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 July 3, 2021

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	**87-0500306**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3838 West Parkway Blvd., Salt Lake City, Utah 84120
(Address of principal executive offices) (Zip Code)

(801) 954-7100
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	USNA	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of August 6, 2021, there were outstanding 20,012,274 shares of the registrant's common stock, $0.001 par value.

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 3, 2021

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Cautionary Note Regarding Forward-Looking Statements and Certain Risks

This report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We may also make forward-looking statements in other reports filed with the Securities and Exchange Commission ("SEC"), in materials delivered to shareholders and in press releases. In addition, our representatives may from time to time make oral forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products; 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 can be identified by words such as: "anticipate," "intend," "plan," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely unduly on forward-looking statements.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ materially from those we project or assume in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the SEC. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, the occurrence of unanticipated events or otherwise. Important factors that could cause our actual results, performance and achievements to differ materially from estimates or projections contained in our forward-looking statements in this report include, among others, the following:

- Our dependence upon the direct selling business model to distribute our products and the activities of our independent Associates;
- Extensive regulation of our business model and uncertainties relating to the interpretation and enforcement of applicable laws and regulations governing direct selling and anti-pyramiding, particularly in the United States and China;
- The operation and expansion of our business in China through our subsidiary, BabyCare Holdings, Ltd. ("BabyCare"), including risks related to (i) operating in China in general, (ii) engaging in direct selling in China, (iii) BabyCare's business model in China, and (iv) changes in the Chinese economy, marketplace or consumer environment;
- Unanticipated effects of changes to our Compensation Plan;
- Challenges associated with our planned expansion into new international markets, delays in commencement of sales or product offerings in such markets, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- Uncertainty related to the magnitude, scope and duration of the impact of the novel strain coronavirus COVID-19 pandemic ("COVID-19" or the "COVID-19 pandemic") to our business, operations and financial results, including, for example, additional regulatory measures or voluntary actions that may be put in place to limit the spread of COVID-19 in the markets where we operate, such as restrictions on business operations, shelter at home, or social distancing requirements;
- Political events, natural disasters, pandemics, epidemics or other health crises including, and in addition to, COVID-19 or other events that may negatively affect economic conditions, consumer spending or consumer behavior;
- Changes to trade policies and tariffs, the impact of customs, duties, taxation, and transfer pricing regulations, as well as regulations governing distinctions between and our responsibilities to employees and independent contractors;
- Deterioration in foreign relations, as well as international disputes, or tensions, between the United States and other countries, including China;
- Volatile fluctuation in the value of foreign currencies against the U.S. dollar;
- Noncompliance by us or our Associates with any data privacy laws or any security breach by us or a third party involving the misappropriation, loss, destruction or other unauthorized use or disclosure of confidential information;
- Shortages of raw materials, disruptions in the business of our contract manufacturers, significant price increases of key raw materials, and other disruptions to our supply chain; and
- Our continued compliance with debt covenants in our Credit Facility.

Important information as to these factors can be found in this document, including, among other sections, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings of "Overview," and "Financial Condition and Liquidity." Discussion of these factors is incorporated by reference from Part I, Item 1A, "Risk Factors," of this document, and should be considered an integral part of Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." For additional information concerning factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Form 10-K, 10-Q and 8-K filed with the SEC from time to time.

Unless otherwise indicated or otherwise required by the context, the terms "we," "our," "it," "its," "Company," and "USANA" refer to USANA Health Sciences, Inc. and its wholly-owned subsidiaries. USANA Health Sciences, Inc. and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of USANA Health Sciences, Inc. and its subsidiaries. Names, abbreviations of names, logos, and products and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. References to internet websites in this Form 10-Q are provided for convenience only. Information available through these websites is not incorporated by reference into this Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

(unaudited)

	As of July 3, 2021	As of January 2, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 265,368	$ 311,917
Inventories	89,587	90,224
Prepaid expenses and other current assets	26,551	23,145
Total current assets	381,506	425,286
Property and equipment, net	97,849	100,445
Goodwill	17,467	17,367
Intangible assets, net	30,489	30,796
Deferred tax assets	5,486	4,640
Other assets	58,652	62,353
	$ 591,449	$ 640,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 13,144	$ 18,195
Other current liabilities	139,856	149,878
Total current liabilities	153,000	168,073
Deferred tax liabilities	4,806	12,009
Other long-term liabilities	15,020	19,155
Stockholders' equity		
Common stock, $0.001 par value; Authorized -- 50,000 shares, issued and outstanding 20,134 as of July 3, 2021 and 21,038 as of January 2, 2021	20	21
Additional paid-in capital	53,909	62,460
Retained earnings	365,650	382,794
Accumulated other comprehensive income (loss)	(956)	(3,625)
Total stockholders' equity	418,623	441,650
	$ 591,449	$ 640,887

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Quarter Ended		Six Months Ended	
	July 3, 2021	**June 27, 2020**	**July 3, 2021**	**June 27, 2020**
Net sales	$ 336,837	$ 258,991	$ 644,813	$ 525,610
Cost of sales	57,014	47,674	114,665	93,733
Gross profit	279,823	211,317	530,148	431,877
Operating expenses:				
Associate incentives	153,863	110,852	288,358	226,921
Selling, general and administrative	72,240	60,879	143,873	126,358
Total operating expenses	226,103	171,731	432,231	353,279
Earnings from operations	53,720	39,586	97,917	78,598
Other income (expense):				
Interest income	679	435	1,439	1,419
Interest expense	(16)	(217)	(21)	(238)
Other, net	(73)	175	(689)	(637)
Other income (expense), net	590	393	729	544
Earnings before income taxes	54,310	39,979	98,646	79,142
Income taxes	16,076	12,002	29,791	24,613
Net earnings	$ 38,234	$ 27,977	$ 68,855	$ 54,529
Earnings per common share				
Basic	$ 1.89	$ 1.33	$ 3.35	$ 2.56
Diluted	$ 1.87	$ 1.32	$ 3.31	$ 2.56
Weighted average common shares outstanding				
Basic	20,247	21,034	20,570	21,265
Diluted	20,446	21,129	20,771	21,340
Comprehensive income:				
Net earnings	$ 38,234	$ 27,977	$ 68,855	$ 54,529
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	2,859	1,861	328	(4,376)
Tax benefit (expense) related to foreign currency translation adjustment	725	(1,892)	2,341	(853)
Other comprehensive income (loss), net of tax	3,584	(31)	2,669	(5,229)
Comprehensive income	$ 41,818	$ 27,946	$ 71,524	$ 49,300

