

2016

**James Robert Rawcliffe, Plaintiff and Appellant, V, Robert Anciaux, Et Al., Defendants and Appellees.**

Utah Court of Appeals

Follow this and additional works at: [https://digitalcommons.law.byu.edu/byu\\_ca3](https://digitalcommons.law.byu.edu/byu_ca3)



Part of the [Law Commons](#)

Original Brief Submitted to the Utah Supreme Court; digitized by the Howard W. Hunter Law Library, J. Reuben Clark Law School, Brigham Young University, Provo, Utah.

---

**Recommended Citation**

Brief of Appellee, *Rawcliffe v Anciaux*, No. 20150852 (Utah Court of Appeals, 2016).  
[https://digitalcommons.law.byu.edu/byu\\_ca3/3630](https://digitalcommons.law.byu.edu/byu_ca3/3630)

This Brief of Appellee is brought to you for free and open access by BYU Law Digital Commons. It has been accepted for inclusion in Utah Court of Appeals Briefs (2007– ) by an authorized administrator of BYU Law Digital Commons. Policies regarding these Utah briefs are available at [http://digitalcommons.law.byu.edu/utah\\_court\\_briefs/policies.html](http://digitalcommons.law.byu.edu/utah_court_briefs/policies.html). Please contact the Repository Manager at [hunterlawlibrary@byu.edu](mailto:hunterlawlibrary@byu.edu) with questions or feedback.



No. 20150852-CA

---

IN THE  
UTAH COURT OF APPEALS

---

JAMES ROBERT RAWCLIFFE,

*Plaintiff and Appellant,*

v.

ROBERT ANCIAUX, et al.,

*Defendants and Appellees.*

---

ADDENDA C-G – VOLUME TWO

---

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

J. Ryan Mitchell (9362)  
Steven J. Joffe (13258)  
Mitchell Barlow & Mansfield, P.C.  
9 Exchange Place, Suite 600  
Salt Lake City, Utah 84111  
rmitchell@mbmlawyers.com

Eric L. Zagar  
Robin Winchester  
Kristen L. Ross  
Kessler Topaz Meltzer & Check, LLP  
280 King of Prussia Road  
Radnor, Pennsylvania 19087  
ezagar@ktmc.com

*Counsel for Plaintiff/Appellant*

Erik A. Christiansen (7372)  
Alan S. Mouritsen (13558)  
Parsons Behle & Latimer  
201 South Main Street, Suite 1800  
Salt Lake City, Utah 84111  
echristiansen@parsonsbehle.com

Douglas A. Rappaport  
Lucy C. Malcolm  
Akin Gump Strauss Hauer & Feld LLP  
One Bryant Park  
New York, New York 10036  
darappaport@akingump.com

*Counsel for Defendants/Appellees*

ORAL ARGUMENT REQUESTED

FILED  
UTAH APPELLATE COURTS  
MAY 23 2016



No. 20150852-CA

---

IN THE  
UTAH COURT OF APPEALS

---

JAMES ROBERT RAWCLIFFE,

*Plaintiff and Appellant,*

v.

ROBERT ANCIAUX, et al.,

*Defendants and Appellees.*

---

ADDENDA C-G – VOLUME TWO

---

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

<p>J. Ryan Mitchell (9362) Steven J. Joffe (13258) Mitchell Barlow &amp; Mansfield, P.C. 9 Exchange Place, Suite 600 Salt Lake City, Utah 84111 rmitchell@mbmlawyers.com</p> <p>Eric L. Zagar Robin Winchester Kristen L. Ross Kessler Topaz Meltzer &amp; Check, LLP 280 King of Prussia Road Radnor, Pennsylvania 19087 ezagar@ktmc.com</p> <p><i>Counsel for Plaintiff/Appellant</i></p>	<p>Erik A. Christiansen (7372) Alan S. Mouritsen (13558) Parsons Behle &amp; Latimer 201 South Main Street, Suite 1800 Salt Lake City, Utah 84111 echristiansen@parsonsbehle.com</p> <p>Douglas A. Rappaport Lucy C. Malcolm Akin Gump Strauss Hauer &amp; Feld LLP One Bryant Park New York, New York 10036 darappaport@akingump.com</p> <p><i>Counsel for Defendants/Appellees</i></p>
---	--

ORAL ARGUMENT REQUESTED

## TABLE OF CONTENTS

	Page
<b>ADDENDUM C</b> - USANA, Current Report (Form 8-K) (March 23, 2016) .....	1
<b>ADDENDUM D</b> - USANA, Current Report (Form 8-K) (May 6, 2015) .....	5
<b>ADDENDUM E</b> - USANA, Definitive Proxy Statement (Form DEF 14A) (Mar. 25, 2015).....	8
<b>ADDENDUM F</b> - USANA, Quarterly Report (Form 10-Q) (Aug. 5, 2014).....	86
<b>ADDENDUM G</b> - CytRx Corp., Definitive Proxy Statement, (Form DEF 14A) (May 1, 2014) .....	156



# Addendum C

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

---

**FORM 8-K**

---

**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of**  
**The Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported):  
**March 23, 2016**

**USANA HEALTH SCIENCES, INC.**

(Exact name of registrant as specified in its charter)

**Utah**  
(State or other jurisdiction of incorporation)

**001-35024**  
(Commission File No.)

**87-0500306**  
(IRS Employer Identification  
Number)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
- 
- 

**Item 8.01 Other Events.**

On March 23, 2016, USANA Health Sciences, Inc. issued a press release announcing changes to the make-up of its Board of Directors, which will be proposed to shareholders at the Company's Annual Shareholder Meeting on May 2, 2016. The release provided an overview of the proposed changes, including the election of three new members to the Board, increasing the size of the Board to seven directors, and the upcoming retirement of two of its current Board members. A copy of the press release is furnished herewith as Exhibit 99 to this Current Report on Form 8-K and is incorporated herein by reference. The company will also post this document on its corporate website, [www.usanahealthsciences.com](http://www.usanahealthsciences.com).

The information in this Current Report is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended. The furnishing of the information in this Current Report is not intended to, and does not, constitute a representation that such furnishing is required by Regulation FD or that the information this Current Report contains is material investor information that is not otherwise publicly available.

**Item 9.01 Financial Statements and Exhibits.**



(d) Exhibits

Exhibit 99 Press release issued by USANA Health Sciences, Inc. dated March 23, 2016 (furnished herewith).

2

---

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**USANA HEALTH SCIENCES, INC.**

By: /s/ Paul A. Jones

Paul A. Jones, Chief Financial Officer

Date: March 23, 2016

3

---

**Investors contact:**

Patrique Richards  
Investor Relations  
(801) 954-7961  
investor.relations@us.usana.com

**Media contact:**

Dan Macuga  
Public Relations  
(801) 954-7280

**USANA Health Sciences Announces Proposed  
Expansion of its Board of Directors**

**SALT LAKE CITY, March 23, 2016 (BUSINESS WIRE)**—USANA Health Sciences, Inc. (NYSE:USNA) today announced that it is proposing to shareholders the election of three new members to its Board of Directors at its Annual Shareholder Meeting on May 2, 2016. The proposal would increase the size of the Board to seven directors and expand the breadth of expertise, backgrounds and viewpoints of the Board. David A. Wentz, Co-Chief Executive Officer of the Company, Frederic J. Winssinger and Feng Peng have been nominated by the Board to stand for election at the Annual Shareholder Meeting. D. Richard Williams, who was appointed to the Board in March 2016, will also stand for re-election at the Annual Shareholder Meeting, along with Dr. Myron W. Wentz, Robert Anciaux and Gilbert A. Fuller. Long time Board members Jerry G. McClain and Ronald S. Poelman will retire from the Board when their current terms expire at the 2016 Annual Meeting. Mr. McClain has served as a director of USANA since June 2001, while Mr. Poelman has served as a director since 1995.

Mr. Wentz was appointed Chief Executive Officer of USANA in July 2008 and became Co-Chief Executive Officer in August 2015. He has held a number of other strategic positions with the Company since its inception in 1992. Mr. Wentz's addition to the Board will expand the Board's industry expertise and further unify the Board's partnership with management.

Mr. Winssinger has more than two decades of experience in the financial markets, including serving as a portfolio manager in London with JP Morgan Investment Management, Adelphi Capital, Capital@Work, and, most recently, RW Partners, where he was the managing partner. He is the founder and managing director of PlanningCore Wealth Advisors in Phoenix, Arizona.

Mr. Peng has extensive business experience in China, financial and corporate strategy expertise, and a strong information technology background. Since 2013, Mr. Peng has served as the Chief Financial Officer of Ossen Innovation Company, Ltd., a China-based manufacturing company listed on the NASDAQ exchange. Prior to that, he served as Senior Vice President at MZ Group, where he provided strategic consulting services related to U.S. capital markets to Chinese clients. Prior to working at MZ Group, he served in various capacities at Thomson Financial and Citigroup.

Myron W. Wentz, Ph.D., Chairman of the Board, commented, "Ron's and Jerry's expertise, wisdom and integrity have made immeasurable contributions to the Board and USANA over the years. They have played a significant role in our development into a global nutrition company. On behalf of the Board, employees and shareholders, we are grateful for their many years of service and the significant contributions they have made. We wish them all the best in their future endeavors."

Wentz added, "We are delighted that Dave, Frederic and Feng have accepted nominations to the USANA Board and agreed to serve USANA's shareholders. Their extensive industry, financial, and international expertise will provide significant value to the USANA Board and executive team."

**About USANA**

USANA develops and manufactures high-quality nutritional supplements, healthy foods and personal care products that are sold directly to Associates and Preferred Customers throughout the United States, Canada, Australia, New Zealand, Hong Kong, China, Japan, Taiwan, South Korea, Singapore, Mexico, Malaysia, the Philippines, the Netherlands, the United Kingdom, Thailand, France, Belgium, Colombia and Indonesia. More information on USANA can be found at <http://www.usanahealthsciences.com>.



# Addendum D

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of**  
**the Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported):  
**May 6, 2015**

**USANA HEALTH SCIENCES, INC.**

(Exact name of registrant as specified in its charter)

**Utah**  
(State or other jurisdiction of incorporation)

**001-35024**  
(Commission File No.)

**87-0500306**  
(IRS Employer Identification  
Number)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 5.07 Submission of Matters to a Vote of Security Holders.**

The Company held its Annual Meeting of Shareholders on May 6, 2015. A total of 11,684,325 shares (approximately 92%) of the issued and outstanding shares of USANA common stock were represented by proxy or in person at the meeting. The following matters were submitted and voted upon at the Annual Meeting:

1. USANA shareholders voted to elect five individuals to the Board of Directors for the succeeding year as set forth below:

Name	Number of Shares For	Number of Shares Withheld	Number of Shares Abstaining	Broker Non- Votes
Myron W. Wentz, PhD	10,928,959	105,545	—	649,821
Ronald S. Poelman	9,669,463	1,365,041	—	649,821
Robert Anciaux	10,971,616	62,888	—	649,821
Jerry G. McClain	10,941,790	92,714	—	649,821



Gilbert A. Fuller	10,885,530	148,974	—	649,821
-------------------	------------	---------	---	---------

2. USANA shareholders voted to approve the company's 2015 Equity Incentive Award Plan as set forth below:

<u>Number of Shares For</u>	<u>Number of Shares Withheld</u>	<u>Number of Shares Abstaining</u>	<u>Broker Non- Votes</u>
7,433,453	3,596,793	4,258	649,821

3. USANA shareholders voted to ratify the Board's selection of KPMG LLP as our independent registered public accounting firm for fiscal year 2015 as set forth below:

<u>Number of Shares For</u>	<u>Number of Shares Withheld</u>	<u>Number of Shares Abstaining</u>	<u>Broker Non- Votes</u>
11,675,912	1,959	6,454	—

2

# SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

USANA HEALTH SCIENCES, INC.

By: /s/ Paul A. Jones

Paul A. Jones, Chief Financial Officer

Date: May 8, 2015

3

# **Addendum E**



Use these links to rapidly review the document  
TABLE OF CONTENTS

Table of Contents

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material under §240.14a-12

**USANA Health Sciences, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies: \_\_\_\_\_
- (2) Aggregate number of securities to which transaction applies: \_\_\_\_\_
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \_\_\_\_\_
- (4) Proposed maximum aggregate value of transaction: \_\_\_\_\_
- (5) Total fee paid: \_\_\_\_\_
- ☐ Fee paid previously with preliminary materials.
- ☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount Previously Paid: \_\_\_\_\_
- (2) Form, Schedule or Registration Statement No.: \_\_\_\_\_

(3) Filing Party:

(4) Date Filed:

---

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

---



3838 West Parkway Boulevard  
Salt Lake City, Utah 84120-6336  
(801) 954-7100

March 25, 2015

Dear Shareholders,

You are cordially invited to attend the 2015 Annual Meeting of Shareholders of USANA Health Sciences, Inc. (the "Annual Meeting") to be held at 11:00 a.m. MDT on Wednesday, May 6, 2015, at our offices at 3838 West Parkway Boulevard, Salt Lake City, Utah. Details regarding the meeting, the business to be conducted, and information about USANA Health Sciences, Inc. that you should consider when you vote your shares are described in the following pages, which contain the formal Notice of Annual Meeting and the Proxy Statement.

At the Annual Meeting, five persons will stand for re-election to the Board of Directors. We will also ask shareholders to approve the Company's 2015 Equity Incentive Award Plan, and to ratify the selection of KPMG LLP as our independent registered public accounting firm for our fiscal year ending January 2, 2016. The Board of Directors recommends the approval of each of these proposals. Such other business will be transacted as may properly come before the Annual Meeting.

Under Securities and Exchange Commission rules that allow companies to furnish proxy materials to shareholders over the Internet, we have elected to deliver our proxy materials to the majority of our shareholders over the Internet. This allows us to mail our shareholders a notice instead of a paper copy of our proxy materials. We believe this process will facilitate accelerated delivery of proxy materials, save costs, and reduce the environmental impact of our Annual Meeting. On or about March 25, 2015, we began sending to our shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement for our Annual Meeting and our Annual Report to Shareholders on the Internet. This notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

We hope you will be able to attend the Annual Meeting. Whether you plan to attend the Annual Meeting or not, it is important that you cast your vote. You may vote over the Internet as well as by telephone. In addition, if you requested to receive printed proxy materials, you may vote by completing, signing, dating and returning your proxy card by mail. You are urged to vote promptly in accordance with the instructions set forth in the Notice of Internet Availability of Proxy Materials or on your proxy card. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting, whether or not you can attend.

Sincerely,

David A. Wentz  
Chief Executive Officer

Table of Contents



3838 West Parkway Boulevard  
Salt Lake City, Utah 84120-6336  
(801) 954-7100

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 6, 2015**

- TIME: 11:00 a.m. MDT
- DATE: Wednesday, May 6, 2015
- PLACE: The offices of USANA Health Sciences, Inc.  
3838 West Parkway Boulevard, Salt Lake City, Utah 84120
- PURPOSES:
1. To elect five directors to serve for one year each, until the next Annual Meeting of Shareholders and until a successor is elected and shall qualify;
  2. To approve the Company's 2015 Equity Incentive Award Plan;
  3. To ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year 2015; and
  4. To consider and act upon such other business as may properly come before the meeting or at any postponement or adjournment thereof.

**WHO MAY VOTE:**

You will receive notice of and be entitled to vote at the Annual Meeting if you were the record owner of USANA Health Sciences, Inc. common stock at the close of business on March 2, 2015. A list of shareholders of record will be available at the meeting and during the 10 days prior to the meeting, at the office of the Secretary at the above address.

All shareholders are cordially invited to attend the Annual Meeting. Whether you plan to attend the Annual Meeting or not, please vote by following the instructions on the Notice of Internet Availability of Proxy Materials that you have previously received, which we refer to as the Notice, or in the section of the Proxy Statement entitled "Important Information About the Annual Meeting—How Do I Vote," or, if you requested to receive printed proxy materials, your proxy card. You may change or revoke your proxy at any time before it is voted. The Notice contains instructions on how our shareholders may access our proxy materials and Annual Report over the Internet and how our shareholders may receive a paper copy of the proxy materials, including the Proxy Statement, Annual Report on Form 10-K, and a form of proxy card.

On or about March 25, 2015, we began sending the Notice of Internet Availability of Proxy Materials to all shareholders entitled to vote at the annual meeting.

By Order of the Board of Directors,

James H. Bramble  
Corporate Secretary

Salt Lake City, Utah  
March 25, 2015



**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR  
THE SHAREHOLDER MEETING TO BE HELD ON MAY 6, 2015**

**This Proxy Statement and our annual report to shareholders for the fiscal year ended January 3, 2015, along with our proxy card, are available for viewing, printing, and downloading free of charge at [www.proxyvote.com](http://www.proxyvote.com). To view these materials please have your 12-digit control number available that appears on your Notice or proxy card. On this website, you can also elect to receive future distributions of our proxy statements and annual reports to shareholders by electronic delivery.**

Additionally, you can find a copy of our Annual Report on Form 10-K, which includes our financial statements for the fiscal year ended January 3, 2015, on the website of the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov), or on the "Investor Relations" section of our website at [www.usanahealthsciences.com](http://www.usanahealthsciences.com). You may also obtain a printed copy of our Annual Report on Form 10-K, including our financial statements, free of charge, from us by sending a written request to: Secretary, USANA Health Sciences, Inc., 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. Exhibits will be provided upon written request and payment of an appropriate processing fee.

