

USANA HEALTH SCIENCES INC
Form 10-K
March 11, 2013

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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, 2012

OR

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

For the transition period from _____ to _____
Commission file number: 0-21116

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

87-0500306
(I.R.S. Employer
Identification No.)

3838 West Parkway Blvd., Salt Lake City, Utah 84120

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant's telephone number, including area code)

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)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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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 Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
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 June 29, 2012 was approximately \$262,342,000, based on a closing market price of \$41.12 per share.

There were 13,499,699 shares of the registrant's common stock outstanding as of March 1, 2013.

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 2013 Annual Shareholders Meeting.

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FORM 10-K
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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. 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 18 markets worldwide where we distribute and sell our products by way of direct selling. Our net sales in fiscal year 2012 were \$648.7 million, of which 76.5% 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 becoming more 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 unique both 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 are independent distributors of our products, who also purchase our products for personal use. Preferred Customers purchase our products strictly for personal use and are not permitted to resell or to distribute the products. As of December 29, 2012, we had 247,000 active Associates and 64,000 active Preferred Customers worldwide.

Recent Developments

During 2012, we executed several strategies designed to grow our business. These strategies are discussed in the following categories:

Personalization. We officially launched our global marketing strategy, which focuses on personalizing our product and incentive offerings to our customer base around the world. Under this strategy, we expanded the availability of our flagship MyHealthPak product to all of our international markets. MyHealthPak is a fully personalized supplement pack that can include any of our Essential and Optimizer products. Under this strategy, we also introduced two proprietary

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health assessment applications for our Associates and Preferred Customers called True Health Assessment and True Health Companion. These applications are designed for use on iPads and other platforms through the web and are intended to provide our Associates with a new and personalized way to market USANA to potential customers. We launched these new applications at our 2012 International Convention and also gave every Associate in attendance a free iPad with a pre-loaded version of the True Health Assessment. Personalization will be our marketing and operating strategy over the next several years. We believe this strategy will facilitate our short-and long-term growth objectives, which include: (i) returning our North America region to growth; (ii) growing our business in Greater China, and (iii) international expansion.

North America Growth Strategy. In North America/Europe, we continued to execute our growth strategy, which focuses on strengthening our partnership with our Associate sales force, introducing North America-specific incentives, and innovating to develop new products and technologies. During 2012, we held an increased number of meetings and events where members of our management team worked closely with our Associate Leaders to grow our business. We also launched our new Lifetime Matching Bonus, which was well received by our Associates and provides us with the flexibility to offer other incentives specifically for North America. We also offered a new bonus for our Associates in Mexico periodically during 2012, which helped drive results in that market and North America in general. Finally, in 2012, we hired a new executive to lead our Research and Development group who shares our passion for innovation. With his leadership, we plan to launch a variety of new products and technologies under our personalization strategy over the next several years.

China-Growth Strategy. We continued our efforts to grow our Greater China region in 2012 and are encouraged by the results in that region. This strategy included integrating our mainland China ("China" or "PRC") operations and systems, to the extent possible, with our worldwide operations. It also included educating our Associates on the USANA products that we have introduced in China, as well as on our China business opportunity. Additionally, we opened a new branch office in Shenzhen, which is a key city for our business in southern China, and held our Annual Celebration where new products and sales tools were introduced. During 2013, we plan to continue to execute our strategy in Greater China, or more specifically China. This strategy will continue to focus on educating Associates and opening a new branch office, and will also include registering for additional provincial licenses. Notably, subsequent to December 29, 2012, we received three additional provincial direct selling licenses in China. We now have direct selling licenses in Beijing, Jiangsu, Shaanxi, and Tianjin.

International Expansion. We increased our international expansion efforts in 2012 by commencing operations in Thailand, France and Belgium. Each of these markets is heavily consumer focused, which means that it will take time for our Associate leaders to develop entrepreneurs to grow these markets. We continue to believe that Thailand, France and Belgium will be successful markets for USANA and we will continue to support the efforts of our Associates to grow these markets. In 2013, we will continue our international expansion efforts by opening a new market around the middle of the year.

In 2013, our primary objective will be to strengthen and grow our Active Associate counts throughout the world. To this end, we will continue to execute each of the strategies mentioned above, as well as introduce additional market-specific strategies. For example, beginning in January 2013 we implemented a pricing initiative in several of our mature markets, which includes price reductions in certain markets. This pricing initiative is intended to make our products more consistently priced for our Associates and Preferred Customers in all of our markets. Our launch of this initiative may create some short-term pressure on our net sales and earnings in these markets. We believe, however, that this strategy will create greater long-term customer growth in these markets.

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The following table summarizes our product lines.

