

USANA HEALTH SCIENCES INC
Form 10-Q
August 09, 2016
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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 2, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-35024

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation or organization)

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

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

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes NO

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

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The number of shares outstanding of the registrant's common stock as of August 5, 2016 was 12,037,579.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 2, 2016

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(in thousands, except par value)

(unaudited)

	As of January 2, 2016	As of July 2, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 143,210	\$ 112,398
Inventories	66,119	71,332
Prepaid expenses and other current assets	34,935	38,131
Total current assets	244,264	221,861
Property and equipment, net	87,982	94,729
Goodwill	17,432	17,159
Intangible assets, net	38,269	36,576
Deferred tax assets	9,844	15,892
Other assets	25,446	23,445
	\$ 423,237	\$ 409,662
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 10,043	\$ 10,076
Other current liabilities	121,369	117,902
Total current liabilities	131,412	127,978
Deferred tax liabilities	9,822	6,244
Other long-term liabilities	1,151	1,515
Stockholders' equity		
Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 12,488 as of January 2, 2016 and 11,992 as of July 2, 2016	13	12
Additional paid-in capital	69,740	64,396

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Retained earnings	214,875	213,425
Accumulated other comprehensive income	(3,776)	(3,908)
Total stockholders' equity	280,852	273,925
	\$ 423,237	\$ 409,662

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Six Months Ended	
	July 4, 2015	July 2, 2016	July 4, 2015	July 2, 2016
Net sales	\$ 233,244	\$ 258,514	\$ 452,622	\$ 498,963
Cost of sales	40,089	45,970	78,453	88,890
Gross profit	193,155	212,544	374,169	410,073
Operating expenses:				
Associate incentives	101,877	115,331	203,230	222,725
Selling, general and administrative	52,505	59,764	102,380	116,395
Total operating expenses	154,382	175,095	305,610	339,120
Earnings from operations	38,773	37,449	68,559	70,953
Other income (expense):				
Interest income	232	323	386	761
Interest expense	(7)	(176)	(7)	(378)
Other, net	(311)	72	(297)	(660)
Other income (expense), net	(86)	219	82	(277)
Earnings before income taxes	38,687	37,668	68,641	70,676
Income taxes	13,271	11,906	23,545	22,615
Net earnings	\$ 25,416	\$ 25,762	\$ 45,096	\$ 48,061
Earnings per common share				
Basic	\$ 1.99	\$ 2.15	\$ 3.55	\$ 3.99
Diluted	\$ 1.92	\$ 2.07	\$ 3.43	\$ 3.84
Weighted average common shares outstanding				
Basic	12,740	11,978	12,694	12,040
Diluted	13,225	12,458	13,155	12,525
Comprehensive income:				
Net earnings	\$ 25,416	\$ 25,762	\$ 45,096	\$ 48,061

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Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment	(1,947)		(4,433)	(1,384)	(2,302)
Tax benefit (expense) related to foreign currency translation adjustment	744		2,870	524	2,170
Other comprehensive income (loss), net of tax	(1,203)		(1,563)	(860)	(132)
Comprehensive income	\$ 24,213	\$ 24,199	\$ 44,236	\$ 47,929	

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Six Months Ended July 2, 2016

(in thousands)

(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 2, 2016	12,488	\$ 13	\$ 69,740	\$ 214,875	\$ (3,776)	\$ 280,852
Cumulative-effect of accounting change			934	(601)		333
Balance at January 2, 2016, as adjusted	12,488	\$ 13	\$ 70,674	\$ 214,274	\$ (3,776)	\$ 281,185
Net earnings				48,061		48,061
Other comprehensive income (loss), net of tax					(132)	(132)
Equity-based compensation expense			9,421			9,421
Common stock repurchased and retired	(553)	(1)	(15,699)	(48,910)		(64,610)
Common stock issued under equity award plans	57					
Balance at July 2, 2016	11,992	\$ 12	\$ 64,396	\$ 213,425	\$ (3,908)	\$ 273,925

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	July 4, 2015	July 2, 2016
Cash flows from operating activities		
Net earnings	\$ 45,096	\$ 48,061
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	4,630	6,754
(Gain) loss on sale of property and equipment	28	40
Equity-based compensation expense	4,388	9,421
Excess tax benefits from equity-based payment arrangements	(5,736)	
Deferred income taxes	(1,029)	(1,883)
Changes in operating assets and liabilities:		
Inventories	(9,454)	(4,789)
Prepaid expenses and other assets	(5,722)	(11,647)
Income tax payable related to tax benefit from equity award activity	5,736	
Accounts payable	1,165	80
Other liabilities	7,065	1,940
Net cash provided by (used in) operating activities	46,167	47,977
Cash flows from investing activities		
Additions to notes receivable	(1,578)	(4)
Receipts on notes receivable		443
Proceeds from sale of property and equipment		1
Purchases of property and equipment	(9,778)	(13,663)
Net cash provided by (used in) investing activities	(11,356)	(13,223)
Cash flows from financing activities		
Excess tax benefits from equity-based payment arrangements	5,736	
Repurchase of common stock		(64,610)
Borrowings on line of credit		72,500
Payments on line of credit		(72,500)
Deferred debt issuance costs		(250)
Net cash provided by (used in) financing activities	5,736	(64,860)
Effect of exchange rate changes on cash and cash equivalents	(744)	(706)
Net increase (decrease) in cash and cash equivalents	39,803	(30,812)