Table of Contents

USANA HEALTH SCIENCES, INC.  
ANNUAL MEETING OF SHAREHOLDERS  
PROXY STATEMENT  
TABLE OF CONTENTS

<u>NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND PROXY STATEMENT</u>	<u>1</u>
<u>QUESTIONS AND ANSWERS</u>	<u>1</u>
<u>PROPOSAL #1: ELECTION OF DIRECTORS</u>	<u>6</u>
<u>BOARD OF DIRECTORS AND CORPORATE GOVERNANCE</u>	<u>9</u>
<u>—Board Leadership Structure</u>	<u>9</u>
<u>—Director Independence</u>	<u>10</u>
<u>—Communications with Directors</u>	<u>10</u>
<u>—Committees of the Board of Directors</u>	<u>10</u>
<u>—Risk Oversight and Management</u>	<u>12</u>
<u>—Compensation Risk Analysis</u>	<u>12</u>
<u>—Board Committee Charters</u>	<u>13</u>
<u>—Corporate Governance Guidelines</u>	<u>13</u>
<u>—Code of Ethics</u>	<u>13</u>
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	<u>13</u>
<u>EXECUTIVE OFFICERS</u>	<u>14</u>
<u>EXECUTIVE COMPENSATION</u>	<u>16</u>
<u>—Compensation Discussion and Analysis</u>	<u>16</u>
<u>—Compensation Philosophy and Objectives</u>	<u>17</u>
<u>—Role of Compensation Committee</u>	<u>17</u>
<u>—Role of Corporate Leadership in Assisting Compensation Committee</u>	<u>18</u>
<u>—Compensation Consultants</u>	<u>18</u>
<u>—Components of Compensation</u>	<u>19</u>
<u>—Other Compensation</u>	<u>21</u>
<u>REPORT OF THE COMPENSATION COMMITTEE</u>	<u>24</u>
<u>SUMMARY COMPENSATION TABLE</u>	<u>25</u>
<u>GRANTS OF PLAN-BASED AWARDS</u>	<u>26</u>
<u>OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END</u>	<u>27</u>
<u>OPTION EXERCISES AND STOCK VESTED</u>	<u>28</u>
<u>COMPENSATION OF DIRECTORS</u>	<u>29</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	<u>30</u>
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	<u>33</u>
<u>PROPOSAL #2: APPROVAL OF THE USANA 2015 EQUITY INCENTIVE AWARD PLAN</u>	<u>34</u>
<u>PROPOSAL #3: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING</u>	
<u>FIRM</u>	<u>39</u>
<u>—Policy on Pre-Approval of Audit and Permissible Non-Audit Services</u>	<u>40</u>
<u>—Independence</u>	<u>40</u>
<u>—Financial Statements and Reports</u>	<u>40</u>
<u>—Services</u>	<u>40</u>
<u>REPORT OF THE AUDIT COMMITTEE</u>	<u>42</u>
<u>EMPLOYMENT CONTRACTS AND OTHER ARRANGEMENTS</u>	<u>43</u>
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>43</u>
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>43</u>
<u>OTHER MATTERS</u>	<u>44</u>
<u>ANNUAL REPORT</u>	<u>44</u>
<u>FURTHER INFORMATION</u>	<u>44</u>

---



**PROXY STATEMENT FOR  
THE ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 6, 2015**

The Board of Directors of USANA Health Sciences, Inc. ("We," "USANA," or the "Company") is soliciting the accompanying proxy to be used at the 2015 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Wednesday, May 6, 2015, at 11:00 a.m., local time, or at any adjournments thereof for the purposes set forth in this Proxy Statement and in the accompanying notice of the meeting. On or about March 25, 2015, we began sending the Notice of Internet Availability of Proxy Materials, which we refer to throughout this Proxy Statement as the Notice, to all shareholders entitled to vote at the Annual Meeting.

**IMPORTANT INFORMATION ABOUT THE MEETING**

**Why is the Company Soliciting My Proxy?**

The Board of Directors of USANA is soliciting your proxy to vote at the Annual Meeting to be held at our offices, 3838 West Parkway Boulevard, Salt Lake City, Utah, on Wednesday, May 6, 2015, at 11:00 a.m. MDT and any adjournments of the meeting. The proxy statement along with the accompanying Notice of Annual Meeting of Shareholders summarizes the purposes of the meeting and the information you need to know to vote at the Annual Meeting.

We have sent you the Notice and made this Proxy Statement and our annual report to shareholders for the 2014 fiscal year available to you on the Internet because you owned shares of USANA common stock on the record date, which is March 2, 2015. We have also delivered printed versions of these materials to certain shareholders by mail. The Company commenced distribution of the Notice and the proxy materials to shareholders on or about March 25, 2015.

**Why Did I Receive a Notice in the Mail Regarding the Internet Availability of Proxy Materials Instead of a Full Set of Proxy Materials?**

As permitted by the rules of the U.S. Securities and Exchange Commission, or the SEC, we have elected to furnish our proxy materials to our shareholders by providing access to such documents on the Internet, rather than mailing printed copies of these materials to each shareholder. Most shareholders will not receive printed copies of the proxy materials unless they request them. We believe that this process should expedite shareholders' receipt of proxy materials, lower the costs of the annual meeting and help to conserve natural resources. If you received a Notice by mail or electronically, you will not receive a printed or email copy of the proxy materials, unless you request one by following the instructions included in the Notice. Instead, the Notice will instruct you how you may access and review all of the proxy materials and submit your proxy on the Internet. If you requested a paper copy of the proxy materials, you may authorize the voting of your shares by following the instructions on the enclosed proxy card, in addition to the other methods of voting described in this Proxy Statement.

## Table of Contents

### **Who Can Vote?**

Only shareholders who owned USANA common stock at the close of business on March 2, 2015, or the record date, are entitled to vote at the Annual Meeting. On this record date, there were 12,658,684 shares of our common stock outstanding and entitled to vote. Common stock is our only class of voting stock.

You do not need to attend the Annual Meeting in person to vote your shares. Shares represented by valid proxies, received in time for the meeting and not revoked prior to the meeting, will be voted at the meeting. For instructions on how to change or revoke your proxy, see "May I Change or Revoke My Proxy?" below.

### **How Many Votes Do I Have?**

Each share of USANA common stock that you own as of the record date entitles you to one vote.

### **How Do I Vote?**

Whether you plan to attend the Annual Meeting or not, we urge you to vote by proxy. All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card or as instructed via Internet or telephone. You may specify whether your shares should be voted for or withheld for each nominee for director, and whether your shares should be voted for, against or abstain with respect to any other proposal. If you properly submit a proxy without giving specific voting instructions, your shares will be voted in accordance with the Board's recommendations as noted below. Voting by proxy will not affect your right to attend the Annual Meeting. If your shares are registered directly in your name through our stock transfer agent, American Stock Transfer and Trust Company, or you have stock certificates registered in your name, you may vote:

- By Internet or by telephone. Follow the instructions included in the Notice or, if you received printed materials, in the proxy card, to vote by Internet or telephone.
- By mail. If you received your proxy materials by mail, you can vote by mail by completing, signing, dating and returning the proxy card as instructed on the card. If you sign the proxy card but do not specify how you want your shares voted, they will be voted in accordance with the Board's recommendations as noted below.
- In person at the meeting. If you attend the meeting, you may deliver a completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

Telephone and Internet voting facilities for shareholders of record will be available 24-hours a day and will close at 11:59 p.m. Eastern Time on May 5, 2015.

If your shares are held in "street name" (held in the name of a bank, broker or other holder of record or nominee), you will receive instructions from the holder of record. You must follow the instructions of the nominee in order for your shares to be voted. Telephone and Internet voting also will be offered to shareholders owning shares through certain banks and brokers. If your shares are not registered in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your broker or agent to obtain a legal proxy or broker's proxy card and bring it to the Annual Meeting in order to vote.

### **How Does the Board of Directors Recommend That I Vote on the Proposals?**

The Board of Directors recommends that you vote as follows:

- "FOR" the election of the five nominees for director;



## Table of Contents

- "FOR" the approval of the Company's 2015 Equity Incentive Award Plan; and
- "FOR" the ratification of the selection of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year; and

We do not expect any other business to come before the meeting. If any other matter is presented, your proxy provides that your shares will be voted by the proxy holder listed in the proxy in accordance with his or her best judgment. At the time this Proxy Statement was first made available, we knew of no matters that needed to be acted on at the Annual Meeting, other than those discussed in this Proxy Statement.

### **May I Change or Revoke My Proxy?**

If you give us your proxy, you may change or revoke it at any time before the meeting. You may change or revoke your proxy in any one of the following ways:

- by re-voting by Internet or by telephone as instructed above;
- if you received printed proxy materials, by signing a new proxy card with a date later than your previously delivered proxy and submitting it as instructed above;
- by notifying our Secretary in writing before the Annual Meeting that you have revoked your proxy; or
- by attending the meeting in person and voting in person. Attending the meeting in person will not in and of itself revoke a previously submitted proxy unless you specifically request it.

Your most current vote, whether by telephone, Internet or proxy card, is the one that will be counted.

### **What if I Receive More Than One Notice or Proxy Card?**

You may receive more than one Notice or proxy card if you hold shares of our common stock in more than one account, which may be in registered form or held in street name. Please vote in the manner described under "How Do I Vote?" for each account to ensure that all of your shares are voted.

### **What are "broker non-votes"?**

If a broker or other financial institution holds your shares in its name and you do not provide voting instructions to it, New York Stock Exchange, or NYSE, rules allow that firm to vote your shares only on routine matters. Proposal #3, the ratification of the appointment of our independent registered public accounting firm for 2015, is the only matter for consideration at the meeting that NYSE rules deem to be routine. For all matters other than Proposal #3, you must submit voting instructions to the firm (broker, bank, or other nominee) that holds your shares if you want your vote to count. When a firm votes a client's shares on some but not all of the proposals, the missing votes are referred to as "broker non-votes."

### **Will My Shares be Voted if I Do Not Vote?**

If your shares are registered in your name, they will not be voted if you do not vote as described above under "How Do I Vote?" If your shares are held in street name by a bank, broker or other holder of record (nominee) and you do not provide voting instructions to the nominee that holds your shares as described above, the nominee has the authority to vote your unvoted shares only on the ratification of our independent registered public accounting firm (Proposal #3), unless the nominee

## Table of Contents

receives instructions from you. Therefore, we encourage you to provide voting instructions. This ensures your shares will be voted at the meeting and in the manner you desire.

### **What Vote is Required to Approve Each Proposal and How are Votes Counted?**

#### **Proposal #1: Election of Directors**

Under Utah law, a nominee who receives a plurality of the votes cast at the Annual Meeting will be elected as a director. The "plurality" standard means the nominees who receive the largest number of "for" votes (also known as a "plurality" of the votes) will be elected. The number of shares not voted for the election of a nominee (and the number of "withhold" votes cast with respect to that nominee) are not counted and will not affect the determination of whether that nominee has received the necessary votes for election under Utah law. You may vote either FOR all of the nominees, WITHHOLD your vote from all of the nominees or WITHHOLD your vote from any one or more of the nominees. Votes that are withheld will not be included in the vote tally for the election of directors. Broker non-votes will have no effect on the results of this vote.

#### **Proposal #2: Approval of the Company's 2015 Equity Incentive Award Plan**

The affirmative vote of the shareholders representing a majority of the shares present and entitled to vote at the Annual Meeting is required to approve the Company's 2015 Equity Incentive Award Plan. A shareholder who signs and submits a proxy is "present," so an abstention will have the same effect as a vote "Against" this Proposal. Broker non-votes will not be considered entitled to vote with respect to this Proposal and will have no effect on the outcome.

#### **Proposal #3: Ratification of Independent Registered Public Accounting Firm**

The affirmative vote of the shareholders representing a majority of the shares present and entitled to vote at the Annual Meeting is required to ratify the selection of KPMG LLP as our independent registered public accounting firm for our 2015 fiscal year. Shares present but not voted because of abstention will have the same effect on the results of this vote as a vote "Against." We are not required to obtain the approval of our shareholders to select our independent registered public accounting firm. However, if our shareholders do not ratify the selection of KPMG LLP as our independent registered public accounting firm for the 2015 fiscal year, our Audit Committee of our Board of Directors may reconsider its selection.

### **Is Voting Confidential?**

We will keep all the proxies, ballots and voting tabulations private. We only let our Inspector of Elections examine these documents. Management, other than the Inspector of Elections, will not know

## Table of Contents

how you voted on a specific proposal unless it is necessary to meet legal requirements. We will, however, forward to management any written comments you make, on the proxy card or elsewhere.

### **Who Will Count the Votes?**

Broadridge Investor Communications Services will tabulate the votes that are received prior to the Annual Meeting. Representatives of USANA will act as the Inspectors of Election and will tabulate the votes, if any, that are cast in person at the Annual Meeting.

### **Where Can I Find the Voting Results of the Annual Meeting?**

The preliminary voting results will be announced at the Annual Meeting, and we will publish preliminary, or final results if available, in a Current Report on Form 8-K within four business days of the Annual Meeting. If final results are unavailable at the time we file the Form 8-K, then we will file an amended report on Form 8-K to disclose the final voting results within four business days after the final voting results are known.

### **Who Pays the Costs of Soliciting these Proxies?**

These proxies are solicited by our Board of Directors and we will pay all of the costs of soliciting these proxies. Our directors and employees may solicit proxies in person or by telephone, fax or email. We will pay these employees and directors no additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to their principals and to obtain authority to deliver proxies. We will then reimburse them for their expenses.

### **What Constitutes a Quorum for the Annual Meeting?**

The presence, in person or by proxy, of the holders of a majority of the voting power of our common stock outstanding on the record date is necessary to constitute a quorum at the meeting. As of the close of business on the record date, there were 12,658,684 shares of our common stock outstanding. Both abstentions and broker non-votes are counted for purposes of determining whether a quorum exists. For the purpose of determining whether the shareholders have approved matters other than the election of directors, abstentions are treated as shares present or represented and voting, so abstaining has the same effect as a negative vote. Directors are elected based on a plurality of votes cast. Shares held by brokers who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers are counted for determining the presence or absence of a quorum for conducting business but are not counted or deemed to be present or represented for the purpose of determining whether shareholders have approved that matter.

### **Attending the Annual Meeting**

The Annual Meeting will be held at 11:00 a.m. local time on Wednesday, May 6, 2015, at our offices at 3838 West Parkway Boulevard, Salt Lake City, Utah. When you arrive at our offices, our personnel will direct you to the appropriate meeting room. You need not attend the Annual Meeting to vote.

### **Householding of Annual Disclosure Documents**

SEC rules concerning the delivery of annual disclosure documents allow us or your broker to send a single Notice or, if applicable, a single set of our proxy materials to any household at which two or more of our shareholders reside, if we or your broker believe that the shareholders are members of the same family. This practice, referred to as "householding," benefits both you and us. It reduces the volume of duplicate information received at your household and helps to reduce our expenses. The rule applies to our Notices, annual reports, proxy statements and information statements. Once you receive

## Table of Contents

notice from your broker or from us that communications to your address will be "household," the practice will continue until you are otherwise notified or until you revoke your consent to the practice. Shareholders who participate in householding will continue to have access to and utilize separate proxy voting instructions.

If your household received a single Notice or, if applicable, set of proxy materials this year, but you would prefer to receive your own copy, please contact Broadridge, by calling their toll free number 1-800-542-1061. If you do not wish to participate in "householding" and would like to receive your own Notice or, if applicable, set of proxy materials in future years, follow the instructions described below. Conversely, if you share an address with another USANA shareholder and together both of you would like to receive only a single Notice or, if applicable, set of proxy materials, follow these instructions:

- If your USANA shares are registered in your own name, please contact Broadridge and inform them of your request by calling them at 1-800-542-1061 or writing them at Broadridge Household Department, 51 Mercedes Way, Edgewood, NY 11717.
- If a broker or other nominee holds your USANA shares, please contact the broker or other nominee directly and inform them of your request. Be sure to include your name, the name of your brokerage firm and your account number.

### **Electronic Delivery of Company Shareholder Communications**

Most shareholders can elect to receive notices of the availability of future proxy materials by email instead of receiving a paper copy in the mail. You can choose this option and save us the cost of producing and mailing these documents by following the instructions provided on your Notice or proxy card or following the instructions provided when you vote over the Internet at [www.proxyvote.com](http://www.proxyvote.com).