Product Line/Category	Description	Percent of Product Sales by Fiscal Year		Product examples
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.	2010	30%	USANA® Essentials
		2011	29%	HealthPak 100
		2012	28%	
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.	2010	47%	Proflavanol
		2011	50%	CoQuinone® 30
		2012	52%	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.	2010	12%	Nutrimeal
		2011	11%	Fibergy
		2012	11%	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.	2010	8%	Daytime Protective
		2011	7%	Emulsion
		2012	7%	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.	2010	3%	Associate Starter Kit
		2011	3%	Product Brochures
		2012	2%	

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 product opportunities such as our MyHealthPak product.

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

Top-selling products	Year Ended		
	2010	2011	2012
USANA® Essentials	18%	18%	19%
Proflavanol®	11%	12%	12%
HealthPak 100	10%	9%	7%

Geographic Presence

Our products are distributed and sold in 18 markets. We have organized our markets into two geographic regions: North America/Europe and Asia Pacific, with three sub-regions under Asia Pacific.

North America / Europe

North America / Europe is our most mature region and includes the United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France and Belgium. We commenced operations in France and Belgium during 2012. North America has been our most challenging region. Our North America growth strategy, which is discussed elsewhere in this report, is intended to improve our operating trend in this region and generate growth.

Asia Pacific

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

Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines and Thailand.

Greater China Hong Kong, Taiwan, and China(1)

North Asia Japan and South Korea

Growth in our Asia Pacific region over the last several years has been led by the Philippines and Hong Kong. Our most recent market expansions in this region include our entry into Thailand in 2012 and our entry into mainland China in 2010 through our acquisition of BabyCare. Going forward, we anticipate that growth in this region will continue to be led by the Philippines and China, but we expect other markets in this region to grow as well.

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

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

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financial information relating to our geographic regions can be found in Note L to the Consolidated Financial Statements included in this report.

Region	2010		Years Ended 2011		2012	
			(in thousands)			
North America/Europe	\$ 242,147	46.8%	\$ 236,386	40.6%	\$ 244,333	37.7%
Asia Pacific						
Southeast Asia Pacific	99,311	19.2%	111,447	19.2%	139,651	21.5%
Greater China	152,280	29.4%	204,822	35.2%	235,626	36.3%
North Asia	23,906	4.6%	29,284	5.0%	29,116	4.5%
Asia Pacific Total	275,497	53.2%	345,553	59.4%	404,393	62.3%
	\$ 517,644	100.0%	\$ 581,939	100.0%	\$ 648,726	100.0%

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 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 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 to reformulate our existing products.

In 2012, we continued our relationship with the Linus Pauling Institute ("LPI") at Oregon State University. Our goal is to better determine and understand 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 works closely with LPI on nutritional and clinical research. In 2013, we plan to continue our research efforts with LPI and maintain our ongoing nutrition research in preventing oxidative stress, glycemic stress, and chronic inflammation.

Our goal is to maintain a sharp focus on nutrition both inside and outside the body in promoting health and preventing chronic degenerative disease. Because we believe in focusing primarily on key health issues within our society rather than on fads, we typically do not introduce a new product unless we believe that it can provide health benefits to a significant number 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 our Associates and Preferred Customers.

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 2010, 2011, and 2012 we expended \$3.8 million, \$4.1 million, and \$4.7 million, respectively, on product research and development activities. Going forward, we intend to increase our spending and resources for research and development in connection with our personalization strategy.

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

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 activities: 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. 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 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 GMPs, and the TGA in compliance with the Therapeutic Goods Act of 1989.

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 believe our manufacturing processes comply with the GMPs for dietary supplements.

Personal Care Manufacturing

Historically, we have manufactured the majority of our personal care products at our Draper, Utah manufacturing facility. In 2011, we moved the manufacturing of our personal care products to our Salt Lake City facility to maximize efficiency and reduce costs on these items. 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 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 25% 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 and nutrition bars, and certain of our personal care products. Products manufactured at these locations must also go through quality control and assurance procedures to ensure they are manufactured in conformance with our specifications.

Quality Control/Assurance

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. We also perform processes similar to those described above at our labs in China.

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. Accordingly, we are not subject to a single-source supplier for our required supplies of raw ingredients. 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.

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 "down-line" 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

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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, he or she 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. 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 "down-line" of the sponsoring Associate. Down-line Associates may also sponsor new Associates, creating additional levels in their network, but also forming a part of the same down-line 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/down-line 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 do not participate in USANA's Compensation Plan and, therefore, are compensated under the 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 similar to USANA's Preferred Customer program in its other markets.

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 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 educate and train new Associates regarding our products and Compensation Plan.

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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 down-line 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 down-line 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 down-line sales organization. Sales volume points are assigned to each of our products and comprise 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 product that the Associates 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 down-line organization and Preferred Customers. Additionally, Associates do not earn commissions for simply recruiting and enrolling others in their down-line organization. Commissions are paid only when products are sold. 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, our Associates purchase products from us at wholesale prices and may resell them to consumers at higher retail prices. The Associate retains the retail mark-up as another form of compensation.

Contests and Promotions