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

For six months ended June 27, 2020

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at December 28, 2019	21,655	$ 22	$ 59,445	$ 306,146	$ (13,901)	$ 351,712
Net earnings				54,529		54,529
Other comprehensive income (loss), net of tax					(5,229)	(5,229)
Equity-based compensation expense			6,991			6,991
Common stock repurchased and retired	(785)	(1)	(9,012)	(48,016)		(57,029)
Common stock issued under equity award plans	147	—				—
Tax withholding for net-share settled equity awards			(1,898)			(1,898)
Balance at June 27, 2020	21,017	$ 21	$ 55,526	$ 312,659	$ (19,130)	$ 349,076

For six months ended July 3, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Value				
Balance at January 2, 2021	21,038	$ 21	$ 62,460	$ 382,794	$ (3,625)	$ 441,650
Net earnings				68,855		68,855
Other comprehensive income (loss), net of tax					2,669	2,669
Equity-based compensation expense			7,585			7,585
Common stock repurchased and retired	(1,025)	(1)	(13,155)	(85,999)		(99,155)
Common stock issued under equity award plans	121	—				—
Tax withholding for net-share settled equity awards			(2,981)			(2,981)
Balance at July 3, 2021	20,134	$ 20	$ 53,909	$ 365,650	$ (956)	$ 418,623

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

For the three months ended June 27, 2020

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Value	Capital	Earnings	Income (Loss)	Total
Balance at March 28, 2020	20,995	$ 21	$ 52,004	$ 284,682	$ (19,099)	$ 317,608
Net earnings				27,977		27,977
Other comprehensive income (loss), net of tax					(31)	(31)
Equity-based compensation expense			3,597			3,597
Common stock issued under equity award plans	22	—				—
Tax withholding for net-share settled equity awards			(75)			(75)
Balance at June 27, 2020	21,017	$ 21	$ 55,526	$ 312,659	$ (19,130)	$ 349,076

For the three months ended July 3, 2021

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Value	Capital	Earnings	Income (Loss)	Total
Balance at April 3, 2021	20,422	$ 20	$ 54,084	$ 353,213	$ (4,540)	$ 402,777
Net earnings				38,234		38,234
Other comprehensive income (loss), net of tax					3,584	3,584
Equity-based compensation expense			3,845			3,845
Common stock repurchased and retired	(304)	—	(3,904)	(25,797)		(29,701)
Common stock issued under equity award plans	16	—				—
Tax withholding for net-share settled equity awards			(116)			(116)
Balance at July 3, 2021	20,134	$ 20	$ 53,909	$ 365,650	$ (956)	$ 418,623

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020
Cash flows from operating activities		
Net earnings	$ 68,855	$ 54,529
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	6,511	7,044
Right-of-use asset amortization	4,537	4,355
(Gain) loss on sale of property and equipment	45	116
Equity-based compensation expense	7,585	6,991
Deferred income taxes	(5,775)	(5,326)
Changes in operating assets and liabilities:		
Inventories	(254)	(1,950)
Prepaid expenses and other assets	(2,711)	(4,890)
Accounts payable	(5,030)	(1,120)
Other liabilities	(14,946)	3,675
Net cash provided by (used in) operating activities	58,817	63,424
Cash flows from investing activities		
Receipts on notes receivable	104	179
Proceeds from the settlement of net investment hedges	—	1,935
Payments for net investment hedge	(1,555)	(1,089)
Proceeds from sale of property and equipment	15	—
Purchases of property and equipment	(3,146)	(10,821)
Net cash provided by (used in) investing activities	(4,582)	(9,796)
Cash flows from financing activities		
Repurchase of common stock	(99,155)	(57,029)
Borrowings on line of credit	—	60,000
Payments on line of credit	—	(60,000)
Payments related to tax withholding for net-share settled equity awards	(2,981)	(1,898)
Net cash provided by (used in) financing activities	(102,136)	(58,927)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	515	(2,195)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(47,386)	(7,494)
Cash, cash equivalents, and restricted cash at beginning of period	315,937	237,688
Cash, cash equivalents, and restricted cash at end of period	$ 268,551	$ 230,194
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	$ 265,368	$ 227,368
Restricted cash included in prepaid expenses and other current assets	93	—
Restricted cash included in other assets	3,090	2,826
Total cash, cash equivalents, and restricted cash	$ 268,551	$ 230,194
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 5	$ 199
Income taxes	38,791	30,866
Cash received during the period for:		
Income tax refund	—	42
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease obligations	1,128	1,151
Accrued purchases of property and equipment	453	613

The accompanying notes are an integral part of these statements.

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, science-based nutritional and personal care products that are sold internationally through a network marketing system, which is a form of direct selling. The Condensed Consolidated Financial Statements (the "Financial Statements") include the accounts and operations of the Company, which are grouped and presented in two geographic regions: (1) Asia Pacific, and (2) Americas and Europe. Asia Pacific is further divided into three sub-regions: (i) Greater China, (ii) Southeast Asia Pacific, and (iii) North Asia.

(1) Asia Pacific -

(i) Greater China - Hong Kong, Taiwan, and China. The Company's business in China is conducted by BabyCare Holdings, Ltd., the Company's wholly-owned subsidiary.

(ii) Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand, and Indonesia.