### **How Do I Submit and What are the Deadlines for Submitting a Shareholder Proposal for Next Year's Annual Meeting?**

Shareholders are entitled to present proposals for consideration at the next annual meeting of shareholders, provided that they comply with the proxy rules promulgated by the SEC and our Bylaws. Any shareholder who intends to submit a proposal for consideration at the 2016 Annual Meeting of Shareholders must deliver such proposal to the Corporate Secretary, c/o USANA Health Sciences, Inc., 3838 West Parkway Blvd., Salt Lake City, Utah 84120, not later than 120 days prior to the one-year anniversary of the date on which this Proxy Statement is first mailed, which date is November 26, 2015, if the proposal is submitted for inclusion in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 ("Exchange Act").

### **Who Should I Call if I Have Questions?**

If you have questions about the proposals or the Annual Meeting, you may call Patrique Richards, USANA Investor Relations, at (801) 954-7100. You may also send an e-mail to [investor.relations@us.usana.com](mailto:investor.relations@us.usana.com).

### **PROPOSAL #1—ELECTION OF DIRECTORS**

Our Bylaws provide that the shareholders or the Board of Directors shall determine the number of directors from time to time, but that there shall be no less than three directors. The Board of Directors, by resolution, has set the number of directors at five. The Governance, Risk and Nominating Committee of the Board of Directors has nominated and recommends that our current five directors stand for re-election at the Annual Meeting. The Governance, Risk and Nominating Committee believes that all directors must, at a minimum, meet the criteria set forth in the USANA Corporate



## Table of Contents

Governance Guidelines and in the Charter of the Governance, Risk and Nominating Committee, which specify, among other things, that the committee will consider criteria such as the director's independence, expertise and experience applicable to our business, substantive knowledge of our industry, high personal and professional ethics and the ability and willingness to devote the required time to the business of the Company.

Each director who is elected at the Annual Meeting will hold office until the Company's Annual Meeting in 2016, until a successor is elected and qualified, or until the director resigns, is removed, or becomes disqualified. The Board of Directors has no reason to believe that any of the nominees for director will be unwilling or unable to serve, if elected. If due to unforeseen circumstances a nominee should become unavailable for election, the Board may either reduce the number of directors or may substitute another person for that nominee, in which event your shares will be voted for that other person.

The Governance, Risk and Nominating Committee has determined that all of our directors meet the criteria and qualifications set forth in the Company's Code of Ethics for Directors and Employees, Corporate Governance Guidelines and the Governance, Risk and Nominating Committee Charter. In addition, each director possesses the personal qualities and attributes we believe are essential to allow the Board of Directors to fulfill its duties to the shareholders, including personal accountability, integrity, ethical leadership, risk management, business acumen, and the ability to exercise sound and independent business judgment.

### *Director Nominees*

Five directors will be elected at the Annual Meeting. The nominees to the Board of Directors in 2015 are Robert Anciaux, Gilbert A. Fuller, Jerry G. McClain, Ronald S. Poelman, and Myron W. Wentz, Ph.D. All of these nominees currently serve as members of the Board of Directors. Messrs. Anciaux, Fuller, McClain, and Poelman are independent directors under the rules of the NYSE. The following information is furnished with respect to these nominees:

**Robert Anciaux**, 69, has served as a director of USANA since July 1996. Since 1990, he has been the Managing Director of S.E.I. s.a., a consulting and investment management firm in Brussels, Belgium. Additionally, since 1982, Mr. Anciaux has been self-employed as a venture capitalist in Europe, investing in various commercial, industrial, and real estate venture companies. In some of these privately held companies, Mr. Anciaux also serves as a director. Mr. Anciaux received an Ingenieur Commercial degree from Ecole de Commerce Solvay Universite Libre de Bruxelles. Mr. Anciaux's qualifications to sit on our Board include his financial expertise and experience in providing consulting and strategic advisory services to complex organizations.

**Gilbert A. Fuller**, 74, has served as a director of USANA since September 2008. Prior to that, he served as our Executive Vice President, Chief Financial Officer, and Secretary since January 2006. Mr. Fuller joined USANA in May 1996 as the Vice President of Finance and served in this role until June 1999, when he was appointed as the Company's Senior Vice President. Before joining USANA, Mr. Fuller served in various executive positions for several companies. Mr. Fuller served as Chief Administrative Officer and Treasurer of Melaleuca, Inc., a manufacturer and direct seller of personal care products. He was also the Vice President and Treasurer of Norton Company, a multinational manufacturer of ceramics and abrasives. He obtained his certified public accountant license in 1970 and kept it current until his career path developed into corporate finance. Mr. Fuller received a B.S. in Accounting and an M.B.A. from the University of Utah. In December 2012, Mr. Fuller was appointed as a director of Security National Financial Corporation, a NASDAQ-listed company. Mr. Fuller's qualifications to sit on our Board include his 12 years of experience as an executive officer of USANA, his deep understanding of our business, people and products, his 15 years of experience as a financial officer in the direct selling industry, as well as his accounting, finance and corporate strategy expertise.

## Table of Contents

**Jerry G. McClain**, 74, has served as a director of USANA since June 2001. Since January 2003, Mr. McClain has been self-employed, operating his own investment and real estate business in Salt Lake City, Utah. From August 2000 to December 2002, Mr. McClain was the Chief Financial Officer of Cerberian, Inc., a privately held company that was headquartered in Salt Lake City, Utah. From 1998 to 2000, Mr. McClain was the Chief Financial Officer and Sr. Vice President of Assentive Solutions, Inc., a company he also co-founded. From 1997 to 1998, Mr. McClain was the Chief Financial Officer for the Salt Lake Organizing Committee for the 2002 Winter Olympic Games. Before 1997, Mr. McClain served as a key financial advisor to many companies as an Audit Partner and a Managing Partner of Emst & Young LLP for 35 years in several cities throughout the world. Mr. McClain is a former CPA and a graduate from the University of Southern Mississippi and Oklahoma State University, where he received a B.S. in Accounting and an M.S. in Accounting, respectively. Mr. McClain's qualifications to sit on our Board include his extensive international experience with accounting and financial matters for public companies, his years of experience as the chief financial officer of various organizations, his corporate governance expertise and his years of experience providing independent audits and strategic advice to complex organizations.

**Ronald S. Poelman**, 61, has served as a director of USANA since 1995. Since 1994, he has been a partner in the Salt Lake City, Utah law firm of Jones, Waldo, Holbrook & McDonough, where he is head of the Corporate and Securities Practice Group. Mr. Poelman began his legal career in Silicon Valley in California, and has assisted in the organization and financing of numerous companies for over 30 years. Mr. Poelman is the Chairman of the Utah Chapter of the National Association of Corporate Directors ("NACD") and frequently lectures at the meetings of this and other organizations. Mr. Poelman received a B.A. in English from Brigham Young University and a J.D. from the University of California, Berkeley. Mr. Poelman's qualifications to sit on our Board include his more than 30 years of experience as a corporate, finance and securities attorney, his long association with and service to the NACD, as well as his corporate governance and strategy expertise. Mr. Poelman is a 2014 NACD Governance Fellow, which is a demonstration of his commitment to boardroom excellence through completing NACD's comprehensive program of study for corporate directors.

**Myron W. Wentz, Ph.D.**, 74, founded USANA in 1992 and served as the Chief Executive Officer and Chairman of the Board of USANA from the time of its inception to July 2008, when he retired as Chief Executive Officer. Dr. Wentz continues to serve as Chairman of the Board. In 1974, Dr. Wentz founded Gull Laboratories, Inc., which was a developer and manufacturer of medical diagnostic test kits and was the former parent corporation of USANA. Dr. Wentz served as Chairman of Gull from 1974 until 1998. In 1998, Dr. Wentz founded Sanoviv, S.A. de C.V. ("Sanoviv"), a health and wellness center that is located near Rosarito, Mexico. Joining a pathology group in Peoria, Illinois, from 1969 to 1973, Dr. Wentz served as infectious disease specialist and directed the microbiology and immunology laboratories for three hospitals in the Peoria area. He received a B.S. in Biology from North Central College, Naperville, Illinois, an M.S. in Microbiology from the University of North Dakota, and a Ph.D. in Microbiology and Immunology from the University of Utah. Dr. Wentz's qualifications to sit on our Board include his vast education and professional experience as a microbiologist, immunologist, and pioneer in the development of human cell culture technology, as well as his service as our founder, Chairman and formerly as our Chief Executive Officer.

## **RECOMMENDATION**

**The Board of Directors unanimously recommends a vote FOR each director nominee.**

## BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors is elected by and is accountable to the shareholders of the Company. The Board establishes policy and provides strategic direction, oversight, and control of the Company. The Board met nine times during fiscal year 2014. All directors attended at least 75% of the meetings of the Board and the Board Committees of which they are members.

### *Board Leadership Structure; Lead Independent Director*

Our founder, Dr. Myron Wentz, is the Chairman of our Board of Directors and David A. Wentz is our Chief Executive Officer, or CEO. The Board has not adopted a specific policy on whether the same person should serve as both the CEO and chairman of the board or, if the roles are separate, whether the chairman should be selected from the non-employee directors or should be an employee. The Board believes it is most appropriate to retain the discretion and flexibility to make these determinations at any given point in time in the way that it believes best to provide appropriate leadership for the Company at that time.

We believe it is currently appropriate to separate the roles of CEO and Chairman of the Board as a result of the differences between the two roles. Our CEO is responsible for setting the strategic direction for the Company, with guidance from the Board. He is also responsible for the day-to-day leadership and performance of the Company, while the Chairman of the Board provides guidance to the CEO and sets the agenda for Board meetings and presides over meetings of the full Board. Although Dr. Wentz is not independent under the rules of the NYSE, the Board believes the experience, leadership and vision he provides as Chairman of the Board is essential to the short-and-long-term success of the Company.

The Board maintains a number of governance practices to ensure effective independent oversight of Board decisions, including (i) the appointment of strong, independent directors who constitute a majority of the Board and intimately understand the Company's business and industry; (ii) executive sessions of the independent directors in connection with every Board meeting; and (iii) annual evaluations of the performance of the Board, carried out by the independent directors. Because the Board also believes that strong, independent board leadership is an important aspect of corporate governance, the Board established the position of Lead Director in 2013. The Lead Director is an independent director elected for a one year term by the independent directors. The Lead Director chairs the Board meetings during all executive sessions and when the Chairman is unable to participate in Board meetings, and is a contact person for shareholders and third parties who may desire to contact the Board independently of the Chairman. Mr. Poelman served as Lead Director during 2014 and was again designated to serve as Lead Director in 2015. Additional responsibilities of the Lead Director include:

- Setting the agenda for and leading regularly-held independent director sessions and briefing the Chairman on those sessions;
- Coordinating the activities of the independent directors;
- Presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- Acting as a liaison of the independent directors to the Chairman and CEO for the views and any concerns and issues of the independent directors; and
- Performing other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities.

## Table of Contents

### ***Director Independence***

NYSE rules and regulations generally require listed companies to have a board of directors with a majority of independent directors. A majority of the members of our Board of Directors are independent, as discussed below.

To assist the Board in making its determination regarding director independence, the Board has adopted independence standards that conform to the independence requirements of the NYSE. In addition to evaluating each director's independence, the Board considers all relevant facts and circumstances in making its independence determination. We assess director independence on an annual basis. The Board has determined, after careful review, that all of the current directors, other than Dr. Myron Wentz, who has also been nominated for election at the 2015 Annual Meeting, are independent based on the applicable rules of the NYSE and the applicable regulations of the SEC. In particular, the Board noted that, other than their service as directors of the Company, Robert Anciaux, Jerry G. McClain, Ronald S. Poelman and Gilbert A. Fuller had no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and determined that each of them is "independent" under NYSE listing standards.

### ***Communications with Directors***

Our shareholders or other interested parties wishing to communicate with the Board of Directors, the non-management directors as a group, or any individual director may do so in writing by addressing the correspondence to that individual or group, c/o James H. Bramble, Corporate Secretary, USANA Health Sciences, Inc., 3838 West Parkway Boulevard, Salt Lake City, Utah 84120. All such communications will be initially received and processed by our Corporate Secretary. Accounting, audit, internal accounting controls and other financial matters will be referred to our Audit Committee chair. Other matters will be referred to the Board of Directors, the non-management directors, or individual directors as appropriate.

Directors are encouraged by the Company to attend the Annual Meeting of Shareholders if their schedules permit. All directors, except Messrs. Anciaux and Poelman, were present at the Company's Annual Meeting of the Shareholders that was held in April 2014.

### ***Committees of the Board of Directors***

The Board of Directors has a separately-designated standing Audit Committee, Compensation Committee, and Governance, Risk and Nominating Committee. Information about the composition and responsibilities of each committee is provided below.

***Governance, Risk and Nominating Committee.*** The Governance, Risk and Nominating Committee of the Board of Directors (the "Governance Committee") was established in February 2004. The Governance Committee met four (4) times during 2014. Members of the Governance Committee during fiscal 2014 and at the date of this Proxy Statement are Gilbert A. Fuller, Chairman, Robert Anciaux, Jerry G. McClain, and Ronald S. Poelman. Each member of the Governance Committee meets the definition of "independent" set forth in the rules of the NYSE.

The Governance Committee's responsibilities include: (i) overseeing corporate governance matters, (ii) risk oversight and management, (iii) identifying and evaluating prospective nominees for director, (iv) nominating the director nominees for election at the annual meeting of shareholders, and (v) periodically reviewing the performance of the Board and its members and determining the number, function, and composition of the Board's committees. The Board has delegated much of its responsibility for risk oversight and management to the Governance Committee. The Governance Committee conducts these risk oversight and management functions as part of its corporate governance

## Table of Contents

oversight and reports its findings with respect to risk oversight and management to the entire Board. More information about the Board of Directors and Governance Committee's risk oversight and management practices is provided below under the caption "Risk Oversight and Management".

The Governance Committee believes, among other things, that the Company's Board of Directors should be composed of directors with varied, complementary backgrounds, which reflect a diversity of viewpoints, backgrounds, experience and other factors. The Governance Committee also believes that directors should, at a minimum, (i) have expertise that may be useful to the Company, (ii) possess the highest personal and professional ethics, and (iii) be willing and able to devote the required amount of time to the Company's business. In light of these beliefs, the Governance Committee considers many factors in evaluating the suitability of candidates for Board membership, and also determining whether a director should be retained and stand for re-election, including: whether the candidate meets the requirements for independence; the candidate's background and experience, particularly in the Company's industry; the candidate's personal qualities, accomplishments, character and reputation in the business community; and the fit of the candidate's individual skills and personality with those of the Company's other directors.

The Governance Committee may from time to time consider qualified nominees who are recommended by shareholders. The Governance Committee does not have different standards for evaluating nominees based on whether they have been suggested by our shareholders or by our directors. Shareholders who wish to make such a recommendation may do so by sending a written notice, as described under the heading "How do I submit a shareholder proposal for next year's Annual Meeting?" in the section of this Proxy Statement titled "Questions and Answers about the Meeting."

**Audit Committee.** The Audit Committee of the Board of Directors (the "Audit Committee") is a standing committee of the Board, which has been established as required by Section 3(a) of the Exchange Act and the rules of the NYSE. The Audit Committee met five (5) times during 2014. Members of the Audit Committee during fiscal 2014 and at the date of this Proxy Statement are Jerry G. McClain, Chairman, Ronald S. Poelman, Gilbert A. Fuller, and Robert Anciaux, each of whom meets the independence standards set forth above. The Board has determined that both Mr. McClain and Mr. Fuller are "audit committee financial experts," as defined by the applicable regulations promulgated by the SEC under the Exchange Act. The Board also believes that each member of the Audit Committee meets the NYSE composition requirements, including the requirements regarding financial literacy. The Audit Committee's responsibilities include: (i) appointing the independent registered public accounting firm of the Company, (ii) reviewing, approving and monitoring the scope and cost of any proposed audit and non-audit services that are provided by, as well as the qualifications and independence of, the independent registered public accounting firm, (iii) reviewing and monitoring with the independent registered public accounting firm, and internal audit staff, the results of audits, any recommendations from the independent registered public accounting firm and the status of management's actions for implementing such recommendations, as well as the quality and adequacy of our internal financial controls and internal audit staff, and (iv) reviewing and monitoring the Company's annual and quarterly financial statements, internal controls and the status of material pending litigation and regulatory proceedings.

**Compensation Committee.** The Compensation Committee of the Board of Directors (the "Compensation Committee") met four (4) times during 2014. Members of the Compensation Committee during fiscal 2014 and at the date of this Proxy Statement are Ronald S. Poelman, Chairman, Robert Anciaux, and Jerry G. McClain, each of whom meets the definition of "independent" set forth in the rules of the NYSE. In addition, all members of the Compensation Committee are outside directors as defined by Rule 162(m) of the Internal Revenue Code and are non-employee directors as defined by the applicable regulations promulgated by the SEC under the Exchange Act. The Compensation Committee's responsibilities include: (i) reviewing and



## Table of Contents

recommending to the full Board of Directors the salaries, bonuses, and other forms of compensation and benefit plans for management and (ii) administering USANA's equity compensation plans. The duties of the Compensation Committee as the administrator of those plans include, but are not limited to, determining those persons who are eligible to receive awards, establishing terms of all awards, authorizing officers of the Company to execute grants of awards, and interpreting the provisions of the equity compensation plans and grants that are made under those plans. The Compensation Committee is also responsible for reviewing and approving the Compensation Discussion and Analysis included in this Proxy Statement.

