of Directors, by resolution, has set the number of directors at five. The Governance, Risk and Nominating Committee of the Board of Directors has nominated and recommends that our current five directors stand for re-election at the Annual Meeting. The Governance, Risk and Nominating Committee believes that all directors must, at a minimum, meet the criteria set forth in the USANA Corporate

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Governance Guidelines and in the Charter of the Governance, Risk and Nominating Committee, which specify, among other things, that the committee will consider criteria such as the director's independence, expertise and experience applicable to our business, substantive knowledge of our industry, high personal and professional ethics and the ability and willingness to devote the required time to the business of the Company.

Each director who is elected at the Annual Meeting will hold office until the Company's Annual Meeting in 2016, until a successor is elected and qualified, or until the director resigns, is removed, or becomes disqualified. The Board of Directors has no reason to believe that any of the nominees for director will be unwilling or unable to serve, if elected. If due to unforeseen circumstances a nominee should become unavailable for election, the Board may either reduce the number of directors or may substitute another person for that nominee, in which event your shares will be voted for that other person.

The Governance, Risk and Nominating Committee has determined that all of our directors meet the criteria and qualifications set forth in the Company's Code of Ethics for Directors and Employees, Corporate Governance Guidelines and the Governance, Risk and Nominating Committee Charter. In addition, each director possesses the personal qualities and attributes we believe are essential to allow the Board of Directors to fulfill its duties to the shareholders, including personal accountability, integrity, ethical leadership, risk management, business acumen, and the ability to exercise sound and independent business judgment.

Director Nominees

Five directors will be elected at the Annual Meeting. The nominees to the Board of Directors in 2015 are Robert Anciaux, Gilbert A. Fuller, Jerry G. McClain, Ronald S. Poelman, and Myron W. Wentz, Ph.D. All of these nominees currently serve as members of the Board of Directors. Messrs. Anciaux, Fuller, McClain, and Poelman are independent directors under the rules of the NYSE. The following information is furnished with respect to these nominees:

Robert Anciaux, 69, has served as a director of USANA since July 1996. Since 1990, he has been the Managing Director of S.E.I. s.a., a consulting and investment management firm in Brussels, Belgium. Additionally, since 1982, Mr. Anciaux has been self-employed as a venture capitalist in Europe, investing in various commercial, industrial, and real estate venture companies. In some of these privately held companies, Mr. Anciaux also serves as a director. Mr. Anciaux received an Ingenieur Commercial degree from Ecole de Commerce Solvay Universite Libre de Bruxelles. Mr. Anciaux's qualifications to sit on our Board include his financial expertise and experience in providing consulting and strategic advisory services to complex organizations.

Gilbert A. Fuller, 74, has served as a director of USANA since September 2008. Prior to that, he served as our Executive Vice President, Chief Financial Officer, and Secretary since January 2006. Mr. Fuller joined USANA in May 1996 as the Vice President of Finance and served in this role until June 1999, when he was appointed as the Company's Senior Vice President. Before joining USANA, Mr. Fuller served in various executive positions for several companies. Mr. Fuller served as Chief Administrative Officer and Treasurer of Melaleuca, Inc., a manufacturer and direct seller of personal care products. He was also the Vice President and Treasurer of Norton Company, a multinational manufacturer of ceramics and abrasives. He obtained his certified public accountant license in 1970 and kept it current until his career path developed into corporate finance. Mr. Fuller received a B.S. in Accounting and an M.B.A. from the University of Utah. In December 2012, Mr. Fuller was appointed as a director of Security National Financial Corporation, a NASDAQ-listed company. Mr. Fuller's qualifications to sit on our Board include his 12 years of experience as an executive officer of USANA, his deep understanding of our business, people and products, his 15 years of experience as a financial officer in the direct selling industry, as well as his accounting, finance and corporate strategy expertise.

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Jerry G. McClain, 74, has served as a director of USANA since June 2001. Since January 2003, Mr. McClain has been self-employed, operating his own investment and real estate business in Salt Lake City, Utah. From August 2000 to December 2002, Mr. McClain was the Chief Financial Officer of Cerberian, Inc., a privately held company that was headquartered in Salt Lake City, Utah. From 1998 to 2000, Mr. McClain was the Chief Financial Officer and Sr. Vice President of Assentive Solutions, Inc., a company he also co-founded. From 1997 to 1998, Mr. McClain was the Chief Financial Officer for the Salt Lake Organizing Committee for the 2002 Winter Olympic Games. Before 1997, Mr. McClain served as a key financial advisor to many companies as an Audit Partner and a Managing Partner of Ernst & Young LLP for 35 years in several cities throughout the world. Mr. McClain is a former CPA and a graduate from the University of Southern Mississippi and Oklahoma State University, where he received a B.S. in Accounting and an M.S. in Accounting, respectively. Mr. McClain's qualifications to sit on our Board include his extensive international experience with accounting and financial matters for public companies, his years of experience as the chief financial officer of various organizations, his corporate governance expertise and his years of experience providing independent audits and strategic advice to complex organizations.

Ronald S. Poelman, 61, has served as a director of USANA since 1995. Since 1994, he has been a partner in the Salt Lake City, Utah law firm of Jones, Waldo, Holbrook & McDonough, where he is head of the Corporate and Securities Practice Group. Mr. Poelman began his legal career in Silicon Valley in California, and has assisted in the organization and financing of numerous companies for over 30 years. Mr. Poelman is the Chairman of the Utah Chapter of the National Association of Corporate Directors ("NACD") and frequently lectures at the meetings of this and other organizations. Mr. Poelman received a B.A. in English from Brigham Young University and a J.D. from the University of California, Berkeley. Mr. Poelman's qualifications to sit on our Board include his more than 30 years of experience as a corporate, finance and securities attorney, his long association with and service to the NACD, as well as his corporate governance and strategy expertise. Mr. Poelman is a 2014 NACD Governance Fellow, which is a demonstration of his commitment to boardroom excellence through completing NACD's comprehensive program of study for corporate directors.

Myron W. Wentz, Ph.D., 74, founded USANA in 1992 and served as the Chief Executive Officer and Chairman of the Board of USANA from the time of its inception to July 2008, when he retired as Chief Executive Officer. Dr. Wentz continues to serve as Chairman of the Board. In 1974, Dr. Wentz founded Gull Laboratories, Inc., which was a developer and manufacturer of medical diagnostic test kits and was the former parent corporation of USANA. Dr. Wentz served as Chairman of Gull from 1974 until 1998. In 1998, Dr. Wentz founded Sanoviv, S.A. de C.V. ("Sanoviv"), a health and wellness center that is located near Rosarito, Mexico. Joining a pathology group in Peoria, Illinois, from 1969 to 1973, Dr. Wentz served as infectious disease specialist and directed the microbiology and immunology laboratories for three hospitals in the Peoria area. He received a B.S. in Biology from North Central College, Naperville, Illinois, an M.S. in Microbiology from the University of North Dakota, and a Ph.D. in Microbiology and Immunology from the University of Utah. Dr. Wentz's qualifications to sit on our Board include his vast education and professional experience as a microbiologist, immunologist, and pioneer in the development of human cell culture technology, as well as his service as our founder, Chairman and formerly as our Chief Executive Officer.

RECOMMENDATION

The Board of Directors unanimously recommends a vote FOR each director nominee.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors is elected by and is accountable to the shareholders of the Company. The Board establishes policy and provides strategic direction, oversight, and control of the Company. The Board met nine times during fiscal year 2014. All directors attended at least 75% of the meetings of the Board and the Board Committees of which they are members.

Board Leadership Structure; Lead Independent Director

Our founder, Dr. Myron Wentz, is the Chairman of our Board of Directors and David A. Wentz is our Chief Executive Officer, or CEO. The Board has not adopted a specific policy on whether the same person should serve as both the CEO and chairman of the board or, if the roles are separate, whether the chairman should be selected from the non-employee directors or should be an employee. The Board believes it is most appropriate to retain the discretion and flexibility to make these determinations at any given point in time in the way that it believes best to provide appropriate leadership for the Company at that time.

We believe it is currently appropriate to separate the roles of CEO and Chairman of the Board as a result of the differences between the two roles. Our CEO is responsible for setting the strategic direction for the Company, with guidance from the Board. He is also responsible for the day-to-day leadership and performance of the Company, while the Chairman of the Board provides guidance to the CEO and sets the agenda for Board meetings and presides over meetings of the full Board. Although Dr. Wentz is not independent under the rules of the NYSE, the Board believes the experience, leadership and vision he provides as Chairman of the Board is essential to the short-and-long-term success of the Company.

The Board maintains a number of governance practices to ensure effective independent oversight of Board decisions, including (i) the appointment of strong, independent directors who constitute a majority of the Board and intimately understand the Company's business and industry; (ii) executive sessions of the independent directors in connection with every Board meeting; and (iii) annual evaluations of the performance of the Board, carried out by the independent directors. Because the Board also believes that strong, independent board leadership is an important aspect of corporate governance, the Board established the position of Lead Director in 2013. The Lead Director is an independent director elected for a one year term by the independent directors. The Lead Director chairs the Board meetings during all executive sessions and when the Chairman is unable to participate in Board meetings, and is a contact person for shareholders and third parties who may desire to contact the Board independently of the Chairman. Mr. Poelman served as Lead Director during 2014 and was again designated to serve as Lead Director in 2015. Additional responsibilities of the Lead Director include:

- Setting the agenda for and leading regularly-held independent director sessions and briefing the Chairman on those sessions;
- Coordinating the activities of the independent directors;
- Presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- Acting as a liaison of the independent directors to the Chairman and CEO for the views and any concerns and issues of the independent directors; and
- Performing other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities.

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Director Independence

NYSE rules and regulations generally require listed companies to have a board of directors with a majority of independent directors. A majority of the members of our Board of Directors are independent, as discussed below.

To assist the Board in making its determination regarding director independence, the Board has adopted independence standards that conform to the independence requirements of the NYSE. In addition to evaluating each director's independence, the Board considers all relevant facts and circumstances in making its independence determination. We assess director independence on an annual basis. The Board has determined, after careful review, that all of the current directors, other than Dr. Myron Wentz, who has also been nominated for election at the 2015 Annual Meeting, are independent based on the applicable rules of the NYSE and the applicable regulations of the SEC. In particular, the Board noted that, other than their service as directors of the Company, Robert Anciaux, Jerry G. McClain, Ronald S. Poelman and Gilbert A. Fuller had no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and determined that each of them is "independent" under NYSE listing standards.

Communications with Directors

Our shareholders or other interested parties wishing to communicate with the Board of Directors, the non-management directors as a group, or any individual director may do so in writing by addressing the correspondence to that individual or group, c/o James H. Bramble, Corporate Secretary, USANA Health Sciences, Inc., 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. All such communications will be initially received and processed by our Corporate Secretary. Accounting, audit, internal accounting controls and other financial matters will be referred to our Audit Committee chair. Other matters will be referred to the Board of Directors, the non-management directors, or individual directors as appropriate.

Directors are encouraged by the Company to attend the Annual Meeting of Shareholders if their schedules permit. All directors, except Messrs. Anciaux and Poelman, were present at the Company's Annual Meeting of the Shareholders that was held in April 2014.

Committees of the Board of Directors

The Board of Directors has a separately-designated standing Audit Committee, Compensation Committee, and Governance, Risk and Nominating Committee. Information about the composition and responsibilities of each committee is provided below.

Governance, Risk and Nominating Committee. The Governance, Risk and Nominating Committee of the Board of Directors (the "Governance Committee") was established in February 2004. The Governance Committee met four (4) times during 2014. Members of the Governance Committee during fiscal 2014 and at the date of this Proxy Statement are Gilbert A. Fuller, Chairman, Robert Anciaux, Jerry G. McClain, and Ronald S. Poelman. Each member of the Governance Committee meets the definition of "independent" set forth in the rules of the NYSE.

The Governance Committee's responsibilities include: (i) overseeing corporate governance matters, (ii) risk oversight and management, (iii) identifying and evaluating prospective nominees for director, (iv) nominating the director nominees for election at the annual meeting of shareholders, and (v) periodically reviewing the performance of the Board and its members and determining the number, function, and composition of the Board's committees. The Board has delegated much of its responsibility for risk oversight and management to the Governance Committee. The Governance Committee conducts these risk oversight and management functions as part of its corporate governance

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oversight and reports its findings with respect to risk oversight and management to the entire Board. More information about the Board of Directors and Governance Committee's risk oversight and management practices is provided below under the caption "Risk Oversight and Management".

The Governance Committee believes, among other things, that the Company's Board of Directors should be composed of directors with varied, complementary backgrounds, which reflect a diversity of viewpoints, backgrounds, experience and other factors. The Governance Committee also believes that directors should, at a minimum, (i) have expertise that may be useful to the Company, (ii) possess the highest personal and professional ethics, and (iii) be willing and able to devote the required amount of time to the Company's business. In light of these beliefs, the Governance Committee considers many factors in evaluating the suitability of candidates for Board membership, and also determining whether a director should be retained and stand for reelection, including: whether the candidate meets the requirements for independence; the candidate's background and experience, particularly in the Company's industry; the candidate's personal qualities, accomplishments, character and reputation in the business community; and the fit of the candidate's individual skills and personality with those of the Company's other directors.

The Governance Committee may from time to time consider qualified nominees who are recommended by shareholders. The Governance Committee does not have different standards for evaluating nominees based on whether they have been suggested by our shareholders or by our directors. Shareholders who wish to make such a recommendation may do so by sending a written notice, as described under the heading "How do I submit a shareholder proposal for next year's Annual Meeting?" in the section of this Proxy Statement titled "Questions and Answers about the Meeting."

Audit Committee. The Audit Committee of the Board of Directors (the "Audit Committee") is a standing committee of the Board, which has been established as required by Section 3(a) of the Exchange Act and the rules of the NYSE. The Audit Committee met five (5) times during 2014. Members of the Audit Committee during fiscal 2014 and at the date of this Proxy Statement are Jerry G. McClain, Chairman, Ronald S. Poelman, Gilbert A Fuller, and Robert Anciaux, each of whom meets the independence standards set forth above. The Board has determined that both Mr. McClain and Mr. Fuller are "audit committee financial experts," as defined by the applicable regulations promulgated by the SEC under the Exchange Act. The Board also believes that each member of the Audit Committee meets the NYSE composition requirements, including the requirements regarding financial literacy. The Audit Committee's responsibilities include: (i) appointing the independent registered public accounting firm of the Company, (ii) reviewing, approving and monitoring the scope and cost of any proposed audit and non-audit services that are provided by, as well as the qualifications and independence of, the independent registered public accounting firm, (iii) reviewing and monitoring with the independent registered public accounting firm, and internal audit staff, the results of audits, any recommendations from the independent registered public accounting firm and the status of management's actions for implementing such recommendations, as well as the quality and adequacy of our internal financial controls and internal audit staff, and (iv) reviewing and monitoring the Company's annual and quarterly financial statements, internal controls and the status of material pending litigation and regulatory proceedings.

Compensation Committee. The Compensation Committee of the Board of Directors (the "Compensation Committee") met four (4) times during 2014. Members of the Compensation Committee during fiscal 2014 and at the date of this Proxy Statement are Ronald S. Poelman, Chairman, Robert Anciaux, and Jerry G. McClain, each of whom meets the definition of "independent" set forth in the rules of the NYSE. In addition, all members of the Compensation Committee are outside directors as defined by Rule 162(m) of the Internal Revenue Code and are non-employee directors as defined by the applicable regulations promulgated by the SEC under the Exchange Act. The Compensation Committee's responsibilities include: (i) reviewing and

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recommending to the full Board of Directors the salaries, bonuses, and other forms of compensation and benefit plans for management and (ii) administering USANA's equity compensation plans. The duties of the Compensation Committee as the administrator of those plans include, but are not limited to, determining those persons who are eligible to receive awards, establishing terms of all awards, authorizing officers of the Company to execute grants of awards, and interpreting the provisions of the equity compensation plans and grants that are made under those plans. The Compensation Committee is also responsible for reviewing and approving the Compensation Discussion and Analysis included in this Proxy Statement.

Risk Oversight and Management

Our Board of Directors is actively involved in the oversight and management of the material risks that could affect the Company. Historically, our Board of Directors has carried out its risk oversight and management responsibilities by both monitoring risk directly as a full board and, where appropriate, through Board committees. The Board's direct role in our risk management process includes receiving regular reports from our executive officers and other members of senior management on areas of material risk to the Company, including operational, strategic, financial, legal and regulatory risks. The Board has delegated much of its direct risk oversight and management responsibility to the Governance Committee. The mandate of the Governance Committee with respect to risk management is to work with management to carry-out an efficient process for assessing and reporting material risk to the Governance Committee and, ultimately, the Board.

The Board has also historically delegated the oversight and management of certain risks to the Audit Committee and Compensation Committee. The Audit Committee is responsible for the oversight of Company risks relating to accounting matters, financial and internal control reporting and related party transactions. To satisfy these oversight responsibilities, the Audit Committee regularly meets with and receives reports from the Company's Chief Financial Officer, Executive Director of internal audit, the Company's independent registered public accounting firm, KPMG LLP, and the Company's in-house and outside legal counsel. The Audit Committee is also responsible for discussing with management, our independent registered public accounting firm and the chair of the Governance Committee, the areas of risk management overseen by the Governance Committee.

The Compensation Committee is responsible for the oversight of risk relating to the Company's compensation and benefits programs. To satisfy these oversight responsibilities, the Compensation Committee regularly meets with and receives reports from the Company's Chief Executive Officer and Chief Financial Officer to understand the financial, human resources and shareholder implications of compensation and benefits decisions.

Compensation Risk Analysis

Our Compensation Committee considers the risk to the Company associated with each component of our executive compensation program, namely base salary, and short-and-long term incentive compensation. In considering these risks, the Compensation Committee believes that the following factors, among others, reduce the likelihood of excessive risk taking in connection with executive compensation at USANA:

- Our compensation components provide a balanced mix of (i) cash and equity compensation, (ii) short-term and long-term incentive compensation, and (iii) financial and non-financial performance metrics;
- Our executives generally all participate in the same short-term incentive program with similar performance metrics;

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- Maximum pay-out levels for short-term incentive compensation are generally capped at 100% of an executive's base salary;
- Our equity awards generally vest over several years and are only valuable if the Company performs well financially and our stock price increases over time;
- We maintain strict internal controls over the determination and pay-out of each component of executive compensation;
- We do not typically enter into employment, severance or other management agreements with any of our executive officers that contain post-termination or change-in-control payments; and
- We generally do not provide significant perquisites or personal benefits to our executive officers.

Based on the Compensation Committee's review of these factors and others, the Committee does not believe that the Company's executive compensation program creates risks that are reasonably likely to have a material adverse effect on the Company.

Board Committee Charters

A written charter has been adopted for each of the Audit Committee, Compensation Committee and Governance, Risk and Nominating Committee. Copies of the Audit Committee Charter, Compensation Committee Charter, and Governance, Risk and Nominating Committee Charter are available, free of charge, on the Company's website at www.usanahealthsciences.com under the "Corporate Governance" tab. The information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

Corporate Governance Guidelines

The Company has adopted Corporate Governance Guidelines that outline the Company's corporate governance policies and principles. The Company's Corporate Governance Guidelines are available, free of charge, on the Company's website at www.usanahealthsciences.com under the "Corporate Governance" tab. The information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

Code of Ethics

We have adopted a code of ethics that applies to all of our directors, officers (including our Chief Executive Officer and Chief Financial and Accounting Officer), and employees. We require that all of our directors, officers and employees certify on an annual basis that they are in compliance with the code. A copy of the Code of Ethics for Directors and Employees is available on the corporate governance section of our web site at www.usanahealthsciences.com. In the event the Company makes any amendments to, or grants any waivers of, a provision of its code of ethics that applies to the principal executive officer, principal financial officer or principal accounting officer of the Company that requires disclosure under applicable SEC rules, the Company intends to disclose such amendment or waiver and the reasons therefor on a Current Report on Form 8-K or on its next periodic report filed under the Exchange Act.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee during fiscal 2014 was composed of Ronald S. Poelman, Chairman, Robert Anciaux and Jerry G. McClain. All members of the Compensation Committee are independent directors. During the fiscal 2014, there were no relationships or transactions between the Company and any member of the Compensation Committee requiring disclosure hereunder.

EXECUTIVE OFFICERS

The executive officers of USANA at January 3, 2015, and as of the date of this Proxy Statement were:

Name	Position
Myron W. Wentz, Ph.D.	Chairman of the Board
David A. Wentz	Chief Executive Officer
Paul A. Jones	Chief Financial Officer
Kevin G. Guest	President, USANA Health Sciences, Inc.
Deborah Woo	President, Asia and Greater China
James H. Bramble	Chief Legal Officer
Jim Brown	Chief Operating Officer
Daniel A. Macuga	Chief Communications Officer and Executive Vice President of Field Development for the Americas
Doug Braun	Chief Marketing Officer
Rick Stambaugh	Chief Information Officer

Biographical information for Myron W. Wentz is included above with the other nominees for director. The following information is provided for each of our other executive officers.

David A. Wentz, 44, Chief Executive Officer. Mr. Wentz joined USANA as a part-time employee in 1992. He has been a full-time employee since March 1994. From 1993 until April 2004, he was a member of the Company's Board of Directors. Mr. Wentz was appointed Chief Executive Officer in July 2008. He served as President from July 2002 to July 2008 and previously served as the Company's Executive Vice President from October 2001 to July 2002. He served as the Company's Senior Vice President of Strategic Development from June 1999 to October 2001, and as the Company's Vice President of Strategic Development from August 1996 to June 1999. Mr. Wentz received a B.S. in Bioengineering from the University of California, San Diego. Mr. Wentz is the son of Dr. Wentz, who is the founder of the Company and Chairman of the Company's Board of Directors.

Paul A. Jones, 51, Chief Financial Officer. Mr. Jones joined USANA in 2005 as Vice President of Human Resources and served in this role until June 2007, when he left to complete a three year service mission. Mr. Jones returned to USANA as Vice President of Human Resources in July 2010 and served in this role until December 2012, when he was appointed Chief Financial Officer. Prior to joining USANA, Mr. Jones was employed as Vice President of Human Resources and later as Vice President of Operations for Associated Food Stores, Inc. Mr. Jones received a B.S. in finance from Utah State University and a master of arts in organizational management from the University of Phoenix. Mr. Jones is also a Certified Management Accountant.

Kevin G. Guest, 52, President, USANA Health Sciences, Inc. Mr. Guest joined USANA on a part-time basis in April 2003, as Executive Director of Media and Events. Following the Company's acquisition of FMG Productions, a media, video, and event productions company that was founded by Mr. Guest, he became a full-time employee of the Company and was promoted to Vice President of Media and Events in February 2004. In January 2006, he was appointed as the Company's Executive Vice President of Marketing and served in that role until July 2008, when he was appointed Chief Marketing Officer. Mr. Guest served in this role until May 2011, when he was appointed as President of North America. In October 2012, he was appointed as President of the Americas, Europe and South Pacific. In August 2014, Mr. Guest became the President of the Company. Prior to joining USANA full-time, from 1992 to February 2004, Mr. Guest served as the Managing Partner of FMG Productions. Mr. Guest earned a B.A. in Communications from Brigham Young University.

Deborah Woo, 61, President of Asia and Greater China. Mrs. Woo joined USANA as General Manager of USANA Hong Kong in 1999 and served in that role until 2003. In 2003, she was promoted

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to Regional General Manager and became responsible for the Hong Kong, Taiwan, and Singapore markets. Mrs. Woo was subsequently promoted to Vice President of Greater China and East Asia in 2005. As a result of USANA's strategic regional alignment in 2007, Mrs. Woo was appointed as Vice President of Greater China and North Asia. In 2008, Mrs. Woo was promoted to Executive Vice President of Asia. In February 2010, Mrs. Woo was promoted to Executive Vice President of Sales and served in this role until May 2011, when she was appointed President of Asia Pacific. In October 2012, she was appointed President of Asia and Greater China. Mrs. Woo entered the direct selling industry in 1990 as a Distributor Relations Manager for Amway Hong Kong. She later became Director of Sales for Caring International (Hong Kong) Limited in 1996 where she headed up multifunctional teams in operations, distributor relations, and marketing.

James H. Bramble, 45, Chief Legal Officer and Corporate Secretary. Mr. Bramble joined USANA in March 1998 to manage the Compliance and Legal Departments. In April 2006 he was appointed Vice President and General Counsel. In July 2008, Mr. Bramble was also appointed Corporate Secretary, and served in these roles until May 2011, when he was appointed Chief Legal Officer and Corporate Secretary. Prior to joining USANA, Mr. Bramble was employed with Novus Services. Mr. Bramble received a B.S. in political science with a minor in Spanish from the University of Utah in Salt Lake City, Utah. He received his J.D. from the S.J. Quinney College of Law at the University of Utah.

Jim Brown, 46, Chief Operating Officer. Mr. Brown joined USANA in 2006 as Vice President of Operations. In July 2011, he was appointed Vice President of Global Operations and served in that role until July 2012, when he was appointed Chief Production Officer. He served in that role until November 2013 when he was appointed Chief Operating Officer. Prior to joining USANA, Mr. Brown was previously employed at Sonoco as a plant manager where he was responsible for safety, quality, finance, production, and maintenance. Mr. Brown received a bachelor's degree with a double major in computer science and math as well as an M.B.A. from Francis Marion University in Florence, South Carolina.

Daniel A. Macuga, Jr., 45, Chief Communications Officer and Executive Vice President of Field Development for the Americas. Mr. Macuga joined USANA in 2007 as Vice President of Network Development and Public Relations. In July 2008, he was appointed as Vice President of Marketing, Public Relations and Social Media and served in that role until December 2011, when he was appointed Chief Communications Officer. He served in that role until February 2014 when he was appointed Chief Communications Officer and Executive Vice President of Field Development for the Americas. Prior to joining USANA, Mr. Macuga was employed at the Chrysler Corporation, where he spent 15 years working closely with independent dealership entrepreneurs to help them build their businesses, increase awareness for their products, and keep them focused on effective customer relationship management. Mr. Macuga received a B.A. in communications from the University of California, San Diego.

Doug Braun, 53, Chief Marketing Officer. Mr. Braun joined USANA as Vice President of Marketing in December 2011. He served in this capacity until March 2012, when he was appointed as Vice President of Marketing and Recognition and served in that role until July 2012, when he was appointed Chief Marketing Officer. Mr. Braun brings 20 years of direct selling experience to USANA. Prior to joining USANA, Mr. Braun was self-employed in 2011 and served as temporary chief executive officer of GrowLife, Inc. from May 2011 to September 2011. Prior to that he was president of Nikken International, Inc. from December 2008 to January 2011, vice president of sales & marketing of Nikken International, Inc. from July 2007 to November 2008 and vice president of marketing of Nikken International, Inc. from July 2005 to June 2007. Prior to that, he served as vice president of marketing of Fionda, LLC, and senior vice president of global marketing at Herbalife International, Inc. where Mr. Braun spent ten years. He has a BBA from the University of Cincinnati and an MBA from Xavier University.

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Rick Stambaugh, 54, Chief Information Officer. Mr. Stambaugh joined USANA as Executive Director of Digital Marketing in September 2013. He served in that capacity until December 2013, when he was appointed as Chief Information Officer. Mr. Stambaugh brings more than 30 years of direct selling experience to USANA. Prior to joining USANA, Mr. Stambaugh was the President and CEO of TekVation, LLC from May 2012 to September of 2013. Prior to that, he served as President and CEO of The Fionda Group Companies, LLC from June 2004 to May 2012, President from January 2002 to June 2004, and Executive Vice President from January 2000 to January 2002. Prior to that, he served as Director of Corporate Marketing at Herbalife International. Mr. Stambaugh attended the University of Nebraska, Omaha, and majored in education.

**EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS**

Introduction

The following Compensation Discussion and Analysis describes the material elements of the compensation and benefit programs for our Chief Executive Officer, Chief Financial Officer, and the three other most highly-compensated executive officers as of the end of fiscal year 2014. In this Proxy Statement, we refer to these officers as our "Named Executive Officers." Our Named Executive Officers are also referred to herein individually as an "Executive" and collectively as "Executives".

Executive Summary and Overview

Summary of 2014 Accomplishments. Fiscal 2014 was an exceptional year for USANA. From a financial perspective, we delivered our 12th consecutive year of record net sales, as well as our highest annual earnings-per-share in the history of the Company. These results were driven by a number of accomplishments during the year, including our achievement of more than 31% growth in the number of Active Associates who use and sell our products around the world. We ended the 2014 fiscal year with a record 349,000 Active Associates and 81,000 Preferred Customers worldwide. Associate and customer growth is our highest priority as we continue to focus on improving the overall health and nutrition of individuals and families around the world.

In 2014, we continued to see our business accelerate through improvement in a number of metrics that we use to evaluate the strength of our business. These metrics include Auto Order sales, world-wide unit volume, the number of Associate check earners and Associate rank advancements. At the end of fiscal 2014, Auto Orders made up 48.3% of our total product volume, compared to 41.7% at the end of fiscal 2013. Our Auto Order program is a key part of our operating strategy, as it has been shown to increase the success and longevity of a USANA customer. We also continued to see solid growth in our world-wide unit volume, the number of Associate check earners, and Associate rank advancements—all of which are essential to our business.

In 2014, we also continued to see our business grow in China. Specifically, annual net sales in China increased over 103% on a year-over-year basis and the number of Active Associates increased over 94%. We also made significant progress during the year on the construction of our new state-of-the-art production facility in Beijing, as well as the renovation and improvement of our branch service center locations throughout China.

Finally, in 2014 we completed essentially all pre-market planning and preparations to open a new market in 2015. We have announced that this market will be in our South East Asia Pacific Region and we will open it during the latter part of 2015.

Overview of Compensation Program. We believe that our Executives and employees, as well as the compensation programs that incent them, are key factors in driving our strong financial and operational performance. Our executive compensation program is designed to provide a competitive and internally

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equitable compensation and benefits package. We also strive to ensure that our executive compensation program reflects a pay-for-performance philosophy and promotes Executive motivation and retention.

Our executive compensation program includes base salary, short-term incentive compensation (in the form of a cash bonus), and long-term incentive compensation (in the form of equity awards). Short-term incentive compensation is performance-based and designed to motivate our Executives to achieve annual financial and non-financial performance objectives. To minimize potential risk, the potential for short-term incentive compensation is typically capped at 100% of an Executive's base salary. Long-term incentive compensation utilizes equity awards, which vest over several years. These awards reward the Executive for sustainable Company performance and align the financial interests of our Executives with those of our shareholders.

Other than as described above, we typically do not provide benefits to our Executives that are different from or in addition to those that are provided to our general employees. Additionally, we typically do not enter into pre-arranged severance agreements or contracts with our Executives that contain post-termination or change-in-control payment provisions, or provide significant perquisites or personal benefits to our Executives.

Compensation Philosophy and Objectives

The Company's compensation philosophy, as approved by the Compensation Committee, is to establish and maintain executive compensation programs that are designed to accomplish the following objectives:

- To attract and retain, through a fair and competitive compensation plan, Executives who have the intelligence, education, and experience that is required to effectively administer the affairs of the Company;
- To motivate our Executives to achieve certain financial and non-financial performance objectives for the benefit of our shareholders by tying components of their total compensation to individual and Company performance; and
- To ensure that compensation practices do not impair USANA's financial strength or future success.

The Compensation Committee intends to meet these objectives by utilizing and maintaining a balance among three major components of compensation: base salary, short-term incentive compensation (cash bonus), and long-term incentive compensation (in the form of equity awards). The Committee believes that these three components provide the appropriate framework to attract, retain and motivate our Executives, and align a significant portion of executive compensation with short-and long-term performance objectives that drive shareholder value. As shown in the compensation tables following this report, our Executives do not currently receive retirement benefits, pre-determined severance arrangements, deferred compensation opportunities, or other perquisites that are commonly provided to executives of similarly sized companies.

Role of Compensation Committee

Our executive compensation philosophy and practice has been developed through a collaborative effort of the Compensation Committee, the CEO, and the CFO. While these officers offer ideas, opinions, and proposals in Compensation Committee meetings, the Compensation Committee functions and votes independently from these officers. The Compensation Committee is responsible for all changes to the executive compensation philosophy and program. The Compensation Committee consists of three members of USANA's Board of Directors, all of whom are "independent" under the rules of the NYSE. These members are appointed to the Compensation Committee by the Board of Directors.

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The Compensation Committee acts under a written charter, which outlines the committee's authority and responsibilities.

Role of Corporate Leadership in Assisting Compensation Committee

The Compensation Committee has the primary authority to determine the Company's compensation philosophy and to establish compensation for the Company's Named Executive Officers. It is responsible for ensuring that executive compensation decisions are thoroughly researched and implemented. All of the Company's Executives and employees participate in an annual performance review with their immediate supervisor, during which the Executive or employee receives input about his or her performance and contributions to the Company's results for the period being assessed. The Compensation Committee seeks input from the Company's CEO and CFO to identify key factors and to obtain information that is related to executive compensation. These key factors and information generally involve the individual Executive's level of responsibility, his or her years of experience, his or her current overall compensation level in relation to external market studies and internal equity analysis between executives, the impact of current compensation practices on the Company's financial statements, and the relationship between executive compensation and performance of the Company.

The Company's CFO takes direction from and makes suggestions to the Chairman of the Compensation Committee in establishing the quarterly committee meeting agenda and in preparing the materials to be presented to the Compensation Committee. These materials contain minutes from prior meetings, key items to be addressed, and background information to help the Compensation Committee in its decision-making process.

Compensation Consultants

During 2014, the Compensation Committee did not engage or consult with a compensation consultant in connection with rendering decisions on 2014 Executive compensation. The Compensation Committee utilized the following materials, along with other resources and tools, to render compensation decisions for 2014: (i) surveys and reports of executive compensation paid by public companies, with characteristics similar to USANA, on a national basis; and (ii) surveys from Mercer, ERI, U.S. Direct Selling Association, and Western Management Group of executive compensation paid by certain of the Company's direct competitors, consisting of both public and private companies, on a local and national basis. These materials and resources help provide solid benchmarks for each component of our executive compensation as well as a general understanding of the total compensation offered by companies in our industry who are competing for top talent.

In late 2014, the Compensation Committee retained Frederic W. Cook & Co., or FWC, as its independent compensation consultant to assist the committee in reviewing our executive compensation program, to provide compensation data and alternatives to the committee, and to provide advice to the committee as requested. FWC does not perform any work for the Company outside of the services it performs for the Compensation Committee. The Compensation Committee will consider the compensation data and alternatives provided by FWC to analyze compensation decisions in 2015 and beyond, including setting annual base salary compensation, short-term incentive compensation and long-term incentive compensation for our Executives.

As a basis for the market data provided to the Compensation Committee, FWC utilized compensation data from a group of 22 peer companies set out below. These companies are all within a reasonable range of the Company's revenue, operating income, and market capitalization. As of the date of our 2014 fiscal year-end, we were at or near the median of the peer group with respect to revenue, operating income and market capitalization. This information was gathered and analyzed for the 25th, 50th and 75th percentiles for annual salary, short-term incentive pay elements and long-term incentive pay elements. Where possible, our Executives were matched to appropriate proxy and survey

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positions based on job duties and level of responsibility. The peer group information and other data provided by FWC are among several factors that the Compensation Committee will utilize in making compensation decisions in 2015 and beyond. The following companies were included in the 2014 peer group.

Blyth, Inc.	Nature's Sunshine Products, Incorporated
Coty, Inc.	Nu Skin Enterprises, Inc.
Elizabeth Arden, Inc.	Nutraceutical International Corporation
GNC Holdings, Inc.	NutriSystem Inc.
The Hain Celestial Group, Inc.	Perrigo Company plc
Herbalife, Ltd.	Prestige Brands Holdings, Inc.
International Flavors and Fragrances Inc.	Primerica, Inc.
Inter Parfums, Inc.	Revlon, Inc.
LifeVantage Corporation	Tupperware Brands Corporation
Mannatech, Incorporated	Vitamin Shoppe, Inc.
Natural Health Trends Corp.	Weight Watchers International, Inc.

Components of Compensation

Base Salary

Base salary represents the fixed component of executive compensation. It is designed to compensate our Executives fairly and competitively at levels necessary to attract, retain and motivate qualified executives in our industry. Consistent with this philosophy, the Compensation Committee, on an annual basis, evaluates our Executives' base salaries. The Committee asks for input and recommendations from the CEO and CFO and then considers (i) the Executive's scope of responsibilities, maturity in role, demonstrated level of performance, accomplishments and contributions to the Company; (ii) the performance of USANA, both financially and operationally; (iii) current market data and salary levels for each Executive's particular position; and (iv) the total compensation paid to each Executive. The Committee then renders a decision for each Executive's base salary based on the total mix of the foregoing information.

As part of its 2014 Executive compensation evaluation, the Compensation Committee, after reviewing the information outlined above, approved the Named Executive Officers' base salaries from July 2014 through June 2015 as follows:

<u>Executive</u>	<u>Appointed Office</u>	<u>2013 - 2014 Base Salary (\$)</u>	<u>2014 - 2015 Base Salary (\$)*</u>
David A. Wentz	Chief Executive Officer	\$ 575,000	\$ 300,000
Kevin G. Guest	President, USANA Health Sciences, Inc.	\$ 583,495	\$ 600,000
Deborah Woo	President of Asia and Greater China	\$ 580,378	\$ 580,378
Paul A. Jones	Chief Financial Officer	\$ 320,000	\$ 340,000
James H. Bramble	Chief Legal Officer	\$ 371,527	\$ 382,673

* For 2014-2015, Mr. Wentz informed the Compensation Committee that, pursuant to his discussions with and approval from the Board of Directors, he would be reducing his time in the office to spend more time with his family from August 2014 through August 2015. Mr. Wentz also informed the committee that, notwithstanding his reduced time in the office, he would continue to work on several strategic initiatives for the Company, as well as attend several significant events with the Company's Associate sales force. In light of these factors, Mr. Wentz recommended that the Compensation Committee reduce his base salary to \$300,000 for 2014-2015. The Compensation Committee agreed with Mr. Wentz's recommendation and reduced his base salary. With respect to Mr. Guest, the Compensation Committee adjusted his base salary in August 2014 for 2014-2015 in

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connection with his promotion to President of USANA and authorized a quarterly cash bonus to Mr. Guest of \$25,000 for the period of time that Mr. Wentz is reducing his time in the office. With respect to Ms. Woo, Mr. Jones and Mr. Bramble, the Compensation Committee set each Executive's base salary for 2014-2015 following its evaluation of all of the factors set out in (i) through (iv) in the paragraph above.