(iii) North Asia – Japan and South Korea.

(2) Americas and Europe – United States, Canada, Mexico, Colombia, the United Kingdom, France, Germany, Spain, Italy, Romania, Belgium, and the Netherlands.

The condensed consolidated balance sheet as of January 2, 2021, derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial information of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the SEC. Accordingly, certain information and disclosures that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Company's management, the accompanying interim condensed consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company's financial position as of July 3, 2021 and results of operations and cash flows for the three and six months ended July 3, 2021 and June 27, 2020.

The interim 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 January 2, 2021. The results of operations for the three and six months ended July 3, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2022.

The COVID-19 pandemic has negatively impacted economies, businesses, sales practices, supply chains, and consumer behavior around the world. While the overall impact of the pandemic on our business and results of operations was not material for the three and six months ended July 3, 2021, and for fiscal 2020, the pandemic disrupted and negatively affected our business. While the Company did not incur significant disruptions to its operations during the three and six months ended July 3, 2021, from COVID-19, it is unable at this time to predict the impact that COVID-19 will have on its business, financial position and operating results in future periods due to numerous uncertainties and is closely monitoring the impact of the pandemic on all aspects of its business.

Recent Accounting Pronouncements

Adopted accounting pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU 2019-12 is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. The amendments in this ASU are effective for annual periods beginning after December 15, 2020 and interim periods within those annual periods, with early adoption permitted. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company adopted ASU 2019-12 during the first quarter ended April 3, 2021 and the adoption of the standard did not have an impact on its condensed consolidated financial statements.

In January 2021, the FASB issued ASU No. 2021-01 "Reference Rate Reform (Topic 848): Scope," which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in Topic 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this ASU to the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The amendments in this ASU do not apply to contract modifications made after December 31, 2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after December 31, 2022). The amendments in this ASU are effective immediately for all entities. An entity may elect to apply the amendments in this ASU on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final ASU, up to the date that financial statements are available to be issued. The Company, on January 7, 2021, adopted ASU 2021-01 on a prospective basis and the adoption of this ASU did not have an impact on its condensed consolidated financial statements.

No other new accounting pronouncement issued or effective during the three and six months ended July 3, 2021, had, or is expected to have, a material impact on the Company's condensed consolidated financial statements.

(in thousands, except per share data)

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

	July 3, 2021	Fair Value Measurements Using Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	$ 177,289	$ 177,289	$ —	$ —
Foreign currency contracts included in other current liabilities	(12)	—	(12)	—
	$ 177,277	$ 177,289	$ (12)	$ —

	January 2, 2021	Fair Value Measurements Using Inputs		
		Level 1	Level 2	Level 3
Money market funds included in cash equivalents	$ 224,092	$ 224,092	$ —	$ —
Foreign currency contracts included in other current liabilities	(1,470)	—	(1,470)	—
	$ 222,622	$ 224,092	$ (1,470)	$ —

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

The majority of the Company's non-financial assets, which include long-lived assets, are not required to be carried at fair value on a recurring basis. However, if an impairment charge is required, a non-financial asset would be written down to fair value. As of July 3, 2021 and January 2, 2021, there were no non-financial assets measured at fair value on a non-recurring basis.

The Company's financial instruments include cash equivalents, accounts receivable, restricted cash, notes receivable, equity securities, accounts payable, and foreign currency contracts. The recorded values of cash equivalents, accounts receivable, restricted cash, and accounts payable approximate their fair values, based on their short-term nature.

(in thousands, except per share data)

NOTE C – INVENTORIES

Inventories consist of the following:

	July 3, 2021	January 2, 2021
Raw materials	$ 27,185	$ 28,328
Work in progress	8,632	9,956
Finished goods	53,770	51,940
	$ 89,587	$ 90,224

NOTE D – INVESTMENT IN EQUITY SECURITIES

As of July 3, 2021 and January 2, 2021, the carrying amount of equity securities without readily determinable fair values was $20,000 and is included in the "Other assets" line item on the Company's condensed consolidated balance sheets.

During the three and six months ended July 3, 2021, and the fiscal year ended January 2, 2021, no observable price changes occurred, and no impairment of securities was recorded.

NOTE E – REVENUE AND CONTRACT LIABILITIES

Revenue is recognized when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. A majority of the Company's sales are for products sold at a point in time and shipped to customers, for which control is transferred as goods are delivered to the third party carrier for shipment. The Company receives payment, primarily via credit card, for the sale of products at the time customers place orders and payment is required prior to shipment. Contract liabilities, which are recorded within the "Other current liabilities" line item in the condensed consolidated balance sheets, primarily relate to deferred revenue for product sales for customer payments received in advance of shipment, for outstanding material rights under the initial order program, and for services where control is transferred over time as services are delivered.

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

The following table presents Other Revenue for the periods indicated:

	Quarter Ended		Six Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Other Revenue	$ 965	$ 978	$ 1,937	$ 1,977

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

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

	July 3, 2021	January 2, 2021
Contract liabilities at beginning of period	$ 15,952	$ 13,852
Increase due to deferral of revenue at period end	16,394	15,952
Decrease due to beginning contract liabilities recognized as revenue	(15,449)	(13,852)
Contract liabilities at end of period	$ 16,897	$ 15,952

NOTE F – LINE OF CREDIT

On August 25, 2020, the Company as borrower, and certain of its material subsidiaries as guarantors, entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") with Bank of America, N.A. ("Bank of America") as Administrative Agent, Swingline Lender and Letter of Credit Issuer, and the other lenders party thereto. On April 21, 2021, the Company entered into the First Amendment to the Second Amended and Restated Credit Agreement, which, among other things amended the definition of "LIBOR Replacement Date," "LIBOR Successor Rate," and "Eurodollar Rate."

The Credit Agreement provides for a revolving credit limit for loans to the Company up to $75,000 (the "Credit Facility"). In addition, at the option of the Company, and subject to certain conditions, the Company may request to increase the aggregate commitment under the Credit Facility to up to an additional $200,000.