### *Risk Oversight and Management*

Our Board of Directors is actively involved in the oversight and management of the material risks that could affect the Company. Historically, our Board of Directors has carried out its risk oversight and management responsibilities by both monitoring risk directly as a full board and, where appropriate, through Board committees. The Board's direct role in our risk management process includes receiving regular reports from our executive officers and other members of senior management on areas of material risk to the Company, including operational, strategic, financial, legal and regulatory risks. The Board has delegated much of its direct risk oversight and management responsibility to the Governance Committee. The mandate of the Governance Committee with respect to risk management is to work with management to carry-out an efficient process for assessing and reporting material risk to the Governance Committee and, ultimately, the Board.

The Board has also historically delegated the oversight and management of certain risks to the Audit Committee and Compensation Committee. The Audit Committee is responsible for the oversight of Company risks relating to accounting matters, financial and internal control reporting and related party transactions. To satisfy these oversight responsibilities, the Audit Committee regularly meets with and receives reports from the Company's Chief Financial Officer, Executive Director of internal audit, the Company's independent registered public accounting firm, KPMG LLP, and the Company's in-house and outside legal counsel. The Audit Committee is also responsible for discussing with management, our independent registered public accounting firm and the chair of the Governance Committee, the areas of risk management overseen by the Governance Committee.

The Compensation Committee is responsible for the oversight of risk relating to the Company's compensation and benefits programs. To satisfy these oversight responsibilities, the Compensation Committee regularly meets with and receives reports from the Company's Chief Executive Officer and Chief Financial Officer to understand the financial, human resources and shareholder implications of compensation and benefits decisions.

### *Compensation Risk Analysis*

Our Compensation Committee considers the risk to the Company associated with each component of our executive compensation program, namely base salary, and short-and-long term incentive compensation. In considering these risks, the Compensation Committee believes that the following factors, among others, reduce the likelihood of excessive risk taking in connection with executive compensation at USANA:

- Our compensation components provide a balanced mix of (i) cash and equity compensation, (ii) short-term and long-term incentive compensation, and (iii) financial and non-financial performance metrics;
- Our executives generally all participate in the same short-term incentive program with similar performance metrics;

## Table of Contents

- Maximum pay-out levels for short-term incentive compensation are generally capped at 100% of an executive's base salary;
- Our equity awards generally vest over several years and are only valuable if the Company performs well financially and our stock price increases over time;
- We maintain strict internal controls over the determination and pay-out of each component of executive compensation;
- We do not typically enter into employment, severance or other management agreements with any of our executive officers that contain post-termination or change-in-control payments; and
- We generally do not provide significant perquisites or personal benefits to our executive officers.

Based on the Compensation Committee's review of these factors and others, the Committee does not believe that the Company's executive compensation program creates risks that are reasonably likely to have a material adverse effect on the Company.

### ***Board Committee Charters***

A written charter has been adopted for each of the Audit Committee, Compensation Committee and Governance, Risk and Nominating Committee. Copies of the Audit Committee Charter, Compensation Committee Charter, and Governance, Risk and Nominating Committee Charter are available, free of charge, on the Company's website at [www.usanahealthsciences.com](http://www.usanahealthsciences.com) under the "Corporate Governance" tab. The information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

### ***Corporate Governance Guidelines***

The Company has adopted Corporate Governance Guidelines that outline the Company's corporate governance policies and principles. The Company's Corporate Governance Guidelines are available, free of charge, on the Company's website at [www.usanahealthsciences.com](http://www.usanahealthsciences.com) under the "Corporate Governance" tab. The information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

### ***Code of Ethics***

We have adopted a code of ethics that applies to all of our directors, officers (including our Chief Executive Officer and Chief Financial and Accounting Officer), and employees. We require that all of our directors, officers and employees certify on an annual basis that they are in compliance with the code. A copy of the Code of Ethics for Directors and Employees is available on the corporate governance section of our web site at [www.usanahealthsciences.com](http://www.usanahealthsciences.com). In the event the Company makes any amendments to, or grants any waivers of, a provision of its code of ethics that applies to the principal executive officer, principal financial officer or principal accounting officer of the Company that requires disclosure under applicable SEC rules, the Company intends to disclose such amendment or waiver and the reasons therefor on a Current Report on Form 8-K or on its next periodic report filed under the Exchange Act.

## **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee during fiscal 2014 was composed of Ronald S. Poelman, Chairman, Robert Anciaux and Jerry G. McClain. All members of the Compensation Committee are independent directors. During the fiscal 2014, there were no relationships or transactions between the Company and any member of the Compensation Committee requiring disclosure hereunder.

## EXECUTIVE OFFICERS

The executive officers of USANA at January 3, 2015, and as of the date of this Proxy Statement were:

<u>Name</u>	<u>Position</u>
<b>Myron W. Wentz,</b> Ph.D.	Chairman of the Board
<b>David A. Wentz</b>	Chief Executive Officer
<b>Paul A. Jones</b>	Chief Financial Officer
<b>Kevin G. Guest</b>	President, USANA Health Sciences, Inc.
<b>Deborah Woo</b>	President, Asia and Greater China
<b>James H. Bramble</b>	Chief Legal Officer
<b>Jim Brown</b>	Chief Operating Officer
<b>Daniel A. Macuga</b>	Chief Communications Officer and Executive Vice President of Field Development for the Americas
<b>Doug Braun</b>	Chief Marketing Officer
<b>Rick Stambaugh</b>	Chief Information Officer

Biographical information for Myron W. Wentz is included above with the other nominees for director. The following information is provided for each of our other executive officers.

**David A. Wentz, 44, Chief Executive Officer.** Mr. Wentz joined USANA as a part-time employee in 1992. He has been a full-time employee since March 1994. From 1993 until April 2004, he was a member of the Company's Board of Directors. Mr. Wentz was appointed Chief Executive Officer in July 2008. He served as President from July 2002 to July 2008 and previously served as the Company's Executive Vice President from October 2001 to July 2002. He served as the Company's Senior Vice President of Strategic Development from June 1999 to October 2001, and as the Company's Vice President of Strategic Development from August 1996 to June 1999. Mr. Wentz received a B.S. in Bioengineering from the University of California, San Diego. Mr. Wentz is the son of Dr. Wentz, who is the founder of the Company and Chairman of the Company's Board of Directors.

**Paul A. Jones, 51, Chief Financial Officer.** Mr. Jones joined USANA in 2005 as Vice President of Human Resources and served in this role until June 2007, when he left to complete a three year service mission. Mr. Jones returned to USANA as Vice President of Human Resources in July 2010 and served in this role until December 2012, when he was appointed Chief Financial Officer. Prior to joining USANA, Mr. Jones was employed as Vice President of Human Resources and later as Vice President of Operations for Associated Food Stores, Inc. Mr. Jones received a B.S. in finance from Utah State University and a master of arts in organizational management from the University of Phoenix. Mr. Jones is also a Certified Management Accountant.

**Kevin G. Guest, 52, President, USANA Health Sciences, Inc.** Mr. Guest joined USANA on a part-time basis in April 2003, as Executive Director of Media and Events. Following the Company's acquisition of FMG Productions, a media, video, and event productions company that was founded by Mr. Guest, he became a full-time employee of the Company and was promoted to Vice President of Media and Events in February 2004. In January 2006, he was appointed as the Company's Executive Vice President of Marketing and served in that role until July 2008, when he was appointed Chief Marketing Officer. Mr. Guest served in this role until May 2011, when he was appointed as President of North America. In October 2012, he was appointed as President of the Americas, Europe and South Pacific. In August 2014, Mr. Guest became the President of the Company. Prior to joining USANA full-time, from 1992 to February 2004, Mr. Guest served as the Managing Partner of FMG Productions. Mr. Guest earned a B.A. in Communications from Brigham Young University.

**Deborah Woo, 61, President of Asia and Greater China.** Mrs. Woo joined USANA as General Manager of USANA Hong Kong in 1999 and served in that role until 2003. In 2003, she was promoted

## Table of Contents

to Regional General Manager and became responsible for the Hong Kong, Taiwan, and Singapore markets. Mrs. Woo was subsequently promoted to Vice President of Greater China and East Asia in 2005. As a result of USANA's strategic regional alignment in 2007, Mrs. Woo was appointed as Vice President of Greater China and North Asia. In 2008, Mrs. Woo was promoted to Executive Vice President of Asia. In February 2010, Mrs. Woo was promoted to Executive Vice President of Sales and served in this role until May 2011, when she was appointed President of Asia Pacific. In October 2012, she was appointed President of Asia and Greater China. Mrs. Woo entered the direct selling industry in 1990 as a Distributor Relations Manager for Amway Hong Kong. She later became Director of Sales for Caring International (Hong Kong) Limited in 1996 where she headed up multifunctional teams in operations, distributor relations, and marketing.

**James H. Bramble**, 45, Chief Legal Officer and Corporate Secretary. Mr. Bramble joined USANA in March 1998 to manage the Compliance and Legal Departments. In April 2006 he was appointed Vice President and General Counsel. In July 2008, Mr. Bramble was also appointed Corporate Secretary, and served in these roles until May 2011, when he was appointed Chief Legal Officer and Corporate Secretary. Prior to joining USANA, Mr. Bramble was employed with Novus Services. Mr. Bramble received a B.S. in political science with a minor in Spanish from the University of Utah in Salt Lake City, Utah. He received his J.D. from the S.J. Quinney College of Law at the University of Utah.

**Jim Brown**, 46, Chief Operating Officer. Mr. Brown joined USANA in 2006 as Vice President of Operations. In July 2011, he was appointed Vice President of Global Operations and served in that role until July 2012, when he was appointed Chief Production Officer. He served in that role until November 2013 when he was appointed Chief Operating Officer. Prior to joining USANA, Mr. Brown was previously employed at Sonoco as a plant manager where he was responsible for safety, quality, finance, production, and maintenance. Mr. Brown received a bachelor's degree with a double major in computer science and math as well as an M.B.A. from Francis Marion University in Florence, South Carolina.

**Daniel A. Macuga, Jr.**, 45, Chief Communications Officer and Executive Vice President of Field Development for the Americas. Mr. Macuga joined USANA in 2007 as Vice President of Network Development and Public Relations. In July 2008, he was appointed as Vice President of Marketing, Public Relations and Social Media and served in that role until December 2011, when he was appointed Chief Communications Officer. He served in that role until February 2014 when he was appointed Chief Communications Officer and Executive Vice President of Field Development for the Americas. Prior to joining USANA, Mr. Macuga was employed at the Chrysler Corporation, where he spent 15 years working closely with independent dealership entrepreneurs to help them build their businesses, increase awareness for their products, and keep them focused on effective customer relationship management. Mr. Macuga received a B.A. in communications from the University of California, San Diego.

**Doug Braun**, 53, Chief Marketing Officer. Mr. Braun joined USANA as Vice President of Marketing in December 2011. He served in this capacity until March 2012, when he was appointed as Vice President of Marketing and Recognition and served in that role until July 2012, when he was appointed Chief Marketing Officer. Mr. Braun brings 20 years of direct selling experience to USANA. Prior to joining USANA, Mr. Braun was self-employed in 2011 and served as temporary chief executive officer of GrowLife, Inc. from May 2011 to September 2011. Prior to that he was president of Nikken International, Inc. from December 2008 to January 2011, vice president of sales & marketing of Nikken International, Inc. from July 2007 to November 2008 and vice president of marketing of Nikken International, Inc. from July 2005 to June 2007. Prior to that, he served as vice president of marketing of Fionda, LLC, and senior vice president of global marketing at Herbalife International, Inc. where Mr. Braun spent ten years. He has a BBA from the University of Cincinnati and an MBA from Xavier University.

## Table of Contents

**Rick Stambaugh**, 54, Chief Information Officer. Mr. Stambaugh joined USANA as Executive Director of Digital Marketing in September 2013. He served in that capacity until December 2013, when he was appointed as Chief Information Officer. Mr. Stambaugh brings more than 30 years of direct selling experience to USANA. Prior to joining USANA, Mr. Stambaugh was the President and CEO of Tek Vation, LLC from May 2012 to September of 2013. Prior to that, he served as President and CEO of The Fionda Group Companies, LLC from June 2004 to May 2012, President from January 2002 to June 2004, and Executive Vice President from January 2000 to January 2002. Prior to that, he served as Director of Corporate Marketing at Herbalife International. Mr. Stambaugh attended the University of Nebraska, Omaha, and majored in education.

## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

#### *Introduction*

The following Compensation Discussion and Analysis describes the material elements of the compensation and benefit programs for our Chief Executive Officer, Chief Financial Officer, and the three other most highly-compensated executive officers as of the end of fiscal year 2014. In this Proxy Statement, we refer to these officers as our "Named Executive Officers." Our Named Executive Officers are also referred to herein individually as an "Executive" and collectively as "Executives".

#### *Executive Summary and Overview*

**Summary of 2014 Accomplishments.** Fiscal 2014 was an exceptional year for USANA. From a financial perspective, we delivered our 12<sup>th</sup> consecutive year of record net sales, as well as our highest annual earnings-per-share in the history of the Company. These results were driven by a number of accomplishments during the year, including our achievement of more than 31% growth in the number of Active Associates who use and sell our products around the world. We ended the 2014 fiscal year with a record 349,000 Active Associates and 81,000 Preferred Customers worldwide. Associate and customer growth is our highest priority as we continue to focus on improving the overall health and nutrition of individuals and families around the world.

In 2014, we continued to see our business accelerate through improvement in a number of metrics that we use to evaluate the strength of our business. These metrics include Auto Order sales, world-wide unit volume, the number of Associate check earners and Associate rank advancements. At the end of fiscal 2014, Auto Orders made up 48.3% of our total product volume, compared to 41.7% at the end of fiscal 2013. Our Auto Order program is a key part of our operating strategy, as it has been shown to increase the success and longevity of a USANA customer. We also continued to see solid growth in our world-wide unit volume, the number of Associate check earners, and Associate rank advancements—all of which are essential to our business.

In 2014, we also continued to see our business grow in China. Specifically, annual net sales in China increased over 103% on a year-over-year basis and the number of Active Associates increased over 94%. We also made significant progress during the year on the construction of our new state-of-the-art production facility in Beijing, as well as the renovation and improvement of our branch service center locations throughout China.

Finally, in 2014 we completed essentially all pre-market planning and preparations to open a new market in 2015. We have announced that this market will be in our South East Asia Pacific Region and we will open it during the latter part of 2015.

**Overview of Compensation Program.** We believe that our Executives and employees, as well as the compensation programs that incent them, are key factors in driving our strong financial and operational performance. Our executive compensation program is designed to provide a competitive and internally

## Table of Contents

equitable compensation and benefits package. We also strive to ensure that our executive compensation program reflects a pay-for-performance philosophy and promotes Executive motivation and retention.

Our executive compensation program includes base salary, short-term incentive compensation (in the form of a cash bonus), and long-term incentive compensation (in the form of equity awards). Short-term incentive compensation is performance-based and designed to motivate our Executives to achieve annual financial and non-financial performance objectives. To minimize potential risk, the potential for short-term incentive compensation is typically capped at 100% of an Executive's base salary. Long-term incentive compensation utilizes equity awards, which vest over several years. These awards reward the Executive for sustainable Company performance and align the financial interests of our Executives with those of our shareholders.

Other than as described above, we typically do not provide benefits to our Executives that are different from or in addition to those that are provided to our general employees. Additionally, we typically do not enter into pre-arranged severance agreements or contracts with our Executives that contain post-termination or change-in-control payment provisions, or provide significant perquisites or personal benefits to our Executives.

### *Compensation Philosophy and Objectives*

The Company's compensation philosophy, as approved by the Compensation Committee, is to establish and maintain executive compensation programs that are designed to accomplish the following objectives:

- To attract and retain, through a fair and competitive compensation plan, Executives who have the intelligence, education, and experience that is required to effectively administer the affairs of the Company;
- To motivate our Executives to achieve certain financial and non-financial performance objectives for the benefit of our shareholders by tying components of their total compensation to individual and Company performance; and
- To ensure that compensation practices do not impair USANA's financial strength or future success.

The Compensation Committee intends to meet these objectives by utilizing and maintaining a balance among three major components of compensation: base salary, short-term incentive compensation (cash bonus), and long-term incentive compensation (in the form of equity awards). The Committee believes that these three components provide the appropriate framework to attract, retain and motivate our Executives, and align a significant portion of executive compensation with short-and long-term performance objectives that drive shareholder value. As shown in the compensation tables following this report, our Executives do not currently receive retirement benefits, pre-determined severance arrangements, deferred compensation opportunities, or other perquisites that are commonly provided to executives of similarly sized companies.

### *Role of Compensation Committee*

Our executive compensation philosophy and practice has been developed through a collaborative effort of the Compensation Committee, the CEO, and the CFO. While these officers offer ideas, opinions, and proposals in Compensation Committee meetings, the Compensation Committee functions and votes independently from these officers. The Compensation Committee is responsible for all changes to the executive compensation philosophy and program. The Compensation Committee consists of three members of USANA's Board of Directors, all of whom are "independent" under the rules of the NYSE. These members are appointed to the Compensation Committee by the Board of Directors.