The actual base salaries paid to our Named Executive Officers during the year ended January 3, 2015 are reflected in column (c) of the Summary Compensation Table of this Proxy Statement.

Non-Equity Incentive Plan Compensation

We offer our Named Executive Officers non-equity incentive plan compensation in the form of a cash bonus that is based on USANA's achievement of certain financial and non-financial performance objectives during the applicable year. Cash bonuses are based on a percentage of the Executive's base salary. Each year, the Compensation Committee sets the range of the cash bonus for which each Executive is eligible and sets the performance objectives on which cash bonuses for that year will be based.

2014 Non-Equity Incentive Plan

For 2014, the Compensation Committee approved the 2014 Executive Bonus Plan (the "2014 Bonus Plan"), which was based on growth in net sales and profitability. The Compensation Committee approved this single financial performance objective to: (i) focus the Company's Executives on growing net sales in 2014 without sacrificing profitability; (ii) continue to align the bonus opportunity under the 2014 Bonus Plan for all Executives to promote internal equity; (iii) foster teamwork among markets and Executives; and (iv) also align the 2014 Bonus Plan offered to Executives with the profit sharing plan offered to all other employees of the Company.

Under the 2014 Bonus Plan, 9% of the Company's adjusted operating profits, which exceed 10% of net sales, were to be paid to Executives in the form of a cash bonus. For purposes of the 2014 Bonus Plan, the term "adjusted operating profit" is calculated as (i) the Company's earnings from operations, plus (ii) positive adjustments to earnings from operations for Executive and employee bonus accruals and equity compensation expense. Payments under the 2014 Bonus Plan were distributed as an equal percent of the Executive's base salary.

Under the 2014 Bonus Plan, Executives were eligible to receive a cash bonus of between zero and 100% of their base salary, depending on the performance of the Company under the criteria of the plan. Each Executive's target bonus percentage under the 2014 Bonus Plan was 50% of the Executive's base salary.

2014 Executive Bonus Plan Payout

Shortly after the end of fiscal 2014, the Compensation Committee reviewed the foregoing performance objectives and evaluated the actual performance delivered by the Company under the 2014 Bonus Plan. The Compensation Committee determined that the Company delivered excellent financial and operating performance in 2014 and, in particular, noted that the Company:

- Achieved 2014 net sales of \$790.5 million, which is a 10.1% increase compared to fiscal 2013;
- Achieved 2014 adjusted operating profit of \$138.1 million; and
- Achieved 2014 adjusted operating profit in excess of 10% of net sales of \$59 million.

Based on the Company's performance, and the criteria of the 2014 Bonus Plan, the Compensation Committee determined that each Executive had earned a cash bonus equal to 46.9% of the Executive's base salary under the 2014 Bonus Plan. Consequently, the committee awarded this bonus amount to

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each Executive. The actual cash bonuses paid to our Named Executive Officers under the 2014 Bonus Plan are reflected in column (g) of the Summary Compensation Table of this Proxy Statement.

2015 Executive Bonus Plan

For 2015, the Compensation Committee approved the 2015 Executive Bonus Plan (the "2015 Bonus Plan"), which is based on the same performance objectives as the 2014 Bonus Plan: growth in net sales and profitability. As part of its determination to again utilize this bonus criteria and structure, the committee noted: (i) the strong operating results delivered by the Executives and the Company in 2014; (ii) the successful alignment of the Company's Executives under the 2014 Bonus Plan, and (iii) the internal equity among Executives that was created by the 2014 Bonus Plan.

Under the 2015 Bonus Plan, 9% of the Company's adjusted operating profits, which exceed 10% of net sales, will again be paid to Executives in the form of a cash bonus. Payments under the 2015 Bonus Plan will be distributed as an equal percent of the Executive's base salary. Under the 2015 Bonus Plan, Executives will be eligible to receive a cash bonus of between zero and 100% of their base salary, depending on the performance of the Company under the criteria of the plan. Each Executive's target bonus percentage under the 2015 Bonus Plan is 50% of the Executive's base salary. Future estimated payouts under the 2015 Bonus Plan are reflected in the Grants of Plan-Based Awards table of this Proxy Statement.

Equity Compensation

Equity compensation is an integral part of USANA's compensation philosophy. We believe that equity grants that vest over a period of years tie a portion of our Executives' compensation to the Company's long-term performance and, thereby, align the interests of our Executives with the interests of our shareholders. Our equity compensation program delivers compensation to Executives only when the Company performs and the value of the Company's stock increases. USANA provides equity-based compensation primarily through the issuance of Stock-Settled Stock Appreciation Rights ("SSARs"). Grants of equity awards are made for both Executives and other eligible employees at regular Compensation Committee meetings and at special meetings, as needed.

The Compensation Committee's philosophy has been to issue intermittent SSAR awards to Executives to drive long-term Company performance as well as individual Executive performance. In general SSAR awards are granted to Executives as they enter into a qualifying position and vest annually in equal installments over a five-year period. Additional grants are awarded to Executives as seen necessary by the Compensation Committee to maintain sufficient long term incentive to accomplish the objectives outlined above. These additional grants typically do not vest in the first two years, but only at the end of years three, four and five, and such vesting for a particular Executive commences when the vesting schedule of that Executive's particular SSAR award ends. The grant price for equity awards is the fair market value of the award as of the date of grant as determined by the closing price of the Company's common stock on the date of grant.

In 2014, the Compensation Committee issued SSAR awards to the Named Executive Officers as detailed in the Outstanding Equity Awards At Fiscal Year-End Table of this Proxy Statement. The 2014 awards sequentially follow the Company's last broad SSAR award issuance in 2010. After the 2010 awards complete vesting and expire in 2015, the 2014 awards will begin to vest in 2016.

Other Compensation

Other than as described above, USANA does not at this time provide benefits to its Named Executive Officers that are different from or in addition to those that are provided to its general employees. Those benefits are described below.

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Retirement: Executives may participate in Company sponsored 401(k) retirement plans on the same terms and conditions, including Company matching provisions, as other employees. For the year ended January 3, 2015, we contributed matching funds totaling \$1,302,741 to our 401(k) plan in which all eligible employee participants shared. During 2014, each of our eligible Executives participated in our 401(k) plan and shared matching funds totaling \$72,800. Mrs. Woo is not eligible to participate in our 401(k) plan and the Company pays retirement compensation to her, as disclosed in the Summary Compensation Table, pursuant to Hong Kong law. Except as disclosed in this paragraph, we provide no other retirement benefits to our Executives.

Severance: USANA has no pre-arranged severance agreements or contracts with any of our Executives that contain post-termination or change-in-control payment provisions. We have, however, provided severance benefits to Executives on a case-by-case basis.

Perquisites: It is our general practice not to provide significant perquisites or personal benefits to our Executives. The Compensation Committee, however, retains the discretion to consider and award reasonable perquisites or personal benefits to Executives as necessary to accomplish the objectives under our compensation philosophy. In this regard, it should be noted that we do not currently provide pension arrangements, post-retirement health coverage, or similar benefits for our Executives or employees. In 2014, we paid health, life, and disability insurance premiums on behalf of our Executives, all on the same terms as those that we provide to all of the Company's employees.

Insurance Plans and Other Benefits: We provide insurance plans and other benefits to our Executives that are similar to those plans and benefits that are customarily provided to general employees of the Company.

Indemnification: Article VI of our Amended and Restated Articles of Incorporation and Article 5 of our Bylaws provide for indemnification of our directors, officers, employees, and other agents to the extent and under the circumstances permitted by the Utah Revised Business Corporation Act. We have entered into agreements with our directors and officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent allowed. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers, or persons controlling us under the foregoing provisions, the SEC has stated that such indemnification is against public policy, as expressed in the Securities Act, and, therefore, such indemnification provisions may be unenforceable.

Section 162(m) Treatment Regarding Performance-Based Equity Awards

Under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Section 162(m)"), a public company is generally denied deductions for compensation paid to the chief executive officer and the next four most highly compensated executive officers to the extent the compensation for any such individual exceeds \$1,000,000 for the taxable year. The Company's executive compensation programs are designed to preserve the deductibility of compensation payable to executive officers, although deductibility is just one among a number of factors considered in determining appropriate levels or types of compensation.

Consideration of Shareholder Advisory Votes

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), required that we include in our proxy statement for the 2014 Annual Meeting of Shareholders (the "2014 Annual Meeting") a non-binding, advisory shareholder vote to approve the compensation of our Named Executive Officers. At the 2014 Annual Meeting, our shareholders voted for approval of the compensation of our Named Executive Officers (99% of votes cast). Historically, the Compensation

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Committee has recommended, and shareholders have approved (67% of votes cast) the Company's determination to include a shareholder advisory vote on executive compensation in its future proxy materials once every three years. The Compensation Committee has affirmed its recommendation to the Board that this advisory vote be held once every three years and the Board has approved the committee's recommendation. This will be the frequency of such advisory votes until the next required vote on the frequency of advisory votes on executive compensation, which will occur at the Company's Annual Meeting of shareholders in 2017, or until the Compensation Committee, or Board of Directors, otherwise determines a different frequency for such shareholder advisory votes.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by the members of the Compensation Committee:

Ronald S. Poelman (Chair)
Jerry G. McClain
Robert Anciaux

SUMMARY COMPENSATION TABLE

The following table summarizes all compensation paid to our Named Executive Officers in each of the three most recently completed fiscal years.

(a) Name and Principal Position	(b) Year	(c) Salary (\$)	(d) Bonus (\$)(1)	(e) Stock Awards (\$)	(f) Option Awards (\$)(2)	(g) Non-Equity Incentive Plan Compensation (\$)(3)	(h) Change in Pension Value and Nonqualified Deferred	(i) All Other Compensation (\$)(4)	(j) Total (\$)
							Earnings (\$)		
Myron W. Wentz Chairman	2014	—	—	—	—	—	—	—	—
	2013	—	—	—	—	—	—	—	—
	2012	—	—	—	—	—	—	—	—
David A. Wentz Chief Executive Officer	2014	\$469,231	—	—	\$1,018,958	\$ 218,096	— \$	9,100 \$	\$1,715,385
	2013	\$530,769	—	—	—	\$ 289,360	— \$	8,575 \$	828,704
	2012	\$565,289	—	—	—	\$ 284,275	— \$	8,575 \$	858,139
Paul A. Jones Chief Financial Officer	2014	\$329,534	—	—	—	\$ 148,666	— \$	9,100 \$	487,300
	2013	\$317,688	—	—	—	\$ 153,192	— \$	8,575 \$	479,455
	2012	\$189,697	—	—	\$ 486,045	\$ 95,396	— \$	8,575 \$	779,713
Kevin G. Guest(5) President of USANA	2014	\$589,843	25,000	—	\$1,036,679	\$ 274,156	— \$	9,100 \$	\$1,934,778
	2013	\$583,495	—	—	—	\$ 318,104	— \$	8,575 \$	910,174
	2012	\$574,671	—	—	—	\$ 288,993	— \$	8,575 \$	872,239
Deborah Woo(6) President of Asia & & Greater China	2014	\$583,546	—	—	\$1,027,818	\$ 271,229	— \$	87,580 \$	\$1,970,173
	2013	\$575,052	—	—	—	\$ 262,696	— \$	83,513 \$	921,261
	2012	\$555,657	—	—	—	\$ 279,266	— \$	76,879 \$	911,802
James H. Bramble Chief Legal Officer & Corporate Secretary	2014	\$376,843	—	—	\$ 655,677	\$ 175,155	— \$	9,100 \$	\$1,216,775
	2013	\$365,909	—	—	—	\$ 199,483	— \$	8,575 \$	573,967
	2012	\$355,251	—	—	—	\$ 178,650	— \$	8,575 \$	542,476

- (1) Consists of a quarterly cash bonus of \$25,000 paid to Mr. Guest as our President for additional services and responsibilities while the Company's CEO, Mr. Wentz, has reduced his time in the office from August 2014 through August 2015.
- (2) Amounts in this column reflect the grant date fair value of stock-settled stock appreciation rights ("SSARs") granted during the year computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. In computing these amounts, the Company ignored the impact of the forfeiture rate relating to service based vesting conditions. These amounts do not represent the actual amounts paid to or realized by the Executive for these awards during the applicable fiscal year. Assumptions used in the calculation of these amounts are included in the Equity Based Compensation footnote to the Company's consolidated financial statements that are included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015.
- (3) Reflects amounts paid in fiscal 2015 for performance realized in fiscal year 2014, under the Company's short-term incentive plan (cash bonus) discussed in the Compensation Discussion and Analysis section of this Proxy Statement.
- (4) Reflects employer's matching contribution to the Executive's 401(k) plan, except in the case of the compensation paid to Mrs. Woo which is set out in (5) below.
- (5) Until August 2014, Mr. Guest's title was President of the Americas, Europe and South Pacific. He was named President of the Company in August 2014.
- (6) Mrs. Woo is our President of Asia & Greater China and resides in Hong Kong. In connection with Mrs. Woo's overseas employment, column (i) reflects \$87,580 paid by the Company to Mrs. Woo in 2014 as retirement compensation pursuant to local law.

GRANTS OF PLAN-BASED AWARDS

The following table contains information regarding equity awards granted to the Named Executive Officers during the fiscal year ended January 3, 2015 and the estimated or targeted payouts under the 2015 Bonus Plan described in the Compensation Discussion and Analysis section of this Proxy Statement.

(a) Name	Estimated future payouts under non-equity incentive plan awards(1)			Estimated future payouts under equity incentive plan awards			(i) All other stock awards: Number of shares of stock or units	(j) All other option awards: Number of underlying options	(k) Exercise or base price of awards (\$/Sh)	(l) Grant date fair value of stock and option awards (\$)	
	(b) Grant Date	(c) Threshold (\$)(1)	(d) Target (\$)	(e) Maximum (\$)	(f) Threshold (\$)	(g) Target (\$)	(h) Maximum (\$)	(#)	(#)(2)	(3)	(5)
Myron W. Wentz		—	—	—	—	—	—	—	—	—	—
David A. Wentz	N/A	—	\$150,000	\$ 300,000	—	—	—	—	57,500	57.62	1,018,958
Paul A. Jones	N/A	—	\$170,000	\$ 340,000	—	—	—	—	—	—	—
Kevin G. Guest	N/A	—	\$300,000	\$ 600,000	—	—	—	—	58,500	57.62	1,036,679
Deborah Woo	N/A	—	\$290,189	\$ 580,378	—	—	—	—	58,000	57.62	1,027,818
James H. Bramble	N/A	—	\$191,336	\$ 382,673	—	—	—	—	37,000	57.62	655,677

- (1) There is no guaranteed payment to our Named Executive Officers under the 2015 Executive Bonus Plan. If the minimum performance objectives are not achieved, they will receive no payout under the 2015 Executive Bonus Plan. The amounts shown in column (d) reflect the target payout, which is 50% of the Executive's base salary. The amounts shown in column (e) reflect 100% of the Executive's base salary, which is the maximum payout that can be obtained under the 2015 Executive Bonus Plan.
- (2) All equity awards granted to the Named Executive Officers were SSARs and granted under the 2006 Equity Incentive Award Plan. Mr. Jones did not receive an SSAR award in 2014 as a result of awards granted to him in prior years.
- (3) All Equity Awards granted to the Named Executive Officers were granted at the closing stock price on the date of grant.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table includes certain information with respect to the value of all equity awards previously granted to the Named Executive Officers at the end of the fiscal year ended January 3, 2015.

(a) Name	Option awards				Stock Awards				
	(b) Number of securities underlying unexercised options (#) exercisable	(c) Number of securities underlying unexercised options (#) unexercisable	(d) Equity incentive plan awards: Number of securities underlying unexercised options (#)	(e) Option exercise price (\$)	(f) Option expiration date	(g) Number of shares or units of stock that have not vested (#)	(h) Market value of shares or units that have not vested (\$)	(i) Equity incentive plan awards: Number of shares, units or rights that have not vested (#)	(j) Equity incentive plan awards: Market or payout value of unearned shares, units or rights that have not vested (\$)
Myron W. Wentz	—	—	—	\$ —	—	—	—	—	—
David A. Wentz(1)	—	30,000	—	\$ 35.47	27-Oct-15	—	—	—	—
	—	57,500	—	\$ 57.62	15-Mar-18	—	—	—	—
Paul A. Jones(2)	—	10,200	—	\$ 39.40	26-Jan-16	—	—	—	—
	7,000	21,000	—	\$ 38.23	16-Jun-18	—	—	—	—
Kevin G. Guest(1)	—	25,250	—	\$ 35.47	27-Oct-15	—	—	—	—
	—	58,500	—	\$ 57.62	15-Mar-18	—	—	—	—
Deborah Woo(1)	—	32,000	—	\$ 35.47	27-Oct-15	—	—	—	—
	—	58,000	—	\$ 57.62	15-Mar-18	—	—	—	—
James H. Bramble(1)	—	15,000	—	\$ 35.47	27-Oct-15	—	—	—	—
	—	37,000	—	\$ 57.62	15-Mar-18	—	—	—	—

- (1) The SSAR grants to Mr. Wentz, Mr. Guest, Mrs. Woo, and Mr. Bramble which expire on October 27, 2015, vest 50% in April 2014 and 50% in April 2015. The SSAR grants to Mr. Wentz, Mr. Guest, Mrs. Woo, and Mr. Bramble which expire on March 15, 2018, vest 50% in August 2016 and 50% in August 2017.
- (2) The SSAR grant to Mr. Jones, which expires on January 26, 2016, vests 50% in July 2014 and 50% in July 2015. The SSAR grant to Mr. Jones, which expires on June 16, 2018, vests 20% annually, beginning on the first anniversary of the date of grant.

OPTION EXERCISES AND STOCK VESTED

The following table summarizes certain information with respect to the awards exercised by the Named Executive Officers during the fiscal year ended January 3, 2015.

(a) Name	Option awards		Stock awards	
	(b) Number of shares acquired on exercise (#)	(c) Value realized on exercise (\$)	(d) Number of shares acquired on vesting (#)	(e) Value realized on vesting (\$)
Myron W. Wentz	343,805	\$ 22,500,244	—	—
David A. Wentz	22,484	\$ 1,627,148	—	—
Paul A. Jones	10,823	\$ 1,136,510	—	—
Kevin G. Guest	12,635	\$ 897,133	—	—
Deborah Woo	15,875	\$ 1,117,979	—	—
James H. Bramble	7,895	\$ 619,950	—	—

COMPENSATION OF DIRECTORS

The table below summarizes the compensation paid by the Company to directors of the Company for the fiscal year ended January 3, 2015, other than Dr. Wentz, the Company's Chairman of the Board, whose compensation is included in the Summary Compensation Table and who received no compensation for his services as a director in 2014.

(a) Name	(b) Fees earned or paid in cash (\$) (1)	(c) Stock awards (\$) (2)	(d) Option awards (\$) (2)	(e) Non-equity incentive plan compensation (\$) (2)	(f) Change in pension value and nonqualified compensation earnings (\$) (2)	(g) All other compensation (\$) (2)	(h) Total (\$) (2)
Robert							
Anciaux S	126,600	—	\$ 213,264	—	—	—	\$ 339,864
Jerry G.							
McClain S	143,950	—	\$ 213,264	—	—	—	\$ 357,214
Ronald S.							
Poelman S	150,250	—	\$ 213,264	—	—	—	\$ 363,514
Gilbert A.							
Fuller S	133,050	—	\$ 213,264	—	—	—	\$ 346,314

- (1) Effective July 2014, each non-employee director receives an annual cash retainer of \$88,800. The chair of the Company's Audit Committee, which is currently Mr. McClain, receives an additional annual cash retainer of \$17,800. The chair of the Compensation Committee, which is currently Mr. Poelman, receives an annual cash retainer of \$11,000 and the chair of the Governance, Risk and Nominating Committee, which is currently Mr. Fuller, receives an annual cash retainer of \$6,600. The Board Secretary, which is currently Mr. Poelman, also receives an annual cash retainer of \$13,200. The amounts in column (b) reflect a combination of the retainer fees for 2014. The Company also reimburses all directors for the out-of-pocket expenses that they incur in connection with their services as directors, which include travel, lodging, and related expenses from attending conferences to continue their education and expertise as directors, as well as participating in meetings of the shareholders, Board of Directors, and committees of the Board.
- (2) Amounts in this column reflect the grant date fair value of stock-settled stock appreciation rights ("SSARs") computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. In computing these amounts, the Company ignored the impact of the forfeiture rate relating to service based vesting conditions. These amounts do not represent the actual amounts paid to or realized by the directors for these awards during the applicable fiscal year. Assumptions used in the calculation of these amounts are included in the Equity Based Compensation footnote to the Company's consolidated financial statements that are included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock, as of March 2, 2015, by (1) each person known to be the beneficial owner of more than 5% of the issued and outstanding common stock based upon their most recent filings or correspondence with the SEC, (2) the Named Executive Officers and the directors of USANA individually, and (3) the Named Executive Officers and directors as a group. Except as indicated in the footnotes below, each of the persons listed below is believed to exercise sole voting and investment power over the shares of common stock that are listed for such individual or entity in this table.

<u>Name and Address</u>	<u>Number of Shares(1)</u>	<u>Percent of Class(2)</u>
Beneficial Owners of More Than 5%		
Gull Holdings, Ltd. 4 Finch Road Douglas, Isle of Man	6,498,110	51.3%
FMR LLC(3) 82 Devonshire Street Boston, MA 02109	1,146,907	9.1%
Renaissance Technologies LLC(4) 800 Third Avenue New York, NY 10022	797,883	6.3%
Directors and Named Executive Officers		
Myron W. Wentz, Ph.D.(5) Chairman of the Board	6,498,110	51.3%
David A. Wentz,(6) Chief Executive Officer	478,591	3.8%
Paul A. Jones(7) Chief Financial Officer	4,351	*
Kevin G. Guest(8) President	16,995	*
Deborah Woo(9) President of Asia and Greater China	20,762	*
James H. Bramble(10) Chief Legal Officer	10,354	*
Robert Anciaux, Director(11)	3,626	*
Jerry G. McClain, Director(12)	7,166	*
Ronald S. Poelman, Director(13)	5,702	*
Gilbert A. Fuller, Director(14)	1,443	*
Directors and Officers as a group (10 persons)	7,047,100	55.3%

* Less than one percent.

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- (1) All entries exclude beneficial ownership of shares that are issuable pursuant to options or SSARs that have not vested or that are not otherwise exercisable as of the date hereof and which will not become vested or exercisable within 60 days of March 2, 2015.
- (2) Percentages are rounded to nearest one-tenth of one percent. Percentages are based on 12,658,684 shares outstanding on March 2, 2015. Shares of common stock subjected to options and/or SSARs that are presently exercisable or exercisable within 60 days of March 2, 2015 are deemed to be beneficially owned by the person holding the options or SSARs for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of any other person.
- (3) Reflects the number of shares held at year-end, as reported on Form SC 13G/A filed on February 13, 2015.
- (4) Reflects the number of shares held at year-end, as reported on Form SC 13G/A filed on February 12, 2015.
- (5) Includes 6,498,110 shares held of record by Gull Holdings, Ltd., an Isle of Man company, which is 100% owned by Dr. Wentz. Because of his control of Gull Holdings, Ltd, Dr. Wentz is deemed to be the beneficial owner of the shares that are owned of record by Gull Holdings, Ltd.
- (6) Includes 19,465 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 10,361 shares that are held in the executive's 401(k) account and 448,765 shares that are held of record.
- (7) Includes 4,351 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015.
- (8) Includes 16,383 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 612 shares that are held in the executive's 401(k) account.
- (9) Includes 20,762 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015.
- (10) Includes 9,733 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 621 shares that are held in the executive's 401(k) account.
- (11) Includes 722 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 2,904 shares that are issuable pursuant to Deferred Stock Units ("DSUs"), which are presently vested or which become vested within 60 days of March 2, 2015.
- (12) Includes 1,443 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 5,723 shares that are issuable pursuant to DSUs, which are presently vested or which become vested within 60 days of March 2, 2015.

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- (13) Includes 1,443 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 4,259 shares that are issuable pursuant to DSUs, which are presently vested or which become vested within 60 days of March 2, 2015.
- (14) Includes 1,443 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information regarding outstanding awards and shares reserved for future issuance under our equity compensation plans as of January 3, 2015.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding awards(1)</u>	<u>Weighted-average exercise price of outstanding awards</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,568,288(2)\$	49.20(3)	7,457,733
Equity compensation plans not approved by security holders	None	N/A	None
Total	<u>1,568,288(2)\$</u>	<u>49.20(3)</u>	<u>7,457,733</u>

- (1) Consists of shares of common stock issuable under the USANA 2006 Equity Incentive Award Plan.
- (2) Includes 12,886 DSUs that will entitle each holder to the issuance of one share of common stock for each unit. Also, includes 1,555,402 SSARs. A SSAR is the right to receive the appreciation in fair market value of common stock between the exercise date and the date of grant in shares of common stock. Based on the closing stock price of \$102.28 on the last trading day of fiscal 2014 and the exercise price of SSAR's that were in-the-money, 807,227 shares of common stock would be issued upon the exercise of these awards.
- (3) Calculated without taking into account 12,886 shares of common stock subject to outstanding DSU's, which are issuable without any cash consideration or other payment required for such shares.

**PROPOSAL #2—APPROVAL OF THE COMPANY'S 2015
EQUITY INCENTIVE AWARD PLAN**

The Board of Directors has adopted, subject to shareholder approval, the USANA 2015 Equity Incentive Award Plan (the "2015 Plan" or the "Plan"). The 2015 Plan is being adopted in anticipation of the expiration of the Company's 2006 Equity Incentive Award Plan (the "2006 Plan") and will allow us to continue to provide equity awards to directors, executive officers, employees and consultants in connection with the Company's long-term incentive compensation philosophy. Our directors and Named Executive Officers may have an interest in the approval of the 2015 Plan because they are eligible for awards under the 2015 Plan.

If approved by the shareholders at the Annual Meeting, the 2015 Plan would govern future grants of stock-based awards ("stock awards") to our employees, directors, and consultants. This proposal will not affect existing equity awards granted under our 2006 Plan. All outstanding options under the 2006 Plan will remain outstanding, but no further grants will be made under the 2006 Plan if the 2015 Plan is approved. As of March 2, 2015, there were 1,555,402 SSARs and 12,886 DSUs outstanding under the 2006 Plan.

Under the NYSE rules, we are required to obtain shareholder approval of the 2015 Plan. Shareholder approval of the 2015 Plan also will constitute approval of (i) the performance criteria upon which performance-based awards that are intended to be deductible by us under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") may be based under the 2015 Plan; (ii) the one-year per participant limit of 500,000 shares of common stock underlying stock options and stock appreciation rights awards that may be made under the 2015 Plan; (iii) the one-year per participant limit of 500,000 shares of common stock for awards that are intended to be "performance-based compensation" under Section 162(m) of the Code; (iv) the one-year per participant limit of \$3,000,000 for awards that are intended to be "performance based compensation" under Section 162(m) of the Code; and (v) the one-year per director limit of \$500,000 for awards granted to directors under the 2015 Plan.

Shareholders are requested in this Proposal #2 to approve the 2015 Plan. The affirmative vote of a majority of the shares cast on this Proposal #2 either present in person or represented by proxy and entitled to vote at the meeting will be required to approve this Proposal #2. Shares present but not voted because of abstention will have the same effect on the results of this vote as a vote against. Shares subject to a broker non-vote will not be considered entitled to vote with respect to this Proposal and will have no effect on the outcome. The Board believes that the adoption of the 2015 Plan is in the best interest of the Company. The appropriate use of equity awards remains an essential component of our overall compensation philosophy. The Board believes that the 2015 Plan is necessary for us to continue to attract and retain well-qualified employees and directors who will contribute to our success, and to provide incentives to motivate such employees and directors that are directly linked to increases in shareholder value and will therefore benefit all of our shareholders.

A summary of the principal features of the 2015 Plan is provided below, but is qualified in its entirety by reference to the full text of the Plan as proposed to be amended, which is attached as Annex A to this Proxy Statement.

Summary of the 2015 Plan

Administration

The Compensation Committee of the Board of Directors administers the 2015 Plan. The Compensation Committee may delegate to a committee of one or more members of the Board the authority to grant or amend awards to participants other than senior executives of the Company who are subject to Section 16 of the Exchange Act, or employees who are "covered employees" within the

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meaning of Section 162(m) of the Code. The Compensation Committee includes at least two directors, each of whom qualifies as a non-employee director pursuant to Rule 16b-3 of the Exchange Act, and an "outside director" pursuant to Section 162(m).

The Compensation Committee has the exclusive authority to administer the 2015 Plan, including the power to determine eligibility, the types and sizes of awards, the price and timing of awards and the acceleration or waiver of any vesting restriction, provided that the Compensation Committee does not have the authority to accelerate vesting or waive the forfeiture of any performance-based awards.

Eligibility

Persons eligible to participate in the 2015 Plan include non-employee members of the Board, consultants to the Company, and all of the employees of the Company (including executive officers) and its subsidiaries, as determined by the Compensation Committee.

Limitation on Awards and Shares Available

If approved by the shareholders at the Annual Meeting, the maximum number of shares of common stock available for issuance under the 2015 Plan is 5,000,000 (the "Available Shares"). The Available Shares, however, will be made up entirely of shares that were previously made available under the Company's 2006 Equity Incentive Award Plan and not utilized. As such, the Company will not allocate any additional authorized but unissued shares of common stock to fund the Available Shares under the 2015 Plan.

To the extent that an award terminates, expires or lapses for any reason, any shares subject to the award may be used again for new grants under the 2015 Plan. In addition, shares tendered or withheld to satisfy the grant or exercise price or any tax withholding obligation may be used for grants under the 2015 Plan. Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any of its subsidiaries will not be counted against the shares available for issuance under the 2015 Plan. Notwithstanding the foregoing, no shares will become available (a) upon the cancellation of existing awards or any similar transactions following the 10th anniversary of shareholder approval of the 2015 Plan or (b) if the return of shares would require additional shareholder approval of the 2015 Plan pursuant to applicable rules of the NYSE. The shares of common stock covered by the 2015 Plan may be authorized but unissued shares, or shares purchased in the open market.

Awards

The 2015 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards. The Compensation Committee has the discretion to determine the types and amounts of awards that will be granted to specific individuals pursuant to the 2015 Plan.

Stock options, including incentive stock options, as defined under Section 422 of the Code, and nonqualified stock options may be granted pursuant to the 2015 Plan. The option exercise price of all stock options granted pursuant to the 2015 Plan will be at least 100% of the fair market value of the common stock on the date of grant. Stock options may be exercised as determined by the Compensation Committee, but in no event earlier than six months after the date of grant or after the 10th anniversary of the date of grant. The aggregate fair market value of the shares with respect to which options intended to be incentive stock options are exercisable for the first time by an employee in any calendar year may not exceed \$100,000, or such other amount as the Code provides.

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Upon the exercise of a stock option, the purchase price must be paid in full in either cash or its equivalent, by delivering a promissory note bearing interest at no less than such rate as shall then preclude the imputation of interest under the Code, or by tendering previously acquired shares of common stock with a fair market value at the time of exercise equal to the exercise price or other property acceptable to the Compensation Committee (including through the delivery of a notice that the participant has placed a market sell order with a broker with respect to shares then issuable upon exercise of the option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the option exercise price, provided that payment of such proceeds is then made to the Company upon settlement of such sale). However, no participant who is a member of the Board or an executive officer of the Company will be permitted to pay the exercise price of an option in any method in violation of Section 13(k) of the Exchange Act.

Restricted stock may be granted pursuant to the 2015 Plan. A restricted stock award is the grant of shares of common stock that is nontransferable and may be subject to substantial risk of forfeiture until specific conditions are met. Conditions may be based on continuing employment or achieving performance goals. During the period of restriction, participants holding shares of restricted stock may have full voting and dividend rights with respect to such shares. The restrictions will lapse in accordance with a schedule or other conditions determined by the Compensation Committee.

A stock appreciation right (an "SAR") is the right to receive payment of an amount equal to the excess of the fair market value of a share of common stock on the date of exercise of the SAR over the fair market value of a share of common stock on the date of grant of the SAR. Payments will be made by the Company in cash or common stock.

The other types of awards that may be granted under the 2015 Plan include performance shares, performance stock units, deferred stock, restricted stock units, and other stock-based awards.

Changes in Capital Structure

In the event of a stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of assets or any other corporate event affecting the common stock or the share price of the common stock in a manner that causes dilution or enlargement of benefits or potential benefits under the 2015 Plan, then the Compensation Committee will make proportionate adjustments to: (i) the aggregate number of, and types of, shares of stock subject to the 2015 Plan, (ii) the terms and conditions of any outstanding awards (including any applicable performance targets) and (iii) the grant or exercise price for any outstanding awards. In addition, in such a case or in the event of any unusual or nonrecurring transactions or events affecting the Company or of changes in applicable laws, the Compensation Committee, may, subject to the terms of the 2015 Plan, take any of the following actions if it determines that such action is appropriate in order to prevent the dilution or enlargement of benefits or potential benefits intended to be made available under the 2015 Plan or with respect to any award: (i) provide for either the termination, purchase or replacement of the awards, (ii) provide that the awards shall be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, (iii) make adjustments in the number and type of shares of stock (or other securities or property) subject to outstanding awards and/or in the terms and conditions of (including the exercise price), and the criteria included in, outstanding awards which may be granted in the future, (iv) provide for the acceleration of vesting or exercisability of the awards and (v) provide that the awards cannot vest or be exercised after the event that triggers the action.

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Amendment and Termination

The Compensation Committee, subject to approval of the Board, may terminate, amend, or modify the 2015 Plan at any time; provided, however, that shareholder approval must be obtained for any amendment to the extent necessary or desirable to comply with any applicable law, regulation or stock exchange rule, to increase the number of shares available under the 2015 Plan or to allow a material increase in the benefits or change the eligibility requirements under the 2015 Plan. In addition, without approval of the Company's shareholders, no option or SAR may be amended to reduce the per share exercise price of the shares subject to such option or SAR below the per share exercise price as of the date the option or SAR was granted and, except to the extent permitted by the 2015 Plan in connection with changes in the Company's capital structure, no option or SAR may be granted in exchange for, or in connection with, the cancellation or surrender of an option or SAR having a higher per share exercise price.

In no event may an award be granted pursuant to the 2015 Plan on or after the 10th anniversary of the effectiveness of the Plan.

Securities Law

The 2015 Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act, and any and all regulations and rules promulgated by the SEC thereunder, including without limitation Rule 16b-3. The 2015 Plan will be administered, and awards will be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the 2015 Plan and all awards granted thereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Federal Income Tax Consequences

The tax consequences of the 2015 Plan under current federal law are summarized in the following discussion which deals with the general tax principles applicable to the 2015 Plan, and is intended for general information only. Alternative minimum tax and state and local income taxes are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The tax information summarized is not tax advice.

Nonqualified Stock Options. For federal income tax purposes, an optionee generally will not recognize taxable income on the grant of a nonqualified stock option (an "NQSO") under the 2015 Plan, but upon the exercise of an NQSO will recognize ordinary income, and the Company generally will be entitled to a deduction. The amount of income recognized (and the amount deductible by the Company) generally will be equal to the excess, if any, of the fair market value of the shares at the time of exercise over the aggregate exercise price paid for the shares, regardless of whether the exercise price is paid in cash or in shares or other property. An optionee's basis for the stock for purposes of determining his or her gain or loss upon a subsequent disposition of the shares generally will be the fair market value of the stock on the date of exercise of the NQSO, and any subsequent gain or loss will generally be taxable as capital gains or losses.

Incentive Stock Options. An optionee generally will not recognize taxable income upon either the grant or exercise of an Incentive Stock Option (an "ISO"); however, the amount by which the fair market value of the shares at the time of exercise exceeds the exercise price will be an "item of tax preference" for the optionee for purposes of the alternative minimum tax. Generally, upon the sale or other taxable disposition of the shares of the common stock acquired upon exercise of an ISO, the optionee will recognize income taxable as capital gains in an amount equal to the excess, if any, of the amount realized in such disposition over the option exercise price, provided that no disposition of the shares has taken place within either (a) two years from the date of grant of the ISO or (b) one year from the date of exercise. If the shares of common stock are sold or otherwise disposed of before the

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end of the one-year and two-year periods specified above, the difference between the ISO exercise price and the fair market value of the shares on the date of exercise generally will be taxable as ordinary income; the balance of the amount realized from such disposition, if any, generally will be taxed as capital gain. If the shares of common stock are disposed of before the expiration of the one-year and two-year periods and the amount realized is less than the fair market value of the shares at the date of exercise, the optionee's ordinary income generally is limited to excess, if any, of the amount realized in such disposition over the option exercise price paid. The Company (or other employer corporation) generally will be entitled to a tax deduction with respect to an ISO only to the extent the optionee has ordinary income upon sale or other disposition of the shares of common stock.

Stock Appreciation Rights. No taxable income is generally recognized upon the receipt of an SAR, but upon exercise of the SAR the fair market value of the shares (or cash in lieu of shares) received generally will be taxable as ordinary income to the recipient in the year of such exercise. The Company generally will be entitled to a compensation deduction for the amount the recipient recognizes as ordinary income.