There was no outstanding debt on the Credit Facility at July 3, 2021. The obligations of the Company under the Credit Agreement are secured by the pledge of the capital stock of certain subsidiaries of the Company, pursuant to a Security and Pledge Agreement.

Interest on revolving borrowings under the Credit Facility are computed at Bank of America’s prime rate or the Eurodollar rate, adjusted by features specified in the Credit Agreement. The Credit Agreement covenants require the Company’s rolling four-quarter consolidated EBITDA of $100,000 or greater and its ratio of consolidated funded debt to consolidated EBITDA of equal to or less than 2.0 to 1.0 at the end of each quarter. The Credit Agreement does not include any restrictions on the payment of cash dividends or share repurchases by the Company. Consolidated EBITDA and consolidated funded debt are non-GAAP terms.

The Company will be required to pay any balance on this Credit Facility in full at the time of maturity in August 2025.

NOTE G – 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 its 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 faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated. While complete assurance cannot be given as 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. It is reasonably possible that a change in the contingencies could result in a change in the amount recorded by the Company in the future.

NOTE H – DERIVATIVE FINANCIAL INSTRUMENTS

The Company’s risk management strategy includes the select use of derivative instruments to reduce the effects of volatility in foreign currency exchange exposure on operating results and cash flows. In accordance with the Company’s risk management policies, the Company does not hold or issue derivative instruments for trading or speculative purposes. The Company recognizes all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. When the Company becomes a party to a derivative instrument and intends to apply hedge accounting, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge, the nature of risk being hedged, and the hedged transaction, which includes designating the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. The Company also documents how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness.

The Company periodically uses derivative instruments to hedge the foreign currency exposure of its net investment in foreign subsidiaries into U.S. dollars. Initially, the Company records derivative assets on a gross basis in its condensed consolidated balance sheets. Subsequently the fair value of derivatives is measured for each reporting period. The effective portion of gains and losses attributable to these net investment hedges is recorded to foreign currency translation adjustment (“FCTA”) within accumulated other comprehensive income (loss) (“AOCI”) to offset the change in the carrying value of the net investment being hedged, and will subsequently be reclassified to net earnings in the period in which the investment in the subsidiary is either sold or substantially liquidated.

During the three and six months ended July 3, 2021 and June 27, 2020, the Company settled European options designated as net investment hedges with notional amounts of $98,684 and $90,000, respectively. For the three and six months ended July 3, 2021 and June 27, 2020, the Company realized a loss of $1,555 and realized a gain of $846, respectively, recorded to FCTA within other comprehensive income (loss).

As of July 3, 2021, there were no derivatives outstanding for which the Company has applied hedge accounting.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share data)
(unaudited)

NOTE I – COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share ("EPS") is 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 EPS based on the time they were outstanding in any period. Diluted EPS is based on shares that are outstanding (computed under basic EPS) and on potentially dilutive shares. Shares that are included in the diluted EPS 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 EPS and diluted EPS for the periods indicated:

	Quarter Ended		Six Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Net earnings available to common shareholders	$ 38,234	$ 27,977	$ 68,855	$ 54,529
Weighted average common shares outstanding - basic	20,247	21,034	20,570	21,265
Dilutive effect of in-the-money equity awards	199	95	201	75
Weighted average common shares outstanding - diluted	20,446	21,129	20,771	21,340
Earnings per common share from net earnings - basic	$ 1.89	$ 1.33	$ 3.35	$ 2.56
Earnings per common share from net earnings - diluted	$ 1.87	$ 1.32	$ 3.31	$ 2.56

Equity awards for the following shares were not included in the computation of diluted EPS because their effect would be anti-dilutive:

	Quarter Ended		Six Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
	59	284	58	550

During the three months ended July 3, 2021, the Company repurchased and retired 304 shares for $29,701 under the Company's share repurchase plan. There were no shares repurchased during the three months ended June 27, 2020.

During the six months ended July 3, 2021 and June 27, 2020, the Company repurchased and retired 1,025 shares and 785 shares for $99,155 and $57,029, 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.

As of July 3, 2021, the remaining authorized repurchase amount under the stock repurchase plan was $50,845. There is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

Subsequent to July 3, 2021, and through August 6, 2021, the Company repurchased and retired 127 shares of common stock for $12,393, at an average market price of $97.74 per share.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except per share data)
(unaudited)

NOTE J – 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 network marketing system of independent distributors ("Associates"). The Company 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 nutritionals, foods, and personal care and skincare products for the periods indicated.

	Quarter Ended		Six Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
USANA® Nutritionals	86%	79%	87%	82%
USANA Foods(1)	8%	12%	7%	10%
Personal care and Skincare	5%	8%	5%	7%
All Other	1%	1%	1%	1%

(1) Includes the Company's new Active Nutrition line, which launched in five markets late in the first quarter of 2021 and will roll out to additional markets throughout the year.

Selected Financial Information

Financial information by geographic region is presented for the periods indicated below:

	Quarter Ended		Six Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Net Sales to External Customers				
Asia Pacific				
Greater China	$ 165,416	$ 124,001	$ 314,394	$ 255,433
Southeast Asia Pacific	76,101	59,459	148,249	116,381
North Asia	37,438	25,852	67,603	53,103
Asia Pacific Total	278,955	209,312	530,246	424,917
Americas and Europe	57,882	49,679	114,567	100,693
Consolidated Total	$ 336,837	$ 258,991	$ 644,813	$ 525,610

The following table provides further information on markets representing 10% or more of consolidated net sales and long-lived assets, respectively:

	Quarter Ended		Six Months Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Net sales:				
China	$ 150,878	$ 110,525	$ 285,181	$ 226,003
South Korea	$ 36,337	$ 24,999	$ 65,357	$ 51,525

	As of	
	July 3, 2021	January 2, 2021
Long-lived assets:		
China	$ 90,166	$ 92,692
United States	$ 81,643	$ 82,167

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide an understanding of USANA's financial condition, results of operations and cash flows by reviewing certain key indicators and measures of performance.