## Table of Contents

The Compensation Committee acts under a written charter, which outlines the committee's authority and responsibilities.

### *Role of Corporate Leadership in Assisting Compensation Committee*

The Compensation Committee has the primary authority to determine the Company's compensation philosophy and to establish compensation for the Company's Named Executive Officers. It is responsible for ensuring that executive compensation decisions are thoroughly researched and implemented. All of the Company's Executives and employees participate in an annual performance review with their immediate supervisor, during which the Executive or employee receives input about his or her performance and contributions to the Company's results for the period being assessed. The Compensation Committee seeks input from the Company's CEO and CFO to identify key factors and to obtain information that is related to executive compensation. These key factors and information generally involve the individual Executive's level of responsibility, his or her years of experience, his or her current overall compensation level in relation to external market studies and internal equity analysis between executives, the impact of current compensation practices on the Company's financial statements, and the relationship between executive compensation and performance of the Company.

The Company's CFO takes direction from and makes suggestions to the Chairman of the Compensation Committee in establishing the quarterly committee meeting agenda and in preparing the materials to be presented to the Compensation Committee. These materials contain minutes from prior meetings, key items to be addressed, and background information to help the Compensation Committee in its decision-making process.

### *Compensation Consultants*

During 2014, the Compensation Committee did not engage or consult with a compensation consultant in connection with rendering decisions on 2014 Executive compensation. The Compensation Committee utilized the following materials, along with other resources and tools, to render compensation decisions for 2014: (i) surveys and reports of executive compensation paid by public companies, with characteristics similar to USANA, on a national basis; and (ii) surveys from Mercer, ERI, U.S. Direct Selling Association, and Western Management Group of executive compensation paid by certain of the Company's direct competitors, consisting of both public and private companies, on a local and national basis. These materials and resources help provide solid benchmarks for each component of our executive compensation as well as a general understanding of the total compensation offered by companies in our industry who are competing for top talent.

In late 2014, the Compensation Committee retained Frederic W. Cook & Co., or FWC, as its independent compensation consultant to assist the committee in reviewing our executive compensation program, to provide compensation data and alternatives to the committee, and to provide advice to the committee as requested. FWC does not perform any work for the Company outside of the services it performs for the Compensation Committee. The Compensation Committee will consider the compensation data and alternatives provided by FWC to analyze compensation decisions in 2015 and beyond, including setting annual base salary compensation, short-term incentive compensation and long-term incentive compensation for our Executives.

As a basis for the market data provided to the Compensation Committee, FWC utilized compensation data from a group of 22 peer companies set out below. These companies are all within a reasonable range of the Company's revenue, operating income, and market capitalization. As of the date of our 2014 fiscal year-end, we were at or near the median of the peer group with respect to revenue, operating income and market capitalization. This information was gathered and analyzed for the 25th, 50th and 75th percentiles for annual salary, short-term incentive pay elements and long-term incentive pay elements. Where possible, our Executives were matched to appropriate proxy and survey



## Table of Contents

positions based on job duties and level of responsibility. The peer group information and other data provided by FWC are among several factors that the Compensation Committee will utilize in making compensation decisions in 2015 and beyond. The following companies were included in the 2014 peer group.

Blyth, Inc.	Nature's Sunshine Products, Incorporated
Coty, Inc.	Nu Skin Enterprises, Inc.
Elizabeth Arden, Inc.	Nutraceutical International Corporation
GNC Holdings, Inc.	NutriSystem Inc.
The Hain Celestial Group, Inc.	Perrigo Company plc
Herbalife, Ltd.	Prestige Brands Holdings, Inc.
International Flavors and Fragrances Inc.	Primerica, Inc.
Inter Parfums, Inc.	Revlon, Inc.
LifeVantage Corporation	Tupperware Brands Corporation
Mannatech, Incorporated	Vitamin Shoppe, Inc.
Natural Health Trends Corp.	Weight Watchers International, Inc.

## Components of Compensation

### Base Salary

Base salary represents the fixed component of executive compensation. It is designed to compensate our Executives fairly and competitively at levels necessary to attract, retain and motivate qualified executives in our industry. Consistent with this philosophy, the Compensation Committee, on an annual basis, evaluates our Executives' base salaries. The Committee asks for input and recommendations from the CEO and CFO and then considers (i) the Executive's scope of responsibilities, maturity in role, demonstrated level of performance, accomplishments and contributions to the Company; (ii) the performance of USANA, both financially and operationally; (iii) current market data and salary levels for each Executive's particular position; and (iv) the total compensation paid to each Executive. The Committee then renders a decision for each Executive's base salary based on the total mix of the foregoing information.

As part of its 2014 Executive compensation evaluation, the Compensation Committee, after reviewing the information outlined above, approved the Named Executive Officers' base salaries from July 2014 through June 2015 as follows:

Executive	Appointed Office	2013 - 2014 Base Salary (\$)	2014 - 2015 Base Salary (\$)*
David A. Wentz	Chief Executive Officer	\$ 575,000	\$ 300,000
Kevin G. Guest	President, USANA Health Sciences, Inc.	\$ 583,495	\$ 600,000
Deborah Woo	President of Asia and Greater China	\$ 580,378	\$ 580,378
Paul A. Jones	Chief Financial Officer	\$ 320,000	\$ 340,000
James H. Bramble	Chief Legal Officer	\$ 371,527	\$ 382,673

\* For 2014-2015, Mr. Wentz informed the Compensation Committee that, pursuant to his discussions with and approval from the Board of Directors, he would be reducing his time in the office to spend more time with his family from August 2014 through August 2015. Mr. Wentz also informed the committee that, notwithstanding his reduced time in the office, he would continue to work on several strategic initiatives for the Company, as well as attend several significant events with the Company's Associate sales force. In light of these factors, Mr. Wentz recommended that the Compensation Committee reduce his base salary to \$300,000 for 2014-2015. The Compensation Committee agreed with Mr. Wentz's recommendation and reduced his base salary. With respect to Mr. Guest, the Compensation Committee adjusted his base salary in August 2014 for 2014-2015 in

## Table of Contents

connection with his promotion to President of USANA and authorized a quarterly cash bonus to Mr. Guest of \$25,000 for the period of time that Mr. Wentz is reducing his time in the office. With respect to Ms. Woo, Mr. Jones and Mr. Bramble, the Compensation Committee set each Executive's base salary for 2014-2015 following its evaluation of all of the factors set out in (i) through (iv) in the paragraph above.

The actual base salaries paid to our Named Executive Officers during the year ended January 3, 2015 are reflected in column (c) of the Summary Compensation Table of this Proxy Statement.

### Non-Equity Incentive Plan Compensation

We offer our Named Executive Officers non-equity incentive plan compensation in the form of a cash bonus that is based on USANA's achievement of certain financial and non-financial performance objectives during the applicable year. Cash bonuses are based on a percentage of the Executive's base salary. Each year, the Compensation Committee sets the range of the cash bonus for which each Executive is eligible and sets the performance objectives on which cash bonuses for that year will be based.

#### *2014 Non-Equity Incentive Plan*

For 2014, the Compensation Committee approved the 2014 Executive Bonus Plan (the "2014 Bonus Plan"), which was based on growth in net sales and profitability. The Compensation Committee approved this single financial performance objective to: (i) focus the Company's Executives on growing net sales in 2014 without sacrificing profitability; (ii) continue to align the bonus opportunity under the 2014 Bonus Plan for all Executives to promote internal equity; (iii) foster teamwork among markets and Executives; and (iv) also align the 2014 Bonus Plan offered to Executives with the profit sharing plan offered to all other employees of the Company.

Under the 2014 Bonus Plan, 9% of the Company's adjusted operating profits, which exceed 10% of net sales, were to be paid to Executives in the form of a cash bonus. For purposes of the 2014 Bonus Plan, the term "adjusted operating profit" is calculated as (i) the Company's earnings from operations, plus (ii) positive adjustments to earnings from operations for Executive and employee bonus accruals and equity compensation expense. Payments under the 2014 Bonus Plan were distributed as an equal percent of the Executive's base salary.

Under the 2014 Bonus Plan, Executives were eligible to receive a cash bonus of between zero and 100% of their base salary, depending on the performance of the Company under the criteria of the plan. Each Executive's target bonus percentage under the 2014 Bonus Plan was 50% of the Executive's base salary.

#### *2014 Executive Bonus Plan Payout*

Shortly after the end of fiscal 2014, the Compensation Committee reviewed the foregoing performance objectives and evaluated the actual performance delivered by the Company under the 2014 Bonus Plan. The Compensation Committee determined that the Company delivered excellent financial and operating performance in 2014 and, in particular, noted that the Company:

- Achieved 2014 net sales of \$790.5 million, which is a 10.1% increase compared to fiscal 2013;
- Achieved 2014 adjusted operating profit of \$138.1 million; and
- Achieved 2014 adjusted operating profit in excess of 10% of net sales of \$59 million.

Based on the Company's performance, and the criteria of the 2014 Bonus Plan, the Compensation Committee determined that each Executive had earned a cash bonus equal to 46.9% of the Executive's base salary under the 2014 Bonus Plan. Consequently, the committee awarded this bonus amount to

## Table of Contents

each Executive. The actual cash bonuses paid to our Named Executive Officers under the 2014 Bonus Plan are reflected in column (g) of the Summary Compensation Table of this Proxy Statement.

### *2015 Executive Bonus Plan*

For 2015, the Compensation Committee approved the 2015 Executive Bonus Plan (the "2015 Bonus Plan"), which is based on the same performance objectives as the 2014 Bonus Plan: growth in net sales and profitability. As part of its determination to again utilize this bonus criteria and structure, the committee noted: (i) the strong operating results delivered by the Executives and the Company in 2014; (ii) the successful alignment of the Company's Executives under the 2014 Bonus Plan, and (iii) the internal equity among Executives that was created by the 2014 Bonus Plan.

Under the 2015 Bonus Plan, 9% of the Company's adjusted operating profits, which exceed 10% of net sales, will again be paid to Executives in the form of a cash bonus. Payments under the 2015 Bonus Plan will be distributed as an equal percent of the Executive's base salary. Under the 2015 Bonus Plan, Executives will be eligible to receive a cash bonus of between zero and 100% of their base salary, depending on the performance of the Company under the criteria of the plan. Each Executive's target bonus percentage under the 2015 Bonus Plan is 50% of the Executive's base salary. Future estimated payouts under the 2015 Bonus Plan are reflected in the Grants of Plan-Based Awards table of this Proxy Statement.

### Equity Compensation

Equity compensation is an integral part of USANA's compensation philosophy. We believe that equity grants that vest over a period of years tie a portion of our Executives' compensation to the Company's long-term performance and, thereby, align the interests of our Executives with the interests of our shareholders. Our equity compensation program delivers compensation to Executives only when the Company performs and the value of the Company's stock increases. USANA provides equity-based compensation primarily through the issuance of Stock-Settled Stock Appreciation Rights ("SSARs"). Grants of equity awards are made for both Executives and other eligible employees at regular Compensation Committee meetings and at special meetings, as needed.

The Compensation Committee's philosophy has been to issue intermittent SSAR awards to Executives to drive long-term Company performance as well as individual Executive performance. In general SSAR awards are granted to Executives as they enter into a qualifying position and vest annually in equal installments over a five-year period. Additional grants are awarded to Executives as seen necessary by the Compensation Committee to maintain sufficient long term incentive to accomplish the objectives outlined above. These additional grants typically do not vest in the first two years, but only at the end of years three, four and five, and such vesting for a particular Executive commences when the vesting schedule of that Executive's particular SSAR award ends. The grant price for equity awards is the fair market value of the award as of the date of grant as determined by the closing price of the Company's common stock on the date of grant.

In 2014, the Compensation Committee issued SSAR awards to the Named Executive Officers as detailed in the Outstanding Equity Awards At Fiscal Year-End Table of this Proxy Statement. The 2014 awards sequentially follow the Company's last broad SSAR award issuance in 2010. After the 2010 awards complete vesting and expire in 2015, the 2014 awards will begin to vest in 2016.

### Other Compensation

Other than as described above, USANA does not at this time provide benefits to its Named Executive Officers that are different from or in addition to those that are provided to its general employees. Those benefits are described below.

## Table of Contents

**Retirement:** Executives may participate in Company sponsored 401(k) retirement plans on the same terms and conditions, including Company matching provisions, as other employees. For the year ended January 3, 2015, we contributed matching funds totaling \$1,302,741 to our 401(k) plan in which all eligible employee participants shared. During 2014, each of our eligible Executives participated in our 401(k) plan and shared matching funds totaling \$72,800. Mrs. Woo is not eligible to participate in our 401(k) plan and the Company pays retirement compensation to her, as disclosed in the Summary Compensation Table, pursuant to Hong Kong law. Except as disclosed in this paragraph, we provide no other retirement benefits to our Executives.

**Severance:** USANA has no pre-arranged severance agreements or contracts with any of our Executives that contain post-termination or change-in-control payment provisions. We have, however, provided severance benefits to Executives on a case-by-case basis.

**Perquisites:** It is our general practice not to provide significant perquisites or personal benefits to our Executives. The Compensation Committee, however, retains the discretion to consider and award reasonable perquisites or personal benefits to Executives as necessary to accomplish the objectives under our compensation philosophy. In this regard, it should be noted that we do not currently provide pension arrangements, post-retirement health coverage, or similar benefits for our Executives or employees. In 2014, we paid health, life, and disability insurance premiums on behalf of our Executives, all on the same terms as those that we provide to all of the Company's employees.

**Insurance Plans and Other Benefits:** We provide insurance plans and other benefits to our Executives that are similar to those plans and benefits that are customarily provided to general employees of the Company.

**Indemnification:** Article VI of our Amended and Restated Articles of Incorporation and Article 5 of our Bylaws provide for indemnification of our directors, officers, employees, and other agents to the extent and under the circumstances permitted by the Utah Revised Business Corporation Act. We have entered into agreements with our directors and officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent allowed. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers, or persons controlling us under the foregoing provisions, the SEC has stated that such indemnification is against public policy, as expressed in the Securities Act, and, therefore, such indemnification provisions may be unenforceable.

### Section 162(m) Treatment Regarding Performance-Based Equity Awards

Under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Section 162(m)"), a public company is generally denied deductions for compensation paid to the chief executive officer and the next four most highly compensated executive officers to the extent the compensation for any such individual exceeds \$1,000,000 for the taxable year. The Company's executive compensation programs are designed to preserve the deductibility of compensation payable to executive officers, although deductibility is just one among a number of factors considered in determining appropriate levels or types of compensation.

### Consideration of Shareholder Advisory Votes

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), required that we include in our proxy statement for the 2014 Annual Meeting of Shareholders (the "2014 Annual Meeting") a non-binding, advisory shareholder vote to approve the compensation of our Named Executive Officers. At the 2014 Annual Meeting, our shareholders voted for approval of the compensation of our Named Executive Officers (99% of votes cast). Historically, the Compensation

## Table of Contents

Committee has recommended, and shareholders have approved (67% of votes cast) the Company's determination to include a shareholder advisory vote on executive compensation in its future proxy materials once every three years. The Compensation Committee has affirmed its recommendation to the Board that this advisory vote be held once every three years and the Board has approved the committee's recommendation. This will be the frequency of such advisory votes until the next required vote on the frequency of advisory votes on executive compensation, which will occur at the Company's Annual Meeting of shareholders in 2017, or until the Compensation Committee, or Board of Directors, otherwise determines a different frequency for such shareholder advisory votes.

Table of Contents

**REPORT OF THE COMPENSATION COMMITTEE**

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by the members of the Compensation Committee:

Ronald S. Poelman (Chair)  
Jerry G. McClain  
Robert Anciaux

## SUMMARY COMPENSATION TABLE

The following table summarizes all compensation paid to our Named Executive Officers in each of the three most recently completed fiscal years.