Restricted Stock and Deferred Stock. A participant to whom restricted or deferred stock is issued generally will not recognize taxable income upon such issuance and the Company generally will not then be entitled to a deduction, unless, in the case of restricted stock, an election is made by the participant under Section 83(b) of the Code. However, when restrictions on shares of restricted stock lapse, such that the shares are no longer subject to a substantial risk of forfeiture, the employee generally will recognize ordinary income and the Company generally will be entitled to a deduction for an amount equal to the excess of the fair market value of the shares at the date such restrictions lapse over the purchase price therefore. Similarly, when deferred stock vests and is issued to the employee, the employee generally will recognize ordinary income and the Company generally will be entitled to a deduction for the amount equal to the fair market value of the shares at the date of issuance. If an election is made under Section 83(b) with respect to restricted stock, the employee generally will recognize ordinary income at the date of issuance equal to the excess, if any, of the fair market value of the shares at that date over the purchase price therefore and the Company will be entitled to a deduction for the same amount. The Code does not permit a Section 83(b) election to be made with respect to deferred stock.

Dividend Equivalents. A recipient of a dividend equivalent award generally will not recognize taxable income at the time of grant, and the Company will not be entitled to a deduction at that time. When a dividend equivalent is paid, the participant generally will recognize ordinary income, and the Company will be entitled to a corresponding deduction.

Performance Awards. A participant who has been granted a performance award generally will not recognize taxable income at the time of grant, and the Company will not be entitled to a deduction at that time. When an award is paid, whether in cash or common stock, the participant generally will recognize ordinary income, and the Company will be entitled to a corresponding deduction.

Stock Payments. A participant who receives a stock payment in lieu of a cash payment that would otherwise have been made will generally be taxed as if the cash payment has been received, and the Company generally will be entitled to a deduction for the same amount.

Section 162(m) Limitation. In general, under Section 162(m), income tax deductions of publicly held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises, transfers of property and benefits paid under nonqualified retirement plans) for certain executive officers exceeds \$1 million (less the amount of any "excess parachute payments" as defined in Section 280G of the Code) in any one year. However, under Section 162(m), the deduction limit does not apply to certain "performance-based compensation." Under Section 162(m), stock options and SARs will satisfy the "performance-based compensation" exception if the awards of the

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options or SARs are made by a committee of the Board of Directors consisting solely of two or more "outside directors," the plan sets the maximum number of shares that can be granted to any person within a specified period, and the compensation is based solely on an increase in the stock price after the grant date (i.e., the option or SAR exercise price is equal to or greater than the fair market value of the stock subject to the award on the grant date). Other types of awards may only qualify as "performance-based compensation" if such awards are granted or payable only to the recipients based upon the attainment of objectively determinable and pre-established performance targets established by a qualifying committee of the Board and related to performance goals approved by our shareholders.

The 2015 Plan has been designed in order to permit the Compensation Committee to grant stock options and SARs that will qualify as "performance-based compensation" under Section 162(m). In addition, in order to permit awards other than stock options and SARs to qualify as "performance-based compensation," the 2015 Plan allows the Compensation Committee to designate as "Section 162(m) Participants" employees whose compensation for a given fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m). The Compensation Committee may grant awards to Section 162(m) Participants that vest or become exercisable upon the attainment of specific performance targets that are related to one or more of the performance goals set forth in the 2015 Plan.

New Plan Benefits

If the 2015 Plan under Proposal #2 is approved by our shareholders, the Compensation Committee in its sole discretion will determine the number and types of awards that will be granted under the Plan going forward and will also determine the persons to whom awards will be granted. Therefore, the number of shares to be issued under the 2015 Plan and the net values to be realized upon such issuances are discretionary, and therefore, not determinable.

RECOMMENDATION

The Board of Directors unanimously recommends a vote FOR the Company's 2015 Equity Incentive Award Plan.

PROPOSAL #3—RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected KPMG LLP ("KPMG") as the independent registered public accounting firm to audit the financial statements of the Company and its subsidiaries for the fiscal year ending January 2, 2016. KPMG has served as our independent registered public accounting firm since September 16, 2013 and audited the Company's financial statements for the fiscal year ended January 3, 2015.

Change in Independent Registered Public Accounting Firm

As previously disclosed, KPMG was engaged as the Company's independent registered public accounting firm on September 16, 2013 following the Audit Committee's dismissal of PricewaterhouseCoopers LLP ("PWC") as our independent registered public accounting firm. The reports of PWC on our consolidated financial statements as of and for the year ended December 29, 2012 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the year ended December 29, 2012, and through September 16, 2013, there were no: (i) disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to PWC's satisfaction, would have caused PWC to make reference to the

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subject matter thereof in connection with its reports for such years; or (ii) reportable events, as described under Item 304(a)(1)(v) of Regulation S-K.

Policy on Pre-Approval of Audit and Permissible Non-Audit Services

The Audit Committee pre-approves any engagement of KPMG and has the ultimate authority and responsibility to select, evaluate and where appropriate, replace the independent registered public accounting firm and nominate an independent registered public accounting firm for shareholder approval. While ratification of the selection of accountants by the shareholders is not required and is not binding upon the Audit Committee or the Company, in the event of a negative vote on such ratification, the Audit Committee might choose to reconsider its selection.

Prior to the performance of any services, the Audit Committee approves all audit and non-audit services to be provided by the Company's independent registered public accounting firm and the fees to be paid therefor. Although the Sarbanes-Oxley Act of 2002 permits the Audit Committee to pre-approve some types or categories of services to be provided by the independent registered public accounting firm, it is the current practice of the Audit Committee to specifically approve all services provided by the independent registered public accounting firm in advance, rather than to pre-approve any type of service. In connection with this practice, the Audit Committee has considered whether the provision of non-audit services is compatible with maintaining KPMG's independence.

Independence

KPMG has advised us that it has no direct or indirect financial interest in the Company or in any of its subsidiaries and that during 2014 it had no connection with the Company or any of its subsidiaries, other than as its independent registered public accounting firm or in connection with certain other activities, as described below.

Financial Statements and Reports

The financial statements of the Company for the year ended January 3, 2015, and the report of the independent registered public accounting firm will be presented at the Annual Meeting. KPMG will have a representative present at the meeting who will have an opportunity to make a statement, if he or she so desires, and to respond to appropriate questions from shareholders.

Services

During the fiscal year 2014, KPMG performed services consisting of the audit of the annual consolidated financial statements of the Company, and the effectiveness of our internal controls over financial reporting, review of the quarterly financial statements for the quarters ended March 29, 2014, June 28, 2014 and September 27, 2014, stand-alone audits of subsidiaries, and accounting consultations, consents, other services related to SEC filings by the Company and its subsidiaries, tax compliance services and transfer pricing services. KPMG did not perform any financial information systems design and implementation services for the Company for the fiscal year 2014.

During fiscal year 2013, KPMG performed services consisting of the audit of the annual consolidated financial statements of the Company, and the effectiveness of our internal controls over financial reporting, review of the quarterly financial statements for the quarters ended September 28, 2013, stand-alone audits of subsidiaries, and accounting consultations, consents, and other services related to SEC filings by the Company and its subsidiaries. KPMG did not perform any financial information systems design and implementation services for the Company for the fiscal year 2013.

Also, during fiscal year 2013, PWC provided services consisting of reviews of the quarterly financial statements for the quarters-ended March 31, 2013 and June 30, 2013, stand-alone audits of subsidiaries,

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and accounting consultations, consents, and other services related to SEC filings and registration statements that were filed by the Company and its subsidiaries. PWC also provided other services to the Company in fiscal year 2013, consisting primarily of tax consultation and related services. PWC did not perform any financial information systems design and implementation services for the Company for the fiscal year 2013.

The following table summarizes the fees that were paid to KPMG and PWC by the Company during fiscal years 2014 and 2013.

<u>Type of Service and Fee</u>	<u>Fiscal Year 2013</u>		<u>Fiscal Year 2014</u>
	<u>KPMG LLP</u>	<u>PricewaterhouseCoopers LLP</u>	<u>KPMG LLP</u>
Audit Fees	\$ 1,706,462	\$ 181,110	\$ 1,423,415
Audit Related Fees	—	\$ 37,293	\$ —
Tax Fees	—	\$ 127,259	\$ 43,050
All Other Fees	—	\$ —	\$ —
Total Fees	<u>\$ 1,706,462</u>	<u>\$ 345,662</u>	<u>\$ 1,466,465</u>

RECOMMENDATION

The Board of Directors unanimously recommends a vote FOR ratification of the appointment of KPMG LLP, as the Company's independent registered public accounting firm for fiscal year 2015.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is responsible for monitoring the Company's financial auditing, accounting and financial reporting processes and the Company's system of internal controls, and selecting the independent registered public accounting firm on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The independent registered public accounting firm, KPMG LLP, is responsible for performing an independent audit of the Company's consolidated financial statements and the effectiveness of internal controls over financial reporting in accordance with standards of the Public Company Accounting Oversight Board (United States) and issuing an opinion thereon. In this context, the Audit Committee met regularly and held discussions with management, the internal audit department and KPMG LLP. Management represented to the Audit Committee that the consolidated financial statements for the fiscal year 2014 were prepared in accordance with U.S. generally accepted accounting principles.

The Audit Committee hereby reports as follows:

- The Audit Committee has reviewed and discussed the audited consolidated financial statements and accompanying management's discussion and analysis of financial condition and results of operations with management and KPMG LLP. This discussion included KPMG LLP's judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.
- The Audit Committee also discussed with KPMG LLP the matters required to be discussed by the Statements on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.
- KPMG LLP also provided to the Audit Committee the written disclosures and the letter required by the applicable requirements of the Public Accounting Oversight Board regarding KPMG LLP's communications with the Audit Committee concerning independence, and the Audit Committee has discussed with KPMG LLP the accounting firm's independence. The Audit Committee also considered whether non-audit services provided by KPMG LLP during the last fiscal year were compatible with maintaining the accounting firm's independence.

Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited consolidated financial statements of the Company be included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015, for filing with the Securities and Exchange Commission.

Respectfully submitted by the members of the Audit Committee:

Jerry G. McClain (Chair)
Robert Anciaux
Gilbert A. Fuller
Ronald S. Poelman

EMPLOYMENT CONTRACTS AND OTHER ARRANGEMENTS

The Company has no employment agreements with any of its executive officers.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers, directors, and persons who beneficially own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC and with the NYSE. Officers, directors, and greater-than-ten-percent shareholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of these forms that were furnished to the Company, and based on representations made by certain persons who were subject to this obligation that such filings were not required to be made, the Company believes that all reports that are required to be filed by these individuals and persons under Section 16(a) were filed on time in fiscal year 2014, except that the SSAR award to each of the Named Executive Officers and Directors in fiscal 2014 was reported late on Form 4.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures Regarding Related Party Transactions

In the ordinary course of business, we may engage in transactions which have the potential to create actual or perceived conflicts of interest between USANA and our directors and officers or their immediate family members. The Audit Committee charter requires that the Audit Committee review and approve any related party transaction or, in the alternative, that it notify and request action on the related party transaction by the full Board of Directors. While we have not adopted formal written procedures for reviewing such transactions, in deciding whether to approve a related party transaction, the Audit Committee may consider, among other things, the following factors:

- information regarding the goods or services that are proposed to be provided, or that are being provided, by or to the related party;
- the nature of the transaction and the costs to be incurred by the Company;
- an analysis of the costs and benefits that are associated with the transaction and a comparison of alternative goods or services that are available to the Company from unrelated parties;
- an analysis of the significance of the transaction to the Company;
- whether the transaction would be in the ordinary course of our business;
- whether the transaction is on terms that are comparable to those that could be obtained in an arm's-length dealing with an unrelated third party; and
- whether the transaction could result in an independent director no longer being considered to be independent under the NYSE rules.

After considering these and other relevant factors, the Audit Committee either (1) approves or disapproves the related party transaction, or (2) requests that the full Board of Directors consider the matter. The Audit Committee will not approve any related party transaction which is not on terms that it believes are both fair and reasonable to USANA.

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Related Party Transaction

The Company's Founder and Chairman of the Board, Myron W. Wentz, PhD, is the sole beneficial owner of Gull Holdings, Ltd., which is the largest shareholder of the Company. Gull Holdings, Ltd. owned 51.5% of our issued and outstanding shares as of January 3, 2015. Dr. Wentz devotes much of his personal time, expertise, and resources to a number of business and professional activities outside of USANA. The most significant of these is the Sanoviv Medical Institute, which is a unique, fully integrated health and wellness center located near Rosarito, Mexico that Dr. Wentz founded 1998. Dr. Wentz's private entity, Sanoviv S.A. DE C.V. ("Sanoviv"), contracts with Medicis, S.C. ("Medicis"), an entity that is owned and operated independently of Dr. Wentz, to conduct the operations of the Sanoviv Medical Institute. Sanoviv leases the medical building to Medicis and Medicis carries out all of the operations of the medical institute, which include employing all of the medical and healthcare professionals who provide services at the medical institute. The Medicis medical and healthcare professionals possess expertise in the fields of human health, digestive health, nutritional medicine, lifestyle medicine and other medical fields that are important to USANA.

In 2014, Medicis performed a variety of contract research services on behalf of USANA, which included: (i) research and development of novel product formulations for future development and production by USANA; and (ii) research and development of improvements in existing USANA product formulations. Also, in 2014, Medicis performed health assessments and physical examinations for certain of our executives. In exchange for these services, USANA paid Medicis approximately \$314,000 during 2014. The Company's agreements with Medicis were approved by the Audit Committee in advance of the Company's entry into the agreements. Our collaboration with Medicis is terminable at will by us at anytime, without any continuing commitment by USANA.

OTHER MATTERS

Shareholder Proposals. As of the date of this Proxy Statement, the Board of Directors does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Annual Meeting, other than as set forth herein and in the Notice of Annual Meeting. If any other matter properly comes before the meeting, it is intended that the holders of proxies will act in accordance with their best judgment on these matters. Shareholders who intend to present proposals at the 2016 Annual Meeting under SEC Rule 14a-8 must ensure that such proposals are received by the Secretary of the Company not later than November 26, 2015. Such proposals must meet the requirements of the SEC to be eligible for inclusion in our 2016 proxy materials.

ANNUAL REPORT

A copy of the our Annual Report on Form 10-K for the fiscal year ended January 3, 2015, as filed with the SEC, will be made available on our website and, to each shareholder of record at March 2, 2015 who requests such materials, mailed concurrently with, this Proxy Statement. The Annual Report on Form 10-K is not deemed a part of the proxy soliciting material for the Annual Meeting.

Notwithstanding any general language that may be to the contrary in any document filed with the SEC, the information in this Proxy Statement under the captions "Audit Committee Report" and "Compensation Committee Report" shall not be incorporated by reference into any document filed with the SEC.

FURTHER INFORMATION

Additional copies of the Annual Report on Form 10-K for the year ended January 3, 2015 (including financial statements and financial statement schedules) that has been filed with the SEC may be obtained without charge by writing to USANA Health Sciences, Inc., Attention: Investor Relations, 3838 West Parkway Blvd., Salt Lake City, Utah 84120-6336. Our reports and other public filings,

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including this Proxy Statement, also may be obtained from the SEC's on-line database, located at www.sec.gov.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "J. H. Bramble".

James H. Bramble,
Corporate Secretary

Date: March 25, 2015

ANNEX A

*USANA HEALTH SCIENCES, INC.
2015 EQUITY INCENTIVE AWARD PLAN*

USANA HEALTH SCIENCES, INC.
2015 EQUITY INCENTIVE AWARD PLAN

ARTICLE 1

PURPOSE

The purposes of the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (the "*Plan*") are to:

- (1) Closely associate the interests of management, employees, directors and consultants of USANA Health Sciences, Inc., a Utah corporation (the "*Company*"), with the shareholders of the Company by reinforcing the relationship between participants' rewards and shareholder gains;
- (2) Provide management and employees with an equity ownership in the Company commensurate with Company performance, as reflected in increased shareholder value;
- (3) Maintain competitive compensation levels; and
- (4) Provide an incentive to management and employees to remain in continuing employment with the Company and to put forth maximum efforts for the success of its business.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "*Award*" means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Share award, a Performance Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock award, a Restricted Stock Unit award, an Other Stock-Based Award, or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.2 "*Award Agreement*" means any written or electronic agreement, contract, or other instrument or document evidencing an Award.

2.3 "*Board*" means the Board of Directors of the Company.

2.4 "*Change in Control*" means the occurrence of any of the following in one or a series of related transactions: (i) an acquisition after the date hereof by an individual or legal entity or "group" (as described in Rule 13d-5(b)(1) under the Exchange Act) of more than thirty percent (30%) of the voting rights or equity interests in the Company; *provided, however*, that any of the following acquisitions shall not be deemed to be a Change in Control: (A) any acquisition by the Company or any Subsidiary, (B) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (C) any acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities, or (D) any acquisition by any person of the voting rights or equity interests in the Company from the Company, if a majority of the Incumbent Directors approves in advance such acquisition; (ii) a replacement, during a 24-month period, of more than one-half of the members of the Board that is not approved by those individuals who are members of the Board on the date hereof (or other directors previously approved by such individuals) (collectively "the Incumbent Directors"); *provided, however*, that no individual initially elected or nominated as a member of the Board as a result of an actual or threatened election contest with respect to members of the Board or

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as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director; (iii) consummation of a merger or consolidation of the Company or any Subsidiary or a sale of more than one-half of the assets of the Company in one or a series of related transactions, unless following such transaction or series of transactions, the holders of the Company's securities prior to the first such transaction continue to hold at least one-half of the voting rights and equity interests of the surviving entity or acquirer of such assets and such voting rights among the holders thereof is in substantially the same proportion as the voting rights of such among the holders thereof immediately prior to the transaction; (iv) a recapitalization, reorganization or other transaction involving the Company or any Subsidiary that constitutes or results in a transfer of more than one-half of the voting rights or equity interests in the Company; or (v) consummation of a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Exchange Act with respect to the Company.

2.5 "*Code*" means the Internal Revenue Code of 1986, as amended.

2.6 "*Committee*" means the committee of the Board described in Article 12.

2.7 "*Consultant*" means any consultant or adviser if:

- (a) The consultant or adviser renders bona fide services to the Company;
- (b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities; and
- (c) The consultant or adviser is a natural person who has contracted directly with the Company to render such services.

2.8 "*Covered Employee*" means an Employee who is, or may be, as determined by the Committee, a "covered employee" within the meaning of Section 162(m) of the Code.

2.9 "*Deferred Stock*" means a right to receive a specified number of shares of Stock during specified time periods pursuant to Article 8.

2.10 "*Disability*" means that the Participant qualifies to receive long-term disability payments under the Company's long-term disability insurance program, as it may be amended from time to time.

2.11 "*Dividend Equivalents*" means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.12 "*Effective Date*" shall have the meaning set forth in Section 13.1.

2.13 "*Eligible Individual*" means any person who is an Employee, a Consultant or a member of the Board, as determined by the Committee.

2.14 "*Employee*" means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Subsidiary.

2.15 "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

2.16 "*Fair Market Value*" means, as of any given date, the fair market value of a share of Stock on the date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a share of Stock as of any date shall be (i) the closing price of a share of Stock on the principal exchange on which shares of Stock are then trading, if any, on such date, or if shares were not traded on such date, then on the closest preceding date on which a trade occurred; or (ii) if Stock is not traded on an exchange, the mean between the closing representative bid and asked prices for the Stock on such date as reported by NASDAQ or, if NASDAQ is not then in existence, by its successor quotation system; or

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(iii) if Stock is not publicly traded, the Fair Market Value of a share of Stock as established by the Committee acting in good faith.

2.17 "*Incentive Stock Option*" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.18 "*Independent Director*" means a member of the Board who is not an Employee of the Company.

2.19 "*Non-Employee Director*" means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.20 "*Non-Qualified Stock Option*" means an Option that by its terms does not qualify or is not intended to be an Incentive Stock Option.

2.21 "*Option*" means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.22 "*Optionee*" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

2.23 "*Other Stock-Based Award*" means an Award granted or denominated in Stock or units of Stock pursuant to Section 8.7 of the Plan.

2.24 "*Participant*" means any Eligible Individual who, as a member of the Board or Employee or Consultant, has been granted an Award pursuant to the Plan.

2.25 "*Performance-Based Award*" means an Award granted to selected Covered Employees pursuant to Articles 6 and 8, but which is subject to the terms and conditions set forth in Article 9. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

2.26 "*Performance Criteria*" means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added (as determined by the Committee), sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on shareholders' equity, return on assets, return on capital, shareholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer growth, customer satisfaction, working capital, earnings per share, price per share of Stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.27 "*Performance Goals*" means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (b) in recognition of, or in anticipation of, any other unusual or

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nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

2.28 "*Performance Period*" means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

2.29 "*Performance Share*" means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.30 "*Performance Unit*" means a right granted to a Participant pursuant to Article 8, to receive units of value, including dollar value of shares of Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.31 "*Plan*" means this USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan, as it may be amended from time to time.

2.32 "*Qualified Performance-Based Compensation*" means any compensation that is intended to qualify as "qualified performance-based compensation" as described in Section 162(m)(4)(C) of the Code.

2.33 "*Restricted Stock*" means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.34 "*Restricted Stock Unit*" means an Award granted pursuant to Section 8.6.

2.35 "*Section 409A Award*" shall have the meaning set forth in Section 15.1.

2.36 "*Securities Act*" shall mean the Securities Act of 1933, as amended.

2.37 "*Stock*" means the common stock of the Company, par value \$.001 per share, and such other securities of the Company that may be substituted for Stock pursuant to Article 11.

2.38 "*Stock Appreciation Right*" or "*SAR*" means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.39 "*Stock Payment*" means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Article 8.

2.40 "*Subsidiary*" means any "subsidiary corporation" as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

2.41 "*Substitute Awards*" shall mean Awards granted or shares of Stock issued by the Company in assumption of, or in substitution or exchange for, Awards previously granted, or the right or obligation to make future Awards, in each case by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

ARTICLE 3

SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares.*

(a) Subject to Article 11 and Section 3.1(b), the aggregate number of shares of Stock which may be issued, transferred or reserved for issuance pursuant to Awards under the Plan shall be five million (5,000,000) shares. In order that the applicable regulations under the Code relating to Incentive Stock Options be satisfied, the maximum number of shares of Stock that may be delivered upon exercise of Incentive Stock Options shall be the number specified in this Section 3.1(a). Shares of Stock that may be issued upon exercise of Options under the Plan shall be authorized and unissued shares of Stock. In the absence of an effective registration statement under the Securities Act of 1933 (the "Act"), all Options granted and shares of Stock subject to their exercise will be restricted as to subsequent resale or transfer, pursuant to the provisions of Rule 144, promulgated under the Act.

(b) To the extent that an Award terminates, expires, or lapses for any reason, or an Award is settled for cash (in whole or in part) or otherwise does not result in the issuance of all or a portion of the shares of Stock subject to such Award (including on payment in shares of Stock on exercise of a Stock Appreciation Right), any shares of Stock subject to the Award, to the extent of such termination, expiration, lapse, cash settlement or non-issuance, shall again be available for the grant of an Award pursuant to the Plan. Additionally, any shares of Stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by applicable law or any exchange rule, shares of Stock subject to Substitute Awards shall not be counted against shares of Stock available for grant pursuant to this Plan nor shall shares of Stock subject to a Substitute Award be added to the shares of Stock available for Awards under the Plan as provided above in this paragraph. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the shares of Stock authorized for grant under the Plan (and shares of Stock subject to such Awards shall not be added to the shares of Stock available for Awards under the Plan as provided above in this paragraph; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or a member of the Board prior to such acquisition or combination. The payment of Dividend Equivalents in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan.

3.2 *Stock Distributed.* Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

3.3 *Limitation on Number of Shares Subject to Awards.* Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, (a) the maximum number of shares of Stock with respect to one or more Options or Stock Appreciation Rights that may be granted to any one Participant during a one-year period (measured from the date of any grant) shall be 500,000, (b) the maximum number of shares of Stock with respect to one or more Performance-Based Awards that may be granted to any one Participant during a one-year period (measured from the date of any grant) shall be 500,000 and (c) the maximum dollar value payable to any one Participant during a one-year period with respect to awards of Performance Units shall be \$3,000,000.

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3.4 *Limit on Awards to Independent Directors.* Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the date of grant in accordance with applicable financial accounting rules) of all Awards granted to any Independent Director during any single calendar year shall not exceed \$500,000.

ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 *Eligibility.* Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

4.2 *Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan.

4.3 *Foreign Participants.* In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

ARTICLE 5

STOCK OPTIONS

5.1 *General.* The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) *Exercise Price.* The exercise price per share of Stock subject to an Option (other than in connection with Substitute Awards) shall be not less than 100% of the Fair Market Value of a share of Stock on the date of the grant. Other than pursuant to Section 11.1, the Committee shall not without the approval of the Company's shareholders (a) lower the exercise price per share of Stock of an Option after it is granted, (b) cancel an Option when the exercise price per share of Stock exceeds the Fair Market Value of one share of Stock in exchange for cash or another Award (other than in connection with a Change in Control), or (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the shares of Stock are listed.

(b) *Time and Conditions of Exercise.* Each Option shall be fully exercisable at any time within the period beginning not earlier than six months after the date of the option grant and ending not later than ten years after the date of such grant, unless the Committee specifies otherwise (the "Option Term"). In no event, however, shall the Option Term extend beyond ten years after the date of the grant. No Option shall be exercisable after the expiration of the Option Term. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised. Notwithstanding the foregoing, in the event that on the last business day of the term of an Option (other than an Incentive Stock Option) (i) the exercise of the Option is prohibited by applicable law or (ii) shares of Stock may not be purchased or sold by certain employees or directors of the Company due to the "black-out period" of a Company policy or a "lock-up" agreement undertaken in connection with an issuance of securities by the Company, the term of the Option shall be extended for a period of

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thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement. Notwithstanding the foregoing, an Award Agreement may provide that if on the last day of the term of an Option the Fair Market Value of one share of Stock exceeds the option price per share of Stock, the Participant has not exercised the Option (or a tandem Stock Appreciation Right, if applicable) and the Option has not expired, the Option shall be deemed to have been exercised by the Participant on such day with payment made by withholding shares of Stock otherwise issuable in connection with the exercise of the Option. In such event, the Company shall deliver to the Participant the number of shares of Stock for which the Option was deemed exercised, less the number of shares of Stock required to be withheld for the payment of the total purchase price and required withholding taxes; *provided, however*, any fractional share of Stock shall be settled in cash.

(c) *Payment*. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation: (i) cash, (ii) promissory note bearing interest at no less than such rate as shall preclude the imputation of interest under the Code, (iii) shares of Stock having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, or (iv) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option by means of a personal loan or other credit extended by the Company or in any other method which would violate Section 13(k) of the Exchange Act.

(d) *Evidence of Grant*. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include the number of shares of Stock subject to the Option, the exercise date, the Option Term, and such additional provisions as may be specified by the Committee.

5.2 *Incentive Stock Options*. The terms of any Incentive Stock Options granted pursuant to the Plan must comply with the conditions and limitations contained Section 13.2 and this Section 5.2.

(a) *Eligibility*. The Committee may grant one or more Incentive Stock Options to employees of the Company or any "subsidiary corporation" thereof (within the meaning of Section 424(f) of the Code and the applicable regulations promulgated thereunder). The date an Incentive Stock Option is granted shall mean the date selected by the Committee as of which the Committee shall allot a specific number of shares to a Participant pursuant to the Plan.

(b) *Individual Dollar Limitation*. The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. Multiple Incentive Stock Options may be granted to an Optionee in any calendar year.

(c) *Ten Percent Owners*. The Committee may determine to grant an Incentive Stock Option to an Employee who is also an individual who owns, at the date of grant, directly or indirectly according to the stock ownership attribution rules of Section 424(d) of the Code, Stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company. However, the exercise price of such Option granted shall not be less than 110% of Fair Market

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Value on the date of grant. Furthermore, the Option may be exercisable for no more than five years from the date of grant.

(d) *Notice of Disposition.* The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such shares of Stock to the Participant. In order to obtain the favorable tax treatment available for Incentive Stock Options under Section 422 of the Code, the Optionee is prohibited from the sale, exchange, transfer, pledge, hypothecation, gift or other disposition of the shares of Stock underlying the Incentive Stock Options until the later of either two (2) years after the date of grant of the Incentive Stock Option, or one (1) year after the transfer to the Optionee of such underlying Stock after the Optionee's exercise of such Incentive Stock Option. Should Optionee choose to make a premature disposition of such underlying shares of Stock contrary to such restrictions, the Options related to such share of Stock shall be treated as Non-qualified Stock Options pursuant to the terms of the Plan.

(e) *Right to Exercise.* During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

5.3 *Substitution of Stock Appreciation Rights.* The Committee may provide in the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option, subject to the provisions of Section 7.2 hereof; *provided that* such Stock Appreciation Right shall be exercisable with respect to the same number of shares of Stock for which such substituted Option would have been exercisable.

5.4 *Paperless Exercise.* In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Options by a Participant may be permitted through the use of such an automated system.

5.5 *Granting of Options to Independent Directors.* The Committee may from time to time, in its sole discretion, and subject to the limitations of the Plan:

(a) Select from among the Independent Directors (including Independent Directors who have previously been granted Options under the Plan) such of them as in its opinion should be granted Options;

(b) Subject to Section 3.3, determine the number of shares of Stock that may be purchased upon exercise of the Options granted to such selected Independent Directors; and

(c) Subject to the provisions of this Article 5, determine the terms and conditions of such Options, consistent with the Plan.

Options granted to Independent Directors shall be Non-Qualified Stock Options.

ARTICLE 6

RESTRICTED STOCK AWARDS

6.1 *Grant of Restricted Stock.* The Committee is authorized to make Awards of Restricted Stock to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by a written Restricted Stock Award Agreement.

6.2 *Issuance and Restrictions.* Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation,

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limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter. Notwithstanding the provisions of this Section, cash dividends, Stock and any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock that vests based upon Performance Criteria or other specific performance criteria (a) shall either (i) not be paid or credited or (ii) be accumulated, (b) shall be subject to restrictions and risk of forfeiture to the same extent as the Restricted Stock with respect to which such cash, stock or other property has been distributed and (c) shall be paid at the time such restrictions and risk of forfeiture lapse.

6.3 *Forfeiture.* Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; *provided, however*, that the Committee may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

6.4 *Certificates for Restricted Stock.* Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

ARTICLE 7

STOCK APPRECIATION RIGHTS

7.1 *Grant of Stock Appreciation Rights.* A Stock Appreciation Right may be granted to any Participant selected by the Committee. A Stock Appreciation Right may be granted (a) in connection and simultaneously with the grant of an Option, (b) with respect to a previously granted Option, or (c) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

7.2 *Coupled Stock Appreciation Rights.*

(a) A Coupled Stock Appreciation Right ("*CSAR*") shall be related to a particular Option and shall be exercisable only when and to the extent the related Option is exercisable, *provided, however*, that the exercise price for any CSAR shall not be less than 100% of the Fair Market Value on the date of grant; and *provided, further*, that, the Committee in its sole and absolute discretion may provide that the CSAR may be exercised subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise.

(b) A CSAR may be granted to a Participant for no more than the number of shares subject to the simultaneously or previously granted Option to which it is coupled.

(c) A CSAR shall entitle the Participant (or other person entitled to exercise the Option pursuant to the Plan) to surrender to the Company the unexercised portion of the Option to which the CSAR relates (to the extent then exercisable pursuant to its terms) and to receive from the Company in exchange therefor an amount determined by multiplying the difference obtained by subtracting the Option exercise price from the Fair Market Value of a share of Stock on the date

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of exercise of the CSAR by the number of shares of Stock with respect to which the CSAR shall have been exercised, subject to any limitations the Committee may impose.

7.3 *Independent Stock Appreciation Rights.*

(a) An Independent Stock Appreciation Right ("*ISAR*") shall be unrelated to any Option and shall have a term set by the Committee. An ISAR shall be exercisable in such installments as the Committee may determine. An ISAR shall cover such number of shares of Stock as the Committee may determine. The exercise price per share of Stock subject to each ISAR shall be set by the Committee; *provided, however*, that the exercise price for any ISAR shall not be less than 100% of the Fair Market Value on the date of grant; and *provided, further*, that, the Committee in its sole and absolute discretion may provide that the ISAR may be exercised subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise. Other than pursuant to Section 11.1, the Committee shall not, without the approval of the Company's shareholders, (a) lower the exercise price per share of Stock subject to each ISAR after it is granted, (b) cancel an ISAR when the exercise price per share of Stock exceeds the Fair Market Value of one share of Stock in exchange for cash or another Award (other than in connection with a Change in Control), or (c) take any other action with respect to an ISAR that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the shares of Stock are listed.

(b) An ISAR shall entitle the Participant (or other person entitled to exercise the ISAR pursuant to the Plan) to exercise all or a specified portion of the ISAR (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the ISAR from the Fair Market Value of a share of Stock on the date of exercise of the ISAR by the number of shares of Stock with respect to which the ISAR shall have been exercised, subject to any limitations the Committee may impose.

(c) Notwithstanding anything to the contrary in this Section 7.3, in the event that on the last business day of the term of an ISAR (x) the exercise of the ISAR is prohibited by applicable law or (y) shares of Stock may not be purchased or sold by certain employees or directors of the Company due to the "black-out period" of a Company policy or a "lock-up" agreement undertaken in connection with an issuance of securities by the Company, the term shall be extended for a period of thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement. In addition, an Award Agreement for an ISAR may provide that if on the last day of the term of the Fair Market Value of one share of Stock exceeds the grant price per share of Stock of the ISAR, the Participant has not exercised the ISAR, and the ISAR has not otherwise expired, the ISAR shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall make payment to the Participant in accordance with this Section, reduced by the number of shares of Stock (or cash) required for withholding taxes; *provided, however*, any fractional share of Stock shall be settled in cash.

7.4 *Payment and Limitations on Exercise*

(a) Subject to Section 7.4(b) and (c), payment of the amounts determined under Sections 7.2(c) and 7.3(b) above shall be in cash, in shares of Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee.

(b) To the extent payment for a Stock Appreciation Right is to be made in cash, the Award Agreement shall, to the extent necessary to comply with the requirements of Section 409A of the Code, specify the date of payment, which may be different than the date of exercise of the Stock

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Appreciation Right. If the date of payment for a Stock Appreciation Right is later than the date of exercise, the Award Agreement may specify that the Participant be entitled to earnings on such amount until paid.

(c) To the extent any payment under Section 7.2(c) or 7.3(b) is effected in Stock it shall be made subject to satisfaction of any applicable provisions of Article 5 above pertaining to Options.

ARTICLE 8

OTHER TYPES OF AWARDS

8.1 *Performance Share Awards.* Any Participant selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.2 *Performance Units.* Any Participant selected by the Committee may be granted one or more Performance Unit awards which shall be denominated in units of value, including dollar value of shares of Stock, and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.3 *Dividend Equivalents.*

(a) Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee. Notwithstanding the foregoing, Dividend Equivalents credited in connection with an Award that vests based on the achievement of Performance Criteria or other specific performance criteria shall be subject to restrictions and risk of forfeiture to the same extent as the Award with respect to which such Dividend Equivalents have been credited.

(b) Dividend Equivalents granted with respect to Options or SARs shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

8.4 *Stock Payments.* Any Participant selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares of Stock shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5 *Deferred Stock.* Any Participant selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Shares

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of Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company shareholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the shares of Stock underlying the Deferred Stock Award have been issued.

8.6 *Restricted Stock Units.* The Committee is authorized to make Awards of Restricted Stock Units to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to Section 10.5(b), transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Company for such shares of Stock.

8.7 *Other Stock-Based Awards.* Any Participant selected by the Committee may be granted one or more Awards that provide Participants with shares of Stock or the right to purchase shares of Stock or that have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant.

8.8 *Term.* Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award shall be set by the Committee in its discretion.

8.9 *Exercise or Purchase Price.* The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Units, Deferred Stock, Stock Payments, Restricted Stock Units or Other Stock-Based Award; *provided, however*, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.

8.10 *Exercise Upon Termination of Employment or Service.* An Award of Performance Shares, Performance Units, Dividend Equivalents, Deferred Stock, Stock Payments, Restricted Stock Units and Other Stock-Based Award shall only be exercisable or payable while the Participant is an Employee, a Consultant, or a member of the Board, as applicable; *provided, however*, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award may be exercised or paid subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise; *provided, however*, that any such provision with respect to Performance Shares or Performance Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation.

8.11 *Form of Payment.* Payments with respect to any Awards granted under this Article 8 shall be made in cash, in shares of Stock or a combination of both, as determined by the Committee.

8.12 *Award Agreement.* All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by an Award Agreement.

ARTICLE 9

PERFORMANCE-BASED AWARDS

9.1 *Purpose.* The purpose of this Article 9 is to provide the Committee the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however*, that the Committee may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 *Applicability.* This Article 9 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 *Procedures with Respect to Performance-Based Awards.* To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 6 and 8 which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 *Payment of Performance-Based Awards.* Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Subsidiary on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

9.5 *Additional Limitations.* Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

ARTICLE 10

PROVISIONS APPLICABLE TO AWARDS

10.1 *Stand-Alone and Tandem Awards.* Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

10.2 *Award Agreement.* Awards under the Plan shall be evidenced by Award Agreements that shall set forth the terms, conditions, limitations and award type for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

10.3 *Limits on Transfer.* Except as provided below, no right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, during the life of the recipient, such award shall be exercisable only by such person or by such person's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award without consideration (each transferee thereof, a "Permitted Assignee") (a) to the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (b) to a trust for the benefit of one or more of the Participant or the persons referred to in clause (a), (c) to a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (a) are the only partners, members or shareholders or (d) for charitable donations; *provided* that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and *provided further* that such Participant shall remain bound by the terms and conditions of the Plan.