The MD&A is presented in six sections as follows:

- Overview
- Impact of the COVID-19 Pandemic
- Customers
- Non-GAAP Financial Measures
- Results of Operations
- Liquidity and Capital Resources

This MD&A 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 Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended January 2, 2021 ("2020 Form 10-K") filed with the SEC on March 2, 2021, and our other filings, including the Current Reports on Form 8-K, that have been filed with the SEC through the date of this report. Forward-looking statements in Part I, Item 2 may involve risks and uncertainties that could cause results to differ materially from those projected (refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements and Certain Risks" on page 1 and the risk factors provided in Part II, Item 1A for discussion of these risks and uncertainties).

Overview

We develop and manufacture high quality, science-based nutritional and personal care and skincare products that are distributed internationally through direct selling. We use this distribution method because we believe it is more conducive to meeting our vision as a company, which is to improve the overall health and nutrition of individuals and families around the world. Our customer base is primarily comprised of two types of customers: "Associates" and "Preferred Customers," referred to together as "active Customers." Our Associates also sell our products to retail 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. 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 July 3, 2021, we had approximately 652,000 active Customers worldwide.

We have ongoing operations in the following markets, which are grouped and presented in two geographic regions: (1) Asia Pacific, and (2) Americas and Europe. Asia Pacific is further divided into three sub-regions: (i) Greater China, (ii) Southeast Asia Pacific, and (iii) North Asia. The countries included in these regions and sub-regions are described below:

(1) Asia Pacific -

(i) Greater China - Hong Kong, Taiwan, and China. Our business in China is conducted by BabyCare Holdings, Ltd., our wholly-owned subsidiary.

(ii) Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, Thailand and Indonesia.

(iii) North Asia – Japan and South Korea.

(2) Americas and Europe – United States, Canada, Mexico, Colombia, the United Kingdom, France, Germany, Spain, Italy, Romania, Belgium, and the Netherlands.

The following table summarizes 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:

	Six Months Ended	
	July 3, 2021	June 27, 2020
Product Line		
USANA® Nutritionals		
Optimizers	69%	63%
Essentials/CellSentials(1)	18%	19%
USANA Foods(2)	7%	10%
Personal care and Skincare	5%	7%
All Other	1%	1%
Key Product		
USANA® Essentials/CellSentials	12%	12%
Proflavanol®	11%	11%
Probiotic	9%	10%

(1) Represents a product line consisting of multiple products, as opposed to the actual USANA® Essentials / CellSentials product.
(2) Includes our new Active Nutrition line.

Our new Active Nutrition line promotes healthy weight management, digestive health, energy and hydration through a holistic approach. We launched the Active Nutrition line in five markets including the United States late in the first quarter of 2021. We will roll this line out to additional markets throughout the year.

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. During the six months ended July 3, 2021, net sales outside of the United States represented 91.6% 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.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic, including the spread of new variants of the virus, has negatively impacted economies, businesses, sales practices, supply chains, and consumer behavior around the world. While the overall impact of the pandemic on our business and results of operations has not been material, the pandemic has disrupted and negatively affected our business. Government-imposed restrictions, health and safety mandated best practices, and public hesitance regarding in-person gatherings have reduced our ability and the ability of our Associates to hold sales meetings, required our Associates to share and sell our products in a predominantly virtual environment, resulted in cancellations of key Company events and trips, required us to utilize a work-from-home strategy for all non-manufacturing and non-distribution employees, and required us to temporarily close our walk-in and fulfillment locations in some markets where we have such properties. The pandemic has also affected our ability to timely obtain some ingredients and packaging as well as ship products to some markets. While we have not experienced a meaningful supply chain interruption, our supply chain and logistics have incurred some disruption and we could experience more significant disruptions or closures in the future. These factors and others related to the COVID-19 pandemic, including the spread of new variants of the virus, will likely continue to negatively affect our business throughout 2021 in a number of ways, including those described below.

● Our Workforce. The health and safety of our employees around the world remains our top priority. We remain committed to being socially responsible as a corporate leader in each of our markets and doing our part to reduce the spread of COVID-19. As such, we are continuing to utilize a modified operating model in each of our markets as necessary to follow applicable guidelines from government and health officials. Although a significant portion of our non-manufacturing and non-distribution employees continued with remote working arrangements, we began efforts during the second quarter to bring these employees back to our offices, in markets where health and safety best practices have allowed us to safely do so. In connection with this effort, we are permitting our employees to utilize a hybrid work schedule, which allows them to split their time working at the office and remotely. Employees working on site are required to follow applicable health and safety guidelines. We are also continuing to utilize flexible shift schedules, time and attendance policies, and sick-leave policies to promote health, wellness and safety. Where necessary in our international markets, we have temporarily closed product will-call centers and continue to offer curbside delivery and subsidized shipping to customers. We will continue to monitor the situation surrounding the pandemic and implement additional risk mitigation actions where necessary.

● Our Operations. All of our production facilities remain operational under enhanced safety measures and as of the date of this report, we have not experienced meaningful disruptions to our supply chain, shipping, or logistics. Although we have successfully modified our operations in each of our markets to date, future efforts to reduce the spread of COVID-19, including the spread of new variants of the virus, may negatively affect our business. The extent of any disruption to our business in each of our markets going forward is difficult to estimate and will depend on many factors, many of which are outside of our control. Our operating plan continues to entail efforts to safeguard against disruptions through maintaining and operating (i) raw material procurement; (ii) manufacturing; (iii) distribution; (iv) selling; (v) operating cash flows and liquidity; (vi) Associate engagement and activity; and (vii) employee support and engagement.