(a) Name and Principal Position	(b) Year	(c) Salary (\$)	(d) Bonus (\$)(1)	(e) Stock Awards (\$)	(f) Option Awards (\$)(2)	(g) Non-Equity Incentive Plan Compensation (\$)(3)	(h) Change in Pension Value and Nonqualified Deferred	(i) All Other Compensation (\$)(4)	(j) Total (\$)
							Compensation Earnings (\$)		
Myron W. Wentz Chairman	2014	—	—	—	—	—	—	—	—
	2013	—	—	—	—	—	—	—	—
	2012	—	—	—	—	—	—	—	—
David A. Wentz Chief Executive Officer	2014	\$469,231	—	—	\$1,018,958	\$ 218,096	— \$	9,100	\$1,715,385
	2013	\$530,769	—	—	—	\$ 289,360	— \$	8,575	\$ 828,704
	2012	\$565,289	—	—	—	\$ 284,275	— \$	8,575	\$ 858,139
Paul A. Jones Chief Financial Officer	2014	\$329,534	—	—	—	\$ 148,666	— \$	9,100	\$ 487,300
	2013	\$317,688	—	—	—	\$ 153,192	— \$	8,575	\$ 479,455
	2012	\$189,697	—	—	\$ 486,045	\$ 95,396	— \$	8,575	\$ 779,713
Kevin G. Guest(5) President of USANA	2014	\$589,843	25,000	—	\$1,036,679	\$ 274,156	— \$	9,100	\$1,934,778
	2013	\$583,495	—	—	—	\$ 318,104	— \$	8,575	\$ 910,174
	2012	\$574,671	—	—	—	\$ 288,993	— \$	8,575	\$ 872,239
Deborah Woo(6) President of Asia & & Greater China	2014	\$583,546	—	—	\$1,027,818	\$ 271,229	— \$	87,580	\$1,970,173
	2013	\$575,052	—	—	—	\$ 262,696	— \$	83,513	\$ 921,261
	2012	\$555,657	—	—	—	\$ 279,266	— \$	76,879	\$ 911,802
James H. Bramble Chief Legal Officer & Corporate Secretary	2014	\$376,843	—	—	\$ 655,677	\$ 175,155	— \$	9,100	\$1,216,775
	2013	\$365,909	—	—	—	\$ 199,483	— \$	8,575	\$ 573,967
	2012	\$355,251	—	—	—	\$ 178,650	— \$	8,575	\$ 542,476

- (1) Consists of a quarterly cash bonus of \$25,000 paid to Mr. Guest as our President for additional services and responsibilities while the Company's CEO, Mr. Wentz, has reduced his time in the office from August 2014 through August 2015.
- (2) Amounts in this column reflect the grant date fair value of stock-settled stock appreciation rights ("SSARs") granted during the year computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. In computing these amounts, the Company ignored the impact of the forfeiture rate relating to service based vesting conditions. These amounts do not represent the actual amounts paid to or realized by the Executive for these awards during the applicable fiscal year. Assumptions used in the calculation of these amounts are included in the Equity Based Compensation footnote to the Company's consolidated financial statements that are included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015.
- (3) Reflects amounts paid in fiscal 2015 for performance realized in fiscal year 2014, under the Company's short-term incentive plan (cash bonus) discussed in the Compensation Discussion and Analysis section of this Proxy Statement.
- (4) Reflects employer's matching contribution to the Executive's 401(k) plan, except in the case of the compensation paid to Mrs. Woo which is set out in (5) below.
- (5) Until August 2014, Mr. Guest's title was President of the Americas, Europe and South Pacific. He was named President of the Company in August 2014.
- (6) Mrs. Woo is our President of Asia & Greater China and resides in Hong Kong. In connection with Mrs. Woo's overseas employment, column (i) reflects \$87,580 paid by the Company to Mrs. Woo in 2014 as retirement compensation pursuant to local law.



GRANTS OF PLAN-BASED AWARDS

The following table contains information regarding equity awards granted to the Named Executive Officers during the fiscal year ended January 3, 2015 and the estimated or targeted payouts under the 2015 Bonus Plan described in the Compensation Discussion and Analysis section of this Proxy Statement.

(a) Name	Estimated future payouts under non-equity incentive plan awards(1)			Estimated future payouts under equity incentive plan awards			(i) All other stock awards: Number of shares of stock or units (#)	(j) All other awards: Number of securities underlying options (#)(2)	(k) Exercise or base price of awards (\$/Sh) (3)	(l) Grant date of stock and option awards (\$)
	(b) Grant Date	(c) Threshold (\$)(1)	(d) Target (\$)	(e) Maximum (\$)	(f) Threshold (\$)	(g) Target (\$)	(h) Maximum (\$)			
Myron W. Wentz		—	—	—	—	—	—	—	—	—
David A. Wentz	N/A	—	\$150,000	\$ 300,000	—	—	—	—	\$7,500	\$7.62 1,018,958
Paul A. Jones	N/A	—	\$170,000	\$ 340,000	—	—	—	—	—	—
Kevin G. Guest	N/A	—	\$300,000	\$ 600,000	—	—	—	—	\$8,500	\$7.62 1,036,679
Deborah Woo	N/A	—	\$290,189	\$ 580,378	—	—	—	—	\$8,000	\$7.62 1,027,818
James H. Bramble	N/A	—	\$191,336	\$ 382,673	—	—	—	—	\$7,000	\$7.62 655,677

- (1) There is no guaranteed payment to our Named Executive Officers under the 2015 Executive Bonus Plan. If the minimum performance objectives are not achieved, they will receive no payout under the 2015 Executive Bonus Plan. The amounts shown in column (d) reflect the target payout, which is 50% of the Executive's base salary. The amounts shown in column (e) reflect 100% of the Executive's base salary, which is the maximum payout that can be obtained under the 2015 Executive Bonus Plan.
- (2) All equity awards granted to the Named Executive Officers were SSARs and granted under the 2006 Equity Incentive Award Plan. Mr. Jones did not receive an SSAR award in 2014 as a result of awards granted to him in prior years.
- (3) All Equity Awards granted to the Named Executive Officers were granted at the closing stock price on the date of grant.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table includes certain information with respect to the value of all equity awards previously granted to the Named Executive Officers at the end of the fiscal year ended January 3, 2015.

(a) Name	Option awards			Stock Awards					
	(b) Number of securities underlying unexercised options (#)	(c) Number of securities underlying unexercised options (#)	(d) Equity incentive plan awards: Number of securities underlying unexercised options (#)	(e) Option price (\$)	(f) Option expiration date	(g) Number of shares or units of stock that have not vested (#)	(h) Market value of shares or units of stock that have not vested (\$)	(i) Equity incentive plan awards: Number of shares or units of stock that have not vested (#)	(j) Equity incentive plan awards: Market value of shares or units of stock that have not vested (\$)
Myron W. Wentz	—	—	— \$	—	—	—	—	—	—
	—	—	— \$	—	—	—	—	—	—
David A. Wentz(1)	—	30,000	— \$ 35.47	27-Oct-15	—	—	—	—	—
	—	57,500	— \$ 57.62	15-Mar-18	—	—	—	—	—
Paul A. Jones(2)	—	10,200	— \$ 39.40	26-Jan-16	—	—	—	—	—
	7,000	21,000	— \$ 38.23	16-Jun-18	—	—	—	—	—
Kevin G. Guest(1)	—	25,250	— \$ 35.47	27-Oct-15	—	—	—	—	—
	—	58,500	— \$ 57.62	15-Mar-18	—	—	—	—	—
Deborah Woo(1)	—	32,000	— \$ 35.47	27-Oct-15	—	—	—	—	—
	—	58,000	— \$ 57.62	15-Mar-18	—	—	—	—	—
James H. Bramble(1)	—	15,000	— \$ 35.47	27-Oct-15	—	—	—	—	—
	—	37,000	— \$ 57.62	15-Mar-18	—	—	—	—	—

- (1) The SSAR grants to Mr. Wentz, Mr. Guest, Mrs. Woo, and Mr. Bramble which expire on October 27, 2015, vest 50% in April 2014 and 50% in April 2015. The SSAR grants to Mr. Wentz, Mr. Guest, Mrs. Woo, and Mr. Bramble which expire on March 15, 2018, vest 50% in August 2016 and 50% in August 2017.
- (2) The SSAR grant to Mr. Jones, which expires on January 26, 2016, vests 50% in July 2014 and 50% in July 2015. The SSAR grant to Mr. Jones, which expires on June 16, 2018, vests 20% annually, beginning on the first anniversary of the date of grant.

Table of Contents

OPTION EXERCISES AND STOCK VESTED

The following table summarizes certain information with respect to the awards exercised by the Named Executive Officers during the fiscal year ended January 3, 2015.

(a) Name	Option awards		Stock awards	
	(b) Number of shares acquired on exercise (#)	(c) Value realized on exercise (\$)	(d) Number of shares acquired on vesting (#)	(e) Value realized on vesting (\$)
Myron W. Wentz	343,805	\$ 22,500,244	—	—
David A. Wentz	22,484	\$ 1,627,148	—	—
Paul A. Jones	10,823	\$ 1,136,510	—	—
Kevin G. Guest	12,635	\$ 897,133	—	—
Deborah Woo	15,875	\$ 1,117,979	—	—
James H. Bramble	7,895	\$ 619,950	—	—

# COMPENSATION OF DIRECTORS

The table below summarizes the compensation paid by the Company to directors of the Company for the fiscal year ended January 3, 2015, other than Dr. Wentz, the Company's Chairman of the Board, whose compensation is included in the Summary Compensation Table and who received no compensation for his services as a director in 2014.

(a) Name	(b) Fees earned or paid in cash (\$) (1)	(c) Stock awards (\$) (2)	(d) Option awards (\$) (2)	(e) Non-equity incentive plan compensation (\$) (3)	(f) Change in pension value and nonqualified compensation earnings (\$) (4)	(g) All other compensation (\$) (5)	(h) Total (\$) (6)
Robert Andiaux	\$ 126,600	—	\$ 213,264	—	—	—	\$ 339,864
Jerry G. McClain	\$ 143,950	—	\$ 213,264	—	—	—	\$ 357,214
Ronald S. Poelman	\$ 150,250	—	\$ 213,264	—	—	—	\$ 363,514
Gilbert A. Fuller	\$ 133,050	—	\$ 213,264	—	—	—	\$ 346,314

- (1) Effective July 2014, each non-employee director receives an annual cash retainer of \$88,800. The chair of the Company's Audit Committee, which is currently Mr. McClain, receives an additional annual cash retainer of \$17,800. The chair of the Compensation Committee, which is currently Mr. Poelman, receives an annual cash retainer of \$11,000 and the chair of the Governance, Risk and Nominating Committee, which is currently Mr. Fuller, receives an annual cash retainer of \$6,600. The Board Secretary, which is currently Mr. Poelman, also receives an annual cash retainer of \$13,200. The amounts in column (b) reflect a combination of the retainer fees for 2014. The Company also reimburses all directors for the out-of-pocket expenses that they incur in connection with their services as directors, which include travel, lodging, and related expenses from attending conferences to continue their education and expertise as directors, as well as participating in meetings of the shareholders, Board of Directors, and committees of the Board.
- (2) Amounts in this column reflect the grant date fair value of stock-settled stock appreciation rights ("SSARs") computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. In computing these amounts, the Company ignored the impact of the forfeiture rate relating to service based vesting conditions. These amounts do not represent the actual amounts paid to or realized by the directors for these awards during the applicable fiscal year. Assumptions used in the calculation of these amounts are included in the Equity Based Compensation footnote to the Company's consolidated financial statements that are included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our common stock, as of March 2, 2015, by (1) each person known to be the beneficial owner of more than 5% of the issued and outstanding common stock based upon their most recent filings or correspondence with the SEC, (2) the Named Executive Officers and the directors of USANA individually, and (3) the Named Executive Officers and directors as a group. Except as indicated in the footnotes below, each of the persons listed below is believed to exercise sole voting and investment power over the shares of common stock that are listed for such individual or entity in this table.

<u>Name and Address</u>	<u>Number of Shares(1)</u>	<u>Percent of Class(2)</u>
<b>Beneficial Owners of More Than 5%</b>		
Gull Holdings, Ltd. 4 Finch Road Douglas, Isle of Man	6,498,110	51.3%
FMR LLC(3) 82 Devonshire Street Boston, MA 02109	1,146,907	9.1%
Renaissance Technologies LLC(4) 800 Third Avenue New York, NY 10022	797,883	6.3%
<b>Directors and Named Executive Officers</b>		
Myron W. Wentz, Ph.D.(5) Chairman of the Board	6,498,110	51.3%
David A. Wentz,(6) Chief Executive Officer	478,591	3.8%
Paul A. Jones(7) Chief Financial Officer	4,351	*
Kevin G. Guest(8) President	16,995	*
Deborah Woo(9) President of Asia and Greater China	20,762	*
James H. Bramble(10) Chief Legal Officer	10,354	*
Robert Anciaux, Director(11)	3,626	*
Jerry G. McClain, Director(12)	7,166	*
Ronald S. Poelman, Director(13)	5,702	*
Gilbert A. Fuller, Director(14)	1,443	*
<b>Directors and Officers as a group (10 persons)</b>	<b>7,047,100</b>	<b>55.3%</b>

\* Less than one percent.

## Table of Contents

- (1) All entries exclude beneficial ownership of shares that are issuable pursuant to options or SSARs that have not vested or that are not otherwise exercisable as of the date hereof and which will not become vested or exercisable within 60 days of March 2, 2015.
- (2) Percentages are rounded to nearest one-tenth of one percent. Percentages are based on 12,658,684 shares outstanding on March 2, 2015. Shares of common stock subjected to options and/or SSARs that are presently exercisable or exercisable within 60 days of March 2, 2015 are deemed to be beneficially owned by the person holding the options or SSARs for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of any other person.
- (3) Reflects the number of shares held at year-end, as reported on Form SC 13G/A filed on February 13, 2015.
- (4) Reflects the number of shares held at year-end, as reported on Form SC 13G/A filed on February 12, 2015.
- (5) Includes 6,498,110 shares held of record by Gull Holdings, Ltd., an Isle of Man company, which is 100% owned by Dr. Wentz. Because of his control of Gull Holdings, Ltd, Dr. Wentz is deemed to be the beneficial owner of the shares that are owned of record by Gull Holdings, Ltd.
- (6) Includes 19,465 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 10,361 shares that are held in the executive's 401(k) account and 448,765 shares that are held of record.
- (7) Includes 4,351 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015.
- (8) Includes 16,383 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 612 shares that are held in the executive's 401(k) account.
- (9) Includes 20,762 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015.
- (10) Includes 9,733 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 621 shares that are held in the executive's 401(k) account.
- (11) Includes 722 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 2,904 shares that are issuable pursuant to Deferred Stock Units ("DSUs"), which are presently vested or which become vested within 60 days of March 2, 2015.
- (12) Includes 1,443 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 5,723 shares that are issuable pursuant to DSUs, which are presently vested or which become vested within 60 days of March 2, 2015.

## Table of Contents

- (13) Includes 1,443 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015. Also includes 4,259 shares that are issuable pursuant to DSUs, which are presently vested or which become vested within 60 days of March 2, 2015.
- (14) Includes 1,443 shares that are issuable pursuant to SSARs, which are presently exercisable or which become exercisable within 60 days of March 2, 2015. This share count assumes settlement of this individual's SSARs at the closing market price on March 2, 2015.



# EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information regarding outstanding awards and shares reserved for future issuance under our equity compensation plans as of January 3, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding awards(1)	Weighted-average exercise price of outstanding awards	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,568,288(2)\$	49.20(3)	7,457,733
Equity compensation plans not approved by security holders	None	N/A	None
Total	1,568,288(2)\$	49.20(3)	7,457,733

- (1) Consists of shares of common stock issuable under the USANA 2006 Equity Incentive Award Plan.
- (2) Includes 12,886 DSUs that will entitle each holder to the issuance of one share of common stock for each unit. Also, includes 1,555,402 SSARs. A SSAR is the right to receive the appreciation in fair market value of common stock between the exercise date and the date of grant in shares of common stock. Based on the closing stock price of \$102.28 on the last trading day of fiscal 2014 and the exercise price of SSAR's that were in-the-money, 807,227 shares of common stock would be issued upon the exercise of these awards.
- (3) Calculated without taking into account 12,886 shares of common stock subject to outstanding DSU's, which are issuable without any cash consideration or other payment required for such shares.

**PROPOSAL #2—APPROVAL OF THE COMPANY'S 2015  
EQUITY INCENTIVE AWARD PLAN**

The Board of Directors has adopted, subject to shareholder approval, the USANA 2015 Equity Incentive Award Plan (the "2015 Plan" or the "Plan"). The 2015 Plan is being adopted in anticipation of the expiration of the Company's 2006 Equity Incentive Award Plan (the "2006 Plan") and will allow us to continue to provide equity awards to directors, executive officers, employees and consultants in connection with the Company's long-term incentive compensation philosophy. Our directors and Named Executive Officers may have an interest in the approval of the 2015 Plan because they are eligible for awards under the 2015 Plan.

If approved by the shareholders at the Annual Meeting, the 2015 Plan would govern future grants of stock-based awards ("stock awards") to our employees, directors, and consultants. This proposal will not affect existing equity awards granted under our 2006 Plan. All outstanding options under the 2006 Plan will remain outstanding, but no further grants will be made under the 2006 Plan if the 2015 Plan is approved. As of March 2, 2015, there were 1,555,402 SSARs and 12,886 DSUs outstanding under the 2006 Plan.

Under the NYSE rules, we are required to obtain shareholder approval of the 2015 Plan. Shareholder approval of the 2015 Plan also will constitute approval of (i) the performance criteria upon which performance-based awards that are intended to be deductible by us under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") may be based under the 2015 Plan; (ii) the one-year per participant limit of 500,000 shares of common stock underlying stock options and stock appreciation rights awards that may be made under the 2015 Plan; (iii) the one-year per participant limit of 500,000 shares of common stock for awards that are intended to be "performance-based compensation" under Section 162(m) of the Code; (iv) the one-year per participant limit of \$3,000,000 for awards that are intended to be "performance based compensation" under Section 162(m) of the Code; and (v) the one-year per director limit of \$500,000 for awards granted to directors under the 2015 Plan.