10.4 *Death of Optionee.*

(a) *Options.* Notwithstanding Section 10.3, upon the death of the Optionee while either in the Company's employ or within six months after termination of Optionee's employment, any rights to the extent exercisable on the date of death may be exercised by the Optionee's estate, or by a person who acquires the right to exercise such Option by bequest or inheritance or by reason of the death of the Optionee, *provided* that such exercise occurs within both the remaining effective term of the Option and one year after the Optionee's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

(b) *Incentive Stock Options.* Upon the death of the Optionee while in the Company's employ or within not more than six months after termination of Optionee's employment, any Incentive Stock Option exercisable on the date of death may be exercised by the Optionee's estate or by a person who acquires the right to exercise such Incentive Stock Option by bequest or inheritance or by reason of the death of the Optionee, provided that such exercise occurs within

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both the remaining Option Term of the Incentive Stock Option and one year after the Optionee's death.

10.5 *Retirement or Disability.*

(a) *Options.* Upon termination of the Optionee's employment by reason of retirement or permanent disability, the Optionee may, within 36 months from the date of termination, exercise any Options to the extent such Options are exercisable during such 36-month period.

(b) *Incentive Stock Options.* Upon termination of the Optionee's employment by reason of retirement or permanent disability, the Optionee may, within 36 months from the date of termination, exercise any Incentive Stock Options to the extent such Incentive Stock Options are exercisable during such 36-month period. However, the tax treatment available pursuant to Section 422 of the Code will not be available to an Optionee who exercises any Incentive Stock Option more than (i) 12 months after the date of termination of employment due to permanent disability, or (ii) three months after the date of termination of employment due to retirement.

10.6 *Termination for Other Reasons.* Except as provided herein or except as otherwise determined by the Committee, all Options shall terminate ninety (90) days after the termination of the Optionee's employment with the Company.

10.7 *Leaves of Absence and Performance Targets.* The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any leave of absence taken by the recipient of any Award. Without limiting the generality of the foregoing, the Committee shall be entitled to determine (a) whether or not any such leave of absence shall constitute a termination of employment within the meaning of the Plan and (b) the impact, if any, of such leave of absence on Awards under the Plan theretofore made to any recipient who takes such leave of absence. The Committee shall also be entitled to make such determination of performance targets, if any, as it deems appropriate.

10.8 *Newly Eligible Employees.* The Committee shall be entitled to make such rules, regulations, determinations and Awards as it deems appropriate in respect of any Employee who becomes eligible to participate in the Plan or any portion thereof, after the commencement of an Award or incentive period.

10.9 *Stock Certificates; Book Entry Procedures.* As soon as practicable after receipt of payment, the Company shall deliver to the Optionee a certificate(s) for such shares of Stock. Upon receipt of such certificate(s), the Optionee shall become a shareholder of the Company with respect to shares of Stock represented by share certificates so issued and as such shall be fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the shares of Stock are listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the shares of Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

ARTICLE 11

CHANGES IN CAPITAL STRUCTURE

11.1 *Adjustments.*

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of Company assets to shareholders (other than normal cash dividends), or any other corporate event affecting the shares of Stock or the share price of the shares of Stock, the Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such changes with respect to (i) the aggregate number and type of shares of Stock that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3); (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iii) the grant or exercise price per share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section 11.1(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate (including without limitation any Change in Control), or of changes in applicable laws, regulations or accounting principles, and whenever the Committee determines that action is appropriate in order to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, either by amendment of the terms of any outstanding Awards or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 11.1(b) the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(iii) To make adjustments in the number and type of shares of Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

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(v) To provide that the Award cannot vest, be exercised or become payable after such event.

11.2 *Outstanding Awards—Other Changes.* In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 11, the Committee may, in its absolute discretion, make such adjustments in the number and kind of shares or other securities subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

11.3 *No Other Rights.* Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

ARTICLE 12

ADMINISTRATION

12.1 *Committee.* Pursuant to Utah Code Annotated Section 16-10a-624, and consistent with the provisions of Section 12.3 below, the Board may appoint a Committee consisting of two or more Non-Employee Directors to administer the Plan, as constituted from time to time.

12.2 *Committee Appointee Duration.* Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase or change the size of the Committee, and appoint new members thereof, remove members (with or without cause) and appoint new members in substitution, fill vacancies, however caused, or remove all members of the Committee; *provided, however,* that at no time shall any person administer the Plan who is not otherwise a Non-Employee Director.

12.3 *Action by the Board.* Unless and until the Board delegates administration of the Plan to a Committee as set forth below, the Plan shall be administered by the full Board, and for such purposes the term "Committee" as used in this Plan shall be deemed to refer to the Board. The Board, at its discretion or as otherwise necessary to comply with the requirements of Section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act or to the extent required by any other applicable rule or regulation, shall delegate administration of the Plan to a Committee. The Committee shall consist solely of two or more members of the Board each of whom is an "outside director," within the meaning of Section 162(m) of the Code and any other applicable rules and regulations, a Non-Employee Director and an "independent director" for purpose of the rules of the principal U.S. national securities exchange on which the Shares are traded, to the extent required by such rules. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Independent Directors and, for purposes of such Awards, the term "Committee" as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 12.5. Appointment of Committee members shall be effective upon acceptance of appointment. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may only be filled by the Board.

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12.4 *Action by the Committee.* A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

12.5 *Authority of Committee.* Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

The Committee may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable.

12.6 *Decisions Binding.* The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

12.7 *Delegation of Authority.* To the extent permitted by applicable law, the Committee may from time to time delegate to a committee of one or more members of the Committee or the Board or one or more officers of the Company the authority to grant or amend Awards to Participants other than (a) senior executives and Independent Directors of the Company who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or members of the Board) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation, and the Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.7 shall serve in such capacity at the pleasure of the Committee.

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12.8 *Committee Administration.* One member of the Committee shall be elected by the Board as chairman. The Committee shall hold its meetings at such times and places as it shall deem advisable. The Committee may appoint a secretary and make such rules and regulations for the conduct of its business as it shall deem advisable, and shall keep minutes of its meetings.

12.9 *Liability.* No member of the Board or Committee shall be liable for any action taken or decision or determination made in good faith with respect to any Option, the Plan, or any award thereunder.

ARTICLE 13

EFFECTIVE AND EXPIRATION DATE

13.1 *Effective Date.* The Plan is effective as of the date the Plan is approved by a majority of the Board (the "*Effective Date*"). The Plan, however, shall be subject to approval by the shareholders. The Plan will be deemed to be approved by the shareholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company's Bylaws, but, in any event, held no later than 12 months after the Effective Date.

13.2 *Expiration Date.* The Plan will expire on, and no Incentive Stock Option or other Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

ARTICLE 14

AMENDMENT, MODIFICATION, AND TERMINATION

14.1 *Amendment, Modification, And Termination.* The Committee may at any time and from time to time terminate or modify or amend the Plan in any respect, except that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment or any modification of any Options or ISARs that would (i) cancel the Award in exchange for cash or another Award, (ii) reduce the exercise price of the Award, or (iii) otherwise be deemed a re-pricing under applicable rules, in such a manner and to such a degree as required, and (b) without shareholder approval the Committee may not (i) increase the maximum number of shares of Stock which may be issued under the Plan (other than increases pursuant to Section 11.1), (ii) increase the limitations in Sections 3.3 and 3.4 (other than increases pursuant to Section 11.1), (iii) amend to the Plan to permit the Committee to grant Options or ISARs with an exercise price that is below Fair Market Value on the date of grant, (iv) extend the term of the Plan, or (v) add Performance Criteria to Section 2.25. The termination or any modification or amendment of the Plan, except as provided in subsection (a), shall not without the consent of a Participant, affect his or her other rights under an Award previously granted to him or her.

14.2 *Awards Previously Granted.* No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

ARTICLE 15

COMPLIANCE WITH SECTION 409A OF THE CODE

15.1 *Awards subject to Code Section 409A.* Any Award that constitutes, or provides for, a deferral of compensation subject to Section 409A of the Code (a "*Section 409A Award*") shall satisfy the requirements of Section 409A of the Code and this Article 15, to the extent applicable. The Award

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Agreement with respect to a Section 409A Award shall incorporate the terms and conditions required by Section 409A of the Code and this Article 15.

15.2 *Distributions under a Section 409A Award.*

(a) Subject to subsection (b), any shares of Stock or other property or amounts to be paid or distributed upon the grant, issuance, vesting, exercise or payment of a Section 409A Award shall be distributed in accordance with the requirements of Section 409A(a)(2) of the Code, and shall not be distributed earlier than:

- (i) the Participant's separation from service;
- (ii) the date the Participant becomes disabled;
- (iii) the Participant's death;
- (iv) a specified time (or pursuant to a fixed schedule) specified under the Award Agreement at the date of the deferral compensation;
- (v) a change in the ownership or effective control of the Company or a Parent or Subsidiary, or in the ownership of a substantial portion of the assets of the Company or a Parent or Subsidiary; or
- (vi) the occurrence of an unforeseeable emergency with respect to the Participant.

(b) In the case of a Participant who is a "specified employee," the requirement of paragraph (a)(i) shall be met only if the distributions with respect to the Section 409A Award may not be made before the date which is six months after the Participant's separation from service (or, if earlier, the date of the Participant's death). For purposes of this subsection (b), a Participant shall be a "specified employee" if such Participant is a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of a corporation any stock of which is publicly traded on an established securities market or otherwise, as determined under Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder.

(c) The requirement of paragraph (a)(vi) shall be met only if, as determined under Treasury Regulations under Section 409A(a)(2)(B)(ii) of the Code, the amounts distributed with respect to the unforeseeable emergency do not exceed the amounts necessary to satisfy such unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such unforeseeable emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

(d) For purposes of this Section, the terms specified therein shall have the respective meanings ascribed thereto under Section 409A of the Code and the Treasury Regulations thereunder.

15.3 *Prohibition on Acceleration of Benefits.* The time or schedule of any distribution or payment of any shares of Stock or other property or amounts under a Section 409A Award shall not be accelerated, except as otherwise permitted under Section 409A(a)(3) of the Code and the Treasury Regulations thereunder.

15.4 *Elections under Section 409A Awards.*

(a) Any deferral election provided under or with respect to an Award to any Eligible Individual, or to the Participant holding a Section 409A Award, shall satisfy the requirements of Section 409A(a)(4)(B) of the Code, to the extent applicable, and, except as otherwise permitted under paragraph (i) or (ii) below, any such deferral election with respect to compensation for

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services performed during a taxable year shall be made not later than the close of the preceding taxable year, or at such other time as provided in Treasury Regulations.

(i) In the case of the first year in which an Eligible Individual or a Participant holding a Section 409A Award, becomes eligible to participate in the Plan, any such deferral election may be made with respect to services to be performed subsequent to the election with thirty days after the date the Eligible Individual, or the Participant holding a Section 409A Award, becomes eligible to participate in the Plan, as provided under Section 409A(a)(4)(B)(ii) of the Code.

(ii) In the case of any performance-based compensation based on services performed by an Eligible Individual, or the Participant holding a Section 409A Award, over a period of at least twelve months, any such deferral election may be made no later than six months before the end of the period, as provided under Section 409A(a)(4)(B)(iii) of the Code.

(b) In the event that a Section 409A Award permits, under a subsequent election by the Participant holding such Section 409A Award, a delay in a distribution or payment of any shares of Stock or other property or amounts under such Section 409A Award, or a change in the form of distribution or payment, such subsequent election shall satisfy the requirements of Section 409A(a)(4)(C) of the Code, and:

(i) such subsequent election may not take effect until at least twelve months after the date on which the election is made,

(ii) in the case such subsequent election relates to a distribution or payment not described in Section 10.2(a)(ii), (iii) or (vi), the first payment with respect to such election may be deferred for a period of not less than five years from the date such distribution or payment otherwise would have been made, and

(iii) in the case such subsequent election relates to a distribution or payment described in Section 10.2(a)(iv), such election may not be made less than twelve months prior to the date of the first scheduled distribution or payment under Section 10.2(a)(iv).

15.5 *Compliance in Form and Operation.* A Section 409A Award, and any election under or with respect to such Section 409A Award, shall comply in form and operation with the requirements of Section 409A of the Code and the Treasury Regulations thereunder.

ARTICLE 16

GENERAL PROVISIONS

16.1 *No Rights to Awards.* No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

16.2 *No Shareholders Rights.* The recipient of any Award under the Plan shall have no rights as a shareholder with respect thereto unless and until certificates for shares of Stock are issued to him or her.

16.3 *Withholding.* The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be

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withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award within six months (or such other period as may be determined by the Committee) after such shares of Stock were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

16.4 *No Right to Employment or Services.* Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

16.5 *Unfunded Status of Awards.* The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

16.6 *Indemnification.* To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

16.7 *Relationship to other Benefits.* No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

16.8 *Expenses.* The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

16.9 *Titles and Headings.* The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

16.10 *Fractional Shares.* No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

16.11 *Limitations Applicable to Section 16 Persons.* Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by

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applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

16.12 *Financial Restatements.* In the event of a restatement of the Company's financial statements, the Committee shall have the right to review any Award, the amount, payment or vesting of which was based on an entry in the financial statements that are the subject of the restatement. If the Committee determines that based on the results of the restatement, a lesser amount or portion of an Award should have been paid or vested, it may (i) cancel all or any portion of any outstanding Awards and (ii) require the Participant or other person to whom any payment has been made or shares or other property have been transferred in connection with the Award to forfeit and pay over to the Company, on demand, all or any portion of the gain (whether or not taxable) realized upon the exercise of any Option or Stock Appreciation Right and the value realized (whether or not taxable) on the vesting or payment of any other Award during the period beginning twelve months preceding the date of the restatement and ending with the date of cancellation of any outstanding Awards

16.13 *Government and Other Regulations.* The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act of 1933, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

16.14 *Governing Law.* The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Utah.

* * * * *

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of USANA Health Sciences, Inc. on _____, 2015.

* * * * *

I hereby certify that the foregoing Plan was approved by the shareholders of USANA Health Sciences, Inc. on _____, 2015.

Executed on this _____ day of _____, 2015.

Corporate Secretary

USAMA HEALTH SCIENCES, INC.
 ATTN: Joshua Fickes
 3655 N. PARADISE BLVD.
 Salt Lake City, UT 84120

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

Electronic Delivery of Future PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
 DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

The Board of Directors recommends you vote FOR the following:

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.
1. Election of Directors Nominees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

01 Robert Anctoux 02 Gilbert A. Fuller 03 Jerry G. McClean 04 Donald S. Poisson 05 Byron M. Wentz, Ph.D.

The Board of Directors recommends you vote FOR proposals 2 and 3.

	For	Against	Abstain
2 To approve the Company's 2015 Equity Incentive Award Plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year 2015.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

NOTE: To consider and act upon such other business as may properly come before the meeting or at any postponement or adjournment thereof.

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Please sign exactly as your name(s) appear(s) herein. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Annual Report, Notice & Proxy Statement is/ are available at www.proxyvote.com.

USANA HEALTH SCIENCES, INC.
Annual Meeting of Shareholders
May 6, 2015 11:00 AM
This proxy is solicited by the Board of Directors

The shareholder executing and delivering this Proxy hereby appoints David A. Veritz and Paul A. Jones and each of them as Proxies, with full power of substitution, and hereby authorizes them to represent and vote, as designated below, all shares of common stock of the Company held or voted by the undersigned as of March 2, 2015, at the Annual Meeting of Shareholders of USANA Health Sciences, Inc. to be held at the Corporate headquarters, 5325 West Parkway Blvd., Salt Lake City, Utah 84120, on Wednesday, May 6, 2015, at 11:00 a.m., Mountain Daylight Time, or at any adjournment thereof. This Proxy is given in accordance with the instructions indicated and carries discretionary authority related to any and all other matters that may come before the meeting and any adjournments thereof.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.

PLEASE SIGN EXACTLY AS THE SHARES ARE ISSUED. WHEN CO-TENANTS HOLD SHARES, BOTH SHOULD SIGN. WHEN SIGNING AS ATTORNEY, AS EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN, PLEASE GIVE FULL TITLE AS SUCH. IF A CORPORATION, PLEASE SIGN IN FULL CORPORATE NAME BY PRESIDENT OR OTHER AUTHORIZED OFFICER. IF A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON. PLEASE DATE, SIGN AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

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Continued and to be signed on reverse side

Addendum F

**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, 2014

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: 001-35024

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 August 1, 2014 was 12,984,073.

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USANA HEALTH SCIENCES, INC.
FORM 10-Q
For the Quarterly Period Ended June 28, 2014

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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)

	<u>As of December 28, 2013</u>	<u>As of June 28, 2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 137,343	\$ 118,267
Securities held-to-maturity, net	8,642	3,374
Inventories	47,242	44,528
Prepaid expenses and other current assets	35,818	35,756
Total current assets	<u>229,045</u>	<u>201,925</u>
Property and equipment, net	59,180	65,859
Goodwill	18,243	17,919
Intangible assets, net	42,329	41,015
Deferred tax assets	5,519	5,515
Other assets	14,154	22,688
	<u>\$ 368,470</u>	<u>\$ 354,921</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 9,502	\$ 6,408
Other current liabilities	86,369	82,297
Total current liabilities	<u>95,871</u>	<u>88,705</u>
Deferred tax liabilities	10,866	10,672
Other long-term liabilities	1,211	1,290
Stockholders' equity		
Common stock, \$0.001 par value; Authorized — 50,000 shares, issued and outstanding 13,886 as of December 28, 2013 and 13,404 as of June 28, 2014	14	13
Additional paid-in capital	54,691	51,925
Retained earnings	200,023	196,992
Accumulated other comprehensive income	5,794	5,324
Total stockholders' equity	<u>260,522</u>	<u>254,254</u>
	<u>\$ 368,470</u>	<u>\$ 354,921</u>

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		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net sales	\$ 189,136	\$ 188,256	\$ 358,218	\$ 370,657
Cost of sales	<u>31,905</u>	<u>34,865</u>	<u>62,166</u>	<u>68,693</u>
Gross profit	157,231	153,391	296,052	301,964
Operating expenses:				
Associate incentives	77,801	81,098	147,656	159,972
Selling, general and administrative	<u>42,978</u>	<u>43,206</u>	<u>85,382</u>	<u>87,783</u>
Total operating expenses	<u>120,779</u>	<u>124,304</u>	<u>233,038</u>	<u>247,755</u>
Earnings from operations	36,452	29,087	63,014	54,209
Other income (expense):				
Interest income	81	215	159	427
Interest expense	—	—	—	(6)
Other, net	<u>(164)</u>	<u>82</u>	<u>(268)</u>	<u>1</u>
Other income (expense), net	<u>(83)</u>	<u>297</u>	<u>(109)</u>	<u>422</u>
Earnings before income taxes	36,369	29,384	62,905	54,631
Income taxes	<u>12,159</u>	<u>10,083</u>	<u>20,916</u>	<u>18,793</u>
Net earnings	<u>\$ 24,210</u>	<u>\$ 19,301</u>	<u>\$ 41,989</u>	<u>\$ 35,838</u>
Earnings per common share				
Basic	\$ 1.79	\$ 1.40	\$ 3.09	\$ 2.59
Diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50
Weighted average common shares outstanding				
Basic	13,513	13,768	13,578	13,843

Diluted		14,099	14,235	14,034	14,315
Comprehensive income:					
Net earnings	\$	24,210	\$ 19,301	\$ 41,989	\$ 35,838
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment		(2,472)	802	(2,441)	(860)
Tax benefit (expense) related to foreign currency translation adjustment		798	(262)	732	390
Other comprehensive income (loss), net of tax		(1,674)	540	(1,709)	(470)
Comprehensive income	\$	22,536	\$ 19,841	\$ 40,280	\$ 35,368

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
Six Months Ended June 28, 2014

(in thousands)
(unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 28, 2013	13,886	\$ 14	\$ 54,691	\$ 200,023	\$ 5,794	\$ 260,522
Net earnings				35,838		35,838
Other comprehensive income (loss), net of tax					(470)	(470)
Equity-based compensation expense			4,071			4,071
Common stock repurchased and retired	(682)	(1)	(10,224)	(38,869)		(49,094)
Common stock issued under equity award plans, including tax benefit of \$3,387	200		3,387			3,387
Balance at June 28, 2014	13,404	\$ 13	\$ 51,925	\$ 196,992	\$ 5,324	\$ 254,254

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)

	Six Months Ended	
	June 29, 2013	June 28, 2014
Cash flows from operating activities		
Net earnings	\$ 41,989	\$ 35,838
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	4,631	4,408
(Gain) loss on sale of property and equipment	(6)	16

Equity-based compensation expense	4,427	4,071
Excess tax benefits from equity-based payment arrangements	(1,734)	(3,387)
Deferred income taxes	843	(605)
Changes in operating assets and liabilities:		
Inventories	(6,123)	3,034
Prepaid expenses and other assets	(3,295)	(5,144)
Accounts payable	155	(3,085)
Other liabilities	6,409	(3,896)
Net cash provided by (used in) operating activities	47,296	31,250
Cash flows from investing activities		
Additions to notes receivable	(2,232)	(2,520)
Purchases of investment securities held-to-maturity	—	(3,871)
Maturities of investment securities	—	9,137
Proceeds from sale of property and equipment	15	8
Purchases of property and equipment	(2,961)	(10,103)
Net cash provided by (used in) investing activities	(5,178)	(7,349)
Cash flows from financing activities		
Proceeds from equity awards exercised	454	—
Excess tax benefits from equity-based payment arrangements	1,734	3,387
Repurchase of common stock	(18,085)	(46,109)
Net cash provided by (used in) financing activities	(15,897)	(42,722)
Effect of exchange rate changes on cash and cash equivalents	(1,004)	(255)
Net increase (decrease) in cash and cash equivalents	25,217	(19,076)
Cash and cash equivalents, beginning of period	70,839	137,343
Cash and cash equivalents, end of period	\$ 96,056	\$ 118,267
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ —	\$ 6
Income taxes	21,040	9,963
Non-cash financing activities:		
Unsettled trades for repurchase of common stock	—	(2,985)

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 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 consolidated balance sheet as of December 28, 2013, 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 June 28, 2014 and results of operations for the quarters and six months ended June 29, 2013 and June 28, 2014. 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 28, 2013. The results of operations for the quarter and six months ended June 28, 2014, may not be indicative of the results that may be expected for the fiscal year 2014 ending January 3, 2015.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will 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 to in exchange for those goods or services. The standard also will require 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. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements

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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 B — 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 December 28, 2013 and June 28, 2014, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	December 28, 2013	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 9,249	\$ 9,249	\$ —	\$ —
Term deposits included in cash equivalents	348	—	348	—

	June 28, 2014	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 14,412	\$ 14,412	\$ —	\$ —

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs 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 is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 28, 2013 and June 28, 2014, there were no non-financial assets measured at fair value on a non-recurring basis.

At December 28, 2013 and June 28, 2014, the Company's financial instruments include cash equivalents, restricted cash, securities held-to-maturity ("HTM"), and notes receivable. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates. HTM securities consist of certificates of deposits. The fair value of a certificate of deposit is determined based on the pervasive interest rates in the market, which is considered to be a Level 2 input. The carrying values of these certificates of deposit approximate

their fair values due to their short-term maturities.

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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 — INVESTMENTS

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

	As of December 28, 2013			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 8,642	\$ —	\$ —	\$ 8,642
Total HTM Securities	\$ 8,642	\$ —	\$ —	\$ 8,642

	As of June 28, 2014			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 3,374	\$ —	\$ —	\$ 3,374
Total HTM Securities	\$ 3,374	\$ —	\$ —	\$ 3,374

NOTE D — INVENTORIES

Inventories consist of the following:

	December 28, 2013	June 28, 2014
Raw materials	\$ 13,824	\$ 12,301
Work in progress	8,147	8,361
Finished goods	25,271	23,866
	<u>\$ 47,242</u>	<u>\$ 44,528</u>

NOTE E — OTHER ASSETS

The Company has extended non-revolving credit to its supplier of nutrition bars to allow this supplier to acquire the necessary equipment to manufacture the USANA nutrition bars. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as of December 28, 2013, and June 28, 2014, were \$4,942 and \$7,447, respectively.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the latter half of 2015. As part of this project, land use rights totaling \$1,483, and \$7,364 as of December 28, 2013 and June 28, 2014, respectively, have been purchased and will be amortized over 50 years. Land-use rights are classified within the "Other assets" line item in the Company's consolidated balance sheets.

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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 F — CONTINGENCIES

The Company is involved in various lawsuits, claims, and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, 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.

NOTE G — EQUITY BASED COMPENSATION

The Company utilizes a share-based compensation plan, which is more fully described in Note K to the Consolidated Financial Statements in Form 10-K for the year ended December 28, 2013.

Equity-based compensation expense for the quarters ended June 29, 2013, and June 28, 2014, was \$2,058 and \$2,235, respectively. The related tax benefit for these periods was \$697 and \$743, respectively. Expense for the six months ended June 29, 2013, and June 28, 2014, was \$4,427 and \$4,071, respectively. The related tax benefit for these periods was \$1,509 and \$1,359, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of June 28, 2014. This table does not include an estimate for future grants that may be issued.

2014	\$	4,643
2015		7,382
2016		5,504
2017		3,399
2018+		541
	<u>\$</u>	<u>21,469</u>

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value of stock-settled stock appreciation rights that were granted during the six months ended June 29, 2013, and June 28, 2014, was \$13.86 and \$17.73, respectively. Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated.

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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 G — EQUITY BASED COMPENSATION — CONTINUED

	<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>
Expected volatility (1)	43.1%	39.9%
Risk-free interest rate (2)	0.6%	1.2%
Expected life (3)	3.97 yrs	3.54 yrs
Expected dividend yield (4)	0.0%	0.0%
Weighted-average exercise price (5)	\$ 40.84	\$ 57.62

- (1) The Company utilizes historical volatility of the trading price of its common stock.
- (2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.
- (3) Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.
- (4) The Company historically has not paid dividends.
- (5) Exercise price is the closing price of the Company's common stock on the date of grant.

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted-average remaining contractual term</u>	<u>Aggregate intrinsic value*</u>
Outstanding at December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	686	57.62		

Exercised	(362)	32.26		
Forfeited	(20)	27.33		
Expired	—	—		
Outstanding at June 28, 2014	<u>2,131</u>	\$ 44.85	2.8	\$ 70,555
Exercisable at June 28, 2014	<u>412</u>	\$ 38.40	1.6	\$ 16,207

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised during the six months ended June 29, 2013, and June 28, 2014, was \$10,429 and \$14,404, respectively.

The total fair value of equity awards that vested during the six months ended June 29, 2013, and June 28, 2014, was \$1,553 and \$3,506, respectively. This total fair value includes equity-based awards issued in the form of stock options and stock-settled stock appreciation rights.

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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 H — 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 based on the time they were outstanding in any period. 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.

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>	<u>June 29, 2013</u>	<u>June 28, 2014</u>
Net earnings available to common shareholders	\$ 24,210	\$ 19,301	\$ 41,989	\$ 35,838
Basic EPS				
Shares				
Common shares outstanding entire period	13,821	13,886	13,821	13,886
Weighted average common shares:				
Issued during period	106	131	58	81
Canceled during period	(414)	(249)	(301)	(124)
Weighted average common shares outstanding during period	<u>13,513</u>	<u>13,768</u>	<u>13,578</u>	<u>13,843</u>
Earnings per common share from net earnings - basic	<u>\$ 1.79</u>	<u>\$ 1.40</u>	<u>\$ 3.09</u>	<u>\$ 2.59</u>
Diluted EPS				
Shares				
Weighted average common shares outstanding during period - basic	13,513	13,768	13,578	13,843
Dilutive effect of in-the-money equity awards	<u>586</u>	<u>467</u>	<u>456</u>	<u>472</u>
Weighted average common shares outstanding during period - diluted	14,099	14,235	14,034	14,315

Earnings per common share from net earnings - diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50
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Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

Quarter Ended		Six Months Ended	
June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
234	383	560	328

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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 H — COMMON STOCK AND EARNINGS PER SHARE- CONTINUED

During the six months ended June 29, 2013 and the quarter and six months ended June 28, 2014, the Company repurchased and retired 414 shares and 682 shares, for \$18,085 and \$49,094 respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

Subsequent to the period ended June 28, 2014 and through August 1, 2014, the Company repurchased and retired 430 shares under the Company's share repurchase plan for a total of \$30,932. As of August 1, 2014, the remaining approved repurchase amount under the plan was \$119,953.

NOTE I — SEGMENT INFORMATION

USANA operates 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 aggregates its operating segments into one reportable segment as management believes that the Company's segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. 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.

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
USANA® Nutritionals	81%	78%	80%	79%
USANA Foods	12%	14%	12%	13%
Sensé – beautiful science®	6%	7%	6%	7%

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

- Americas and Europe — United States, Canada, Mexico, Colombia (1), the United Kingdom, France, Belgium, and the Netherlands.
- Asia Pacific —
 - Southeast Asia Pacific — Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
 - Greater China — Hong Kong, Taiwan and China(2)
 - North Asia — Japan and South Korea

(1) The Company commenced operations in Colombia in the third quarter of 2013.

(2) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share data)
(unaudited)

NOTE I — SEGMENT INFORMATION - CONTINUED

Selected Financial Information

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net Sales to External Customers				
Americas and Europe	\$ 66,769	\$ 63,661	\$ 130,921	\$ 127,476
Asia Pacific				
Southeast Asia Pacific	37,475	42,689	72,784	83,137
Greater China	77,388	74,091	140,373	144,938
North Asia	7,504	7,815	14,140	15,106
Asia Pacific Total	<u>122,367</u>	<u>124,595</u>	<u>227,297</u>	<u>243,181</u>
Consolidated Total	<u>\$ 189,136</u>	<u>\$ 188,256</u>	<u>\$ 358,218</u>	<u>\$ 370,657</u>

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net sales:				
China	\$ 23,559	\$ 51,223	\$ 36,984	\$ 89,983
United States	40,087	35,570	80,325	73,183
Hong Kong	45,938	N/A	87,535	38,926
			<i>As of</i>	
			December 28, 2013	June 28, 2014
Long-lived Assets:				
China			\$ 61,716	\$ 73,026
United States			51,260	53,004

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of USANA's financial condition and results of operations is presented in six sections:

- Overview
- Customers
- Current Focus and Recent Developments
- Results of Operations
- Liquidity and Capital Resources
- Forward-Looking Statements and Certain Risks

This discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and Notes thereto that are contained in this quarterly report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations that are included in our Annual Report on Form 10-K for the year ended December 28, 2013, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission ("SEC") through the date of this report.

Overview

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally

through a network marketing system, which is a form of direct selling. 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 their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of June 28, 2014, we had approximately 283,000 active Associates and approximately 79,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale.

We have ongoing operations in the following markets, which are grouped and presented as follows:

- Americas and Europe — United States, Canada, Mexico, Colombia(1), the United Kingdom, France, Belgium, and the Netherlands
- Asia Pacific
 - Southeast Asia Pacific — Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
 - Greater China — Hong Kong, Taiwan, and China (2)
 - North Asia — Japan and South Korea

(1) We commenced operations in Colombia in the third quarter of 2013.
 (2) Our business in China is that of BabyCare, our wholly-owned subsidiary.

Our primary product lines consist of USANA® Nutritionals, USANA Foods, and Sensé beautiful science® (Sensé), which is our line of personal care products. The USANA Nutritionals product line is further categorized into two separate classifications: Essentials and Optimizers. The following tables summarize the approximate percentage of total product revenue that has been contributed by our major product lines and our top-selling products for the current and prior-year periods as indicated:

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Product Line	Six Months Ended	
	June 29, 2013	June 28, 2014
USANA® Nutritionals		
Essentials	27%	25%
Optimizers	53%	54%
USANA Foods	12%	13%
Sensé — beautiful science®	6%	7%
All Other	2%	1%
Key Product		
USANA® Essentials	18%	16%
Proflavanol®	12%	13%

We believe that our ability to attract and retain Associates and Preferred Customers to sell and consume our products is positively influenced by a number of factors, some of which include: the general public’s heightened awareness and understanding of the connection between diet and long-term health, and the growing desire for a secondary source of income and small business ownership.

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates. We strive to ensure that our products are formulated with the latest science in nutrition research and to keep our product lines relatively compact, which we believe simplifies the selling and buying process for our Associates and Preferred Customers. We also periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding in the industry, to encourage behavior that we believe leads to a successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings.

To further support our Associates in building their businesses, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in their business development and to provide a forum for interaction with our Associate leaders and members of our management team. We also provide low cost sales tools, including online sales, business management, and training tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. Although we provide training and sales tools, we ultimately rely on our Associates to sell our products, attract new customers to purchase our products, and educate and train new Associates.

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, net sales and gross profit are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Associate incentives and selling, general and administrative expenses, however, are affected negatively by a weakening of the U.S. dollar and positively by a strengthening

of the U.S. dollar. During the six months ended June 28, 2014, net sales outside of the United States represented 80.3% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

Customers

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on our ability to attract new Associates and retain existing Associates to sell and consume our products. Notably, sales to Associates account for the majority of our product sales, representing approximately 90% of product sales during the six months ended June 28, 2014. Additionally, it is important to attract and retain Preferred Customers as consumers of our products. Increases or decreases in product sales are typically the result of variations in product sales volumes relating to fluctuations in the number of active Associates and Preferred Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

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The tables below summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated.

Active Associates By Region					
	As of June 29, 2013		As of June 28, 2014		Change from Prior Year
Americas and Europe	82,000	32.3%	82,000	29.0%	—
Asia Pacific:					
Southeast Asia Pacific	60,000	23.6%	67,000	23.7%	7,000
Greater China	103,000	40.6%	125,000	44.1%	22,000
North Asia	9,000	3.5%	9,000	3.2%	—
Asia Pacific Total	<u>172,000</u>	<u>67.7%</u>	<u>201,000</u>	<u>71.0%</u>	<u>29,000</u>
	<u>254,000</u>	<u>100.0%</u>	<u>283,000</u>	<u>100.0%</u>	<u>29,000</u>

Preferred Customers By Region					
	As of June 29, 2013		As of June 28, 2014		Change from Prior Year
Americas and Europe	57,000	81.4%	60,000	75.9%	3,000
Asia Pacific:					
Southeast Asia Pacific	7,000	10.0%	11,000	13.9%	4,000
Greater China	4,000	5.7%	3,000	3.8%	(1,000)
North Asia	2,000	2.9%	5,000	6.4%	3,000
Asia Pacific Total	<u>13,000</u>	<u>18.6%</u>	<u>19,000</u>	<u>24.1%</u>	<u>6,000</u>
	<u>70,000</u>	<u>100.0%</u>	<u>79,000</u>	<u>100.0%</u>	<u>9,000</u>

Current Focus and Recent Developments

Our primary objective, both on a short- and long-term basis, is to strengthen and grow our active customer counts throughout the world. To this end, in August 2013 we announced and implemented several strategic changes to our business, which we refer to as the “2013 strategic changes” throughout this report. These changes are aimed at simplifying our business model for our Associates and promoting customer loyalty, enjoyment and success with USANA. The 2013 Strategic Changes included: (i) simplification of our pricing structure, which included an overall 10% price reduction, while maintaining a price discount on products ordered through our monthly Auto Order program (collectively “price discounts”), (ii) a new reward based on the amount of a customer’s initial product order to then be credited on their subsequent two Auto Orders, and (iii) increased payout under and simplification of our Compensation Plan.

We increased the payout under our Compensation Plan in several ways, including: (i) paying higher compensation to newer Associates, (ii) increasing compensation for Associates who grow their business through our Auto Order program, and (iii) simplifying the commission qualification requirements under the plan, resulting in a greater number of Associates earning compensation. Additionally, we simplified our rank advancement system to make it easier for Associates to advance in our business, and we added new recognition benefits for Associate leaders.

During the second quarter, we continued training our Associates on the benefits of the 2013 Strategic Changes and emphasized Associate recognition. We also continued to achieve progress on several business indicators that we monitor to measure the success of the 2013 Strategic Changes. These indicators include: active customer counts; world-wide unit volume; percent of sales processed through our Auto Order program; and the number of Associates earning a commission check. On a year-over-year basis, we achieved double-digit growth for most of these indicators.

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The positive impact to net sales, however, from improvements in these indicators will, in the short-term, be partially offset by the aforementioned price discounts. For instance, overall customers grew by nearly 12% during the second quarter of 2014, compared to the prior year quarter, while net sales were essentially flat. This difference can, in most part, be attributed to the price discounts and is manifest more greatly in markets with higher Auto Order penetration. Our annual pricing update, which takes effect during the first quarter of the year, softened the impact of the price discounts as we increased prices in several markets.

Results of Operations
Summary of Financial Results

Although the number of active Associates and Preferred Customers increased 11.4% and 12.9%, respectively, in the second quarter of 2014 when compared with the second quarter of 2013, net sales were essentially flat at \$188.3 million. Net sales, on a comparative basis, were negatively impacted by: (i) \$7.0 million of incremental sales that occurred ahead of a worldwide policy change that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which did not recur in 2014; (ii) \$3.3 million from unfavorable changes in currency exchange rates, and (iii) the price discounts noted above.

Net earnings for the second quarter of 2014 decreased 20.3%, to \$19.3 million, compared with the second quarter of 2013. This decrease was primarily the result of higher relative Associate incentives expense and lower gross margins, which are discussed further below.

Quarters Ended June 29, 2013 and June 28, 2014
Net Sales

The following table summarizes the changes in our net sales by geographic region for the quarters ended as of the dates indicated:

	Net Sales by Region (in thousands)				Change from Prior Year	Percent Change
	Quarter Ended					
	June 29, 2013	June 28, 2014				
Americas and Europe	\$ 66,769	35.3%	\$ 63,661	33.8%	\$ (3,108)	(4.7)%
Asia Pacific:						
Southeast Asia Pacific	37,475	19.8%	42,689	22.7%	5,214	13.9%
Greater China	77,388	40.9%	74,091	39.4%	(3,297)	(4.3)%
North Asia	7,504	4.0%	7,815	4.1%	311	4.1%
Asia Pacific Total	<u>122,367</u>	<u>64.7%</u>	<u>124,595</u>	<u>66.2%</u>	<u>2,228</u>	<u>1.8%</u>
	<u>\$ 189,136</u>	<u>100.0%</u>	<u>\$ 188,256</u>	<u>100.0%</u>	<u>\$ (880)</u>	<u>(0.5)%</u>

Americas and Europe: The decline in net sales in this region was due to a decrease in net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$1.4 million. Net sales in the United States decreased \$4.5 million, or 11.3%, due to pressure from price discounts, combined with a decrease in the number of active Associates and Preferred Customers of 7.0% and 2.7%, respectively. The decreases in the United States, however, were partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 4.8% in Canada and 12.2% in Mexico due to continued growth in the number of active Associates and Preferred Customers in these markets. Our newest market, Colombia, also contributed \$0.9 million to net sales during the quarter.