● Our Sales and Salesforce. Demand for our high quality nutritional products has remained high during the pandemic. We continue to utilize a virtual strategy to hold meetings and events with our salesforce and will evaluate this strategy as the year and situation with the pandemic progresses. Our salesforce will also continue to utilize a virtual sales and operating strategy. Notwithstanding the foregoing, person-to-person and face-to-face selling and events remain an important part of our business and we plan to begin incorporating the same into our strategy as it becomes safe and appropriate for us and our sales force to do so.

● Our Liquidity. Our liquidity position is strong. We expect to continue to fund our business with cash flow from operations and believe that we have sufficient liquidity to satisfy our day-to-day cash needs. Notwithstanding the foregoing, we will continue to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate at full strength during these uncertain times. Additionally, as long as uncertainty remains surrounding the duration and impact of the COVID-19 pandemic, the potential impact from the pandemic on our business, financial condition or longer-term financial or operational results will remain uncertain. We will continue to align spending with sales performance and defer non-priority capital investments amid the COVID-19 pandemic.

Customers

Because we sell our products to a customer base of independent Associates and Preferred Customers, we increase our sales by increasing the number of our active Customers, the amount they spend on average, or both. Our primary focus continues to be increasing the number of active Customers. We believe this focus is consistent with our vision of improving the overall health and nutrition of individuals and families around the world. Sales to Associates account for approximately 55% of product sales during the six months ended July 3, 2021. The remainder of our sales are to Preferred Customers. Increases or decreases in product sales are typically the result of variations in the volume of product sold relating to fluctuations in the number of active Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial indicator to evaluate our operational performance.

We believe that our ability to attract and retain active Customers is positively influenced by a number of factors, including our high quality product offerings and the general public's heightened awareness and understanding of the connection between diet and long-term health. Additionally, we believe that our Associate compensation plan and the general public's growing desire for a secondary source of income and small business ownership are key to our ability to attract and retain Associates. We periodically make changes to our Compensation Plan in an effort to ensure that it is among the most competitive plans 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. Additionally, the initiatives we are executing under our customer experience and technology enhancements strategy are designed to promote active Customer growth. While these initiatives are designed to promote both Associate and Preferred Customer growth, Preferred Customer growth has outpaced Associate growth during the six months ended July 3, 2021. Consequently, Preferred Customers comprise a larger portion of total active Customers.

To further support our Associates in building their businesses, we traditionally sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. We also provide low cost sales tools, including online sales, business management, and training tools, which are intended to support our Associates in building and maintaining a successful home-based business. Although we provide training and sales tools, we ultimately rely on our Associates to sell our products, attract new active Customers to purchase our products, and educate and train new Associates. We sponsor meetings 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.

The table below summarizes the changes in our active Customer base by geographic region, rounded to the nearest thousand as of the dates indicated:

	Total Active Customers by Region					
	As of July 3, 2021		As of June 27, 2020		Change from Prior Year	Percent Change
Asia Pacific:						
Greater China	303,000	46.5%	278,000	46.4%	25,000	9.0%
Southeast Asia Pacific	144,000	22.1%	129,000	21.5%	15,000	11.6%
North Asia	66,000	10.1%	56,000	9.4%	10,000	17.9%
Asia Pacific Total	513,000	78.7%	463,000	77.3%	50,000	10.8%
Americas and Europe	139,000	21.3%	136,000	22.7%	3,000	2.2%
	652,000	100.0%	599,000	100.0%	53,000	8.8%

Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States (GAAP). However, to supplement the financial results prepared in accordance with GAAP, we use non-GAAP financial measures described below. Our management believes these non-GAAP financial measures that exclude the impact of specific items (described below) may be useful to investors in their assessment of our ongoing operating performance and provide additional meaningful comparisons between current results and results in prior operating periods and in understanding the activities and business metrics of our operations. We believe that these non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. We provide non-GAAP financial information for informational purposes only. Readers should consider the information in addition but not instead of or superior to, our consolidated financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of those measures for comparative purposes.

In this report, we use "constant currency" net sales, "local currency" net sales, and other currency-related financial information terms that are non-GAAP financial measures. We believe the use of these terms is helpful in understanding the impact of fluctuations in foreign-currency exchange rates and facilitating period-to-period comparisons of our results of operations and provides investors an additional perspective on trends and underlying business results. Changes in our reported revenue and profits in this report include the impacts of changes in foreign currency exchange rates. As additional information to the reader, we provide constant currency assessments in the tables and the narrative information in this MD&A to remove or quantify the impact of the fluctuation in foreign exchange rates and utilize constant currency results in our analysis of performance. Our constant currency financial results are calculated by translating the current period's financial results at the same average exchange rates in effect during the applicable prior-year period and then comparing this amount to the prior-year period's financial results. The GAAP reconciliations of these non-GAAP measures are contained in the tables within Results of Operations.

Results of Operations

Summary of Financial Results

Net sales for the second quarter of 2021 increased 30.1% to $336.8 million, an increase of $77.8 million, compared with the prior-year quarter. This increase was due, in great part, to a successful, short-term incentive program that we offered globally during the quarter. This incentive program contributed to double-digit active Customer growth in our Southeast Asia Pacific and North Asia regions, with an 8.8% overall increase in total active Customers during the quarter. Additionally, favorable changes in currency exchange rates benefited net sales for the second quarter by $25.2 million.

Net earnings for the second quarter of 2021 were $38.2 million, an increase of 36.7% compared with $28.0 million during the prior-year period. The increase in net earnings was mainly the result of increased sales and lower relative operating expenses.