Shareholders are requested in this Proposal #2 to approve the 2015 Plan. The affirmative vote of a majority of the shares cast on this Proposal #2 either present in person or represented by proxy and entitled to vote at the meeting will be required to approve this Proposal #2. Shares present but not voted because of abstention will have the same effect on the results of this vote as a vote against. Shares subject to a broker non-vote will not be considered entitled to vote with respect to this Proposal and will have no effect on the outcome. The Board believes that the adoption of the 2015 Plan is in the best interest of the Company. The appropriate use of equity awards remains an essential component of our overall compensation philosophy. The Board believes that the 2015 Plan is necessary for us to continue to attract and retain well-qualified employees and directors who will contribute to our success, and to provide incentives to motivate such employees and directors that are directly linked to increases in shareholder value and will therefore benefit all of our shareholders.

A summary of the principal features of the 2015 Plan is provided below, but is qualified in its entirety by reference to the full text of the Plan as proposed to be amended, which is attached as Annex A to this Proxy Statement.

**Summary of the 2015 Plan**

***Administration***

The Compensation Committee of the Board of Directors administers the 2015 Plan. The Compensation Committee may delegate to a committee of one or more members of the Board the authority to grant or amend awards to participants other than senior executives of the Company who are subject to Section 16 of the Exchange Act, or employees who are "covered employees" within the

## Table of Contents

meaning of Section 162(m) of the Code. The Compensation Committee includes at least two directors, each of whom qualifies as a non-employee director pursuant to Rule 16b-3 of the Exchange Act, and an "outside director" pursuant to Section 162(m).

The Compensation Committee has the exclusive authority to administer the 2015 Plan, including the power to determine eligibility, the types and sizes of awards, the price and timing of awards and the acceleration or waiver of any vesting restriction, provided that the Compensation Committee does not have the authority to accelerate vesting or waive the forfeiture of any performance-based awards.

### *Eligibility*

Persons eligible to participate in the 2015 Plan include non-employee members of the Board, consultants to the Company, and all of the employees of the Company (including executive officers) and its subsidiaries, as determined by the Compensation Committee.

### *Limitation on Awards and Shares Available*

If approved by the shareholders at the Annual Meeting, the maximum number of shares of common stock available for issuance under the 2015 Plan is 5,000,000 (the "Available Shares"). The Available Shares, however, will be made up entirely of shares that were previously made available under the Company's 2006 Equity Incentive Award Plan and not utilized. As such, the Company will not allocate any additional authorized but unissued shares of common stock to fund the Available Shares under the 2015 Plan.

To the extent that an award terminates, expires or lapses for any reason, any shares subject to the award may be used again for new grants under the 2015 Plan. In addition, shares tendered or withheld to satisfy the grant or exercise price or any tax withholding obligation may be used for grants under the 2015 Plan. Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any of its subsidiaries will not be counted against the shares available for issuance under the 2015 Plan. Notwithstanding the foregoing, no shares will become available (a) upon the cancellation of existing awards or any similar transactions following the 10<sup>th</sup> anniversary of shareholder approval of the 2015 Plan or (b) if the return of shares would require additional shareholder approval of the 2015 Plan pursuant to applicable rules of the NYSE. The shares of common stock covered by the 2015 Plan may be authorized but unissued shares, or shares purchased in the open market.

### *Awards*

The 2015 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards. The Compensation Committee has the discretion to determine the types and amounts of awards that will be granted to specific individuals pursuant to the 2015 Plan.

Stock options, including incentive stock options, as defined under Section 422 of the Code, and nonqualified stock options may be granted pursuant to the 2015 Plan. The option exercise price of all stock options granted pursuant to the 2015 Plan will be at least 100% of the fair market value of the common stock on the date of grant. Stock options may be exercised as determined by the Compensation Committee, but in no event earlier than six months after the date of grant or after the 10<sup>th</sup> anniversary of the date of grant. The aggregate fair market value of the shares with respect to which options intended to be incentive stock options are exercisable for the first time by an employee in any calendar year may not exceed \$100,000, or such other amount as the Code provides.

## Table of Contents

Upon the exercise of a stock option, the purchase price must be paid in full in either cash or its equivalent, by delivering a promissory note bearing interest at no less than such rate as shall then preclude the imputation of interest under the Code, or by tendering previously acquired shares of common stock with a fair market value at the time of exercise equal to the exercise price or other property acceptable to the Compensation Committee (including through the delivery of a notice that the participant has placed a market sell order with a broker with respect to shares then issuable upon exercise of the option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the option exercise price, provided that payment of such proceeds is then made to the Company upon settlement of such sale). However, no participant who is a member of the Board or an executive officer of the Company will be permitted to pay the exercise price of an option in any method in violation of Section 13(k) of the Exchange Act.

Restricted stock may be granted pursuant to the 2015 Plan. A restricted stock award is the grant of shares of common stock that is nontransferable and may be subject to substantial risk of forfeiture until specific conditions are met. Conditions may be based on continuing employment or achieving performance goals. During the period of restriction, participants holding shares of restricted stock may have full voting and dividend rights with respect to such shares. The restrictions will lapse in accordance with a schedule or other conditions determined by the Compensation Committee.

A stock appreciation right (an "SAR") is the right to receive payment of an amount equal to the excess of the fair market value of a share of common stock on the date of exercise of the SAR over the fair market value of a share of common stock on the date of grant of the SAR. Payments will be made by the Company in cash or common stock.

The other types of awards that may be granted under the 2015 Plan include performance shares, performance stock units, deferred stock, restricted stock units, and other stock-based awards.

### *Changes in Capital Structure*

In the event of a stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of assets or any other corporate event affecting the common stock or the share price of the common stock in a manner that causes dilution or enlargement of benefits or potential benefits under the 2015 Plan, then the Compensation Committee will make proportionate adjustments to: (i) the aggregate number of, and types of, shares of stock subject to the 2015 Plan, (ii) the terms and conditions of any outstanding awards (including any applicable performance targets) and (iii) the grant or exercise price for any outstanding awards. In addition, in such a case or in the event of any unusual or nonrecurring transactions or events affecting the Company or of changes in applicable laws, the Compensation Committee, may, subject to the terms of the 2015 Plan, take any of the following actions if it determines that such action is appropriate in order to prevent the dilution or enlargement of benefits or potential benefits intended to be made available under the 2015 Plan or with respect to any award: (i) provide for either the termination, purchase or replacement of the awards, (ii) provide that the awards shall be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, (iii) make adjustments in the number and type of shares of stock (or other securities or property) subject to outstanding awards and/or in the terms and conditions of (including the exercise price), and the criteria included in, outstanding awards which may be granted in the future, (iv) provide for the acceleration of vesting or exercisability of the awards and (v) provide that the awards cannot vest or be exercised after the event that triggers the action.

## Table of Contents

### *Amendment and Termination*

The Compensation Committee, subject to approval of the Board, may terminate, amend, or modify the 2015 Plan at any time; provided, however, that shareholder approval must be obtained for any amendment to the extent necessary or desirable to comply with any applicable law, regulation or stock exchange rule, to increase the number of shares available under the 2015 Plan or to allow a material increase in the benefits or change the eligibility requirements under the 2015 Plan. In addition, without approval of the Company's shareholders, no option or SAR may be amended to reduce the per share exercise price of the shares subject to such option or SAR below the per share exercise price as of the date the option or SAR was granted and, except to the extent permitted by the 2015 Plan in connection with changes in the Company's capital structure, no option or SAR may be granted in exchange for, or in connection with, the cancellation or surrender of an option or SAR having a higher per share exercise price.

In no event may an award be granted pursuant to the 2015 Plan on or after the 10<sup>th</sup> anniversary of the effectiveness of the Plan.

### *Securities Law*

The 2015 Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act, and any and all regulations and rules promulgated by the SEC thereunder, including without limitation Rule 16b-3. The 2015 Plan will be administered, and awards will be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the 2015 Plan and all awards granted thereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

### *Federal Income Tax Consequences*

The tax consequences of the 2015 Plan under current federal law are summarized in the following discussion which deals with the general tax principles applicable to the 2015 Plan, and is intended for general information only. Alternative minimum tax and state and local income taxes are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The tax information summarized is not tax advice.

**Nonqualified Stock Options.** For federal income tax purposes, an optionee generally will not recognize taxable income on the grant of a nonqualified stock option (an "NQSO") under the 2015 Plan, but upon the exercise of an NQSO will recognize ordinary income, and the Company generally will be entitled to a deduction. The amount of income recognized (and the amount deductible by the Company) generally will be equal to the excess, if any, of the fair market value of the shares at the time of exercise over the aggregate exercise price paid for the shares, regardless of whether the exercise price is paid in cash or in shares or other property. An optionee's basis for the stock for purposes of determining his or her gain or loss upon a subsequent disposition of the shares generally will be the fair market value of the stock on the date of exercise of the NQSO, and any subsequent gain or loss will generally be taxable as capital gains or losses.

**Incentive Stock Options.** An optionee generally will not recognize taxable income upon either the grant or exercise of an Incentive Stock Option (an "ISO"); however, the amount by which the fair market value of the shares at the time of exercise exceeds the exercise price will be an "item of tax preference" for the optionee for purposes of the alternative minimum tax. Generally, upon the sale or other taxable disposition of the shares of the common stock acquired upon exercise of an ISO, the optionee will recognize income taxable as capital gains in an amount equal to the excess, if any, of the amount realized in such disposition over the option exercise price, provided that no disposition of the shares has taken place within either (a) two years from the date of grant of the ISO or (b) one year from the date of exercise. If the shares of common stock are sold or otherwise disposed of before the

## Table of Contents

end of the one-year and two-year periods specified above, the difference between the ISO exercise price and the fair market value of the shares on the date of exercise generally will be taxable as ordinary income; the balance of the amount realized from such disposition, if any, generally will be taxed as capital gain. If the shares of common stock are disposed of before the expiration of the one-year and two-year periods and the amount realized is less than the fair market value of the shares at the date of exercise, the optionee's ordinary income generally is limited to excess, if any, of the amount realized in such disposition over the option exercise price paid. The Company (or other employer corporation) generally will be entitled to a tax deduction with respect to an ISO only to the extent the optionee has ordinary income upon sale or other disposition of the shares of common stock.

**Stock Appreciation Rights.** No taxable income is generally recognized upon the receipt of an SAR, but upon exercise of the SAR the fair market value of the shares (or cash in lieu of shares) received generally will be taxable as ordinary income to the recipient in the year of such exercise. The Company generally will be entitled to a compensation deduction for the amount the recipient recognizes as ordinary income.

**Restricted Stock and Deferred Stock.** A participant to whom restricted or deferred stock is issued generally will not recognize taxable income upon such issuance and the Company generally will not then be entitled to a deduction, unless, in the case of restricted stock, an election is made by the participant under Section 83(b) of the Code. However, when restrictions on shares of restricted stock lapse, such that the shares are no longer subject to a substantial risk of forfeiture, the employee generally will recognize ordinary income and the Company generally will be entitled to a deduction for an amount equal to the excess of the fair market value of the shares at the date such restrictions lapse over the purchase price therefore. Similarly, when deferred stock vests and is issued to the employee, the employee generally will recognize ordinary income and the Company generally will be entitled to a deduction for the amount equal to the fair market value of the shares at the date of issuance. If an election is made under Section 83(b) with respect to restricted stock, the employee generally will recognize ordinary income at the date of issuance equal to the excess, if any, of the fair market value of the shares at that date over the purchase price therefore and the Company will be entitled to a deduction for the same amount. The Code does not permit a Section 83(b) election to be made with respect to deferred stock.

**Dividend Equivalents.** A recipient of a dividend equivalent award generally will not recognize taxable income at the time of grant, and the Company will not be entitled to a deduction at that time. When a dividend equivalent is paid, the participant generally will recognize ordinary income, and the Company will be entitled to a corresponding deduction.

**Performance Awards.** A participant who has been granted a performance award generally will not recognize taxable income at the time of grant, and the Company will not be entitled to a deduction at that time. When an award is paid, whether in cash or common stock, the participant generally will recognize ordinary income, and the Company will be entitled to a corresponding deduction.

**Stock Payments.** A participant who receives a stock payment in lieu of a cash payment that would otherwise have been made will generally be taxed as if the cash payment has been received, and the Company generally will be entitled to a deduction for the same amount.

**Section 162(m) Limitation.** In general, under Section 162(m), income tax deductions of publicly held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises, transfers of property and benefits paid under nonqualified retirement plans) for certain executive officers exceeds \$1 million (less the amount of any "excess parachute payments" as defined in Section 280G of the Code) in any one year. However, under Section 162(m), the deduction limit does not apply to certain "performance-based compensation." Under Section 162(m), stock options and SARs will satisfy the "performance-based compensation" exception if the awards of the

## Table of Contents

options or SARs are made by a committee of the Board of Directors consisting solely of two or more "outside directors," the plan sets the maximum number of shares that can be granted to any person within a specified period, and the compensation is based solely on an increase in the stock price after the grant date (i.e., the option or SAR exercise price is equal to or greater than the fair market value of the stock subject to the award on the grant date). Other types of awards may only qualify as "performance-based compensation" if such awards are granted or payable only to the recipients based upon the attainment of objectively determinable and pre-established performance targets established by a qualifying committee of the Board and related to performance goals approved by our shareholders.

The 2015 Plan has been designed in order to permit the Compensation Committee to grant stock options and SARs that will qualify as "performance-based compensation" under Section 162(m). In addition, in order to permit awards other than stock options and SARs to qualify as "performance-based compensation," the 2015 Plan allows the Compensation Committee to designate as "Section 162(m) Participants" employees whose compensation for a given fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m). The Compensation Committee may grant awards to Section 162(m) Participants that vest or become exercisable upon the attainment of specific performance targets that are related to one or more of the performance goals set forth in the 2015 Plan.

### *New Plan Benefits*

If the 2015 Plan under Proposal #2 is approved by our shareholders, the Compensation Committee in its sole discretion will determine the number and types of awards that will be granted under the Plan going forward and will also determine the persons to whom awards will be granted. Therefore, the number of shares to be issued under the 2015 Plan and the net values to be realized upon such issuances are discretionary, and therefore, not determinable.

## **RECOMMENDATION**

**The Board of Directors unanimously recommends a vote FOR the Company's 2015 Equity Incentive Award Plan.**

### **PROPOSAL #3—RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has selected KPMG LLP ("KPMG") as the independent registered public accounting firm to audit the financial statements of the Company and its subsidiaries for the fiscal year ending January 2, 2016. KPMG has served as our independent registered public accounting firm since September 16, 2013 and audited the Company's financial statements for the fiscal year ended January 3, 2015.

### *Change in Independent Registered Public Accounting Firm*

As previously disclosed, KPMG was engaged as the Company's independent registered public accounting firm on September 16, 2013 following the Audit Committee's dismissal of PricewaterhouseCoopers LLP ("PWC") as our independent registered public accounting firm. The reports of PWC on our consolidated financial statements as of and for the year ended December 29, 2012 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the year ended December 29, 2012, and through September 16, 2013, there were no: (i) disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to PWC's satisfaction, would have caused PWC to make reference to the



## Table of Contents

subject matter thereof in connection with its reports for such years; or (ii) reportable events, as described under Item 304(a)(1)(v) of Regulation S-K.

### *Policy on Pre-Approval of Audit and Permissible Non-Audit Services*

The Audit Committee pre-approves any engagement of KPMG and has the ultimate authority and responsibility to select, evaluate and where appropriate, replace the independent registered public accounting firm and nominate an independent registered public accounting firm for shareholder approval. While ratification of the selection of accountants by the shareholders is not required and is not binding upon the Audit Committee or the Company, in the event of a negative vote on such ratification, the Audit Committee might choose to reconsider its selection.

Prior to the performance of any services, the Audit Committee approves all audit and non-audit services to be provided by the Company's independent registered public accounting firm and the fees to be paid therefor. Although the Sarbanes-Oxley Act of 2002 permits the Audit Committee to pre-approve some types or categories of services to be provided by the independent registered public accounting firm, it is the current practice of the Audit Committee to specifically approve all services provided by the independent registered public accounting firm in advance, rather than to pre-approve any type of service. In connection with this practice, the Audit Committee has considered whether the provision of non-audit services is compatible with maintaining KPMG's independence.

### *Independence*

KPMG has advised us that it has no direct or indirect financial interest in the Company or in any of its subsidiaries and that during 2014 it had no connection with the Company or any of its subsidiaries, other than as its independent registered public accounting firm or in connection with certain other activities, as described below.

### *Financial Statements and Reports*

The financial statements of the Company for the year ended January 3, 2015, and the report of the independent registered public accounting firm will be presented at the Annual Meeting. KPMG will have a representative present at the meeting who will have an opportunity to make a statement, if he or she so desires, and to respond to appropriate questions from shareholders.