Asia Pacific: The increase in net sales in this region was driven primarily by growth in Southeast Asia Pacific, partially offset by a decrease in sales in Greater China.

The increase in Southeast Asia Pacific was driven by growth in every market within this region, despite a \$1.7 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines and Singapore, where net sales

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increased 20.2% and 24.2%, respectively. On a local currency basis, sales in these two markets increased 27.1% and 24.4%, respectively. The number of active Associates in the Philippines and Singapore increased 11.1% and 40.0%, respectively. Sales in Singapore benefited from another year-over-year increase in sales of our MyHealthPak product to our Associates in other Asia Pacific markets, as sales of this item started gaining traction late in the second quarter of 2013.

The decline in net sales in Greater China was the result of a 66.5% decrease in net sales in Hong Kong, which was partially offset by triple-digit sales growth in mainland China. Notably, the decrease in Hong Kong includes an estimated \$7.0 million in incremental sales generated ahead of a worldwide policy that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only),

which makes for a difficult year-over-year comparable.

Gross Profit

Gross profit decreased to 81.5% of net sales for the second quarter of 2014, from 83.1% for the second quarter of 2013. This decline can be attributed to price discounts, unfavorable currency fluctuations, production inefficiencies, and an increase in relative freight costs. This decrease was partially offset by favorable changes in product and market mix and from our annual pricing update.

Associate Incentives

Associate incentives increased to 43.1% of net sales for the second quarter of 2014, from 41.1% for the second quarter of 2013. This increase was the result of the 2013 Strategic Changes, and was partially offset by changes from our annual pricing update.

Selling, General and Administrative Expenses

In absolute terms, our selling, general and administrative expense was essentially flat when compared with the second quarter of 2013. Selling, general and administrative expense as a percentage of net sales increased 23 basis points in the second quarter of 2014 compared with the second quarter of 2013, which can primarily be attributed to the impact from the price discounts introduced in 2013.

Income Taxes

Our effective income tax rate during the second quarter of 2014 was 34.3%, compared with 33.4% in the second quarter of 2013. This increase was due to a reduction in our United States manufacturing deduction benefit as a result of increased sales in China where products are manufactured in-market, and a reduction in tax benefits from lower tax rate jurisdictions, where sales have decreased.

Diluted Earnings Per Share

Diluted earnings per share decreased 20.9% in the second quarter of 2014 when compared with the prior year quarter. This decrease was the result of reduced net earnings as discussed above.

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Six Months Ended June 29, 2013 and June 28, 2014

Net Sales

The following table summarizes the changes in our net sales by geographic region for the periods ended as of the dates indicated:

	Net Sales by Region (in thousands)				Change from Prior Year	Percent Change
	Six Months Ended		June 28, 2014	34.4%		
	June 29, 2013					
Americas and Europe	\$ 130,921	36.5%	\$ 127,476	34.4%	\$ (3,445)	(2.6)%
Asia Pacific:						
Southeast Asia Pacific	72,784	20.3%	83,137	22.4%	10,353	14.2%
Greater China	140,373	39.2%	144,938	39.1%	4,565	3.3%
North Asia	14,140	4.0%	15,106	4.1%	966	6.8%
Asia Pacific Total	<u>227,297</u>	<u>63.5%</u>	<u>243,181</u>	<u>65.6%</u>	<u>15,884</u>	<u>7.0%</u>
	<u>\$ 358,218</u>	<u>100.0%</u>	<u>\$ 370,657</u>	<u>100.0%</u>	<u>\$ 12,439</u>	<u>3.5%</u>

Americas and Europe: The decrease in net sales in this region was due to a decrease in net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$3.3 million. Net sales in the United States decreased \$7.1 million, or 8.9%, due to pressure from price discounts, combined with a decrease in the average number of active Associates and Preferred Customers. The decreases in the United States, however, were partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 9.7% in Canada and 13.4% in Mexico due to continued growth in the number of active Associates and Preferred Customers in these markets. Our newest market, Colombia, also contributed \$1.5 million to net sales for the six month period.

Asia Pacific: The increase in net sales in this region was driven mostly by growth in Southeast Asia Pacific and Greater China, which was primarily the result of an increase in the average number of active Associates.

The increase in Southeast Asia Pacific was driven by growth in every market within this region despite a \$5.3 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines and Singapore, where net sales increased 18.5% and 43.0%, respectively. On a local currency basis, sales in these two markets increased 27.9% and 44.9%, respectively. Sales in Singapore benefited from a year-over-year increase in sales of our MyHealthPak product to our Associates in other Asia Pacific markets, as sales of this item

started gaining traction late in the second quarter of 2013.

Sales in Australia and New Zealand during the first six months of 2014 increased 3.0% even with a \$2.0 million reduction from changes in currency exchange rates. On a local currency basis, net sales in this market increased 10.5%.

The increase in net sales in Greater China included a 143.3% increase in net sales in mainland China, offset in great part by a 55.5% decrease in Hong Kong. Notably, the decrease in Hong Kong includes an estimated \$7.0 million in incremental sales generated ahead of a worldwide policy that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which makes for a difficult year-over-year comparable. We have also experienced a change in the trend of our unearned revenue as a result of these policy changes and anticipate being able to begin recognizing breakage in the near future.

Gross Profit

Gross profit declined to 81.5% of net sales for the first six months of 2014, compared with 82.6% in the prior year period. This decline can be attributed to price discounts and unfavorable currency fluctuations. This decrease was partially offset by favorable changes in product and market mix.

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Associate Incentives

Associate incentives increased to 43.2% of net sales for the first six months of 2014, from 41.2% in the prior year period. This increase was the result of the 2013 Strategic Changes, and was partially offset by changes from our annual pricing update.

Selling, General and Administrative Expenses

In absolute terms, our selling, general and administrative expense increased \$2.4 million during the first six months of 2014 when compared with the same period of the prior year. This increase is the result of costs associated with supporting a higher sales base, spending on new markets, and spending to support our personalization initiative. Relative to net sales, selling, general and administrative expense remained relatively flat in the first six months of 2014 compared with the same period of the prior year, due to leverage gained on a higher sales base.

Income Taxes

Our effective income tax rate during the first six months of 2014 was 34.4%, compared with 33.3% in same period of 2013. This increase was primarily the result of a reduction in our United States manufacturing deduction benefit due to increased sales in China where products are manufactured in-market, and a reduction in tax benefits from lower tax rate jurisdictions, where sales decreased.

Diluted Earnings Per Share

Diluted earnings per share decreased 16.4% in the first six months of 2014 when compared with the prior year period. This decrease was the result of reduced net earnings as discussed above.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing on our line of credit. Our principal source of liquidity is our operating cash flow. Although we are required to maintain cash deposits with banks in some of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. The hypothetical repatriation of \$10.2 million that relates to earnings considered indefinitely reinvested in certain of our markets at June 28, 2014, would result in a tax liability to the Company.

We have historically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$31.3 million in the first six months of 2014, compared with \$47.3 million in the first six months of 2013. Items affecting year-over-year changes in cash flow from operating activities include the impact of our 2013 Strategic Changes on operating income, and the overall change in operating assets and liabilities. Included in the change in operating assets and liabilities were: (i) an increase in other assets, related mostly to the purchase of land use rights for our new facility in China, (ii) an overall decrease in other liabilities resulting primarily from changes in accrued compensation, accrued commissions, and deferred convention revenue, and (iii) a decrease in accounts payable in the current year quarter due to the timing of invoices and payments. These items were partially offset by lower spending on inventory in the current year compared with the prior year.

Net cash flow from operating activities in the first six months of 2014 was offset by share repurchases as discussed below. As a result, cash and cash equivalents decreased to \$118.3 million at June 28, 2014, from \$137.3 million at December 29, 2013. Of the \$118.3 million cash and cash equivalents held at June 28, 2014, \$47.5 million was held in the United States and \$70.8 million was held by international subsidiaries. Of the \$137.3 million held at December 28, 2013, \$65.8 million was held in the United States and \$71.5 million was held by international subsidiaries. Net working capital decreased to \$113.2 million at June 28, 2014, from \$133.2 million at December 28, 2013.

We have extended non-revolving credit to the supplier of our nutrition bars to allow this supplier to acquire the necessary equipment to manufacture our bars. Notes receivable from this supplier as of June 28, 2014, were \$7.4 million.

We are building a state-of-the-art manufacturing and production facility in China, which we anticipate will become operational during the latter half of 2015. We anticipate that this project will require a total investment of approximately \$40 million, of which

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approximately \$24 million will be incurred in 2014. During the first six months of 2014, we incurred \$11.8 million on this project of which \$5.9 million was for land use rights.

Line of credit

We have a long-standing relationship with Bank of America. We currently maintain a \$75.0 million credit facility pursuant to a credit agreement with Bank of America, which expires in April 2016. Bank guarantees are considered a reduction of the overall availability of credit. As of June 28, 2014, such normal course of business bank guarantees reduced our available borrowing limit by \$3.9 million. We did not otherwise draw on this line of credit at any time during the quarter and, as of June 28, 2014, there was no actual outstanding balance on our line of credit.

The agreement for this credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of June 28, 2014, we were in compliance with these covenants. Management is not aware of any issues currently impacting Bank of America’s ability to honor their commitment to extend credit under this facility.

Share repurchase

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. The objective of this plan is to return value to our shareholders. Our Board of Directors has periodically approved additional dollar amounts for share repurchases under that plan. Share repurchases are made from time-to-time, in the open market, through block trades or otherwise, and are based on market conditions, the level of our cash balances, general business opportunities, and other factors. During the quarter ended June 28, 2014, our Board of Directors authorized an increase in the amount available for repurchase under this plan to a total of \$200 million. During the quarter and six months ended June 28, 2014, we repurchased and retired 681,719 shares of common stock for a total investment of \$49.1 million, at an average market price of \$72.02 per share. Additionally, subsequent to the quarter ended June 28, 2014, and through August 1, 2014, we repurchased and retired 429,774 shares of common stock for a total investment of \$30.9 million, at an average market price of \$71.97 per share pursuant to a preset trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 as amended. As of August 1, 2014, there was \$120.0 million remaining under the current share repurchase authorization and there is currently no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Summary

We believe that current cash balances, future cash provided by operations, and amounts available under our line of credit will be sufficient to cover our operating and capital needs in the ordinary course of business for the foreseeable future. If we experience an adverse operating environment or unanticipated and unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available or on favorable terms. We might also require or seek additional financing for the purpose of expanding into new markets, growing our existing markets, or for other reasons. Such financing may include the use of additional debt or the sale of additional equity securities. Any financing which involves the sale of equity securities or instruments that are convertible into equity securities could result in immediate and possibly significant dilution to our existing shareholders.

Forward-Looking Statements and Certain Risks

The statements contained in this report 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. These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as “believes,” “expects,” “anticipates,” “should,” “plans,” “estimates,” and “potential,” among others. Forward-looking statements include, but are not limited to, statements contained in Management’s Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund our future operations and capital spending needs. Readers are

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cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in these forward-looking statements for the reasons that are detailed in our most recent Annual Report on Form 10-K. The fact that some of these risk factors may be the same or similar to those in our past SEC reports means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in the industry in which we operate and will likely be present in all periods reported. The fact that certain risks are common in the industry does not lessen their significance. The forward-looking statements contained in this report are made as of the date of this report, and we assume no obligation to update them or to update the reasons why our actual results could differ from those that we have projected. Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include:

- Our ability to attract and maintain a sufficient number of Associates;
- Our dependence upon a network marketing system to distribute our products and the activities of our independent Associates;
- The integration of BabyCare’s operations and expansion of our business in China through BabyCare;
- Unanticipated effects of changes to our Compensation Plan;
- Our planned expansion into international markets, including delays in commencement of sales or product offerings in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- General economic conditions, both domestically and internationally;
- Potential political events, natural disasters, or other events that may negatively affect economic conditions;
- Potential effects of adverse publicity regarding the Company, nutritional supplements, or the network marketing industry;
- Reliance on key management personnel;
- Extensive government regulation of the Company’s products, manufacturing, and network marketing system;
- Potential inability to sustain or manage growth, including the failure to continue to develop new products;
- An increase in the amount of Associate incentives;
- Our reliance on the use of information technology;
- The effects of competition from new and established network and direct selling organizations in our key markets;
- The adverse effect of the loss of a high-level sponsoring Associate, together with a group of leading Associates, in that person’s downline;
- The loss of product market share or Associates to competitors;
- Potential adverse effects of customs, duties, taxation, and transfer pricing regulations, including regulations governing distinctions between and Company responsibilities to employees and independent contractors;
- The fluctuation in the value of foreign currencies against the U.S. dollar;
- Our reliance on outside suppliers for raw materials and certain manufactured items;
- Shortages of raw materials that we use in certain of our products;
- Significant price increases of our key raw materials;
- Product liability claims and other risks that may arise with our manufacturing activity;
- Intellectual property risks;
- Liability claims that may arise with our “Athlete Guarantee” program;
- Continued compliance with debt covenants;
- Disruptions to shipping channels that are used to distribute our products to international warehouses;

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- The introduction of new laws or changes to existing laws, both domestically and internationally; or
- The outcome of regulatory and litigation matters.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to information presented from that presented for the year ended December 28, 2013.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information that is required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods that are specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 28, 2014.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 28, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Repurchases

The following table presents information with respect to purchases of USANA common stock made by the Company during the three months ended June 28, 2014:

Issuer Purchases of Equity Securities (amounts in thousands, except per share data)

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs *</u>
Fiscal April (Mar. 30, 2014 through May 3, 2014)	44	\$ 69.31	44	\$ 196,948
Fiscal May (May 4, 2014 through May 31, 2014)	378	\$ 69.92	378	\$ 170,542
Fiscal June (Jun. 1, 2014 through Jun. 28, 2014)	<u>260</u>	\$ 75.52	<u>260</u>	\$ 150,905
	<u>682</u>	\$ 72.02	<u>682</u>	

* The Company's share repurchase plan has been ongoing since the fourth quarter of 2000, with the Company's Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. The Company began the second quarter of 2014 with \$13,622 remaining under the plan. As announced in a publicly issued press release on April 29, 2014, the Board of Directors authorized an increase in the amount available for repurchase under the plan to a total of \$200,000. Subsequent to the quarter ended June 28, 2014, and through August 1, 2014, the Company repurchased 430 shares for a total of \$30,932, at an average market price of \$71.97 per share pursuant to a Rule 10b5-1 trading plan. As of August 1, 2014, the Company had \$119,953 available under the share repurchase plan. There currently is no expiration date on the approved repurchase amount.

Item 5. OTHER INFORMATION

On July 23, 2013, the Company disclosed that the Securities and Exchange Commission ("SEC") was conducting a formal investigation, which appeared to involve possible issues regarding trading in the Company's stock during late 2012 by certain of the Company's directors, including the Chairman. On May 28, 2014, the Company received a letter from the SEC which indicated that the SEC had concluded its

investigation as to the Company and, as of the date of the letter, did not intend to recommend any enforcement action against the Company.

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Item 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)
3.2	Bylaws (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)
4.1	Specimen Stock Certificate for Common Stock, no par value (Incorporated by reference to Registration Statement on Form 10, File No. 0-21116, effective April 16, 1993)
10.1	2002 USANA Health Sciences, Inc. Stock Option Plan (Incorporated by reference to Registration Statement on Form S-8, filed July 18, 2002)*
10.2	Form of employee or director non-statutory stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)*
10.3	Form of employee incentive stock option agreement under the 2002 Stock Option Plan (Incorporated by reference to Report on Form 10-K, filed March 6, 2006)*
10.4	Credit Agreement, dated June 16, 2004, by and between Bank of America, N.A. and USANA Health Sciences, Inc. (Incorporated by reference to Report on Form 10-Q for the period ended July 3, 2004)
10.5	Amendment dated May 17, 2006 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended September 30, 2006)
10.6	Amendment dated April 24, 2007 to Credit Agreement dated June 16, 2004 (Incorporated by reference to Report on Form 10-Q for the period ended March 31, 2007)
10.7	USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 25, 2006)*
10.8	Form of Stock Option Agreement for award of non-statutory stock options to employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.9	Form of Stock Option Agreement for award of non-statutory stock options to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.10	Form of Incentive Stock Option Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.11	Form of Stock-Settled Stock Appreciation Rights Award Agreement for employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.12	Form of Stock-Settled Stock Appreciation Rights Award Agreement for directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.13	Form of Deferred Stock Unit Award Agreement for grants of deferred stock units to directors who are not employees under the USANA Health Sciences, Inc. 2006 Equity Incentive Award Plan (Incorporated by reference to Report on Form 8-K, filed April 26, 2006)*
10.14	Form of Indemnification Agreement between the Company and its directors (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)*
10.15	Form of Indemnification Agreement between the Company and certain of its officers (Incorporated by reference to Report on Form 8-K, filed May 24, 2006)*

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10.16	Share Purchase Agreement, dated as of August 16, 2010, among USANA Health Sciences, Inc., Petlane, Inc., Yaolan Ltd., and
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	BabyCare Holdings Ltd. (Incorporated by Reference to Report on Form 8-K, filed August 16, 2010)
10.17	Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011)
10.18	Form of Executive Confidentiality, Non-Disclosure and Non-Solicitation Agreement (Incorporated by reference to Quarterly Report on Form 10-Q for the period ended October 1, 2011, filed November 9, 2011)*
10.19	Separation and Release of Claims Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)*
10.20	Amendment to Confidentiality, Non-Disclosure and Non-Solicitation Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)*
10.21	Amendment to Amended and Restated Credit Agreement, dated as of July 18, 2013 (Incorporated by reference to Report on Form 8-K, filed July 23, 2013)
31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Denotes a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USANA HEALTH SCIENCES, INC.

Date: August 5, 2014

/s/ Paul A. Jones
 Paul A. Jones
 Chief Financial Officer
 (Principal Financial and Accounting Officer)

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CHIEF EXECUTIVE OFFICER CERTIFICATION

I, David A. Wentz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: August 5, 2014

/s/ David A. Wentz

David A. Wentz
Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Paul A. Jones, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the the Registrant's internal control over financial reporting.

Date: August 5, 2014

/s/ Paul A. Jones

Paul A. Jones

Chief Financial Officer

(Principal Accounting and Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended June 28, 2014 as filed August 5, 2014 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: August 5, 2014

/s/ David A. Wentz

David A. Wentz
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended June 28, 2014 as filed August 5, 2014 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: August 5, 2014

/s/ Paul A. Jones

Paul A. Jones

Chief Financial Officer

(Principal Accounting and Financial Officer)

Segment Information (Consolidated Net Sales And Long Lived Assets By Percent) (Details) (USD \$) In Thousands, unless otherwise specified	3 Months Ended		6 Months Ended		
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013	Dec. 28, 2013
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>					
<u>Net sales</u>	\$ 188,256	\$ 189,136	\$ 370,657	\$ 358,218	
China [Member]					
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>					
<u>Net sales</u>	51,223	23,559	89,983	36,984	
<u>Long-lived Assets</u>	73,026		73,026		61,716
United States [Member]					
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>					
<u>Net sales</u>	35,570	40,087	73,183	80,325	
<u>Long-lived Assets</u>	53,004		53,004		51,260
Hong Kong [Member]					
<u>Revenues from External Customers and Long-Lived Assets [Line Items]</u>					
<u>Net sales</u>		\$ 45,938	\$ 38,926	\$ 87,535	

Equity-Based Compensation (Schedule Of Stock Option Activity) (Details) (USD \$) In Thousands, except Share data, unless otherwise specified	6 Months Ended Jun. 28, 2014	12 Months Ended Dec. 28, 2013
<u>Equity-Based Compensation [Abstract]</u>		
<u>Shares, Outstanding</u>	1,827	
<u>Shares, Granted</u>	686	
<u>Shares, Exercised</u>	(362)	
<u>Shares, Forfeited</u>	(20)	
<u>Shares, Outstanding</u>	2,131	1,827
<u>Shares, Exercisable</u>	412	
<u>Weighted-average grant price, Outstanding</u>	\$ 37.37	
<u>Weighted-average grant price, Granted</u>	\$ 57.62	
<u>Weighted-average grant price, Exercised</u>	\$ 32.26	
<u>Weighted-average grant price, Forfeited</u>	\$ 27.33	
<u>Weighted-average grant price, Outstanding</u>	\$ 44.85	\$ 37.37
<u>Weighted-average grant price, Exercisable</u>	\$ 38.40	
<u>Weighted-average remaining contractual term, Outstanding</u>	2 years 9 months 18 days	2 years 7 months 6 days
<u>Weighted-average remaining contractual term, Exercisable</u>	1 year 7 months 6 days	
<u>Aggregate intrinsic value, Outstanding</u>	\$ 74,160	[1]
<u>Aggregate intrinsic value, Outstanding</u>	70,555	[1] 74,160 [1]
<u>Aggregate intrinsic value, Exercisable</u>	\$ 16,207	[1]
<u>Closing price of common stock</u>	\$ 77.76	\$ 77.72

[1] Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

Fair Value Measures
(Narrative) (Details) (USD \$)

Mar. 29, 2014 Dec. 28, 2013

Fair Value Measures [Abstract]

<u>Transfers of financial assets or liabilities</u>	\$ 0	\$ 0
<u>Non-financial assets</u>	\$ 0	\$ 0

**Segment Information
(Percentage Of Total Product
Revenue Contributed By
Company's Nutritional And
Care Products) (Details)**

	3 Months Ended		6 Months Ended	
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013

USANA Nutritionals [Member]

Revenue from External Customer [Line Items]

<u>Percentage of product revenue</u>	78.00%	81.00%	80.00%	79.00%
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USANA Foods [Member]

Revenue from External Customer [Line Items]

<u>Percentage of product revenue</u>	14.00%	12.00%	12.00%	12.00%
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Sense - Beautiful Science [Member]

Revenue from External Customer [Line Items]

<u>Percentage of product revenue</u>	7.00%	6.00%	6.00%	7.00%
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Fair Value Measures

6 Months Ended

Jun. 28, 2014

Fair Value Measures

[Abstract]

Fair Value Measures

NOTE B – 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.

NOTE B – FAIR VALUE MEASURES - CONTINUED

As of December 28, 2013 and June 28, 2014, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	December 28, 2013	<u>Fair Value Measurements Using:</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Money market funds included in cash equivalents	\$ 9,249	\$ 9,249	\$ -	\$ -
Term deposits included in cash equivalents	348	-	348	-

	June 28, 2014	<u>Fair Value Measurements Using:</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Money market funds included in cash equivalents	\$ 14,412	\$ 14,412	\$ -	\$ -

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs 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 is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 28, 2013 and March 29, 2014, there were no non-financial assets measured at fair value on a non-recurring basis.

At December 28, 2013 and June 28, 2014, the Company's financial instruments include cash equivalents, restricted cash, securities held-to-maturity ("HTM"), and notes receivable. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates. HTM securities consist of certificates of deposits. The fair value of a certificate of deposit is determined based on the pervasive interest rates in the market, which is considered to be a Level 2 input. The carrying values of these certificates of deposit approximate their fair values due to their short-term maturities.

**Other Assets (Details) (USD
\$)**

6 Months Ended 12 Months Ended

**In Thousands, unless
otherwise specified**

Jun. 28, 2014 Dec. 28, 2013

Other Assets [Line Items]

Credit facility issued

\$ 7,000

Receivable

7,447

4,942

Land-use rights

\$ 7,364

\$ 1,483

Amortization period

50 years

London Interbank Offered Rate (LIBOR) [Member]

Other Assets [Line Items]

Variable rate

4.00%

Inventories (Details) (USD \$)

**In Thousands, unless
otherwise specified** **Jun. 28, 2014 Dec. 28, 2013**

Inventories [Abstract]

<u>Raw materials</u>	\$ 12,301	\$ 13,824
<u>Work in progress</u>	8,361	8,147
<u>Finished goods</u>	23,866	25,271
<u>Inventories</u>	\$ 44,528	\$ 47,242

Equity-Based Compensation (Narrative) (Details) (USD \$) In Thousands, except Per Share data, unless otherwise specified	3 Months Ended				6 Months Ended	
	Jun. 28, 2014	Mar. 29, 2014	Jun. 29, 2013	Mar. 30, 2013	Jun. 28, 2014	Jun. 29, 2013
<u>Equity-Based Compensation [Abstract]</u>						
<u>Equity-based compensation expense</u>	\$ 2,235		\$ 2,058		\$ 4,071	\$ 4,427
<u>Equity-based compensation related tax benefit</u>	743		697		1,359	1,509
<u>Unrecognized compensation expense weighted average period of recognition</u>					2 years 1 month 6 days	
<u>Weighted-average grant date fair value</u>		\$ 17.73		\$ 13.34		
<u>Total intrinsic value of stock options and stock-settled stock appreciation rights exercised</u>					14,404	10,429
<u>Total fair value of equity awards vested</u>					\$ 3,506	\$ 1,553

**Equity-Based Compensation
(Schedule Of Remaining
Unrecognized Compensation
Expense For Unvested
Awards) (Details) (USD \$)
In Thousands, unless
otherwise specified**

6 Months Ended

Jun. 28, 2014

Equity-Based Compensation [Abstract]

<u>2014</u>	\$ 4,643
<u>2015</u>	7,382
<u>2016</u>	5,504
<u>2017</u>	3,399
<u>2018+</u>	541
<u>Total</u>	\$ 21,469

Unrecognized compensation expense weighted average period of recognition 2 years 1 month 6 days

**Organization, Consolidation,
And Basis Of Presentation**

**6 Months Ended
Jun. 28, 2014**

**Organization, Consolidation,
And Basis Of Presentation**

[Abstract]

**Organization, Consolidation, And
Basis Of Presentation**

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 28, 2013, 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 June 28, 2014 and results of operations for the quarters and six months ended June 29, 2013 and June 28, 2014. 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 28, 2013. The results of operations for the quarter and six months ended June 28, 2014, may not be indicative of the results that may be expected for the fiscal year 2014 ending January 3, 2015.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 includes a five-step process by which entities will 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 to in exchange for those goods or services. The standard also will require 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. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

**Equity-Based Compensation
(Schedule Of Fair Value
Assumptions) (Details) (USD
\$)**

6 Months Ended

Jun. 28, 2014

Jun. 29, 2013

Equity-Based Compensation [Abstract]

<u>Expected volatility</u>	39.90%	[1]	43.10%	[1]
<u>Risk-free interest rate</u>	1.20%	[2]	0.60%	[2]
<u>Expected life</u>	3 years 6 months 15 days	[3]	3 years 11 months 19 days	[3]
<u>Expected dividend yield</u>	0.00%	[4]	0.00%	[4]
<u>Weighted-average grant price</u>	\$ 57.62	[5]	\$ 40.84	[5]

[1] The Company utilizes historical volatility of the trading price of its common stock.

[2] Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

[3] Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

[4] The Company historically has not paid dividends.

[5] Exercise price is the closing price of the Company's common stock on the date of grant.

**Condensed Consolidated
Balance Sheets (USD \$)
In Thousands, unless
otherwise specified**

**Jun. 28, Dec. 28,
2014 2013**

ASSETS

<u>Cash and cash equivalents</u>	\$ 118,267	\$ 137,343
<u>Securities held-to-maturity, net</u>	3,374	8,642
<u>Inventories</u>	44,528	47,242
<u>Prepaid expenses and other current assets</u>	35,756	35,818
<u>Total current assets</u>	201,925	229,045
<u>Property and equipment, net</u>	65,859	59,180
<u>Goodwill</u>	17,919	18,243
<u>Intangible assets, net</u>	41,015	42,329
<u>Deferred tax assets</u>	5,515	5,519
<u>Other assets</u>	22,688	14,154
<u>Total assets</u>	354,921	368,470

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>Accounts payable</u>	6,408	9,502
<u>Other current liabilities</u>	82,297	86,369
<u>Total current liabilities</u>	88,705	95,871
<u>Deferred tax liabilities</u>	10,672	10,866
<u>Other long-term liabilities</u>	1,290	1,211
<u>Stockholders' equity</u>		
<u>Common stock, \$0.001 par value; Authorized -- 50,000 shares, issued and outstanding 13,886 as of December 28, 2013 and 13,404 as of June 28, 2014</u>	13	14
<u>Additional paid-in capital</u>	51,925	54,691
<u>Retained earnings</u>	196,992	200,023
<u>Accumulated other comprehensive income</u>	5,324	5,794
<u>Total stockholders' equity</u>	254,254	260,522
<u>Total liabilities and stockholder's equity</u>	\$ 354,921	\$ 368,470

Condensed Consolidated
Statement Of Stockholders'
Equity (Parenthetical) (USD
\$)

6 Months Ended

In Thousands, unless
otherwise specified

Jun. 28, 2014

Condensed Consolidated Statement Of Stockholders' Equity [Abstract]

Common stock issued under equity award plans, including tax benefit (expense) \$ 3,387

**Common Stock And Earnings
Per Share (Schedule Of
Common Stock And Earnings
Per Share) (Details) (USD \$)
In Thousands, except Per
Share data, unless otherwise
specified**

3 Months Ended 6 Months Ended

**Jun. 28, Jun. 29, Jun. 28, Jun. 29, Mar. Dec. 28, Mar. Dec. 29,
2014 2013 2014 2013 29, 2014 2013 30, 2013 2012**

**Common Stock And Earnings Per Share
[Abstract]**

<u>Net earnings available to common shareholders</u>	\$	\$	\$	\$				
	19,301	24,210	35,838	41,989				
<u>Common shares outstanding entire period</u>	13,404		13,404		13,886	13,886	13,821	13,821
<u>Weighted average common shares issued during period</u>	131	106	81	58				
<u>Weighted average common shares cancelled during period</u>	(249)	(414)	(124)	(301)				
<u>Weighted average common shares outstanding during period</u>	13,768	13,513	13,843	13,578				
<u>Earnings per common share from net earnings - basic</u>	\$ 1.40	\$ 1.79	\$ 2.59	\$ 3.09				
<u>Weighted average common shares outstanding during period - basic</u>	13,768	13,513	13,843	13,578				
<u>Dilutive effect of in-the-money equity awards</u>	467	586	472	456				
<u>Weighted average common shares outstanding during period - diluted</u>	14,235	14,099	14,315	14,034				
<u>Earnings per common share from net earnings - diluted</u>	\$ 1.36	\$ 1.72	\$ 2.50	\$ 2.99				
<u>Equity awards for the following shares were not included in the their effect would be anti-dilutive:</u>	383	234	328	560				

Common Stock And Earnings
Per Share (Tables)

6 Months Ended
Jun. 28, 2014

Common Stock And Earnings Per
Share [Abstract]

Schedule Of Common Stock And
Earnings Per Share

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net earnings available to common shareholders	\$ 24,210	\$ 19,301	\$ 41,989	\$ 35,838
<u>Basic EPS</u>				
Shares				
Common shares outstanding entire period	13,821	13,886	13,821	13,886
Weighted average common shares:				
Issued during period	106	131	58	81
Canceled during period	(414)	(249)	(301)	(124)
Weighted average common shares outstanding during period	13,513	13,768	13,578	13,843
Earnings per common share from net earnings - basic	\$ 1.79	\$ 1.40	\$ 3.09	\$ 2.59
<u>Diluted EPS</u>				
Shares				
Weighted average common shares outstanding during period - basic	13,513	13,768	13,578	13,843
Dilutive effect of in-the-money equity awards	586	467	456	472
Weighted average common shares outstanding during period - diluted	14,099	14,235	14,034	14,315
Earnings per common share from net earnings - diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

Quarter Ended		Six Months Ended	
June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
234	383	560	328

Segment Information
(Narrative) (Details)

6 Months Ended
Jun. 28, 2014

Segment Information [Abstract]

Percentage of revenue from major customers, maximum 10.00%

**Organization, Consolidation,
And Basis Of Presentation
(Details)**

**6 Months Ended
Jun. 28, 2014
item**

Organization, Consolidation, And Basis Of Presentation [Abstract]

<u>Geographic regions</u>	2
<u>Sub-geographical regions</u>	3

**Condensed Consolidated
Statements Of Cash Flows
(USD \$)
In Thousands, unless
otherwise specified**

6 Months Ended

**Jun. 28,
2014** **Jun. 29,
2013**

Cash flows from operating activities

Net earnings \$ 35,838 \$ 41,989

Adjustments to reconcile net earnings to net cash provided by (used in) operating activities

Depreciation and amortization 4,408 4,631

(Gain) loss on sale of property and equipment 16 (6)

Equity-based compensation expense 4,071 4,427

Excess tax benefits from equity-based payment arrangements (3,387) (1,734)

Deferred income taxes (605) 843

Changes in operating assets and liabilities:

Inventories 3,034 (6,123)

Prepaid expenses and other assets (5,144) (3,295)

Accounts payable (3,085) 155

Other liabilities (3,896) 6,409

Net cash provided by (used in) operating activities 31,250 47,296

Cash flows from investing activities

Additions to notes receivable (2,520) (2,232)

Purchases of investment securities held-to-maturity (3,871)

Maturities of investment securities 9,137

Proceeds from sale of property and equipment 8 15

Purchases of property and equipment (10,103) (2,961)

Net cash provided by (used in) investing activities (7,349) (5,178)

Cash flows from financing activities

Proceeds from equity awards exercised 454

Excess tax benefits from equity-based payment arrangements 3,387 1,734

Repurchase of common stock (46,109) (18,085)

Net cash provided by (used in) financing activities (42,722) (15,897)

Effect of exchange rate changes on cash and cash equivalents (255) (1,004)

Net increase (decrease) in cash and cash equivalents (19,076) 25,217

Cash and cash equivalents, beginning of period 137,343 70,839

Cash and cash equivalents, end of period 118,267 96,056

Supplemental disclosures of cash flow information

Interest 6

Income taxes 9,963 21,040

Non-cash financing activities:

Unsettled trades for repurchase of common stock \$ (2,985)

**Condensed Consolidated
Balance Sheets
(Parenthetical) (USD \$)
In Thousands, except Per
Share data, unless otherwise
specified**

Jun. 28, 2014 Dec. 28, 2013

Condensed Consolidated Balance Sheets [Abstract]

<u>Common stock, par value</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	50,000	50,000
<u>Common stock, shares issued</u>	13,404	13,886
<u>Common stock, shares outstanding</u>	13,404	13,886

**Organization, Consolidation,
And Basis Of Presentation
(Policy)**

6 Months Ended

Jun. 28, 2014

**Organization, Consolidation,
And Basis Of Presentation**

[Abstract]

**Recent Accounting
Pronouncements**

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will 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 to in exchange for those goods or services. The standard also will require 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. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

**Document And Entity
Information**

**6 Months Ended
Jun. 28, 2014**

Aug. 01, 2014

Document And Entity Information [Abstract]

<u>Document Type</u>	10-Q	
<u>Amendment Flag</u>	false	
<u>Document Period End Date</u>	Jun. 28, 2014	
<u>Document Fiscal Period Focus</u>	Q2	
<u>Entity Central Index Key</u>	0000896264	
<u>Entity Registrant Name</u>	USANA HEALTH SCIENCES INC	
<u>Current Fiscal Year End Date</u>	--01-03	
<u>Document Fiscal Year Focus</u>	2014	
<u>Entity Filer Category</u>	Accelerated Filer	
<u>Entity Common Stock, Shares Outstanding</u>		12,984,073

**Fair Value Measures
(Tables)**

**6 Months Ended
Jun. 28, 2014**

Fair Value Measures [Abstract]

Schedule Of Assets And Liabilities Measured

At Fair Value

	December 28, 2013	<u>Fair Value Measurements Using:</u>		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 9,249\$	9,249\$	- \$	-
Term deposits included in cash equivalents	348	-	348	-

	June 28, 2014	<u>Fair Value Measurements Using:</u>		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 14,412\$	14,412\$	- \$	-

Condensed Consolidated Statements Of Comprehensive Income (USD \$) In Thousands, except Per Share data, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013
	<u>Condensed Consolidated Statements Of Comprehensive Income</u> [Abstract]			
Net sales	\$ 188,256	\$ 189,136	\$ 370,657	\$ 358,218
Cost of sales	34,865	31,905	68,693	62,166
Gross profit	153,391	157,231	301,964	296,052
<u>Operating expenses:</u>				
Associate incentives	81,098	77,801	159,972	147,656
Selling, general and administrative	43,206	42,978	87,783	85,382
Total operating expenses	124,304	120,779	247,755	233,038
Earnings from operations	29,087	36,452	54,209	63,014
<u>Other income (expense):</u>				
Interest income	215	81	427	159
Interest expense			(6)	
Other, net	82	(164)	1	(268)
Other income (expense), net	297	(83)	422	(109)
Earnings before income taxes	29,384	36,369	54,631	62,905
Income taxes	10,083	12,159	18,793	20,916
Net earnings	19,301	24,210	35,838	41,989
<u>Earnings per common share</u>				
Basic	\$ 1.40	\$ 1.79	\$ 2.59	\$ 3.09
Diluted	\$ 1.36	\$ 1.72	\$ 2.50	\$ 2.99
<u>Weighted average common shares outstanding</u>				
Basic	13,768	13,513	13,843	13,578
Diluted	14,235	14,099	14,315	14,034
<u>Comprehensive income:</u>				
Net earnings	19,301	24,210	35,838	41,989
<u>Other comprehensive income (loss), net of tax:</u>				
Foreign currency translation adjustment	802	(2,472)	(860)	(2,441)
Tax benefit (expense) related to foreign currency translation adjustment	(262)	798	390	732
Other comprehensive income (loss), net of tax	540	(1,674)	(470)	(1,709)
Comprehensive income	\$ 19,841	\$ 22,536	\$ 35,368	\$ 40,280

Other Assets

6 Months Ended

Jun. 28, 2014

Other Assets [Abstract]

Other Assets

NOTE E – OTHER ASSETS

The Company has extended non-revolving credit to its supplier of nutrition bars of up to \$7,000 to allow this supplier to acquire the necessary equipment to manufacture the USANA nutrition bars. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as December 28, 2013, and June 28, 2014 were \$4,942 and \$7,447, respectively.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the latter half of 2015. As part of this project, land use rights totaling \$1,483, and \$7,364 as of December 28, 2013 and June 28, 2014, respectively, have been purchased and will be amortized over 50 years. Land-use rights are classified within the "Other assets" line item in the Company's consolidated balance sheets.