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Cash and cash equivalents, beginning of period	111,126	143,210
Cash and cash equivalents, end of period	\$ 150,929	\$ 112,398
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 7	\$ 317
Income taxes	14,978	28,143
Non-cash investing activities:		
Credits on notes receivable	56	852
Accrued purchases of property and equipment	149	2,333

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

NOTE A ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

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

The condensed consolidated balance sheet as of January 2, 2016, derived from audited consolidated financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America (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 any contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of management, the accompanying interim condensed consolidated financial information contains all adjustments, consisting only of normal recurring adjustments that are necessary to state fairly the Company s financial position as of July 2, 2016 and results of operations for the quarters and six months ended July 4, 2015 and July 2, 2016.

The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company s Annual Report on Form 10-K for the year ended January 2, 2016. The results of operations for the six months ended July 2, 2016, may not be indicative of the results that may be expected for the fiscal year 2016 ending December 31, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing,

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and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB announced a decision to defer the effective date of this ASU. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The update requires lessees to apply a modified retrospective approach for recognition and disclosure, beginning with the earliest period presented. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 was issued as part of the FASB's simplification initiative aimed at reducing costs and complexity while maintaining or improving the usefulness of financial information. This update involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, statutory tax withholding requirements, and classification in the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period, and the entity must adopt all of the amendments in the same period. The Company elected to early adopt ASU 2016-09 during the quarter ended April 2, 2016.

The impact of the early adoption of this standard increased net earnings by approximately \$541 and \$825 for the quarter and six months ended July 2, 2016, respectively. Diluted earnings per share, however, only benefited the quarter and six months ended July 2, 2016, by \$0.02 due to a higher dilutive share count.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE B FAIR VALUE MEASURES

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

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable and are used to measure fair value in situations where there is little, if any, market activity for the asset or liability at the measurement date.

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

	Fair Value Measurements Using			
	January 2, 2016	Level 1	Inputs Level 2	Level 3
Money market funds included in cash equivalents	\$ 14,460	\$ 14,460	\$	\$
Foreign currency contracts included in prepaid expenses and other current assets	33		33	
	\$ 14,493	\$ 14,460	\$ 33	\$

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	Fair Value Measurements Using			
	July 2, 2016	Level 1	Inputs Level 2	Level 3
Money market funds included in cash equivalents	\$ 22,938	\$ 22,938	\$	\$
Foreign currency contracts included in other current liabilities	(161)		(161)	
	\$ 22,777	\$ 22,938	\$ (161)	\$

Table of Contents**USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in thousands, except per share data)****(unaudited)****NOTE B FAIR VALUE MEASURES - CONTINUED**

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

The majority of the Company's non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment charge is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At January 2, 2016 and July 2, 2016, 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, and accounts payable. The recorded values of cash equivalents, accounts receivable, restricted cash, and accounts payable approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates.

NOTE C INVENTORIES

Inventories consist of the following:

	January 2, 2016	July 2, 2016
Raw materials	\$ 22,529	\$ 25,958
Work in progress	8,701	9,628
Finished goods	34,889	35,746
	\$ 66,119	\$ 71,332

NOTE D OTHER ASSETS

Other assets consists primarily of a secured loan to a third-party supplier of the Company's nutrition bars and land use rights related to a production facility under development in China.

The Company has extended non-revolving credit to its supplier of nutrition bars to allow them to acquire equipment that is necessary to manufacture the USANA nutrition bars. This relationship provides improved supply chain stability for USANA and creates a mutually beneficial relationship between the parties. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as of January 2, 2016, and July 2, 2016 were \$8,339 and \$7,377, respectively.

This third-party supplier is considered to be a variable interest entity; however, the Company is not the primary beneficiary due to the inability to direct the activities that most significantly affect the third-party supplier's economic performance. Additionally, the Company does not absorb a majority of the third-party supplier's expected losses or returns. Consequentially, the financial information of the third-party supplier is not consolidated. The maximum exposure to loss as a result of the Company's involvement with the third-party supplier is limited to the carrying value of the note receivable due from the third-party supplier.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the fourth quarter of 2016. As part of this project, land use rights totaling \$7,053, and \$6,879 as of January 2, 2016 and July 2, 2016, respectively, have been purchased and are being amortized over 50 years.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE E LINE OF CREDIT

On February 19, 2016, the Company entered into an Amended and Restated Credit Agreement (Credit Agreement), with Bank of America, which extends the term of the Credit Agreement to April 27, 2021. The Credit Agreement also increases the amount the Company may borrow under the credit facility from \$75,000 to up to \$125,000, through October 31, 2016. On November 1, 2016, the amount the Company may borrow will revert to \$75,000 for the remainder of the agreement. The only other modification to the Credit Agreement was an increase to the Company's consolidated rolling four-quarter adjusted EBITDA covenant from \$60,000 to equal to or greater than \$100,000.