Quarters Ended July 3, 2021 and June 27, 2020

Net Sales

The following table summarizes the changes in net sales by geographic region for the fiscal quarters ended as of the dates indicated:

	Net Sales by Region (in thousands) Quarter Ended								
	July 3, 2021		June 27, 2020		Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
Asia Pacific								
Greater China	$ 165,416	49.1%	$ 124,001	47.9%	$ 41,415	33.4%	$ 13,459	22.5%
Southeast Asia Pacific	76,101	22.6%	59,459	22.9%	16,642	28.0%	5,225	19.2%
North Asia	37,438	11.1%	25,852	10.0%	11,586	44.8%	2,906	33.6%
Asia Pacific Total	278,955	82.8%	209,312	80.8%	69,643	33.3%	21,590	23.0%
Americas and Europe	57,882	17.2%	49,679	19.2%	8,203	16.5%	3,610	9.2%
	$ 336,837	100.0%	$ 258,991	100.0%	$ 77,846	30.1%	$ 25,200	20.3%

Asia Pacific: The growth in this region was driven by a successful worldwide incentive program designed to further incent product sales to new customers. The increase in constant currency net sales in Southeast Asia Pacific was driven primarily by Malaysia, Australia, and the Philippines, which had local currency net sales growth of 51.2%, 14.8%, and 7.0% due to a 38.7%, 5.3%, and 1.9% increase in active Customers, respectively. The increase in constant currency net sales in Greater China was primarily driven by China, which generated local currency net sales growth of 24.5%, due to a 9.8% increase in active Customers. The increase in constant currency net sales in North Asia was driven by South Korea which had local currency net sales growth of 33.6% due to a 16.7% increase in active Customers.

Americas and Europe: The growth in this region was aided by the worldwide incentive program described above. The increase in constant currency net sales in Americas and Europe was driven by local currency net sales growth in Canada and the United States, which generated local currency net sales growth of 10.1% and 9.0%, respectively. Additionally, Europe increased constant currency net sales by 28.9% during the current year quarter due to an 11.1% increase in active Customers.

Gross Profit

Gross profit increased 150 basis points to 83.1% of net sales, up from 81.6% in the prior-year quarter. This increase can be attributed to (i) favorable changes in currency exchange rates, (ii) leverage gained on fixed period costs associated with higher sales, and (iii) lower conversion costs as a result of higher production levels, mostly in China. These improvements were partially offset by higher freight costs.

Associate Incentives

Associate incentives increased 290 basis points to 45.7% of net sales, up from 42.8% in the prior-year quarter. The relative increase can be attributed to (i) the short-term incentive program offered during the quarter, (ii) increased spend on miscellaneous associate incentives, and (iii) changes in market sales mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 200 basis points relative to net sales, and increased $11.4 million in absolute terms. The relative improvement can be attributed to leverage gained on higher net sales. The increased expense in absolute terms is due to (i) higher employee related costs, and (ii) an increase in variable expenses associated with higher sales. Additionally, there was a modest increase in event and travel-related expenses.

Income Taxes

Income taxes decreased modestly to 29.6% of pre-tax earnings, down from 30.0% of pre-tax earnings in the prior-year quarter. The lower effective tax rate is due primarily to increased earnings in the United States, which allowed for greater foreign tax credit utilization.

Diluted Earnings per Share

Diluted EPS increased 41.7% to $1.87 as compared to $1.32 reported in the prior-year quarter. This increase can be attributed to higher net earnings and a lower diluted share count.

Six Months Ended July 3, 2021 and June 27, 2020

Net Sales

The following table summarizes the changes in net sales by geographic region for the six months ended as of the dates indicated:

	Net Sales by Region (in thousands) Six Months Ended							
	July 3, 2021		June 27, 2020		Change from prior year	Percent change	Currency impact on sales	Percent change excluding currency impact
Asia Pacific								
Greater China	$ 314,394	48.7%	$ 255,433	48.6%	$ 58,961	23.1%	$ 23,197	14.0%
Southeast Asia Pacific	148,249	23.0%	116,381	22.1%	31,868	27.4%	9,332	19.4%
North Asia	67,603	10.5%	53,103	10.1%	14,500	27.3%	4,759	18.3%
Asia Pacific Total	530,246	82.2%	424,917	80.8%	105,329	24.8%	37,288	16.0%
Americas and Europe	114,567	17.8%	100,693	19.2%	13,874	13.8%	4,517	9.3%
	$ 644,813	100.0%	$ 525,610	100.0%	$ 119,203	22.7%	$ 41,805	14.7%

Asia Pacific: The growth in this region was driven by a worldwide incentive program described above in this report. The increase in constant currency net sales in Southeast Asia Pacific was driven primarily by Malaysia, the Philippines, and Singapore, which had local currency net sales growth of 48.8%, 16.5%, and 15.9%. The increase in constant currency net sales in Greater China was primarily driven by China, which generated local currency net sales growth of 16.2%. The increase in constant currency net sales in North Asia was driven by South Korea which had local currency net sales growth of 17.8%.

Americas and Europe: The growth in this region was aided by the worldwide incentive program described above. The increase in constant currency net sales in Americas and Europe was driven by net sales growth in the United States, Mexico, and Canada, which had local currency sales growth of 7.8%, 16.6%, and 5.1%, respectively. Additionally, Europe increased constant currency net sales by 31.6%.

Gross Profit

Gross profit was 82.2% for the first six months of 2021 and 2020. While there was no change in gross profit as a percent of net sales, there was significant fluctuation related to certain activities in the first six months of 2021, which include favorable changes in currency exchange rates, offset by unfavorable changes in market sales mix.

Associate Incentives

Associate incentives increased 150 basis points to 44.7% of net sales for the first six months of 2021, compared with 43.2% in the prior-year period. The relative increase can be attributed to (i) the short-term incentive program offered during the current year period, (ii) changes in market sales mix, and (iii) increased spend on miscellaneous associate incentives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 170 basis points relative to net sales, and increased $17.5 million in absolute terms for the first six months of 2021. The relative improvement can be attributed to leverage gained on higher net sales. The increased expense in absolute terms is due to (i) higher employee related costs, and (ii) an increase in variable expenses associated with higher sales. Additionally, there was a modest increase in event and travel-related expenses.

Income Taxes

Income taxes decreased to 30.2% of pre-tax earnings for the first six months of 2021, down from 31.1% of pre-tax earnings in the prior-year period. The lower effective tax rate is due primarily to increased earnings in the United States, which allowed for greater foreign tax credit utilization.