Inventories

**6 Months Ended
Jun. 28, 2014**

Inventories [Abstract]

Inventories

NOTE D – INVENTORIES

Inventories consist of the following:

	<u>December 28, 2013</u>	<u>June 28, 2014</u>
Raw materials	S 13,824S	12,301
Work in progress	8,147	8,361
Finished goods	<u>25,271</u>	<u>23,866</u>
	<u>S 47,242S</u>	<u>44,528</u>

Segment Information (Tables)

6 Months Ended

Jun. 28, 2014

Segment Information [Abstract]

Schedule Of Revenue Percentage By Product

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>	<u>June 29, 2013</u>	<u>June 28, 2014</u>
USANA® Nutritionals	81%	78%	79%	80%
USANA Foods	12%	14%	12%	12%
Sensé – beautiful science®	6%	7%	7%	6%

Schedule Of Revenues From External Customers By Geographical Areas

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>	<u>June 29, 2013</u>	<u>June 28, 2014</u>
Net Sales to External Customers				
Americas and Europe	\$ 66,769\$	\$ 63,661\$	\$ 130,921\$	\$ 127,476
Asia Pacific				
Southeast Asia Pacific	37,475	42,689	72,784	83,137
Greater China	77,388	74,091	140,373	144,938
North Asia	7,504	7,815	14,140	15,106
Asia Pacific Total	122,367	124,595	227,297	243,181
Consolidated Total	\$ 189,136\$	\$ 188,256\$	\$ 358,218\$	\$ 370,657

Consolidated Net Sales And Long Lived Assets

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>	<u>June 29, 2013</u>	<u>June 28, 2014</u>
Net sales:				
China	\$ 23,559\$	\$ 51,223\$	\$ 36,984\$	\$ 89,983
United States	40,087	35,570	80,325	73,183
Hong Kong	45,938	N/A	87,535	38,926
			<u>As of</u>	
			<u>December 28, 2013</u>	<u>June 28, 2014</u>
Long-lived Assets:				
China		\$ 61,716\$		73,026
United States			51,260	53,004

Investments (Tables)

6 Months Ended

Jun. 28, 2014

Investments [Abstract]

Schedule Of Held-To-Maturity

Securities

As of December 28, 2013				
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 8,642	\$ -	\$ -	8,642
Total HTM Securities	\$ 8,642	\$ -	\$ -	8,642

As of June 28, 2014				
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 3,374	\$ -	\$ -	3,374
Total HTM Securities	\$ 3,374	\$ -	\$ -	3,374

**Common Stock And Earnings
Per Share**

**6 Months Ended
Jun. 28, 2014**

**Common Stock And Earnings
Per Share [Abstract]**

Common Stock And Earnings Per Share NOTE H — 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 based on the time they were outstanding in any period. 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.

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net earnings available to common shareholders	\$ 24,210	\$ 19,301	\$ 41,989	\$ 35,838
<u>Basic EPS</u>				
Shares				
Common shares outstanding entire period	13,821	13,886	13,821	13,886
Weighted average common shares:				
Issued during period	106	131	58	81
Canceled during period	(414)	(249)	(301)	(124)
Weighted average common shares outstanding during period	<u>13,513</u>	<u>13,768</u>	<u>13,578</u>	<u>13,843</u>
Earnings per common share from net earnings - basic	\$ 1.79	\$ 1.40	\$ 3.09	\$ 2.59
<u>Diluted EPS</u>				
Shares				
Weighted average common shares outstanding during period - basic	13,513	13,768	13,578	13,843
Dilutive effect of in-the-money equity awards	<u>586</u>	<u>467</u>	<u>456</u>	<u>472</u>
Weighted average common shares outstanding during period - diluted	<u>14,099</u>	<u>14,235</u>	<u>14,034</u>	<u>14,315</u>
Earnings per common share from net earnings - diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50

Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:

Quarter Ended		Six Months Ended	
June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014

NOTE H — COMMON STOCK AND EARNINGS PER SHARE - CONTINUED

During the six months ended June 29, 2013 and the quarter and six months ended June 28, 2014, the Company repurchased and retired 414 shares and 682 shares, for \$18,085 and \$49,094, respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

Subsequent to the period ended June 28, 2014 and through August 1, 2014, the Company repurchased and retired 430 shares under the Company's share repurchase plan for a total of \$30,932. As of August 1, 2014, the remaining approved repurchase amount under the plan was \$119,953.

Contingencies

6 Months Ended

Jun. 28, 2014

Contingencies [Abstract]

Contingencies

NOTE F – CONTINGENCIES

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, 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.

Equity-Based Compensation

6 Months Ended

Jun. 28, 2014

Equity-Based Compensation

[Abstract]

Equity-Based Compensation

NOTE G — EQUITY BASED COMPENSATION

The Company utilizes a share-based compensation plan, which is more fully described in Note K to the Consolidated Financial Statements in Form 10-K for the year ended December 28, 2013.

Equity-based compensation expense for the quarters ended June 29, 2013 and June 28, 2014, was \$2,058, and \$2,235 respectively. The related tax benefit for these periods was \$697, and \$743, respectively. Expense for the six months ended June 29, 2013, and June 28, 2014, was \$4,427 and \$4,071, respectively. The related tax benefit for these periods was \$1,509 and \$1,359, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of March 29, 2014. This table does not include an estimate for future grants that may be issued.

2014	\$	4,643
2015		7,382
2016		5,504
2017		3,399
2018+		541
	\$	<u>21,469</u>

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value of stock-settled stock appreciation rights that were granted during the three months ended March 30, 2013, and March 29, 2014, was \$13.34 and \$17.73, respectively. Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated.

	Six Months Ended	
	June 29, 2013	June 28, 2014
Expected volatility (1)	43.1%	39.9%
Risk-free interest rate (2)	0.6%	1.2%
Expected life (3)	3.97 yrs	3.54 yrs
Expected dividend yield (4)	0.0%	0.0%
Weighted-average exercise price (5)	\$ 40.84	\$ 57.62

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

(4) The Company historically has not paid dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

NOTE G – EQUITY-BASED COMPENSATION – CONTINUED

A summary of the Company's stock option and stock-settled stock appreciation right activity is as follows:

	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term</u>	<u>Aggregate intrinsic value*</u>
Outstanding at December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	686	57.62		
Exercised	(362)	32.26		
Forfeited	(20)	27.33		
Expired	-	-		
Outstanding at June 28, 2014	<u>2,131</u>	\$ 44.85	2.8	\$ 70,555
Exercisable at June 28, 2014	<u>412</u>	\$ 38.40	1.6	\$ 16,207

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised during the six months ended June 29, 2013, and June 28, 2014, was \$10,429 and \$14,404, respectively.

The total fair value of equity awards that vested during the six months ended June 29, 2013, and June 28, 2014, was \$1,553 and \$3,506, respectively. This total fair value includes equity-based awards issued in the form of stock options and stock-settled stock appreciation rights.

Segment Information

6 Months Ended

Jun. 28, 2014

Segment Information

[Abstract]

Segment Information

NOTE I – SEGMENT INFORMATION

USANA operates 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 aggregates its operating segments into one reportable segment as management believes that the Company’s segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. 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.

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
USANA® Nutritionals	81%	78%	79%	80%
USANA Foods	12%	14%	12%	12%
Sensé – beautiful science®	6%	7%	7%	6%

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

- Americas and Europe – United States, Canada, Mexico, Colombia⁽¹⁾, the United Kingdom, France, Belgium, and the Netherlands.
- Asia Pacific –
 - Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
 - Greater China – Hong Kong, Taiwan and China⁽²⁾
 - North Asia – Japan and South Korea

⁽¹⁾ The Company commenced operations in Colombia in the third quarter of 2013.

⁽²⁾ The Company’s business in China is that of BabyCare, its wholly-owned subsidiary.

NOTE I – SEGMENT INFORMATION - CONTINUED

Selected Financial Information

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net Sales to External Customers				
Americas and Europe	\$ 66,769	\$ 63,661	\$ 130,921	\$ 127,476
Asia Pacific				
Southeast Asia Pacific	37,475	42,689	72,784	83,137
Greater China	77,388	74,091	140,373	144,938
North Asia	7,504	7,815	14,140	15,106
Asia Pacific Total	122,367	124,595	227,297	243,181
Consolidated Total	\$ 189,136	\$ 188,256	\$ 358,218	\$ 370,657

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net sales:				
China	\$ 23,559	\$ 51,223	\$ 36,984	\$ 89,983
United States	40,087	35,570	80,325	73,183
Hong Kong	45,938	N/A	87,535	38,926
			As of	
			December 28, 2013	June 28, 2014
Long-lived Assets:				
China			\$ 61,716	\$ 73,026
United States			51,260	53,004

Common Stock And Earnings Per Share (Narrative) (Details) (USD \$) In Thousands, except Share data, unless otherwise specified	3 Months Ended		6 Months Ended		0 Months Ended	1 Months Ended
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013	Aug. 01, 2014 Subsequent Event [Member]	Aug. 01, 2014 Subsequent Event [Member]
<u>Equity, Class of Treasury Stock [Line Items]</u>						
<u>Equity awards of stock excluded in computation of diluted EPS</u>	383,000	234,000	328,000	560,000		
<u>Shares repurchased and retired</u>			682	414		430
<u>Value of shares repurchased and retired</u>			\$ 49,094	\$ 18,085	\$ 30,932	
<u>Remaining approved repurchase amount</u>					\$ 119,953	

**Equity-Based Compensation
(Tables)**

**6 Months Ended
Jun. 28, 2014**

Equity-Based Compensation [Abstract]

Schedule Of Remaining Unrecognized

Compensation Expense For Unvested Awards

2014	\$	4,643
2015		7,382
2016		5,504
2017		3,399
2018+		541
	\$	<u>21,469</u>

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

Schedule Of Fair Value Assumptions

	<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>
Expected volatility (1) .	43.1%	39.9%
Risk-free interest rate (2) .	0.6%	1.2%
Expected life (3) .	3.97 yrs	3.54 yrs
Expected dividend yield (4) .	0.0%	0.0%
Weighted-average exercise price (5) .	\$ 40.84	\$ 57.62

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, expected life may be a weighted-average that includes

historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

(4) The Company historically has not paid dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

Schedule Of Stock Option Activity

	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term</u>	<u>Aggregate intrinsic value*</u>
Outstanding at December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	686	57.62		
Exercised	(362)	32.26		
Forfeited	(20)	27.33		
Expired	-	-		
Outstanding at June 28, 2014	<u>2,131</u>	\$ 44.85	2.8	\$ 70,555
Exercisable at June 28, 2014	<u>412</u>	\$ 38.40	1.6	\$ 16,207

* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The

closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

Fair Value Measures
(Schedule Of Assets And
Liabilities Measured At Fair
Value) (Details) (USD \$)
In Thousands, unless
otherwise specified

Jun. 28,
2014

Dec. 28,
2013

Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]

<u>Money market funds included in cash equivalents</u>	\$ 14,412	\$ 9,249
<u>Term deposits included in cash</u>		348
Fair Value, Inputs, Level 1 [Member]		

Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]

<u>Money market funds included in cash equivalents</u>	14,412	9,249
Fair Value, Inputs, Level 2 [Member]		

Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]

<u>Term deposits included in cash</u>		\$ 348
---------------------------------------	--	--------

Condensed Consolidated Statement Of Stockholders' Equity (USD \$) In Thousands, except Share data	Common Stock [Member]	Additional Paid-in Capital [Member]	Retained Earnings [Member]	Accumulated Other Comprehensive Income (Loss) [Member]	Total
<u>Balance, value at Dec. 28, 2013</u>	\$ 14	\$ 54,691	\$ 200,023	\$ 5,794	\$ 260,522
<u>Balance, shares at Dec. 28, 2013</u>	13,886,000				13,886,000
<u>Net earnings</u>			35,838		35,838
<u>Other comprehensive income (loss), net of tax</u>				(470)	(470)
<u>Equity-based compensation expense</u>		4,071			4,071
<u>Common stock repurchased and retired, shares</u>	(682,000)				(682)
<u>Common stock repurchased and retired, value</u>	(1)	(10,224)	(38,869)		(49,094)
<u>Common stock issued under equity award plans, including tax benefit, shares</u>	200,000				
<u>Common stock issued under equity award plans, including tax benefit, value</u>		3,387			3,387
<u>Balance, value at Jun. 28, 2014</u>	\$ 13	\$ 51,925	\$ 196,992	\$ 5,324	\$ 254,254
<u>Balance, shares at Jun. 28, 2014</u>	13,404,000				13,404,000

Investments**6 Months Ended****Jun. 28, 2014****Investments [Abstract]****Investments****NOTE C – INVESTMENTS**

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

	As of December 28, 2013			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 8,642	\$ -	\$ -	8,642
Total HTM Securities	<u>\$ 8,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>8,642</u>

	As of June 28, 2014			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 3,374	\$ -	\$ -	3,374
Total HTM Securities	<u>\$ 3,374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,374</u>

Investments (Details) (USD

)

**In Thousands, unless
otherwise specified**

Jun. 28, 2014 Dec. 28, 2013

Schedule of Held-to-maturity Securities [Line Items]

Amortized Cost \$ 3,374 \$ 8,642

Estimated Fair Value 3,374 8,642

Certificates of Deposit [Member]

Schedule of Held-to-maturity Securities [Line Items]

Amortized Cost 3,374 8,642

Estimated Fair Value \$ 3,374 \$ 8,642

Segment Information (Schedule Of Revenues From External Customers And Assets By Geographic Region) (Details) (USD \$) In Thousands, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013
<u>Revenues From External Customers By Geographic Area [Line Items]</u>				
<u>Net Sales to External Customers</u> Americas And Europe [Member]	\$ 188,256	\$ 189,136	\$ 370,657	\$ 358,218
<u>Revenues From External Customers By Geographic Area [Line Items]</u>				
<u>Net Sales to External Customers</u> Southeast Asia/Pacific [Member]	63,661	66,769	127,476	130,921
<u>Revenues From External Customers By Geographic Area [Line Items]</u>				
<u>Net Sales to External Customers</u> Greater China [Member]	42,689	37,475	83,137	72,784
<u>Revenues From External Customers By Geographic Area [Line Items]</u>				
<u>Net Sales to External Customers</u> North Asia [Member]	74,091	77,388	144,938	140,373
<u>Revenues From External Customers By Geographic Area [Line Items]</u>				
<u>Net Sales to External Customers</u> Asia Pacific [Member]	7,815	7,504	15,106	14,140
<u>Revenues From External Customers By Geographic Area [Line Items]</u>				
<u>Net Sales to External Customers</u>	\$ 124,595	\$ 122,367	\$ 243,181	\$ 227,297

Inventories (Tables)

6 Months Ended

Jun. 28, 2014

Inventories [Abstract]

Schedule Of Inventories

Inventories consist of the following:

	<u>December 28,</u> <u>2013</u>	<u>June 28,</u> <u>2014</u>
Raw materials	\$ 13,824	\$ 12,301
Work in progress	8,147	8,361
Finished goods	<u>25,271</u>	<u>23,866</u>
	<u>\$ 47,242</u>	<u>\$ 44,528</u>

Addendum G

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant R
Filed by a Party other than the Registrant F

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(c)(2))
 R Definitive Proxy Statement
 F Definitive Additional Materials
 F Soliciting Material Pursuant to §240.14a-12

CytRx Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

R No fee required.

F Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

F Fee paid previously with preliminary materials.

F Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

CytRx Corporation

11726 San Vicente Boulevard, Suite 650
Los Angeles, California 90049

May 1, 2014

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of CytRx Corporation. The meeting will be held at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, on Tuesday, June 24, 2014.

The Notice of Meeting and the Proxy Statement on the following pages cover the formal business of the Annual Meeting. At the Annual Meeting, I will also report on CytRx's current operations and will be available to respond to appropriate questions from stockholders.

We sincerely hope you will be able to attend the Annual Meeting. Whether or not you plan to attend, however, and regardless of the number of shares you own, it is important that your shares be represented at the Annual Meeting. Therefore, please take the time to vote your shares by completing and mailing the enclosed proxy card to us.

Thank you for your continued support.

Sincerely,

/s/ STEVEN A. KRIEGSMAN

Steven A. Kriegsman
President and Chief Executive Officer

CytRx Corporation

11726 San Vicente Boulevard, Suite 650
Los Angeles, California 90049

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS to be held on June 24, 2014

Notice is hereby given to the holders of common stock, \$.001 par value per share, of CytRx Corporation that the Annual Meeting of Stockholders will be held on Tuesday, June 24, 2014 at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, for the following purposes:

- (1) The election of two directors to serve until the 2017 Annual Meeting of Stockholders;
- (2) The advisory approval of the compensation of our named executive officers as disclosed in this proxy statement;
- (3) The ratification of the selection of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014; and
- (4) The transaction of such other business as may properly come before the Annual Meeting and at any postponement or adjournment thereof.

Only those stockholders of record at the close of business on May 1, 2014 are entitled to notice of and to vote at the Annual Meeting and at any postponement or adjournment thereof. A complete list of stockholders entitled to vote at the Annual Meeting will be available at the Annual Meeting.

By Order of the board of directors,

/s/ BENJAMIN S. LEVIN

Benjamin S. Levin
Corporate Secretary

May 1, 2014

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE ENCLOSED BUSINESS REPLY ENVELOPE (OR USE TELEPHONE OR INTERNET VOTING PROCEDURES, IF AVAILABLE THROUGH YOUR BROKER). IF YOU ATTEND THE ANNUAL MEETING AND WISH TO DO SO, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON.

CytRx Corporation

11726 San Vicente Boulevard, Suite 650
Los Angeles, California 90049

To Be Held June 24, 2014

PROXY STATEMENT

This Proxy Statement is furnished to holders of common stock, \$.001 par value per share, of CytRx Corporation, a Delaware corporation ("we," "us," "our," "CytRx" or the "company") in connection with the solicitation of proxies by our board of directors for use at our 2014 Annual Meeting of Stockholders to be held at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, on Tuesday, June 24, 2014, and at any postponement or adjournment thereof.

This Proxy Statement and the accompanying proxy card are first being mailed to our stockholders on or about May 3, 2014.

Our board of directors is asking you to vote your shares by completing, signing and returning the proxy card. If you attend the Annual Meeting in person, you may vote at the Annual Meeting even if you have previously returned a proxy. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the Annual Meeting, you must obtain a proxy issued in your name from that record holder.

What is a proxy?

A proxy is the legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated Steven A. Kriegsman, our President and Chief Executive Officer, and Benjamin S. Levin, our General Counsel, Senior Vice President - Legal Affairs and Corporate Secretary, as proxies for the Annual Meeting. By completing, signing and returning the accompanying proxy card, you are authorizing Messrs. Kriegsman and Levin to vote your shares at the Annual Meeting as you have instructed them on the proxy card. This way, your shares will be voted whether or not you attend the Annual Meeting. Even if you plan to attend the Annual Meeting, it is advisable to complete, sign and return your proxy card before the Annual Meeting date just in case your plans change. You may vote, in person, at the Annual Meeting even if you have previously returned a proxy.

What is a Proxy Statement?

A Proxy Statement is a document that regulations of the Securities and Exchange Commission, or SEC, require us to give you when we ask you to sign a proxy card designating Messrs. Kriegsman and Levin as proxies to vote on your behalf.

What is in this proxy statement?

This Proxy Statement describes the proposals on which we would like you, as a stockholder, to vote at the Annual Meeting. It gives you information on the proposals, as well as other information about us, so that you can make an informed decision.

What am I voting on?

At the Annual Meeting, stockholders will act upon the proposals referred to in the attached Notice of Meeting and described in detail in this proxy statement. These proposals are:

- (1) the election of two directors to serve until the 2017 annual meeting of stockholders;
- (2) the advisory approval of the compensation of our named executive officers as disclosed in this proxy statement;
- (3) the ratification of our appointment of independent accountants; and
- (4) the transaction of such other business as may properly come before the Annual Meeting and at any postponement or adjournment thereof.

In addition, management will report on our performance during fiscal 2013 and respond to appropriate questions from stockholders.

Who is entitled to vote at the Annual Meeting?

Only stockholders of record at the close of business on May 1, 2014 are entitled to notice of, and to vote at, the Annual Meeting and at any adjournment or postponement thereof.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts at the transfer agent or with stockbrokers. Please complete, sign and return all proxy cards to ensure that all your shares are voted. Unless you need multiple accounts for specific purposes, it may be less confusing if you consolidate as many of your transfer agent or brokerage accounts as possible under the same name and address.

What if I change my mind after I return my proxy card?

You may revoke your proxy card and change your vote by:

- signing another proxy card with a later date and returning it before the polls close at the Annual Meeting, or
- voting in person at the Annual Meeting.

However, if you hold your shares in street name, you must request a proxy from the person in whose name your shares are held, usually your stockbroker, to vote at the Annual Meeting.

Will my shares be voted if I do not return my proxy card?

If your shares are held in street name, your brokerage firm, under certain circumstances, may vote your shares.

Brokerage firms have authority under the rules of The NASDAQ Capital Market to vote customers' unvoted shares on "routine" matters. If you do not give instructions to your broker, your broker can vote your shares with respect to routine matters only. Under these rules, Proposals 1 and 2 are considered non-routine, so if you do not give your broker instructions, your shares will be treated as broker non-votes with respect to each Proposals 1 and 2. Proposal 3 is considered a routine matter.

If you do not return a proxy card to vote your shares, your brokerage firm may either:

- vote your shares on routine matters, or
- leave your shares unvoted.

We encourage you to provide instructions to your brokerage firm by returning your proxy card. This ensures that your shares will be voted at the Annual Meeting with respect to all of the proposals described in this proxy statement.

What constitutes a quorum?

Our Restated Bylaws provide that the presence, in person or by proxy, at the Annual Meeting of the holders of a majority of outstanding shares of our common stock will constitute a quorum for the transaction of business.

For the purpose of determining the presence of a quorum, proxies marked "withhold authority" or "abstain" will be counted as present. Shares represented by proxies that include so-called broker non-votes (shares held by a broker or nominee that has no authority to vote upon a particular matter) also will be counted as shares present for purposes of establishing a quorum. On the record date, there were 55,776,523 shares of our common stock issued and outstanding, exclusive of treasury shares.

What are the voting rights of the holders of our common stock?

Holders of our common stock are entitled to one vote per share with respect to each of the matters to be presented at the Annual Meeting. With regard to the election of directors, the two nominees receiving the greatest number of affirmative votes cast will be elected. Approval of each of the other proposals requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote on that proposal at the Annual Meeting.

In the election of directors, you may vote "FOR" or "WITHHOLD AUTHORITY" with respect to each of the nominees. In tabulating the voting results for the election of directors, only "FOR" votes will be counted.

With respect to each of Proposals 2 and 3, you may vote "FOR," "AGAINST" or "ABSTAIN." If you elect to abstain, it will have the same effect as an "AGAINST" vote.

Broker non-votes have no effect and will not be counted toward the vote total for any proposal.

What happens if a nominee is unable to stand for election?

Our board of directors may reduce the number of nominees or select a substitute nominee. In the latter case, if you have completed, signed and returned your proxy card, Messrs. Kriegsman and Levin can vote your shares for a substitute nominee. They cannot vote for more than two nominees.

What are the board's recommendations?

The recommendations of our board of directors are set forth together with the description of each Proposal in this Proxy Statement. In summary, our board of directors recommends a vote:

- "FOR" election of the incumbent directors named in this Proxy Statement as described in Proposal 1;
- "FOR" advisory approval of the compensation of our named executive officers as disclosed in this Proxy Statement as described in Proposal 2; and
- "FOR" ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2014 as described in Proposal 3.

Proxies

If the enclosed proxy card is executed, returned in time and not revoked, the shares represented thereby will be voted at the Annual Meeting and at any postponement or adjournment thereof in accordance with the directions indicated on the proxy card. IF NO DIRECTIONS ARE INDICATED, PROXIES WILL BE VOTED IN ACCORDANCE WITH OUR BOARD OF DIRECTORS' RECOMMENDATIONS IN THIS PROXY STATEMENT AND, AS TO ANY OTHER MATTERS PROPERLY BROUGHT BEFORE THE ANNUAL MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF, IN THE SOLE DISCRETION OF THE PROXIES.

Is my vote kept confidential?

Proxies, ballots and voting tabulations identifying stockholders are kept confidential and will not be disclosed to third parties except as may be necessary to meet legal requirements.

Where do I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will publish the final results in a Form 8-K. We intend to file the Form 8-K no later than June 30, 2014 with the Securities and Exchange Commission, or SEC. You may obtain a copy of the 8-K report by contacting us at (310) 826-5698 or at an SEC public reference room. For the location of an SEC public reference room, please contact the SEC at (800) SEC-0330.

You can also get a copy of the 8-K report that will contain the voting results on the Internet at www.cytrx.com or through the SEC's electronic data system called EDGAR at www.sec.gov.

How do I receive an annual report?

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 is being delivered with this proxy statement to each stockholder. A copy of the Annual Report is also available on our website at www.cytrx.com and on the SEC's website at www.sec.gov. Copies of exhibits to the Annual Report will be made available for a reasonable charge upon written request to CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, Attention: Corporate Secretary.

We encourage you to review the Company's disclosures in its period reports filed with the SEC, including, but not limited to, the Company's Form 10-Q, filed on May 1, 2014.

Do we have a policy about directors' attendance at the annual meeting?

We do not have a policy regarding attendance of directors at our annual meetings of stockholders. At our last annual meeting, all of our directors were in attendance.

How are proxies solicited, and what is the cost?

We pay all expenses incurred in connection with distributing and soliciting proxies. As part of this process, we reimburse brokers, nominees, fiduciaries and other custodians' reasonable fees and expenses in forwarding proxy materials to stockholders. Our directors and employees may solicit proxies by mail, telephone or other means. Our directors and employees do not receive any additional compensation for these activities.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON JUNE 24, 2014 – This Proxy Statement, along with the proxy card, and letter of transmittal from our President and Chief Executive Officer accompanying our Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission are available at our website, <http://www.cytrx.com>, under "Investor Relations."

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PROPOSAL I

ELECTION OF DIRECTORS

Pursuant to our Restated Bylaws, our board of directors has fixed the number of our directors at seven. Our Restated Certificate of Incorporation and our Restated Bylaws provide for the classification of our directors into three classes, which we refer to as Class I, Class II and Class III, with each Class to consist as nearly as possible of an equal number of directors. One Class of directors is to be elected at each annual meeting of stockholders to serve for a term of three years.

We have two incumbent directors in Class II whose term expires at the Annual Meeting. The board of directors has nominated the incumbent Class II directors, Steven A. Kriegsman and Marvin R. Selter, for reelection as Class II directors to serve until the 2017 Annual Meeting of Stockholders and until their successors are duly elected and qualified.

Information concerning Messrs. Kriegsman and Selter, as well as the directors whose terms of office will continue after the Annual Meeting, is set forth below. Each director's age is indicated in parentheses after his name.

Class II — Nominees to Serve as Directors Until the 2017 Annual Meeting

We believe that Messrs. Kriegsman and Selter will be available and able to serve as directors. In the event that one of them is unable or unwilling to serve, the proxy holders will vote the proxies for such other nominee as they may determine.

Steven A. Kriegsman (72) has been CytRx's President and Chief Executive Officer and a director since July 2002. He also serves as a director of Galena Biopharma, a listed public company, and is Chairman of its Compensation Committee and a member of its Strategy Committee. Mr. Kriegsman also serves on the Board of Directors of Catasys, Inc. He previously served as Director and Chairman of Global Genomics from June 2000 until 2002. Mr. Kriegsman is an inactive Chairman and Founder of Kriegsman Capital Group LLC, a financial advisory firm specializing in the development of alternative sources of equity capital for emerging growth companies in the healthcare industry. During his career, he has advised such companies as SuperGen Inc., Closure Medical Corporation, Novoste Corporation, Miravant Medical Technologies, and Maxim Pharmaceuticals. In the past five years, Mr. Kriegsman has also served on the Board of Directors of Bradley Pharmaceuticals, Inc. and Hythiam, Inc. Mr. Kriegsman has a B.S. degree with honors from New York University in Accounting and completed the Executive Program in Mergers and Acquisitions at New York University, The Management Institute. Mr. Kriegsman is a graduate of the Stanford Law School Directors' College.

Mr. Kriegsman was formerly a Certified Public Accountant with KPMG in New York City. In February 2006, Mr. Kriegsman received the Corporate Philanthropist of the Year Award from the Greater Los Angeles Chapter of the ALS Association and in October 2006, he received the Lou Gehrig Memorial Corporate Award from the Muscular Dystrophy Association. Mr. Kriegsman has been a guest speaker and lecturer at various universities including California Institute of Technology (Caltech), Brown University, and New York University. Mr. Kriegsman has been active in various charitable organizations including the Biotechnology Industry Organization, the California Health Institute, the ALS Association, the Los Angeles Venture Association, the Southern California Biomedical Council, the American Association of Dance Companies and the Palisades-Malibu YMCA.

Mr. Kriegsman's extensive history as a member of management is vital to the board of directors' collective knowledge of our day-to-day operations. Mr. Kriegsman also provides great insight as to how CytRx grew as an organization and his institutional knowledge is an invaluable asset to the board of directors in effecting its oversight of CytRx's strategic plans. Mr. Kriegsman's presence on the board of directors also allows for a flow of information and ideas between the board of directors and management.

Marvin R. Selter (86) has been a director since October 2003. He has been President and Chief Executive Officer of CMS, Inc. since he founded that firm in 1968. CMS, Inc. is a national management consulting firm. In 1972, Mr. Selter originated the concept of employee leasing. He served as a member of the Business Tax Advisory Committee—City of Los Angeles, Small Business Board—State of California and the Small Business Advisory Commission—State of California. Mr. Selter also serves on the Valley Economic Development Center as past Chairman and Audit Committee Chairman, the Board of Valley Industry and Commerce Association as past Chairman, the Advisory Board of the San Fernando Economic Alliance and the California State University—Northridge as Past Chairman of the Economic Research Center; and President of the Olive View-UCLA Medical Center Foundation. He has served, and continues to serve, as a member of boards of directors of various hospitals, universities, private medical companies and other organizations. Mr. Selter attended Rutgers—The State University, majoring in Accounting and Business Administration, and is the recipient of an honorary Ph.D. from American Jewish University. He was an LPA having served as Controller, Financial Vice President and Treasurer at distribution, manufacturing and service firms. He has lectured extensively on finance, corporate structure and budgeting for the American Management Association and other professional teaching associations.

Mr. Selter has founded, operated, and grown his own successful businesses, which gives him a valuable insight into the financial constraints and operational challenges facing companies in the development stage and as they mature. He also has many years of involvement in various governmental agencies and charitable organizations, which affords him an important perspective on the business regulatory process and capital-raising activities. In addition, he has significant education and work experience in accounting and financial matters that he is able to utilize as the named financial expert on our Audit Committee.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ELECTION
OF MSRRS. KRIEGSMAN AND SELTER AS DIRECTORS.**

Continuing Directors

The following is a description of the incumbent Class III and Class I directors whose terms of office will continue after the Annual Meeting:

Class III — Term Expiring at the 2015 Annual Meeting

Max Link, Ph.D. (73), our Chairman of the Board, has been a director since 1996. Dr. Link has been retired from business since 2003. From March 2002 until its acquisition by Zimmer Holdings, Dr. Link served as Chairman and CEO of Centerpulse, Ltd. From May 1993 to June 1994, Dr. Link served as the Chief Executive Officer of Corange Ltd. (the holding company for Boehringer Mannheim Therapeutics, Boehringer Mannheim Diagnostics and DePuy International). From 1992 to 1993, Dr. Link was Chairman of Sandoz Pharma, Ltd. From 1987 to 1992, Dr. Link was the Chief Executive Officer of Sandoz Pharma and a member of the Executive Board of Sandoz, Ltd., Basel. Prior to 1987, Dr. Link served in various capacities with the United States operations of Sandoz, including President and Chief Executive Officer. Dr. Link currently serves as a director of Alexion Pharmaceuticals, Inc. and Celsion Corporation, Inc., and has previously served on the Boards of Directors of Cell Therapeutics, Inc., Columbia Laboratories, Inc., Human Genome Sciences, Inc., Protein Design Laboratories and Discovery Laboratories, Inc., each a listed public company.

Dr. Link has extensive executive-level experience with a number of large pharmaceutical companies, including Sandoz Pharma, Ltd. In these positions, he was responsible for major strategic and other business initiatives, including new drug development, acquisitions and dispositions of new drug candidates and other technology, licensing, marketing and distribution agreements and other key contractual strategic arrangements that affect, or are likely to affect, our company's own business efforts. As an executive officer and board member of these other companies, he has experience with the regulatory schemes in foreign jurisdictions and also has been exposed to different approaches to corporate governance matters, potential conflicts of interest, and similar matters, which enables him to offer importance guidance to our Board of Directors.

Richard L. Wennkamp (71) has been a director since October 2003. He retired from Community Bank in June 2008 where he was the Senior Vice President-Credit Administration since October 2002. From September 1980 to July 2002, Mr. Wennkamp was an executive officer of Bank of America Corporation, holding various positions, including Managing Director-Credit Product Executive for the last four years of his 22-year term with the bank. From 1977 through 1980, Mr. Wennkamp was a Special Assistant to former President of the United States, Gerald R. Ford, and the Executive Director of the Ford Transition Office. Prior thereto, he served as Staff Assistant to the President of the United States for one year, and as the Special Assistant to the Assistant Secretary of Commerce of the U.S.

Mr. Wennkamp's senior executive experience in the banking and financial services industry distinguishes him from our other directors and adds unique capabilities and a different perspective to the deliberations of our Board of Directors. As a former chief credit officer at Bank of America and Community Bank, he understands the credit needs, financing requirements, and operational constraints of development-stage and mature businesses.

Class I — Nominees to Serve as Directors Until the 2016 Annual Meeting

Louis Ignarro, Ph.D. (72) has been a director since July 2002. He previously served as a director of Global Genomics since November 20, 2000. Dr. Ignarro serves as the Jerome J. Belzer, M.D. Distinguished Professor of Pharmacology in the Department of Molecular and Medical Pharmacology at the UCLA School of Medicine. Dr. Ignarro has been at the UCLA School of Medicine since 1985 as a professor, acting chairman and assistant dean. Dr. Ignarro received the Nobel Prize for Medicine in 1998. Dr. Ignarro received a B.S. in pharmacy from Columbia University and his Ph.D. in Pharmacology from the University of Minnesota. Dr. Ignarro is a Nobel Laureate and an esteemed medical researcher whose experience enables him to offer important scientific guidance to our Board of Directors.

Joseph Rubinfeld, Ph.D. (81) has been a director since July 2002. He co-founded SuperGen, Inc. in 1991 and has served as its Chief Executive Officer and President and as a director since its inception until December 31, 2003. He resigned as Chairman Emeritus of SuperGen, Inc. on February 8, 2005. Dr. Rubinfeld was also Chief Scientific Officer of SuperGen from 1991 until September 1997. Dr. Rubinfeld is also a founder of JJ Pharma. Dr. Rubinfeld was one of the four initial founders of Amgen, Inc. in 1980 and served as a Vice President and its Chief of Operations until 1983. From 1987 until 1990, Dr. Rubinfeld was a Senior Director at Cetus Corporation and from 1968 to 1980, Dr. Rubinfeld was employed at Bristol-Myers Company, International Division in a variety of positions. Dr. Rubinfeld received a B.S. degree in chemistry from C.C.N.Y. and an M.A. and Ph.D. in chemistry from Columbia University.

Dr. Rubinfeld served as a senior executive of several large pharmaceutical companies before leaving to co-found SuperGen and served as Chief Executive Officer or in other senior executive capacities with highly successful companies. Dr. Rubinfeld's academic training and business experience enhances the breadth and scope of our Board's oversight of our company's management, business, strategic relationships, and other activities, while his vision adds to the long-range planning of our Board of Directors and management.

Meetings of the Board of Directors and Committees

Board of Directors

The property, affairs and business of CytRx are conducted under the general supervision and management of our board of directors as called for under the laws of Delaware and our Restated Bylaws. Our board of directors has established a standing Audit Committee, Compensation Committee, and Nomination and Governance Committee.

The board of directors held five meetings during 2013. Each director attended at least 75% of the total meetings of the board during 2013. Each director who served on a committee of our board of directors attended at least 75% of all committee meetings during 2013. Board agendas include regularly scheduled executive sessions for the independent directors to meet without management present. In 2013, the independent directors met two times in executive session.

Director Independence

Our board of directors has determined that Messrs. Link, Selter, Rubinfeld, Ignarro and Wennkamp are "independent" under the current independence standards of both The NASDAQ Capital Market and the SEC, and have no material relationships with us (either directly or as a partner, shareholder or officer of any entity) that are inconsistent with a finding of their independence as members of our board of directors. Our board has determined that Messrs. Link, Selter and Wennkamp also met the higher standards of The NASDAQ Capital Market of "independence" for purposes of service as the members of our Audit Committee and our Compensation Committee.

In making these determinations, our board of directors has broadly considered all relevant facts and circumstances, recognizing that material relationships can include commercial, banking, consulting, legal, accounting, and familial relationships, among others.