Interest is computed based on the bank's Prime Rate or LIBOR, adjusted by features specified in the Credit Agreement. The collateral for this line of credit is the pledge of the capital stock of certain subsidiaries of the Company, set forth in a separate pledge agreement with the bank. Part of the credit agreement is that any existing bank guarantees are considered a reduction of the overall availability of credit and part of the covenant calculation. This resulted in a \$4,153, and \$4,227 reduction in the available borrowing limit as of January 2, 2016 and July 2, 2016, respectively, due to existing normal course of business guarantees in certain markets.

There was no outstanding debt on this line of credit at January 2, 2016 or at July 2, 2016. The Company will be required to pay any balance on this line of credit in full at the time of maturity in April 2021 unless the line of credit is replaced or terms are renegotiated.

NOTE F CONTINGENCIES

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company records a liability when a particular contingency is probable and estimable. The Company has not accrued for any contingency at July 2, 2016 as the Company does not consider any contingency to be probable nor estimable. The Company faces contingencies that are reasonably possible to occur; however, they cannot currently be estimated. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that any of these matters, individually or in the aggregate, will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

In August 2014, a purported shareholder derivative lawsuit was filed in the Third Judicial District Court of Salt Lake County, State of Utah (James Robert Rawcliffe v. Robert Anciaux, et al.) against certain of the Company's directors and officers. The derivative complaint, which also names USANA as a nominal defendant but is asserted on USANA's behalf, contains claims of breach of fiduciary duty, waste of corporate assets and unjust enrichment against the defendant directors and officers in connection with certain equity awards granted by the Compensation

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Committee of the Company's Board of Directors in February 2014. In October 2014, the Company filed a motion to dismiss the complaint and, in March 2015, the court granted that motion and dismissed the complaint without prejudice. In May 2015, the plaintiffs filed an appeal with the Utah Supreme Court. The Supreme Court remanded the Company's case to the Utah Court of Appeals. The plaintiff and the Company have each filed their appellate brief with the court and are awaiting a hearing date. The Company believes that the claims in the complaint are without merit and will continue to vigorously defend this suit. The Company continues to believe, based on information currently available, that the final outcome of this suit will not have a material adverse effect on the Company's business, results of operations or consolidated financial position.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE G COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares outstanding for each period. Shares that have been repurchased and retired during the periods specified below have been included in the calculation of the number of weighted-average shares that are outstanding for the calculation of basic earnings per share based on the time they were outstanding in any period. Diluted earnings per common share are based on shares that are outstanding (computed under basic EPS) and on potentially dilutive shares. Shares that are included in the diluted earnings per share calculations under the treasury stock method include equity awards that are in-the-money but have not yet been exercised.

The following is a reconciliation of the numerator and denominator used to calculate basic earnings per share and diluted earnings per share for the periods indicated:

	Quarter Ended		Six Months Ended	
	July 4, 2015	July 2, 2016	July 4, 2015	July 2, 2016
Net earnings available to common shareholders	\$ 25,416	\$ 25,762	\$ 45,096	\$ 48,061
Weighted average common shares outstanding - basic	12,740	11,978	12,694	12,040
Dilutive effect of in-the-money equity awards	485	480	461	485
Weighted average common shares outstanding - diluted	13,225	12,458	13,155	12,525
Earnings per common share from net earnings - basic	\$ 1.99	\$ 2.15	\$ 3.55	\$ 3.99
Earnings per common share from net earnings - diluted	\$ 1.92	\$ 2.07	\$ 3.43	\$ 3.84

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

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	Quarter Ended		Six Months Ended	
	July 4, 2015	July 2, 2016	July 4, 2015	July 2, 2016
	102	1,105	113	1,100

During the six months ended July 2, 2016, the Company repurchased and retired 553 shares, for \$64,610, 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 2, 2016, the remaining approved repurchase amount under the stock repurchase plan was \$35,390. There currently is no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except per share data)

(unaudited)

NOTE H SEGMENT INFORMATION

USANA operates as a direct selling company that develops, manufactures, and distributes high-quality nutritional and personal care products that are sold through a global network marketing system of independent distributors (Associates). As such, management aggregates its operating segments into one reportable segment as management believes that the Company's segments exhibit similar long-term financial performance and have similar economic characteristics. Performance for a region or market is evaluated based on sales. No single Associate accounted for 10% or more of net sales for the periods presented. The table below summarizes the approximate percentage of total product revenue that has been contributed by the Company's nutritional and personal care products for the periods indicated.

	Quarter Ended		Six Months Ended	
July 4,		July 2,		July 2,
2015		2016	July 4,	2016
			2015	