Diluted Earnings per Share

Diluted EPS increased 29.3% in the first six months of 2021 to $3.31 as compared to $2.56 reported in the prior-year period. This increase can be attributed to higher net earnings and a lower diluted share count.

Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using 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 certain of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. In 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 China to the 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 China to the United States may be limited in the future.

We believe we have sufficient liquidity to satisfy our cash needs and expect to continue to fund our business with cash flow from operations. We continue, however, to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times. Additionally, we continually evaluate opportunities, to repurchase shares of our common stock and will, from time to time, consider the acquisition of, or investment in complementary businesses, products, services and technologies, which has the potential to affect our liquidity.

Cash and Cash Equivalents

Cash and cash equivalents decreased to $265.4 million at July 3, 2021, from $311.9 million at January 2, 2021. Cash flow provided by operating activities generated $58.8 million during the six months ended July 3, 2021. The decrease in cash and cash equivalents was primarily due to cash used to repurchase and retire shares of our common stock totaling $99.2 million.

The table below presents concentrations of cash and cash equivalents by market for the periods indicated:

	Cash and cash equivalents (in Millions)	
	As of July 3, 2021	As of January 2, 2021
United States	$ 118.2	$ 119.7
China	89.5	133.8
All other markets	57.7	58.4
Total Cash and cash equivalents	$ 265.4	$ 311.9

Cash Flows Provided by Operations

As discussed above, our principal source of liquidity comes from our net cash flows from operations, which results from a strong operating margin. Net cash flows provided by operating activities was $58.8 million for the first six months of 2021. Net earnings combined with adjustments of non-cash items contributed positively to our net cash flows provided by operating activities, partially offset by cash used to (i) payout the annual employee bonus, and (ii) a reduction in trade payables.

Net cash flows provided by operating activities was $63.4 million for the six months of 2020. Net earnings combined with adjustments of non-cash items contributed positively to our net cash flows provided by operating activities, partially offset by cash used to (i) payout the annual employee bonus, and (ii) a reduction in trade payables.

Line of Credit

Information with respect to our line of credit may be found in Note F to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Share Repurchase

Information with respect to share repurchases may be found in Note I to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report.

Off-Balance Sheet Arrangements

None.

Summary

We believe our 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 to us 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, mergers and acquisitions, 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.

Critical Accounting Policies

There were no changes during the quarter to our critical accounting policies as disclosed in our 2020 Form 10-K. Our significant accounting policies are disclosed in Note A to our Consolidated Financial Statements filed with our 2020 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have no material changes to the disclosures on this matter made in our 2020 Form 10-K. For a discussion of our exposure to market risk, refer to our market risk disclosures set forth in the section entitled "Quantitative and Qualitative Disclosures About Market Risk" in the 2020 Form 10-K.

Item 4. CONTROLS AND PROCEDURES

Evaluation of 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 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.

As of the end of the period covered by this report, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting 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 July 3, 2021.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended July 3, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are a party to litigation and other proceedings 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.

Information with respect to our legal proceedings may be found in Note G to the Condensed Consolidated Financial Statements included in Item 1 Part I of this report.

Item 1A. RISK FACTORS

Our business, results of operations, and financial condition are subject to various risks. These risks are described elsewhere in this Quarterly Report on Form 10-Q and our other filings with the SEC, including the 2020 Form 10-K. The risk factors identified in our 2020 Form 10-K have not changed in any material respect.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our share repurchase plan has been ongoing since the fourth quarter of 2000, with the Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. At July 3, 2021, the authorized amount available for repurchases under the plan was $50.8 million.

Repurchases are made from time to time at management's discretion in accordance with applicable federal securities laws. Repurchases may occur through open market purchases, pursuant to a Rule 10b5-1 trading plan, or in other transactions as permitted by the rules of the SEC. There is no requirement for future share repurchases, and there is no expiration date of the repurchase plan.

The following table summarizes information relating to purchases of our common stock made by or on behalf of the Company during the quarter ended July 3, 2021.

Issuer Purchases of Equity Securities
(amounts in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Fiscal April (Apr. 4, 2021 through May 8, 2021)	190	$96.67	190	$62,179
Fiscal May (May 9, 2021 through Jun. 5, 2021)	114	$99.24	114	$50,845
Fiscal June (Jun. 6, 2021 through Jul. 3, 2021)	0	$0.00	0	$50,845
	304		304	

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. Exhibits

Exhibits marked with an asterisk (*) are filed herewith.

Exhibit Number	Description
10.18	First Amendment to the Second Amended and Restated Credit Agreement dated as of April 21, 2021 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended April 3, 2021, filed May 11, 2021, Exhibit 10.18, File No. 001-35024).*
31.1	*Certification of Principal Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	*Certification of Principal Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	*Certification of Principal Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	*Certification of Principal Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data file (formatted as Inline XBRL and contained in Exhibit 101)

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.

Date: August 11, 2021

USANA HEALTH SCIENCES, INC.

/s/ G. Douglas Hekking
G. Douglas Hekking
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Kevin G. Guest, 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 Registrant's internal control over financial reporting.

Date: August 11, 2021

/s/ Kevin G. Guest
Kevin G. Guest
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, G. Douglas Hekking, 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 Registrant’s internal control over financial reporting.

Date: August 11, 2021

/s/ G. Douglas Hekking

G. Douglas Hekking
Chief Financial Officer
(Principal Accounting and Financial Officer)

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 Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended July 3, 2021 as filed August 11, 2021 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 11, 2021

/s/ Kevin G. Guest
Kevin G. Guest
Chief Executive Officer
(Principal Executive Officer)

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 Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended July 3, 2021 as filed August 11, 2021 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 11, 2021

/s/ G. Douglas Hekking
G. Douglas Hekking
Chief Financial Officer
(Principal Accounting and Financial Officer)