The following table provides information concerning the current membership of our board committees:

Name	Class of Directors	Audit Committee	Compensation Committee	Nomination and Governance Committee
Steven A. Kriegsman	II			
Louis Ignarro, Ph.D.	I			
Max Link, Ph.D.	III	(1)	(2)	
Joseph Rubinfeld, Ph.D.	I		(2)	(3)
Marvin R. Selter	II	(1)	(2)	(3)
Richard L. Wennkamp	III	(1)	(2)	(3)

(1) Members of our Audit Committee. Mr. Selter is the Chairman of the committee.

(2) Members of our Compensation Committee. Dr. Rubinfeld is Chairman of the committee.

(3) Members of our Nominating and Corporate Governance Committee. Mr. Wennkamp is Chairman of the committee.

Audit Committee

Our board of directors has determined that each of the current members of the Audit Committee is "independent" under the current independence standards of The NASDAQ Capital Market and the SEC. Our board of directors has also determined that Mr. Selter, the Chairman of the Audit Committee, is an audit committee financial expert.

The Audit Committee's responsibilities include oversight activities described below under the "Report of the Audit Committee." The Audit Committee reviews our financial structure, policies and procedures, appoints our independent registered public accounting firm, reviews with our independent registered public accounting firm the plans and results of the audit engagement, approves audit and permitted non-audit services provided by our independent registered public accounting firm, reviews the independence of our independent registered public accountants and reviews the adequacy of our internal accounting controls.

The Audit Committee has discussed with our independent registered public accounting firm the firm's independence from management and us, including the matters in the written disclosures required by the Independence Standards board and considered the compatibility of permitted non-audit services with the auditors' independence. The Audit Committee operates pursuant to a written charter, a copy of which is available on our website at <http://www.cytrx.com>.

Audit Committee Report

Set forth below is the Audit Committee Report:

The following Report does not constitute soliciting material and should not be considered or deemed filed, or incorporated by reference into any filing, by us with the SEC, except to the extent we specifically incorporate this Report by reference.

The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities relating to:

- The quality and integrity of our financial statements and reports.
- Our independent registered public accounting firm's qualifications and independence.
- The performance of our internal audit function and our independent auditors.

The Audit Committee operates under a written charter adopted by our board of directors, a copy of which is available on our website at <http://www.cytrx.com>.

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor our financial reporting process and internal control system.
- Review and appraise the audit efforts of our independent accountants and internal audit function.
- Provide an open avenue of communication among the independent accountants, internal auditors, our management and the board of directors.

The Audit Committee provides assistance to the board of directors in fulfilling its oversight responsibility to the stockholders, potential stockholders, the investment community and others relating to our financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of our financial statements and the ethics programs when established by our management and the board of directors. The Audit Committee has the sole authority (subject, if applicable, to stockholder ratification) to appoint or replace the outside auditors and is directly responsible for determining the compensation of the independent auditors.

The Audit Committee must pre-approve all auditing services and all permitted non-auditing services to be provided by the outside auditors. In general, the Audit Committee's policy is to grant such approval where it determines that the non-audit services are not incompatible with maintaining the auditors' independence and there are cost or other efficiencies in obtaining such services from the auditors as compared to other possible providers. During 2013, the Audit Committee approved all of the audit and non-audit services proposals submitted to it.

The Audit Committee met four times during 2013. The Audit Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention, with full access to all of our books, records, facilities and personnel, and to retain its own legal counsel and other advisers as it deems necessary or appropriate.

As part of its oversight of our financial statements, the Audit Committee reviews and discusses with both management and its outside auditors our interim financial statements and annual audited financial statements that are included in our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K, respectively. Our management advised the Audit Committee in each case that all such financial statements were prepared in accordance with accounting principles generally accepted in the United States and reviewed significant accounting issues with the Audit Committee. These reviews included discussion with the outside auditors of matters required to be discussed pursuant to the Public Company Accounting Oversight Board ("PCAOB") Statement on Auditing Standards No. 16 (Communication with Audit Committees).

The Audit Committee retained BDO USA, LLP to audit our financial statements for 2013. The Audit Committee also has selected BDO USA, LLP as our independent registered public accounting firm for fiscal 2014.

The Audit Committee discussed with BDO USA, LLP, which audited our annual financial statements for 2013, matters relating to its independence, including a review of audit and non-audit fees and the letter and written disclosures made by BDO USA, LLP to the Audit Committee as required by the PCAOB.

In addition, the Audit Committee reviewed initiatives aimed at strengthening the effectiveness of CytRx's internal control structure. As part of this process, the Audit Committee continued to monitor and review staffing levels and steps taken to implement recommended improvements in internal procedures and controls.

Taking all of these reviews and discussions into account, the Audit Committee recommended to our board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC.

Respectfully submitted,

Audit Committee:

Marvin R. Selter, Chairman
Max Link, Ph.D.
Richard L. Wennekamp

Compensation Committee

The Compensation Committee is authorized to determine the annual salaries and bonuses of our officers and to determine in its sole discretion all grants of stock options, the exercise price of each option, and the number of shares to be issuable upon the exercise of each option under our various stock option plans. The Committee also is authorized to interpret our stock option plans, to prescribe, amend and rescind rules and regulations relating to the plans, to determine the term and provisions of the respective option agreements, and to make all other determinations deemed necessary or advisable for the administration of the plans. The Compensation Committee operates pursuant to a written charter, a copy of which is available on our website at www.cytrx.com. Our board of directors has determined that each of the current members of the Compensation Committee, Messrs. Rubinfeld, Link, Selter and Wennkamp, are "independent" under the current independence standards of The NASDAQ Capital Market for purposes of service as the members of our Compensation Committee.

The Compensation Committee has reviewed our compensation policies and practices for all employees, including our named executive officers, as they relate to risk management practices and risk-taking incentives, and has determined that there are no risks arising from these policies and practices that are reasonably likely to have a material adverse effect on us.

The Compensation Committee held five meetings during 2013.

Nomination and Governance Committee

The Nomination and Governance Committee assists our board of directors in discharging its duties relating to corporate governance and the compensation and evaluation of the board. The Nomination and Governance Committee also operates pursuant to a written charter, a copy of which likewise is available on our website at www.cytrx.com. As indicated above with respect to service on our Audit Committee, our board of directors has determined that each of the current members of the Nomination and Governance Committee, Messrs. Wennkamp, Rubinfeld and Selter, are "independent" under the current independence standards of The NASDAQ Capital Market.

The principal responsibilities of the Nomination and Governance Committee include:

- Overseeing our corporate governance practices and developing and recommending to our board a set of Corporate Governance Guidelines.
- Assisting our board in identifying qualified director candidates, selecting nominees for election as directors at meetings of stockholders and selecting candidates to fill vacancies on our board.
- Creating and recommending to our board a policy regarding the consideration of director candidates recommended by stockholders and procedures for stockholders' submission of nominees of director candidates.
 - Reviewing and recommending the compensation for non-employee directors and making recommendations to our board for its approval.
- Establishing criteria for our board and for all committees (including the Nomination and Governance Committee) to use to evaluate their performance on an annual basis.
- Overseeing and advising our board regarding developments related to corporate governance.

The Nomination and Governance Committee has sole authority, in connection with the identification of qualified director candidates, to retain and terminate any search firm for such purpose (including the authority to approve any such firm's fees and other retention terms). We do not currently employ an executive search firm, or pay a fee to any other third party, to locate qualified candidates for director positions.

The Nomination and Governance Committee held two meetings during 2013.

The Nomination and Governance Committee has not established any specific minimum qualifications for director candidates, or any specific qualities or skills that a candidate must possess in order to be considered qualified to be nominated as a director.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing board composition. In making its nominations, our Nomination and Governance Committee generally will consider, among other things, an individual's business experience, industry experience, financial background, breadth of knowledge about issues affecting our company, time available for meetings and consultation regarding company matters and other particular skills and experience possessed by the individual. We have no formal policy of considering diversity in identifying director nominees, but the Nomination and Governance Committee seeks to include on the board of directors a complementary mix of individuals with diverse backgrounds and skills reflecting the broad set of challenges that the board of directors confronts. These individual qualities can include matters such as experience in the company's industry, technical experience (*i.e.*, medical or research expertise), experience gained in situations comparable to the company's, leadership experience, and relevant geographical diversity.

Stockholder Recommendations of Director Candidates

The policy of the Nomination and Governance Committee is that a stockholder wishing to submit recommendations for director candidates for consideration by the Nomination and Governance Committee for election at an annual meeting of shareholders must do so in writing by December 15 of the previous calendar year. The written recommendation must include the following information:

- A statement that the writer is a stockholder and is proposing a candidate for consideration.
- The name and contact information for the candidate.
- A statement of the candidate's business and educational experience.
- Information regarding the candidate's qualifications to be a director.
- The number of shares of our common stock, if any, owned either beneficially or of record by the candidate and the length of time such shares have been so owned.
- The written consent of the candidate to serve as a director if nominated and elected.
- Information regarding any relationship or understanding between the proposing stockholder and the candidate.
- A statement that the proposed candidate has agreed to furnish us all information as we deem necessary to evaluate such candidate's qualifications to serve as a director.

As to the stockholder giving the notice, the written recommendation must state the name and address of the stockholder and the number of shares of our common stock which are owned beneficially or of record by the shareholder.

Any recommendations in proper form received from stockholders will be evaluated in the same manner that potential nominees recommended by our board members or management are evaluated.

Stockholder Nominations of Directors

Our Bylaws specify the procedures by which stockholders may nominate director candidates directly, as opposed to merely recommending a director candidate to the Nomination and Governance Committee as described above. Any stockholder nominations must comply with the requirements of our Bylaws and should be addressed to: Corporate Secretary, CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049.

Stockholder Communication with Board Members

Stockholders who wish to communicate with our board members may contact us by telephone, facsimile or regular mail at our principal executive office. Written communications specifically marked as a communication for our board of directors, or a particular director, except those that are clearly marketing or soliciting materials, will be forwarded unopened to the Chairman of our board, or to the particular director to which they are addressed, or presented to the full board or the particular director at the next regularly scheduled board meeting. In addition, communications sent to us via telephone or facsimile for our board of directors or a particular director will be forwarded to our board or the director by an appropriate officer.

Transactions with Related Persons

General

Our Audit Committee is responsible for reviewing and approving, as appropriate, all transactions with related persons, in accordance with its Charter and NASDAQ Marketplace Rules.

Transactions between us and one or more related persons may present risks or conflicts of interest or the appearance of conflicts of interest. Our Code of Ethics requires all employees, officers and directors to avoid activities or relationships that conflict, or may be perceived to conflict, with our interests or adversely affect our reputation. It is understood, however, that certain relationships or transactions may arise that would be deemed acceptable and appropriate so long as there is full disclosure of the interest of the related parties in the transaction and review and approval by disinterested directors to ensure there is a legitimate business reason for the transaction and that the transaction is fair to us and our stockholders.

As a result, the procedures followed by the Audit Committee to evaluate transactions with related persons require:

- that all related person transactions, all material terms of the transactions, and all the material facts as to the related person's direct or indirect interest in, or relationship to, the related person transaction must be communicated to the Audit Committee; and
- that all related person transactions, and any material amendment or modification to any related person transaction, be reviewed and approved or ratified by the Audit Committee, as required by the requirements of The NASDAQ Capital Market.

Our Audit Committee will evaluate related person transactions based on:

- information provided by members of our board of directors in connection with the required annual evaluation of director independence;
- pertinent responses to the Directors' and Officers' Questionnaires submitted periodically by our officers and directors and provided to the Audit Committee by our management;
- background information on nominees for director provided by the Nominating and Corporate Governance Committee of our board of directors; and
- any other relevant information provided by any of our directors or officers.

In connection with its review and approval or ratification, if appropriate, of any related person transaction, our Audit Committee is to consider whether the transaction will compromise standards included in our Code of Ethics. In the case of any related person transaction involving an outside director or nominee for director, the Audit Committee also is to consider whether the transaction will compromise the director's status as an independent director as prescribed by The NASDAQ Capital Market.

On December 2, 2008, we entered into a written consulting agreement with Joseph Rubinfeld, Ph.D., under which Dr. Rubinfeld agrees to serve as our Chief Scientific Advisor. In exchange, we granted to Dr. Rubinfeld under our 2008 Stock Incentive Plan a ten-year stock option to purchase up to 50,000 shares of our common stock at an exercise price of \$2.45 per share, which equaled the market price of our common stock as of the grant date. The fair value of this option grant was \$116,900. The stock option vested immediately upon grant as to 7,143 of the option shares and vested as to the remaining option shares in 36 equal monthly installments, and is now fully vested. The consulting agreement is terminable at any time by either party upon notice to the other party.

On December 10, 2012, we entered into an amendment to our written consulting agreement with Dr. Rubinfeld, Ph.D. to provide for the one-time grant to Dr. Rubinfeld under our 2008 Plan of an option to purchase 30,000 shares of our common stock at an exercise price of \$1.83 per share, which was equal to the market price of our common stock on the grant date. The option has a term of ten years and is fully vested. The fair grant date value of this option grant was \$47,400.

Applicable Definitions

For purposes of our Audit Committee's review:

- "related person" has the meaning given to such term in Item 404(a) of Securities and Exchange Commission Regulation S-K ("Item 404(a)"); and
- "related person transaction" means any transaction for which disclosure is required under the terms of Item 404(a) involving the company and any related persons.

Board Member Attendance at Annual Meetings

Our board of directors has no formal policy regarding attendance of directors at our annual stockholder meetings. Our 2013 Annual Meeting of Stockholders was attended by all of our directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Each of our executive officers and directors and persons who owns more than 10% of our outstanding shares of common stock is required under Section 16(a) of the Securities Exchange Act to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of those reports. Based solely on our review of copies of reports we have received and written representations from certain reporting persons, we believe that our directors and executive officers and greater than 10% shareholders for 2013 complied with all applicable Section 16(a) filing requirements.

Security Ownership of Certain Beneficial Owners and Management

Based solely upon information made available to us, the following table sets forth information with respect to the beneficial ownership of our common stock as of May 1, 2014 by: (1) each person who is known by us to beneficially own more than five percent of our common stock; (2) each of our directors; (3) our named executive officers listed in the Summary Compensation Table under the caption "Executive Compensation"; and (4) all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the SEC rules. Shares of common stock subject to warrants or options that are presently exercisable, or exercisable within 60 days of May 1, 2014, which are indicated by footnote, are deemed outstanding in computing the percentage ownership of the person holding the warrants or options, but not in computing the percentage ownership of any other person. The percentage ownership reflected in the table is based on 55,776,523 shares of our common stock outstanding as of May 1, 2014. Except as otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares of common stock shown, subject to applicable community property laws. An asterisk (*) represents beneficial ownership of less than 1%.

Name of Beneficial Owner	Shares of Common Stock	
	Number	Percent
QVT Financial LP (1)	5,164,600	9.3%
Capital Ventures International (2)	3,250,000	5.8%
Gene Z. Salkind, M.D. (3)	3,493,116	6.3%
Scott Patterson, D.D.S. (4)	4,577,605	8.2%
Louis Ignaro, Ph.D.(5)	336,702	*
Steven A. Kriegsmann (6)	1,653,567	3.0%
Max Link, Ph.D.(7)	361,886	*
Joseph Rubinfeld, Ph.D. (8)	403,571	*
Marvin R. Selter(9)	65,351	*
Richard L. Wennekamp (10)	340,281	*
Dan Levitt, M.D., Ph.D.(12)	411,033	*
John Y. Caloz (11)	160,493	*
Scott Wieland, Ph.D.(13)	156,667	*
Benjamin S. Levin (14)	263,125	*
All executive officers and directors as a group (ten persons) (15)	4,152,676	7.4%

- (1) According to a schedule 13G filed with the SEC on March 21, 2014, QVT Financial LP is a Delaware limited partnership and investment manager for QVT Fund V LP and other private investment funds (collectively, the "Funds"). In the aggregate, these Funds own 5,164,600 shares of CytRx common stock. QVT Financial GP LLC, as General Partner of QVT Financial LP, may be deemed to beneficially own the same number of shares of common stock as reported by QVT Financial LP.
- (2) According to a schedule 13G filed with the SEC on February 7, 2014, Capital Ventures International is a Cayman Islands company. Heights Capital Management, Inc. is a Delaware corporation and investment manager to Capital Ventures International. As such, Heights Capital Management, Inc. may exercise voting and dispositive powers over the shares shown and may be deemed to beneficially own such shares. The principal business addresses of Capital Ventures International and Heights Capital Management, Inc. are P.O. Box 897, Winward I, Regalty Office Park, West Bay Road, Grand Cayman KY1-1103, Cayman Islands and 101 California Street, Suite 3250, San Francisco, California 94111, respectively.
- (3) Of the shares shown, Dr. Salkind has sole voting and dispositive power over 1,360,038 shares and shares voting and dispositive power with his wife, Catherine Salkind, over 2,133,078 shares. Mrs. Salkind may be deemed to beneficially own the shares shown. Dr. and Mrs. Salkind's address is 1165 Wrack Road, Meadowbrook, Pennsylvania 19046.
- (4) Dr. Patterson's address is 128 Spoonbill Court, Jupiter, Florida 33458-8879.
- (5) Includes 323,571 shares subject to options or warrants.
- (6) Includes 1,056,456 shares subject to options or warrants.
- (7) Includes 324,699 shares subject to options or warrants.
- (8) Includes 403,571 shares subject to options or warrants.
- (9) The shares shown are owned, of record, by the Selter Family Trust or Selter IRA Rollover.
- (10) Includes 323,571 shares subject to options or warrants.
- (11) Includes 155,951 shares subject to options or warrants.
- (12) Includes 249,996 shares subject to options or warrants and 100,000 restricted shares, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date.
- (13) Includes 156,667 shares subject to options or warrants.
- (14) Consists of 258,328 shares subject to options or warrants.
- (15) Includes 3,252,810 shares subject to options or warrants.

Executive Officers

Set forth below is information regarding our current executive officers (other than information relating to Steven A. Kriegsmann, our President and Chief Executive Officer, which is set forth above under "Continuing Directors"). Each officer's age is indicated in parentheses after his name.

Daniel Levitt, M.D., Ph.D. (66) joined us in October 2009 as our Chief Medical Officer, and was recently promoted to the position of Executive Vice President in 2013. Dr. Levitt brings more than 24 years of senior management experience, having spearheaded numerous drug development programs to commercialization at leading biotechnology and pharmaceutical companies. Prior to joining CytRx, Dr. Levitt served from January 2007 to February 2009 as Executive Vice President, Research and Development at Cerimon Pharmaceuticals, Inc. Prior to that, from August 2003 to April 2006, he was Chief Medical Officer and Head of Clinical and Regulatory Affairs at Dynavax Technologies Corporation, managing clinical trials for four programs and overseeing multi-country regulatory strategies. From August 2002 to July 2003, Dr. Levitt was Chief Operating Officer and Head of Research and Development at Affymax, Inc., and prior to that he spent six years at Protein Design Labs, Inc., completing his tenure as that firm's President and Head of Research and Development. Dr. Levitt's past experience includes a position as Head of Drug Development at Geron Corporation, and Head of the Cytokine Development Unit and Global Clinical Oncology at Sandoz Pharmaceuticals Ltd., and as Director, Clinical Oncology and Immunology at Hoffmann-LaRoche, Inc. Dr. Levitt graduated Magna Cum Laude and Phi Beta Kappa with a Bachelor of Arts degree from Brandeis University. He earned both his M.D. and his Ph.D. in Biology from the University of Chicago, Pritzker School of Medicine. Dr. Levitt has received ten major research awards and authored or co-authored nearly 200 papers and abstracts.

John Y. Caloz (62) joined us in October 2007 as our Chief Accounting Officer. In January 2009 Mr. Caloz was named Chief Financial Officer. He has a history of providing senior financial leadership in the life sciences sector, as Chief Financial Officer of Oculogix, Inc, a NASDAQ listed, medical therapy company. Prior to that, Mr. Caloz served as Chief Financial Officer of IRIS International Inc., a Chatsworth, CA based medical device manufacturer. He served as Chief Financial Officer of San Francisco-based Synarc, Inc., a medical imaging company, and from 1993 to 1999 he was Senior Vice President, Finance and Chief Financial Officer of Phoenix International Life Sciences Inc. of Montreal, Canada, which was acquired by MDS Inc. in 1999. Mr. Caloz was a partner at Rooney, Greig, Whitrod, Filion & Associates of Saint Laurent, Quebec, Canada, a firm of Chartered Accountants specializing in research and development and high tech companies, from 1983 to 1993. Mr. Caloz, a Chartered Accountant, holds a degree in Accounting from York University, Toronto, Canada.

Scott Wieland, Ph.D. (55) joined CytRx in 2005 as Vice President, Clinical and Regulatory Affairs and was promoted to the position of Senior Vice President, Drug Development in December 2008. Prior to that, he served in senior level positions in the areas of Drug Development, Clinical and Regulatory Affairs at various biotech firms. He spent five years at NeoTherapeutics, Inc. serving as the Director of Product Development and was later promoted to Vice President of Product Development. From 1990 to 1997, he served as Director of Regulatory Affairs at CoCensys, Inc. Dr. Wieland has a Ph.D. in Biopsychology and an M.A. in Psychology from the University of Arizona. He has an MBA from Webster University. Dr. Wieland received his B.S. in Physiological Psychology from the University of California, Santa Barbara.

Benjamin S. Levin (38) joined us in July 2004 as our General Counsel and Corporate Secretary, and since December 2013 has served additionally as Senior Vice President. From November 1999 to June 2004, Mr. Levin was an associate in the transactions department of the Los Angeles office of O'Melveny & Myers LLP. Mr. Levin received his S.B. in Economics from the Massachusetts Institute of Technology, and a J.D. from Stanford Law School.

David J. Haen (36) joined CytRx in October 2003 as Director of Business Development and was promoted to Vice President of Business Development in December 2007. From 1999 to 2003, Mr. Haen worked as an associate for Kriegsmann Capital Group LLC, a financial advisory firm focused on emerging companies in the life sciences field. Mr. Haen received a B.A. in Communications and Business from Loyola Marymount University.

Compensation Discussion and Analysis

Overview of Executive Compensation Program

The Compensation Committee of our board of directors has responsibility for establishing, implementing and monitoring our executive compensation program philosophy and practices. Generally speaking, the Compensation Committee determines compensation of our Chief Executive Officer and other named executive officers, and those determinations are ratified by our board of directors.

The Compensation Committee seeks to ensure that the total compensation paid to our named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to the named executive officers are similar to those provided to our other officers.

The Compensation Committee operates under a formal charter, copies of which are available on our website at www.cytrx.com, that governs its duties and conduct.

At the 2013 Annual Meeting of Stockholders, our stockholders, on a non-binding, advisory basis, approved the compensation of our executive officers as disclosed in our 2013 proxy statement. Based upon the results of this advisory vote, the Compensation Committee has determined to follow the stockholders' recommendation by continuing our present compensation policies and practices.

Throughout this Proxy Statement, the individuals included in the Summary Compensation Table below are referred to as our "named executive officers."

Compensation Philosophy and Objectives

The components of our executive compensation consist of salary, annual and special cash bonuses awarded based on the Compensation Committee's subjective assessment of the achievement of corporate goals and each individual executive's job performance, stock option grants to provide executives with longer-term incentives, and occasional special compensation awards (either cash, stock or stock options) to reward extraordinary efforts or results such as the position interim results of our Phase 2b clinical trial of aldoxorubicin in STS or successful capital raising activities.

The Compensation Committee believes that an effective executive compensation program should provide base annual compensation that is reasonable in relation to individual executive's job responsibilities and reward the achievement of strategic goals of our company. We use annual and other periodic cash bonuses to reward an officer's achievement of specific goals, including goals related to the development of our drug candidates and replenishment and management of our working capital. We use employee stock options as a retention tool and as a means to align the executive's long-term interests with those of our stockholders, with the ultimate objective of affording our executives an appropriate incentive to improve stockholder value. The Compensation Committee evaluates both performance and compensation to maintain our company's ability to attract and retain excellent employees in key positions and to assure that compensation provide to key employees remains competitive relative to the compensation paid to similarly situated executives of comparable companies.

Each of the corporate goals established and subsequently reviewed by the Compensation Committee results from a collaboration among our named executive officers, including the leadership of our President and Chief Executive Officer and the support of our principal legal, financial, clinical, medical and business development officers. The Compensation Committee's assessment of the relative contribution of each named executive officer is based on periodic reports to our full board of directors regarding the progress of these business accomplishments and the individual efforts of our named executive officers, and year-end consultations, which include discussions of performance reviews, with our President and Chief Executive Officer that are a normal part of the Compensation Committee's compensation determinations. The Compensation Committee employs no objective measure of any individual's contribution.

The bonus amounts awarded to our eligible named executive officers are a function of their office and total compensation relative to the total compensation of our President and Chief Executive Officer, as adjusted by their relative employee evaluation, and with consideration given to comparable company data for similarly situated employees. The bonus amounts awarded to each named executive officer is set forth in the Summary Compensation Table.

Because of the size of our company, the small number of executive officers in our company, and our company's financial priorities, the Compensation Committee has not implemented any pension benefits, deferred compensation plans or other similar plans for our named executive officers.

Role of Executive Officers in Compensation Decisions

The Compensation Committee annually determines the compensation of our named executive officers. Our President and Chief Executive Officer, or "CEO," typically attends all meetings of the Compensation Committee, except for executive sessions at which his compensation is determined. At the request of the Compensation Committee, our CEO provides his assessment of the performance of our named executive officers other than himself. Our CEO also takes an active part in the discussions of the compensation of named executive officers other than himself and assists in the development of a review matrix of each executive's contributions to the goals of the company that forms the basis for some compensation determinations. The Compensation Committee gives due consideration to our CEO's assessments when making determinations regarding the compensation of our named executive officers. All Compensation Committee deliberations and determinations regarding the compensation of our CEO are made without the presence of our CEO.

Setting Executive Compensation

Based on the foregoing objectives, the Compensation Committee has structured the company's annual cash and incentive-based cash and non-cash executive compensation to seek to motivate our named executives to achieve our company's business goals, including goals related to the development of our drug candidates and management of working capital, to reward the executives for achieving such goals, and to retain the executives. In doing so, the Compensation Committee historically has not employed outside compensation consultants. During 2013, the Compensation Committee obtained three industry compensation surveys and used them in its compensation deliberations regarding cash and equity compensation for our executive officers. The surveys used were an Equilar survey of public companies with a market capitalization between \$50 million and \$200 million, the Radford Global Life Sciences Survey, which is a survey of public and private life sciences companies of all sizes, and a survey of public and private companies in Los Angeles provided by salary.com (which the Compensation Committee uses to adjust to geographic differences in cost of living).

The Compensation Committee utilized this data to set annual salary increases and bonus amounts for our executive officers at levels targeted at or around the third quartile of compensation amounts provided to executives at comparable companies, considering each individual's experience level related to their position with us. The Compensation Committee has no policy regarding the use of benchmarks, and we have no established policy or target for the allocation between cash and non-cash incentive compensation.

The Compensation Committee is authorized to retain its own independent advisors to assist in carrying out its responsibilities, but has not relied upon outside compensation consultants.

Company Performance Goals

For 2013, the Compensation Committee and the Board of Directors approved the following performance goals:

- Complete the aldoxorubicin Phase 2b STS clinical trial and the aldoxorubicin Phase 1 pharmacokinetics clinical trial;
- Initiate the aldoxorubicin Phase 3 STS clinical trial, and obtain FDA approval of an SPA for that study;
- Complete enrollment of the tamibarotene Phase 2b clinical trial in non-small-cell lung cancer trial;
- Raise additional capital.

For 2013, the Compensation Committee determined that, with the exception of the completion of enrollment of the tamibarotene Phase 2b clinical trial (which was discontinued due to a failure to show efficacy), each of the corporate goals had either been achieved, or substantial progress towards achievement had been made, and noted the particular contributions of executive officers to the achievement of those goals.

Individual Performance

The Compensation Committee reviews our executive officers' performance based on overall achievement of the corporate goals and a review of individual goals developed for each executive officer every year. The Compensation Committee, with the assistance of our CEO, determines the relative achievement of the performance goals applicable to each executive officer, and assigns a performance rating based on a set of criteria set forth in an evaluation form. No specific formula is used with respect to setting any particular element of compensation based on the individual performance metrics. The score assigned to each officer was based on a subjective assessment by our Compensation Committee members of the officer's performance against the scoring standards of:

- 1 – Consistently Exceeds Expectations
- 2 – Sometimes Exceeds Expectations
- 3 – Meets Expectations
- 4 – Sometimes Meets Expectations
- 5 – Needs Improvement

The numerical job scores, with a 1.0 being the best and 5.0 being the worst, are determined based on an initial self-assessment by the officer, which is subject to change based on an evaluation of the self-assessment by the officer's direct supervisor and on the Compensation Committee's own assessment of the officer's job performance.

For 2013, our Compensation Committee determined that the individual performance scores indicated below were merited by the officer's respective contributions to our key business achievements discussed above, as well as the performance of their day-to-day responsibilities. On an officer-by-officer basis, our Compensation Committee also considered the following:

Mr. Kriegsman's individual performance goals relate primarily to overall corporate objectives, including building stockholder value as reflected in the market capitalization of our managing working capital, managing and directing the executive management team, and successfully developing our company's operations and personnel for future success. Based on those criteria, and noting the highly positive results of our global Phase 2b clinical trial of STS aldoxorubicin for STS and progress of our other clinical trials of aldoxorubicin, the Compensation Committee gave a rating of 1.1 to Mr. Kriegsman.

Mr. Caloz's individual performance goals relate primarily to achievement of key financial objectives, such as managing and raising working capital, controlling spending, managing accounting personnel and maintaining regulatory compliance. Based on those criteria, the Compensation Committee noted Mr. Caloz's role in obtaining needed working capital, his efforts to control expenditures, the continued improvement of our accounting department, and our compliance with filing deadlines, and gave a rating of 1.5 to Mr. Caloz.

Dr. Levitt's individual performance goals relate primarily to the achievement of key strategic and clinical objectives related to our clinical research programs, including ultimate oversight of the design and execution of our clinical programs, and analysis and implementation of new clinical opportunities improve stockholder value. Based on those criteria, the Compensation Committee noted Dr. Levitt's efforts towards our achievement of our key clinical goals, including the initiation of multiple new clinical trials and the announcement of positive data from our Phase 2b clinical trial of STS aldoxorubicin for STS and, his development of strategic plans to build value, and gave a rating of 1.5 to Dr. Levitt.

Mr. Levin's individual performance goals relate primarily to the management of the company's legal risk, advice provided to the board of directors and management, and maintaining regulatory compliance. Based on those criteria, the Compensation Committee noted Mr. Levin's timely and useful advice on key corporate matters that reduced corporate risk, and his work ensuring compliance with various regulations, and gave a rating of 1.6 to Mr. Levin. Mr. Levin was also promoted to the title of Senior Vice President.

Dr. Wieland's individual performance goals relate primarily to the execution of the objectives related to our clinical development, including planning, initiation, budgeting and management of our clinical programs. Based on those criteria, the Compensation Committee noted Dr. Wieland's role in our achievement of key clinical goals, including the initiation of multiple new clinical trials, and gave a rating of 2.0 to Dr. Wieland.

2013 Executive Compensation Components

For 2013, as in recent years, the principal components of compensation for the named executive officers were:

- base salary;
- annual bonuses; and
- equity incentive compensation.

Base Salary

We provide named executive officers and other employees with base salary to compensate them for services rendered during the year. Generally, the base salary element of compensation is used to recognize the experience, skills, knowledge and responsibilities required of each named executive officer, and reflects our executive officers' overall sustained performance and contributions to our business.

During its review of base salaries for executives, the Compensation Committee primarily considers:

- the negotiated terms of each executive's employment agreement, if any;
- each executive's individual performance;
- an internal review of the executive's compensation, both individually and relative to other named executive officers; and
- to a lesser extent, base salaries paid by comparable companies.

Salary levels are typically considered annually as part of our company's performance review process, as well as upon a change in job responsibility. Merit-based increases to salaries are based on our company's available resources and the Compensation Committee's assessment of the individual's performance. This assessment is based upon written evaluations of such criteria as job knowledge, communication, problem solving, initiative, goal-setting, and expense management. In 2013, the Compensation Committee considered our successful achievement or substantial progress towards our corporate performance goals, and with consideration of the challenging financial environment, and our anticipation of clinical results in 2013 and beyond, awarded increases in base salary for 2013 for most executives. Base salaries were also reviewed in light of the Equilar, Radford and salary.com survey data to validate that they were within acceptable ranges based on market salaries.

Annual and Special Bonuses

As we do not generate significant revenue and have not commercially released any products, the Compensation Committee bases its discretionary annual bonus awards on the achievement of corporate and individual goals, efforts related to extraordinary transactions, effective fund-raising efforts, effective management of personnel and capital resources, and bonuses paid by comparable companies, among other criteria. Mr. Kriegsmann's employment agreement entitles him to an annual cash bonus in an amount to be determined in our discretion, but not less than \$150,000, and Dr. Levitt's employment agreement provides that his bonus will not be less than \$150,000. Any cash bonuses to our other named executive officers are entirely in our discretion.

During 2013, the Compensation Committee granted Mr. Kriegsmann an annual cash bonus of \$330,000, and granted cash bonuses to the other named executive officers ranging from \$100,000 to \$300,000, principally based on their efforts in helping us advance the development of aldoxorubicin.

Equity Incentive Compensation

We believe that strong long-term corporate performance is achieved with a corporate culture that encourages a long-term focus by our executive officers through the use of equity awards, the value of which depends on our stock performance. We have established equity incentive plans to provide all of our employees, including our executive officers, with incentives to help align those employees' interests with the interests of our stockholders and to enable them to participate in the long-term appreciation of our stockholder value. Additionally, equity awards provide an important retention tool for key employees, as the awards generally are subject to vesting over an extended period of time based on continued service with us.

Typically, equity awards are granted annually at the end of each year based primarily on corporate performance as a whole during the preceding year. In addition, we may grant equity awards upon the occurrence of certain events during the year, for example, upon an employee's hire or achievement of a significant business objective such as positive results or other progress of our clinical trials or successful capital-raising efforts.

No formula is used in setting equity award grants and the determination of whether to grant equity awards, or the size of such equity awards, to our executive officers; rather, it involves subjective assessments by our board of directors, Compensation Committee and, with respect to executive officers other than himself, our CEO. Generally, annual equity awards are driven by our retention of experienced employees, and we consider individual performance and contributions during the preceding year to the extent our Board of Directors and Compensation Committee believe such factors are relevant. As with base salary and cash bonuses, for 2013 our Board of Directors and Compensation Committee also considered data from three surveys in determining equity award grants to our executive officers.

In March and December, 2013, respectively, the Compensation Committee granted to Mr. Kriegsmann nonqualified options to purchase 74,176 share of our common stock at a price of \$2.46 per share and 925,000 shares of our common stock at a price of \$2.39 per share, which equaled the closing market prices on the dates of grant. The options vest monthly over three years, unless Mr. Kriegsmann's employment is terminated by us without "cause," or by Mr. Kriegsmann for "good reason," in which case they vest immediately. In addition, in connection with the annual review of our other named executive officers, the Compensation Committee also granted an aggregate of 1,100,000 stock options to those named executive officers. All of the other stock options had an exercise price equal to the closing market price on the date of grant, and also vest monthly over three years, provided that such executives remain in our employ through such monthly vesting periods. The Compensation Committee also granted Dr. Levitt 100,000 shares of CytRx Corporation restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date.

Generally speaking, we have not taken into consideration any amounts realized by our named executive officers from prior stock option or stock awards in determining whether to grant new stock options or stock awards. No named executive officers have exercised options since 2003.

Retirement Plans, Perquisites and Other Personal Benefits

Our executive officers are eligible to participate in the same group insurance and employee benefit plans as our other salaried employees. These benefits include medical, dental, vision, and disability benefits and life insurance.

We have adopted a tax-qualified employee savings and retirement plan, our 401(k) Plan, for eligible U.S. employees, including our named executive officers. Eligible employees may elect to defer a percentage of their eligible compensation in the 401(k) Plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) Plan in an amount determined by our board of directors. We did not make any matching contribution to the 401(k) Plan for 2013. Matching contributions, if any, immediately vest, as do all employee contributions. We intend the 401(k) Plan, and the accompanying trust, to qualify under Sections 401(k) and 501 of the Internal Revenue Code so that contributions by employees to the 401(k) Plan, and income earned (if any) on plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan, and so that we will be able to deduct our contributions, if any, when made. The trustee under the 401(k) Plan, at the direction of each participant, may invest the assets of the 401(k) Plan in any of a number of investment options.

We do not provide any of our executive officers with any other perquisites or personal benefits, other than benefits to Mr. Kriegsman provided for in his employment agreement. We are required by his employment agreement to carry a life insurance policy for Mr. Kriegsman in the amount of \$1.4 million under which Mr. Kriegsman's designee is the beneficiary. We purchased a policy with a face value of \$2 million, on which we pay the premiums, and Mr. Kriegsman immediately reimbursed the company for the premium relating to the \$0.6 million of additional coverage. We periodically review the levels of perquisites and other personal benefits provided to our named executive officers, but no changes to these benefits were made during 2013, and we do not expect any such changes in the foreseeable future.

Employment Agreements and Severance Arrangements

We have entered into written employment agreements with each of our named executive officers. The main purpose of these agreements is to protect the company from business risks such as competition for the executives' service, loss of confidentiality or trade secrets, and solicitation of our other employees, and to define our right to terminate the employment relationship. The employment agreements also protect the executive from termination without "cause" (as defined) and, in both Mr. Kriegsman and Dr. Levitt's case, entitle them to resign for "good reason" (as defined). Each employment agreement was individually negotiated, so there are some minor variations in the terms among executive officers. Generally speaking, however, the employment agreements provide for termination and severance benefits that the Compensation Committee believes are consistent with industry practices for similarly situated executives. The Compensation Committee believes that the termination and severance benefits help the company retain the named executive officers by providing them with a competitive employment arrangement and protection against unknowns such as termination without "cause" that go along with the position.

In the event of termination without "cause," the named executive officers will be entitled to a lump-sum payment equal to six months of base salary (12 months in the case of Dr. Levitt and 24 months in the case of Mr. Kriegsman). The named executive officers' agreements also provide for our continuation of medical benefits during the severance period (including, for Mr. Kriegsman, payments for life insurance). If Mr. Kriegsman's or Dr. Levitt's employment is terminated by us without "cause," or by Mr. Kriegsman or Dr. Levitt for "good reason," within two years following a change of control of CytRx, they also would be entitled under their employment agreement to receive a "gross-up" payment equal to the sum of any excise tax on termination benefits (including any accelerated vesting of his options under our Plans as described below) plus any penalties and interest. In addition, if a named executive officer's employment is terminated by us without "cause" (or by Mr. Kriegsman or Dr. Levitt for "good reason," or due to Mr. Kriegsman's death or disability), his unvested stock options vest immediately.

Change of Control Arrangements

The company's 2000 Long-Term Incentive Plan and 2008 Stock Incentive Plan provide generally that, upon a change of control of CytRx, all unvested stock options and awards under the Plans held by plan participants, including the named executive officers, will become immediately vested and exercisable immediately prior to the effective date of the transaction. The Compensation Committee believes that such "single trigger" change of control policy is consistent with the objective of aligning the interests of the named executive officer's and of the company's stockholders by allowing the executives to participate equally with stockholders in the event of a change of control transaction.

The foregoing severance and change of control arrangements, including the quantification of the payment and benefits provided under these arrangements, are described in more detail elsewhere in this Proxy Statement under the heading "Executive Compensation – Employment Agreements and Potential Payment Upon Termination or Change in Control."

Ownership Guidelines

The Compensation Committee has no requirement that each named executive officer maintain a minimum ownership interest in our company.

Our long-term incentive compensation consists solely of periodic grants of stock options to our named executive officers. The stock option program:

- links the creation of stockholder value with executive compensation;
- provides increased equity ownership by executives;
- functions as a retention tool, because of the vesting features included in all options granted by the Compensation Committee; and
- helps us to maintain competitive levels of total compensation.

We normally grant stock options to new executive officers when they join our company based upon their position with us and their relevant prior experience. The options granted by the Compensation Committee generally vest monthly over the first three years of the ten-year option term. Vesting and exercise rights generally (except in the case of Mr. Kriegsman) cease upon termination of employment (or, in the case of exercise rights, 90 days thereafter), except in the case of death (subject to a one-year limitation), disability or retirement. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents. In addition to the initial option grants, our Compensation Committee may grant additional options to retain our executives and reward, or provide incentive for, the achievement of corporate goals and strong individual performance. Our board of directors has granted our President and Chief Executive Officer the discretion to grant up to 200,000 options to employees upon joining our company, and to make grants from an additional "discretionary pool" of up to 200,000 options during each annual employee review cycle. Options are granted based on a combination of individual contributions to our company and on general corporate achievements, which may include the attainment of product development milestones (such as commencement and completion of clinical trials) and attaining other annual corporate goals and objectives. On an annual basis, the Compensation Committee assesses the appropriate individual and corporate goals for our executives and provides additional option grants based upon the achievement by the new executives of both individual and corporate goals. We expect that we will continue to provide new employees with initial option grants in the future to provide long-term compensation incentives and will continue to rely on performance-based and retention grants to provide additional incentives for current employees. Additionally, in the future, the Compensation Committee may consider awarding additional or alternative forms of equity incentives, such as grants of bonus stock, restricted stock and restricted stock units.

It is our policy to award stock options at an exercise price equal to The NASDAQ Capital Market's closing price of our common stock on the date of the grant. In certain limited circumstances, the Compensation Committee may grant options to an executive at an exercise price in excess of the closing price of the common stock on the grant date. The Compensation Committee has never granted options with an exercise price that is less than the closing price of our common stock on the grant date, nor has it granted options which are priced on a date other than the grant date. For purposes of determining the exercise price of stock options, the grant date is deemed to be the first day of employment for newly hired employees, or the date on which the Compensation Committee or the Chief Executive Officer, as applicable, approves the stock option grant to existing employees.

We have no program, practice or plan to grant stock options to our executive officers, including new executive officers, in coordination with the release of material nonpublic information. We also have not timed the release of material nonpublic information for the purpose of affecting the value of stock options or other compensation to our executive officers, and we have no plan to do so. We have no policy regarding the adjustment or recovery of stock option awards in connection with the restatement of our financial statements, as our stock option awards have not been tied to the achievement of specific financial goals.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that corporations may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. We believe that compensation paid to our executive officers generally is fully deductible for federal income tax purposes.

Accounting for Share-Based Compensation

Beginning on January 1, 2006, we account for share-based compensation in accordance with the requirements of ASC 718, *Compensation – Stock Compensation*. This accounting treatment has not significantly affected our compensation decisions. The Compensation Committee takes into consideration the tax consequences of compensation to the named executive officers, but tax considerations are not a significant part of the company's compensation policy.

These policies remained in place throughout 2013, and we expect to continue to follow them for the foreseeable future.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

There are no "interlocks," as defined by the SEC, with respect to any member of the Compensation Committee. Max Link, Ph.D., Joseph Rubinfeld, Ph.D., Marvin R. Selter and Richard L. Wennekamp served as members of the Compensation Committee during 2013.

Summary Compensation Table

The following table presents summary information concerning all compensation paid or accrued by us for services rendered in all capacities during 2013, 2012 and 2011 by Steven A. Kriegsmann and John Y. Caloz, who are the only individuals who served as our principal executive and financial officers during the year ended December 31, 2013, and our three other most highly compensated executive officers who were serving as executive officers as of December 31, 2013:

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Option Awards (\$)(2)(4)	All Other Compensation (\$)(3)	Total (\$)
Steven A. Kriegsmann						
President and Chief Executive Officer	2013	700,000	330,000	1,714,150	13,700	2,757,850
	2012	700,000	150,000	655,000	13,700	1,518,700
	2011	700,000	150,000	342,000	10,000	1,202,000
John Y. Caloz						
Chief Financial Officer and Treasurer	2013	350,000	100,000	256,800	—	703,800
	2012	340,000	75,000	131,000	—	546,000
	2011	335,000	45,000	45,600	—	425,600
Daniel Levitt, M.D., Ph.D.						
Executive Vice President and Chief Medical Officer	2013	525,000	300,000	1,483,000	—	2,308,000
	2012	450,000	150,000	186,900	—	786,900
	2011	450,000	112,500	114,000	—	676,500
Benjamin S. Levin						
General Counsel, Senior Vice President and Secretary	2013	350,000	150,000	513,600	—	1,013,600
	2012	340,000	75,000	131,000	—	546,000
	2011	340,000	55,000	57,000	—	452,000
Scott Wieland, Ph.D.						
Senior Vice President – Drug Development	2013	350,000	100,000	256,800	—	703,800
	2012	330,000	75,000	131,000	—	546,000
	2011	330,000	30,000	45,600	—	405,600

- (1) Bonuses to the named executive officers reported above were paid in December of the applicable year.
- (2) The values shown in this column represent the aggregate grant date fair value of equity-based awards granted during the fiscal year, in accordance with ASC 718, "Share Based Payment." The fair value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model, based on the assumptions described in Note 12 of the Notes to Financial Statements included in this Annual Report.
- (3) This amount represents life insurance premiums.
- (4) In the case of Dr. Levitt, for 2013, this amount includes the aggregate grant date fair value of a restricted stock award granted during the fiscal 2013, as well as the aggregate grant date fair value of an equity-based award granted during the fiscal year. The restricted stock awarded in 2013 was issued in January 2014. For 2012, the amount represents the aggregate grant date fair value of a restricted stock award granted and issued during the fiscal year.

2013 Grants of Plan-Based Awards

In 2013, we granted stock options to our named executive officers under our 2008 Stock Incentive Plan as follows:

2013 Grants of Plan-Based Awards

Name	Grant Date	All Other Option Awards (# of CytRx Shares)	Exercise Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$)
Steven A. Kriegsman President and Chief Executive Officer	12/10/2013	925,000(1)	\$ 2.39	\$ 1,583,600
	3/08/2013	74,176(1)	\$ 2.46	\$ 130,550
John Y. Caloz Chief Financial Officer and Treasurer	12/10/2013	150,000(1)	\$ 2.39	\$ 256,800
Daniel Levitt, M.D., Ph.D. Executive Vice President and Chief Medical Officer	12/10/2013	500,000(1)	\$ 2.39	\$ 856,000
Benjamin S. Levin General Counsel, Senior Vice President and Secretary	12/10/2013	300,000(1)	\$ 2.39	\$ 513,600
Scott Wieland, Ph.D. Senior Vice President – Drug Development	12/10/2013	150,000(1)	\$ 2.39	\$ 256,800

(1) Options vest in 36 equal monthly installments, subject to the option holder's remaining in our continuous employ through such dates. If employment is terminated by us without "cause" (or, in the cases of Mr. Kriegsman and Dr. Levitt, for "good reason"), unvested options will immediately vest in full.

We also granted to Dr. Levitt 100,000 shares of CytRx Corporation restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date. The shares of restricted stock granted to Dr. Levitt had a grant date fair value of \$627,000.

2000 Long-Term Incentive Plan and 2008 Stock Incentive Plan

The purpose of our 2000 Long-Term Incentive Plan, or 2000 Plan, and our 2008 Stock Incentive Plan, or 2008 Plan, is to promote our success and enhance our value by linking the personal interests of our employees, officers, consultants and directors to those of our stockholders. The 2000 Plan was originally adopted by our Board of Directors on August 24, 2000 and by our stockholders on June 7, 2001, with certain amendments to the Plan having been subsequently approved by our Board of Directors and stockholders. On May 11, 2009, our Board of Directors approved an amendment to the 2000 Plan to allow for a one-time stock option re-pricing program for our employees. The 2008 Plan was adopted by our Board of Directors on November 21, 2008 and by our stockholders on July 1, 2009.

2000 Plan and 2008 Plan Descriptions

The 2000 Plan and the 2008 Plan, or the Plans, are administered by the Compensation Committee of our Board of Directors. The Compensation Committee has the power, authority and discretion to:

- designate participants;
- determine the types of awards to grant to each participant and the number, terms and conditions of any award;
- establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Plan; and
- make all other decisions and determinations that may be required under, or as the Compensation Committee deems necessary or advisable to administer, the Plan.

Awards under the 2000 Plan

The 2000 Plan expired on August 6, 2010, and thus no shares are available for future grant under the 2000 Plan.

Awards under the 2008 Plan

The following is a summary description of financial instruments that may be granted to participants in our 2008 Plan by the Compensation Committee of our Board of Directors. The Compensation Committee to date has only granted stock options to participants in the 2008 Plan.

Stock Options. The Compensation Committee is authorized to grant both incentive stock options and non-qualified stock options. The terms of any incentive stock option must meet the requirements of Section 422 of the Internal Revenue Code. The exercise price of an option may not be less than the fair market value of the underlying stock on the date of grant, and no option may have a term of more than 10 years from the grant date.

Restricted Stock. The Compensation Committee may make awards of restricted stock, which will be subject to forfeiture to us and other restrictions as the Compensation Committee may impose.

Stock Bonus Awards. The Compensation Committee may make awards of stock bonus awards in consideration for past services actually rendered, which will be subject to repurchase by us and such other terms as the Compensation Committee may impose.

Limitations on Transfer; Beneficiaries. Stock Option awards under the 2008 Plan may generally not be transferred or assigned by participants other than by will or the laws of descent and distribution. Awards of Restricted Stock or Stock Bonus awards may be transferred or assigned only upon such terms and conditions as set forth in the award agreement or as determined by the Compensation Committee in its discretion.

Acceleration Upon Certain Events. In the event of a "Corporate Transaction" as defined in the 2008 Plan, all outstanding options will become fully vested, subject to the holder's consent with respect to incentive stock options, and exercisable and all restrictions on all outstanding awards will lapse. Unless the surviving or acquiring entity assumes the awards in the Corporate Transaction or the stock award agreement provides otherwise, the stock awards will terminate if not exercised at or prior to the Corporate Transaction.

Termination and Amendment

Our Board of Directors or the Compensation Committee may, at any time and from time to time, terminate or amend the 2008 Plan without stockholder approval; provided, however, that our board or the Compensation Committee may condition any amendment on the approval of our stockholders if such approval is necessary or deemed advisable with respect to tax, securities or other applicable laws, policies or regulations. No termination or amendment of the Plans may adversely affect any award previously granted without the written consent of the participants affected. The Compensation Committee may amend any outstanding award without the approval of the participants affected, except that no such amendment may diminish or impair the value of an award.

Holdings of Previously Awarded Equity

Equity awards held as of December 31, 2013 by each of our named executive officers were issued under our 2000 Plan and 2008 Plan. The following table sets forth outstanding equity awards held by our named executive officers as of December 31, 2013:

2013 Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options		Option Awards	
	Exercisable	(#)	Unexercisable	(#)
Steven A. Kriegsmann President and Chief Executive Officer	—	(1)	925,000	—
	18,566	(1)	55,610	—
	166,650	(1)	333,350	—
	142,843	(1)	71,443	—
	107,143	—	—	—
	107,143	—	—	—
	42,857	—	—	—
	64,286	—	—	—
	50,000	—	—	—
	28,571	—	—	—
	42,857	—	—	—
John Y. Caloz Chief Financial Officer and Treasurer	—	(1)	150,000	—
	33,330	(1)	66,670	—
	19,045	(1)	9,526	—
	7,143	—	—	—
	17,857	—	—	—
	7,143	—	—	—
	7,143	—	—	—
	3,571	—	—	—
	3,571	—	—	—
	10,714	—	—	—
Daniel Levitt, M.D., Ph.D. Executive Vice President and Chief Medical Officer	—	(3)	100,000	—
	—	(1)	500,000	—
	46,751	(4)	—	—
	47,615	(1)	23,814	—
	35,714	—	—	—
	71,429	—	—	—
Benjamin S. Levin General Counsel, Sr. Vice President — Legal Affairs and Secretary	—	(1)	300,000	—
	33,330	(1)	66,670	—
	23,807	(1)	11,907	—
	14,286	—	—	—
	14,286	—	—	—
	14,286	—	—	—
	14,286	—	—	—
	14,286	—	—	—
	12,857	—	—	—
	21,429	—	—	—
	22,857	—	—	—
Scott Wieland, Ph.D. Senior Vice President – Drug Development	—	(1)	150,000	—
	33,330	(1)	66,670	—
	19,045	(1)	9,526	—
	14,286	—	—	—
	14,286	—	—	—
	4,286	—	—	—
	7,143	—	—	—
	14,286	—	—	—
	3,571	—	—	—

- (1) These options vest in 36 equal monthly installments, subject to the option holder's remaining in our continuous employ through such dates. If employment is terminated by us without "cause" (or, in the case of Mr. Kriegsmann and Dr. Levitt, for "good reason"), unvested options will immediately vest in full.
- (2) The reported options with prices of \$8.05 were re-priced to that exercise price on July 1, 2009.
- (3) Represents 100,000 shares of restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date. These shares were awarded in December, 2013, but issued in January, 2014.
- (4) Represents restricted stock fully-vested at December 31, 2013. On December 31, 2012, Dr. Levitt was granted 100,000 of restricted stock. We reacquired 53,249 shares in order to satisfy income tax withholding obligations, as permitted under the agreement.

Employment Agreements and Potential Payment upon Termination or Change in Control

Employment Agreement with Steven A. Kriegsman

Mr. Kriegsman is employed as our Chief Executive Officer and President pursuant to a fourth amended and restated employment agreement dated as of May 10, 2012 that was to expire on December 31, 2015. On March 4, 2014, the employment agreement was amended to extend the expiration date by three years to December 31, 2018. The employment agreement will automatically renew following the expiration date for an additional one-year period, unless either Mr. Kriegsman or we elect not to renew it.

In connection with the amendment to his employment agreement, we paid Mr. Kriegsman a cash bonus of \$300,000.

Under his employment agreement as amended, Mr. Kriegsman is entitled to receive an annual base salary of \$850,000. Our board of directors (or its Compensation Committee) will review the base salary annually and may increase (but not decrease) it in its sole discretion. In addition to his annual salary, Mr. Kriegsman is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion, but not to be less than \$150,000. Pursuant to his employment agreement with us, we have agreed that he shall serve on a full-time basis as our Chief Executive Officer and President and that he may continue to serve as Chairman of the Kriegsman Group only so long as necessary to complete certain current assignments.

Mr. Kriegsman is eligible to receive grants of options to purchase shares of our common stock. The number and terms of those options, including the vesting schedule, will be determined by our board of directors (or its Compensation Committee) in its sole discretion.

Under Mr. Kriegsman's employment agreement, we have agreed that, if he is made a party, or threatened to be made a party, to a suit or proceeding by reason of his service to us, we will indemnify and hold him harmless from all costs and expenses to the fullest extent permitted or authorized by our certificate of incorporation or bylaws, or any resolution of our board of directors, to the extent not inconsistent with Delaware law. We also have agreed to advance to Mr. Kriegsman such costs and expenses upon his request if he undertakes to repay such advances if it ultimately is determined that he is not entitled to indemnification with respect to the same. These employment agreement provisions are not exclusive of any other rights to indemnification to which Mr. Kriegsman may be entitled and are in addition to any rights he may have under any policy of insurance maintained by us.

In the event we terminate Mr. Kriegsman's employment without "cause" (as defined), or if Mr. Kriegsman terminates his employment with "good reason" (as defined), (i) we have agreed to pay Mr. Kriegsman a lump-sum equal to his salary and prorated minimum annual bonus through to his date of termination, plus his salary and minimum annual bonus for a period of two years after his termination date, or until the expiration of the amended and restated employment agreement, whichever is later, (ii) he will be entitled to immediate vesting of all stock options or other awards based on our equity securities, and (iii) he will also be entitled to continuation of his life insurance premium payments and continued participation in any of our health plans through to the later of the expiration of the amended and restated employment agreement or 24 months following his termination date. Mr. Kriegsman will have no obligation in such events to seek new employment or offset the severance payments to him by any compensation received from any subsequent reemployment by another employer.

Under Mr. Kriegsman's employment agreement, he and his affiliated company, The Kriegsman Group, are to provide us during the term of his employment with the first opportunity to conduct or take action with respect to any acquisition opportunity or any other potential transaction identified by them within the biotech, pharmaceutical or health care industries and that is within the scope of the business plan adopted by our board of directors. Mr. Kriegsman's employment agreement also contains confidentiality provisions relating to our trade secrets and any other proprietary or confidential information, which provisions shall remain in effect for five years after the expiration of the employment agreement with respect to proprietary or confidential information and for so long as our trade secrets remain trade secrets.

Potential Payment upon Termination or Change in Control for Steven A. Kriegsman

Mr. Kriegsman's employment agreement contains no provision for payment to him in the event of a change in control of CytRx. If, however, a change in control (as defined in our 2000 Plan or our 2008 Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman's employment is terminated by us without "cause" or by him for "good reason" (each as defined in his employment agreement), then, in addition to the severance benefits described above, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman resulting from the termination of his employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we have agreed to pay Mr. Kriegsman, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax.

Employment Agreement with Daniel Levitt, M.D., Ph.D.

Daniel Levitt is employed as our Executive Vice President and Chief Medical Officer pursuant to an employment agreement dated as of January 1, 2014 that is to expire on December 31, 2014. Dr. Levitt is entitled under his employment agreement to receive an annual base salary of \$525,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion, but not to be less than \$150,000. In the event we terminate Dr. Levitt's employment without cause or Dr. Levitt resigns with good reason (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to one year's salary under his employment agreement.

In connection with his new employment agreement, on January 1, 2014, we granted to Dr. Levitt 100,000 shares of CytRx Corporation restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date.

Employment Agreement with John Y. Caloz

John Y. Caloz is employed as our Chief Financial Officer and Treasurer pursuant to an employment agreement dated as of January 1, 2014 that was to expire on December 31, 2014. On March 4, 2014, the employment agreement was amended to extend the expiration date for one year to December 31, 2015. Mr. Caloz is entitled under his employment agreement to receive an annual base salary of \$350,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Caloz's employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' salary under his employment agreement.

Employment Agreement with Scott Wieland, Ph.D.

Scott Wieland is employed as our Senior Vice President — Drug Development pursuant to an employment agreement dated as of January 1, 2014 that was to expire on December 31, 2014. On March 4, 2014, the employment agreement was amended to extend the expiration date for one year to December 31, 2015. Dr. Wieland is paid an annual base salary of \$350,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Dr. Wieland's employment without "cause" (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' base salary.

Employment Agreement with Benjamin S. Levin

Benjamin S. Levin is employed as our Senior Vice President — Legal Affairs, General Counsel and Secretary pursuant to an employment agreement dated as of January 1, 2014 that was to expire on December 31, 2014. On March 4, 2014, the employment agreement was amended to extend the expiration date for one year to December 31, 2015. Mr. Levin is paid an annual base salary of \$350,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Levin's employment without "cause" (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' base salary.

Quantification of Termination Payments and Benefits

The table below reflects the amount of compensation to each of our named executive officers in the event of termination of such executive's employment without "cause" or his resignation for "good reason," termination following a change in control and termination upon the executive's death of permanent disability. The named executive officers are not entitled to any payments other than accrued compensation and benefits in the event of their voluntary resignation. The amounts shown in the table below assume that such termination was effective as of December 31, 2013, and thus includes amounts earned through such time, and are estimates only of the amounts that would be payable to the executives. The actual amounts to be paid will be determined upon the occurrence of the events indicated.

Termination Payments and Benefits

Termination w/o Cause or, for Steven A. Kriegsman and Dr. Daniel Levitt, for Good Reason

Name	Benefit	Before Change in Control (\$)	After Change in Control (\$)	Death (\$)	Disability (\$)	Change in Control (\$)
Steven A. Kriegsman President and Chief Executive Officer	Severance Payment(4)	2,000,000	2,000,000	2,000,000	2,000,000	—
	Stock Options (1)	5,700,000	5,700,000	5,700,000	5,700,000	5,700,000
	Health Insurance (2)	80,200	80,200	80,200	80,200	80,200
	Life Insurance	13,700	13,700	—	13,700	—
	Bonus	300,000	300,000	300,000	300,000	—
	Tax Gross Up (3)	—	—	—	—	—
John Y. Caloz Chief Financial Officer	Severance Payment(4)	175,000	350,000	—	—	—
	Stock Options (1)	—	920,000	—	—	920,000
Daniel Levitt, M.D., Ph.D. Executive Vice President and Chief Medical Officer	Severance Payment(4)	675,000	1,350,000	—	—	—
	Stock Options (1)	—	2,040,000	—	—	2,040,000
	Health Insurance	—	3,700	—	—	3,700
Benjamin S. Levin General Counsel, Senior Vice President and Secretary	Severance Payment(4)	175,000	350,000	—	—	—
	Stock Options (1)	—	1,510,000	—	—	1,510,000
Scott Wieland, Ph.D. Senior Vice President -- Drug Development	Severance Payment(4)	175,000	350,000	—	—	—
	Stock Options (1)	—	920,000	—	—	920,000

- (1) Represents the aggregate value of stock options that vest and become exercisable immediately upon each of the triggering events listed as if such events took place on December 31, 2013, determined by the aggregate difference between the stock price as of December 31, 2013 and the exercise prices of the underlying options.
- (2) Represents the cost as of December 31, 2013 for the family health benefits provided to Mr. Kriegsman for a period of two years.
- (3) Each of Mr. Kriegsman's and Dr. Levitt's employment agreements provides that if a change in control (as defined in our 2000 Plan or our 2008 Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman's or Dr. Levitt's employment, respectively, is terminated by us without "cause" or by him for "good reason" (each as defined in their respective employment agreement), then, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman or Dr. Levitt, respectively, resulting from the termination of their respective employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we will pay Mr. Kriegsman or Dr. Levitt, respectively, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax. Based on each of Mr. Kriegsman's and Dr. Levitt's past compensation and the estimated payment that would result from a termination of employment following a change in control, we have estimated that a gross-up payment would not be required. "Good reason" as defined in each of Mr. Kriegsman's and Dr. Levitt's employment agreement includes any change in Mr. Kriegsman's or Dr. Levitt's duties or title, as applicable, that are inconsistent with their respective positions.
- (4) Severance payments are prescribed by our employment agreements with the named executive officers and represent a factor of their annual base compensation ranging from six months to two years.

Compensation of Directors

We use a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on our board of directors. Directors who also are employees of our company currently receive no compensation for their service as directors or as members of board committees. In setting director compensation, we consider the significant amount of time that directors dedicate to the fulfillment of their director responsibilities, as well as the competency and skills required of members of our board. The directors' current compensation schedule has been in place since December 2013. The directors' annual compensation year begins with the annual election of directors at the annual meeting of stockholders. The annual retainer year period has been in place for directors since 2003. Periodically, our board of directors reviews our director compensation policies and, from time to time, makes changes to such policies based on various criteria the board deems relevant.

Our non-employee directors receive a quarterly retainer of \$6,000 (plus an additional \$12,500 for the Chairman of the Board, \$5,000 for the Chairmen of the Audit Committee and Compensation Committee, and \$1,500 for the Chairman of the Nomination and Governance Committee), a fee of \$3,000 for each board meeting attended (\$750 for board actions taken by unanimous written consent), \$2,000 for each meeting of the Audit Committee and Compensation Committee attended, and \$1,000 for each meeting of the Nomination and Governance Committee meeting attended. Non-employee directors who serve as the chairman of a board committee receive an additional \$2,000 for each meeting of the Nomination and Governance Committee attended and an additional \$2,500 for each meeting of the Audit Committee or the Compensation Committee attended. In December 2013, we also granted ten-year stock options to purchase 180,000 shares of our common stock to each non-employee director at an exercise price equal to the market value of our common stock on the date of grant. The options vested, in full, upon grant.

The following table sets forth the compensation paid to our directors other than our Chief Executive Officer for 2013:

Director Compensation Table

Name (1)	Fees Earned or Paid in Cash(\$)(2)	Option Awards(\$)(3)	Total (\$)
Max Link, Ph.D., Chairman	104,000	363,060	467,060
Marvin R. Selter, Vice Chairman	86,000	363,060	449,060
Louis Ignarro, Ph.D., Director	39,000	363,060	402,060
Joseph Rubinfeld, Ph.D., Director	62,000	363,060	425,060
Richard L. Wemnekamp, Director	66,000	363,060	429,060

- (1) Steven A. Kriegsman does not receive additional compensation for his role as a Director. For information relating to Mr. Kriegsman's compensation as President and Chief Executive Officer, see the Summary Compensation Table above.
- (2) The amounts in this column represent cash payments made to Non-Employee Directors for annual retainer fees, committee and/or chairmanship fees and meeting fees during the year.
- (3) In December 2013, we granted stock options to purchase 180,000 shares of our common stock to each non-employee director at an exercise price equal to the current market value of our common stock on the date of grant, which had an aggregate grant date fair value of \$363,060 calculated in accordance with FASB ASC Topic 718. The amount recognized for these awards was calculated using the Black Scholes option-pricing model, and reflect grants from our 2008 Long-Term Incentive Plan, which is described in Note 12 of the Notes to Consolidated Financial Statements.

Joseph Rubinfeld, Ph.D. Consulting Agreement

On December 2, 2008, we entered into a written consulting agreement with Joseph Rubinfeld, Ph.D., under which Dr. Rubinfeld agrees to serve as our Chief Scientific Advisor. In exchange, we granted to Dr. Rubinfeld under our 2008 Stock Incentive Plan a ten-year stock option to purchase up to 50,000 shares of our common stock at an exercise price of \$2.45 per share, which equaled the market price of our common stock as of the grant date. The fair value of this option grant was \$116,900. The stock option vested immediately upon grant as to 7,143 of the option shares and vested as to the remaining option shares in 36 equal monthly installments, and is now fully vested. The consulting agreement is terminable at any time by either party upon notice to the other party.

On December 10, 2012, we entered into an amendment to our written consulting agreement with Dr. Rubinfeld, Ph.D. to provide for the one-time grant to Dr. Rubinfeld under our 2008 Plan of an option to purchase 30,000 shares of our common stock at an exercise price of \$1.83 per share, which was equal to the market price of our common stock on the grant date. The option has a term of ten years and is fully vested. The fair grant date value of this option grant was \$47,400.

Code of Ethics

We have adopted a Code of Ethics applicable to all employees, including our principal executive officer, principal financial officer and principal accounting officer, a copy of which is available on our website at www.cytrx.com. We will furnish, without charge, a copy of our Code of Ethics upon request. Such requests should be directed to Attention: Corporate Secretary, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California, or by telephone at 310-826-5648.

Board Leadership Structure

Our board of directors has placed the responsibilities of Chairman with an independent non-employee member of the board, which we believe provides better accountability between the board and our management team. We believe it is beneficial to have an independent Chairman whose sole responsibility to us is guiding our board members as they provide leadership to our executive team. Our Chairman is responsible for communication among the directors, setting the board meeting agendas in consultation with the President and Chief Executive Officer and presiding at board meetings, executive sessions and stockholder meetings. This delineation of duties allows the President and Chief Executive Officer to focus his attention on managing the day-to-day business of the company. We believe this structure provides strong leadership for our board, while positioning our President and Chief Executive Officer as the leader of the company in the eyes of our employees and other stakeholders.

Board of Directors' Role in Risk Oversight

In connection with its oversight responsibilities, our board of directors, including the Audit Committee, periodically assesses the significant risks that we face. These risks include, but are not limited to, financial, technological, competitive, and operational risks. Our board of directors administers its risk oversight responsibilities through our Chief Executive Officer and Chief Financial Officer, who review and assess the operations of our business as well as operating management's identification, assessment and mitigation of the material risks affecting our operations.

PROPOSAL 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 entitles our stockholders to vote to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with SEC rules.

Please refer to the discussion under “Executive Compensation” for a description of the compensation of our named executive officers.

We are asking for stockholder approval of the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with SEC rules, which include the compensation disclosed under “Executive Compensation—Compensation Discussion and Analysis,” the compensation tables and the related narrative discussion following the compensation tables. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the compensation policies and practices described in this Proxy Statement.

This vote is advisory in nature and therefore not binding on us, our Compensation Committee or our board of directors. Our board and our Compensation Committee, however, value the opinions of our stockholders. To the extent there is any significant vote against the named executive officer compensation as disclosed in this Proxy Statement, we will consider the stockholders’ concerns, and our Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Vote Required

The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to be voted on Proposal 2 at the Annual Meeting is required for advisory approval of the proposal.

Recommendation of the board of directors

OUR BOARD RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

PROPOSAL 3

**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

Appointment of BDO USA, LLP ("BDO")

BDO currently serves as our independent registered public accounting firm and has audited our financial statements for each of the years ended December 31, 2013, 2012 and 2011. BDO does not have and has not had any financial interest, direct or indirect, in CytRx, and does not have and has not had any connection with CytRx except in its professional capacity as our independent auditors.

Our Audit Committee has reappointed BDO to serve as our independent registered public accounting firm for the year ending December 31, 2014. The ratification by our stockholders of the appointment of BDO is not required by law or by our Restated Bylaws. Our board of directors, consistent with the practice of many publicly held corporations, is nevertheless submitting this appointment for ratification by the stockholders. If this appointment is not ratified at the Annual Meeting, the Audit Committee intends to reconsider its appointment of BDO. Even if the appointment is ratified, the Audit Committee in its sole discretion may direct the appointment of a different independent registered public accounting firm at any time during the fiscal year if the Committee determines that such a change would be in the best interests of CytRx and its stockholders.

Any material non-audit services to be provided by BDO are subject to the prior approval of the Audit Committee. In general, the Audit Committee's policy is to grant such approval where it determines that the non-audit services are not incompatible with maintaining the independent registered public accounting firm's independence and there are cost or other efficiencies in obtaining such services from the independent registered public accounting firm as compared to other possible providers.

We expect that representatives of BDO will be present at the Annual Meeting, will have an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

Audit Fees

The fees for 2013 and 2012 from BDO for professional services rendered for the audit of our annual consolidated financial statements and internal controls over financial reporting, the review of quarterly financial statements and of our shelf-Registration Statements on Form S-3 and related matters were \$391,730 and \$376,300, respectively.

Tax Fees

The aggregate fees billed by BDO for professional services for tax compliance, tax advice and tax planning were \$27,225 and \$23,325 for 2013 and 2012, respectively.

All Other Fees

No other services were rendered by BDO for 2013 and 2012

Pre-Approval Policies and Procedures

It is the policy of our Audit Committee that all services to be provided by our independent registered public accounting firm, including audit services and permitted audit-related and non-audit services, must be pre-approved by our Audit Committee. Our Audit Committee pre-approved all services, audit and non-audit, provided to us by BDO for 2013 and 2012.

Vote Required

The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to be voted on this proposal at the Annual Meeting is required for approval of this proposal.

Recommendation of Our board of directors

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

STOCKHOLDER PROPOSALS

Any proposal which a stockholder intends to present in accordance with Rule 14a-8 of the Securities Exchange Act of 1934 at our next Annual Meeting of Stockholders to be held in 2015 must be received by us on or before February 23, 2015. Notice of stockholder proposals submitted outside of Rule 14a-8 of the Exchange Act will be considered untimely if received by us after that date. Only proper proposals under Rule 14a-8 which are timely received will be included in the Proxy Statement in 2015.

OTHER MATTERS

Expenses of Solicitation

We are soliciting proxies on behalf of our board of directors. This solicitation is being made by mail, but also may be made by telephone or in person. We and our directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means. These persons will not be compensated for these solicitation activities.

We have engaged Alliance Advisors to assist in the solicitation of proxies. We will pay a fee of \$8,000 plus reasonable out-of-pocket charges and a flat fee of \$5.00 per outbound proxy solicitation call.

We will ask banks, brokers and other institutions, nominees and fiduciaries to forward our proxy materials to their principals and to obtain their authority to execute proxies and voting instructions and will reimburse them for their reasonable expenses.

Delivery of Proxy Materials to Households

Some banks, brokers, and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this notice and proxy statement may have been sent to multiple stockholders in your household. If you would prefer to receive separate copies of a proxy statement or annual report either now or in the future, please contact your bank, broker or other nominee. Upon written request to us at CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, Attention: Corporate Secretary, or by telephone at 310-826-5648, we will promptly deliver without charge, upon oral or written request, a separate copy of the proxy material to any stockholder residing at an address to which only one copy was mailed. In addition, stockholders sharing an address can request delivery of a single copy of annual reports or proxy statements if they are receiving multiple copies upon written or oral request to us at the address and telephone number stated above.

Miscellaneous

Our management does not intend to present any other items of business and is not aware of any matters other than those set forth in this Proxy Statement that will be presented for action at the Annual Meeting. However, if any other matters properly come before the Annual Meeting, the persons named in the enclosed proxy intend to vote the shares of our common stock that they represent in accordance with their best judgment.

Annual Report

Accompanying this Proxy Statement is a letter of transmittal from our President and Chief Executive Officer, along with a copy of our Annual Report on Form 10-K, without exhibits, for the year ended December 31, 2013 filed with the SEC. These accompanying materials constitute our annual report to stockholders. We will provide, without charge upon written request, a further copy of our Annual Report on Form 10-K, including the financial statements and the financial statement schedules. Copies of the Form 10-K exhibits also are available without charge. Stockholders who would like such copies should direct their requests in writing to: CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, Attention: Corporate Secretary.

By Order of the board of directors

/s/ BENJAMIN S. LEVIN

Benjamin S. Levin
Corporate Secretary

May 1, 2014

PROXY

CytRx Corporation

11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049
Annual Meeting of Stockholders

The undersigned stockholder of CytRx Corporation (the "Company") hereby revokes all prior proxies and constitutes and appoints Steven A. Kriegsman and Benjamin S. Levin, or either one of them, as proxy and attorney-in-fact, each with full power of substitution, to vote the number of shares of common stock of the Company that the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders to be held at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, on Tuesday, June 24, 2014, and at any postponement or adjournment thereof (the "Annual Meeting"), upon the proposals described in the Notice of Annual Meeting of Stockholders and Proxy Statement, both dated May 1, 2014, the receipt of which is acknowledged, in the manner specified below:

1. *Election of Directors.* On the Company's proposal to elect as directors the following nominees for Class I director to serve until the 2017 Annual Meeting of Stockholders of the Company and until his respective successor is duly elected and qualified:

Steven A. Kriegsman	For £	Withhold Authority £
Marvin R. Selter	For £	Withhold Authority £

2. *Advisory Vote on Executive Compensation.* On the proposal for an advisory vote to approve the compensation of our named executive officers as disclosed in the Proxy Statement:

For	£	Against	£	Abstain	£
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3. *Appointment of Independent Registered Public Accounting Firm.* On the proposal to ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014:

For	£	Against	£	Abstain	£
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This Proxy, if properly executed and returned prior to the Annual Meeting, will be voted in the manner directed above. If no direction is made, this Proxy will be voted "FOR" each of Proposals 1-3 and in the proxy holder's discretion on all other matters that may properly come before the Annual Meeting or any adjournment or postponement thereof.

Please sign this Proxy exactly as your name appears on your stock certificate and date it below. Where shares are held jointly, each stockholder must sign. When signing as executor, administrator, trustee, or guardian, please give your full title as such. If a corporation, please sign using the full corporate name by president or other authorized officer, indicating the officer's title. If a partnership, please sign in the partnership's name by an authorized person.

Shares Held:

Signature of Stockholder

Signature of Stockholder (if held jointly)

Dated: _____, 2014

Dated: _____, 2014

THIS PROXY IS SOLICITED ON BEHALF OF CYTRX CORPORATION'S BOARD OF DIRECTORS AND MAY BE REVOKED BY THE STOCKHOLDER PRIOR TO ITS EXERCISE.