### *Services*

During the fiscal year 2014, KPMG performed services consisting of the audit of the annual consolidated financial statements of the Company, and the effectiveness of our internal controls over financial reporting, review of the quarterly financial statements for the quarters ended March 29, 2014, June 28, 2014 and September 27, 2014, stand-alone audits of subsidiaries, and accounting consultations, consents, other services related to SEC filings by the Company and its subsidiaries, tax compliance services and transfer pricing services. KPMG did not perform any financial information systems design and implementation services for the Company for the fiscal year 2014.

During fiscal year 2013, KPMG performed services consisting of the audit of the annual consolidated financial statements of the Company, and the effectiveness of our internal controls over financial reporting, review of the quarterly financial statements for the quarters ended September 28, 2013, stand-alone audits of subsidiaries, and accounting consultations, consents, and other services related to SEC filings by the Company and its subsidiaries. KPMG did not perform any financial information systems design and implementation services for the Company for the fiscal year 2013.

Also, during fiscal year 2013, PWC provided services consisting of reviews of the quarterly financial statements for the quarters-ended March 31, 2013 and June 30, 2013, stand-alone audits of subsidiaries,

## Table of Contents

and accounting consultations, consents, and other services related to SEC filings and registration statements that were filed by the Company and its subsidiaries. PWC also provided other services to the Company in fiscal year 2013, consisting primarily of tax consultation and related services. PWC did not perform any financial information systems design and implementation services for the Company for the fiscal year 2013.

The following table summarizes the fees that were paid to KPMG and PWC by the Company during fiscal years 2014 and 2013.

<u>Type of Service and Fee</u>	<u>Fiscal Year 2013</u>		<u>Fiscal Year 2014</u>
	<u>KPMG LLP</u>	<u>PricewaterhouseCoopers LLP</u>	<u>KPMG LLP</u>
Audit Fees	\$ 1,706,462	\$ 181,110	\$ 1,423,415
Audit Related Fees	—	\$ 37,293	\$ —
Tax Fees	—	\$ 127,259	\$ 43,050
All Other Fees	—	\$ —	\$ —
Total Fees	<u>\$ 1,706,462</u>	<u>\$ 345,662</u>	<u>\$ 1,466,465</u>

## **RECOMMENDATION**

The Board of Directors unanimously recommends a vote FOR ratification of the appointment of KPMG LLP, as the Company's independent registered public accounting firm for fiscal year 2015.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee is responsible for monitoring the Company's financial auditing, accounting and financial reporting processes and the Company's system of internal controls, and selecting the independent registered public accounting firm on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The independent registered public accounting firm, KPMG LLP, is responsible for performing an independent audit of the Company's consolidated financial statements and the effectiveness of internal controls over financial reporting in accordance with standards of the Public Company Accounting Oversight Board (United States) and issuing an opinion thereon. In this context, the Audit Committee met regularly and held discussions with management, the internal audit department and KPMG LLP. Management represented to the Audit Committee that the consolidated financial statements for the fiscal year 2014 were prepared in accordance with U.S. generally accepted accounting principles.

The Audit Committee hereby reports as follows:

- The Audit Committee has reviewed and discussed the audited consolidated financial statements and accompanying management's discussion and analysis of financial condition and results of operations with management and KPMG LLP. This discussion included KPMG LLP's judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.
- The Audit Committee also discussed with KPMG LLP the matters required to be discussed by the Statements on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.
- KPMG LLP also provided to the Audit Committee the written disclosures and the letter required by the applicable requirements of the Public Accounting Oversight Board regarding KPMG LLP's communications with the Audit Committee concerning independence, and the Audit Committee has discussed with KPMG LLP the accounting firm's independence. The Audit Committee also considered whether non-audit services provided by KPMG LLP during the last fiscal year were compatible with maintaining the accounting firm's independence.

Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited consolidated financial statements of the Company be included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015, for filing with the Securities and Exchange Commission.

Respectfully submitted by the members of the Audit Committee:

Jerry G. McClain (Chair)  
Robert Anciaux  
Gilbert A. Fuller  
Ronald S. Poelman

## EMPLOYMENT CONTRACTS AND OTHER ARRANGEMENTS

The Company has no employment agreements with any of its executive officers.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers, directors, and persons who beneficially own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC and with the NYSE. Officers, directors, and greater-than-ten-percent shareholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of these forms that were furnished to the Company, and based on representations made by certain persons who were subject to this obligation that such filings were not required to be made, the Company believes that all reports that are required to be filed by these individuals and persons under Section 16(a) were filed on time in fiscal year 2014, except that the SSAR award to each of the Named Executive Officers and Directors in fiscal 2014 was reported late on Form 4.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### *Policies and Procedures Regarding Related Party Transactions*

In the ordinary course of business, we may engage in transactions which have the potential to create actual or perceived conflicts of interest between USANA and our directors and officers or their immediate family members. The Audit Committee charter requires that the Audit Committee review and approve any related party transaction or, in the alternative, that it notify and request action on the related party transaction by the full Board of Directors. While we have not adopted formal written procedures for reviewing such transactions, in deciding whether to approve a related party transaction, the Audit Committee may consider, among other things, the following factors:

- information regarding the goods or services that are proposed to be provided, or that are being provided, by or to the related party;
- the nature of the transaction and the costs to be incurred by the Company;
- an analysis of the costs and benefits that are associated with the transaction and a comparison of alternative goods or services that are available to the Company from unrelated parties;
- an analysis of the significance of the transaction to the Company;
- whether the transaction would be in the ordinary course of our business;
- whether the transaction is on terms that are comparable to those that could be obtained in an arm's-length dealing with an unrelated third party; and
- whether the transaction could result in an independent director no longer being considered to be independent under the NYSE rules.

After considering these and other relevant factors, the Audit Committee either (1) approves or disapproves the related party transaction, or (2) requests that the full Board of Directors consider the matter. The Audit Committee will not approve any related party transaction which is not on terms that it believes are both fair and reasonable to USANA.

## Table of Contents

### *Related Party Transaction*

The Company's Founder and Chairman of the Board, Myron W. Wentz, PhD, is the sole beneficial owner of Gull Holdings, Ltd., which is the largest shareholder of the Company. Gull Holdings, Ltd. owned 51.5% of our issued and outstanding shares as of January 3, 2015. Dr. Wentz devotes much of his personal time, expertise, and resources to a number of business and professional activities outside of USANA. The most significant of these is the Sanoviv Medical Institute, which is a unique, fully integrated health and wellness center located near Rosarito, Mexico that Dr. Wentz founded 1998. Dr. Wentz's private entity, Sanoviv S.A. DE C.V. ("Sanoviv"), contracts with Medicis, S.C. ("Medicis"), an entity that is owned and operated independently of Dr. Wentz, to conduct the operations of the Sanoviv Medical Institute. Sanoviv leases the medical building to Medicis and Medicis carries out all of the operations of the medical institute, which include employing all of the medical and healthcare professionals who provide services at the medical institute. The Medicis medical and healthcare professionals possess expertise in the fields of human health, digestive health, nutritional medicine, lifestyle medicine and other medical fields that are important to USANA.

In 2014, Medicis performed a variety of contract research services on behalf of USANA, which included: (i) research and development of novel product formulations for future development and production by USANA; and (ii) research and development of improvements in existing USANA product formulations. Also, in 2014, Medicis performed health assessments and physical examinations for certain of our executives. In exchange for these services, USANA paid Medicis approximately \$314,000 during 2014. The Company's agreements with Medicis were approved by the Audit Committee in advance of the Company's entry into the agreements. Our collaboration with Medicis is terminable at will by us at anytime, without any continuing commitment by USANA.

## OTHER MATTERS

Shareholder Proposals. As of the date of this Proxy Statement, the Board of Directors does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Annual Meeting, other than as set forth herein and in the Notice of Annual Meeting. If any other matter properly comes before the meeting, it is intended that the holders of proxies will act in accordance with their best judgment on these matters. Shareholders who intend to present proposals at the 2016 Annual Meeting under SEC Rule 14a-8 must ensure that such proposals are received by the Secretary of the Company not later than November 26, 2015. Such proposals must meet the requirements of the SEC to be eligible for inclusion in our 2016 proxy materials.

## ANNUAL REPORT

A copy of the our Annual Report on Form 10-K for the fiscal year ended January 3, 2015, as filed with the SEC, will be made available on our website and, to each shareholder of record at March 2, 2015 who requests such materials, mailed concurrently with, this Proxy Statement. The Annual Report on Form 10-K is not deemed a part of the proxy soliciting material for the Annual Meeting.

Notwithstanding any general language that may be to the contrary in any document filed with the SEC, the information in this Proxy Statement under the captions "Audit Committee Report" and "Compensation Committee Report" shall not be incorporated by reference into any document filed with the SEC.

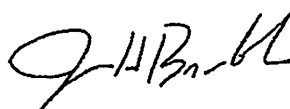
## FURTHER INFORMATION

Additional copies of the Annual Report on Form 10-K for the year ended January 3, 2015 (including financial statements and financial statement schedules) that has been filed with the SEC may be obtained without charge by writing to USANA Health Sciences, Inc., Attention: Investor Relations, 3838 West Parkway Blvd., Salt Lake City, Utah 84120-6336. Our reports and other public filings,

Table of Contents

including this Proxy Statement, also may be obtained from the SEC's on-line database, located at [www.sec.gov](http://www.sec.gov).

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "J. H. Bramble".

James H. Bramble,  
*Corporate Secretary*

Date: March 25, 2015

ANNEX A

---

*USANA HEALTH SCIENCES, INC.  
2015 EQUITY INCENTIVE AWARD PLAN*

USANA HEALTH SCIENCES, INC.  
2015 EQUITY INCENTIVE AWARD PLAN

ARTICLE 1

PURPOSE

The purposes of the USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan (the "*Plan*") are to:

- (1) Closely associate the interests of management, employees, directors and consultants of USANA Health Sciences, Inc., a Utah corporation (the "*Company*"), with the shareholders of the Company by reinforcing the relationship between participants' rewards and shareholder gains;
- (2) Provide management and employees with an equity ownership in the Company commensurate with Company performance, as reflected in increased shareholder value;
- (3) Maintain competitive compensation levels; and
- (4) Provide an incentive to management and employees to remain in continuing employment with the Company and to put forth maximum efforts for the success of its business.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "*Award*" means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Share award, a Performance Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock award, a Restricted Stock Unit award, an Other Stock-Based Award, or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.2 "*Award Agreement*" means any written or electronic agreement, contract, or other instrument or document evidencing an Award.

2.3 "*Board*" means the Board of Directors of the Company.

2.4 "*Change in Control*" means the occurrence of any of the following in one or a series of related transactions: (i) an acquisition after the date hereof by an individual or legal entity or "group" (as described in Rule 13d-5(b)(1) under the Exchange Act) of more than thirty percent (30%) of the voting rights or equity interests in the Company; *provided, however*, that any of the following acquisitions shall not be deemed to be a Change in Control: (A) any acquisition by the Company or any Subsidiary, (B) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (C) any acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities, or (D) any acquisition by any person of the voting rights or equity interests in the Company from the Company, if a majority of the Incumbent Directors approves in advance such acquisition; (ii) a replacement, during a 24-month period, of more than one-half of the members of the Board that is not approved by those individuals who are members of the Board on the date hereof (or other directors previously approved by such individuals) (collectively "the Incumbent Directors"); *provided, however*, that no individual initially elected or nominated as a member of the Board as a result of an actual or threatened election contest with respect to members of the Board or



## Table of Contents

as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director; (iii) consummation of a merger or consolidation of the Company or any Subsidiary or a sale of more than one-half of the assets of the Company in one or a series of related transactions, unless following such transaction or series of transactions, the holders of the Company's securities prior to the first such transaction continue to hold at least one-half of the voting rights and equity interests of the surviving entity or acquirer of such assets and such voting rights among the holders thereof is in substantially the same proportion as the voting rights of such among the holders thereof immediately prior to the transaction; (iv) a recapitalization, reorganization or other transaction involving the Company or any Subsidiary that constitutes or results in a transfer of more than one-half of the voting rights or equity interests in the Company; or (v) consummation of a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the Exchange Act with respect to the Company.

2.5 "*Code*" means the Internal Revenue Code of 1986, as amended.

2.6 "*Committee*" means the committee of the Board described in Article 12.

2.7 "*Consultant*" means any consultant or adviser if:

- (a) The consultant or adviser renders bona fide services to the Company;
- (b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities; and
- (c) The consultant or adviser is a natural person who has contracted directly with the Company to render such services.

2.8 "*Covered Employee*" means an Employee who is, or may be, as determined by the Committee, a "covered employee" within the meaning of Section 162(m) of the Code.

2.9 "*Deferred Stock*" means a right to receive a specified number of shares of Stock during specified time periods pursuant to Article 8.

2.10 "*Disability*" means that the Participant qualifies to receive long-term disability payments under the Company's long-term disability insurance program, as it may be amended from time to time.

2.11 "*Dividend Equivalents*" means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.12 "*Effective Date*" shall have the meaning set forth in Section 13.1.

2.13 "*Eligible Individual*" means any person who is an Employee, a Consultant or a member of the Board, as determined by the Committee.

2.14 "*Employee*" means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Subsidiary.

2.15 "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

2.16 "*Fair Market Value*" means, as of any given date, the fair market value of a share of Stock on the date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a share of Stock as of any date shall be (i) the closing price of a share of Stock on the principal exchange on which shares of Stock are then trading, if any, on such date, or if shares were not traded on such date, then on the closest preceding date on which a trade occurred; or (ii) if Stock is not traded on an exchange, the mean between the closing representative bid and asked prices for the Stock on such date as reported by NASDAQ or, if NASDAQ is not then in existence, by its successor quotation system; or

## Table of Contents

(iii) if Stock is not publicly traded, the Fair Market Value of a share of Stock as established by the Committee acting in good faith.

2.17 "*Incentive Stock Option*" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.18 "*Independent Director*" means a member of the Board who is not an Employee of the Company.

2.19 "*Non-Employee Director*" means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.20 "*Non-Qualified Stock Option*" means an Option that by its terms does not qualify or is not intended to be an Incentive Stock Option.

2.21 "*Option*" means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.22 "*Optionee*" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

2.23 "*Other Stock-Based Award*" means an Award granted or denominated in Stock or units of Stock pursuant to Section 8.7 of the Plan.

2.24 "*Participant*" means any Eligible Individual who, as a member of the Board or Employee or Consultant, has been granted an Award pursuant to the Plan.

2.25 "*Performance-Based Award*" means an Award granted to selected Covered Employees pursuant to Articles 6 and 8, but which is subject to the terms and conditions set forth in Article 9. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

2.26 "*Performance Criteria*" means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added (as determined by the Committee), sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on shareholders' equity, return on assets, return on capital, shareholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer growth, customer satisfaction, working capital, earnings per share, price per share of Stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.27 "*Performance Goals*" means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (b) in recognition of, or in anticipation of, any other unusual or

## Table of Contents

nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

2.28 "*Performance Period*" means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

2.29 "*Performance Share*" means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.30 "*Performance Unit*" means a right granted to a Participant pursuant to Article 8, to receive units of value, including dollar value of shares of Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.31 "*Plan*" means this USANA Health Sciences, Inc. 2015 Equity Incentive Award Plan, as it may be amended from time to time.

2.32 "*Qualified Performance-Based Compensation*" means any compensation that is intended to qualify as "qualified performance-based compensation" as described in Section 162(m)(4)(C) of the Code.

2.33 "*Restricted Stock*" means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.34 "*Restricted Stock Unit*" means an Award granted pursuant to Section 8.6.

2.35 "*Section 409A Award*" shall have the meaning set forth in Section 15.1.

2.36 "*Securities Act*" shall mean the Securities Act of 1933, as amended.

2.37 "*Stock*" means the common stock of the Company, par value \$.001 per share, and such other securities of the Company that may be substituted for Stock pursuant to Article 11.

2.38 "*Stock Appreciation Right*" or "*SAR*" means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.39 "*Stock Payment*" means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Article 8.

2.40 "*Subsidiary*" means any "subsidiary corporation" as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

2.41 "*Substitute Awards*" shall mean Awards granted or shares of Stock issued by the Company in assumption of, or in substitution or exchange for, Awards previously granted, or the right or obligation to make future Awards, in each case by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

ARTICLE 3

SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares.*

(a) Subject to Article 11 and Section 3.1(b), the aggregate number of shares of Stock which may be issued, transferred or reserved for issuance pursuant to Awards under the Plan shall be five million (5,000,000) shares. In order that the applicable regulations under the Code relating to Incentive Stock Options be satisfied, the maximum number of shares of Stock that may be delivered upon exercise of Incentive Stock Options shall be the number specified in this Section 3.1(a). Shares of Stock that may be issued upon exercise of Options under the Plan shall be authorized and unissued shares of Stock. In the absence of an effective registration statement under the Securities Act of 1933 (the "Act"), all Options granted and shares of Stock subject to their exercise will be restricted as to subsequent resale or transfer, pursuant to the provisions of Rule 144, promulgated under the Act.

(b) To the extent that an Award terminates, expires, or lapses for any reason, or an Award is settled for cash (in whole or in part) or otherwise does not result in the issuance of all or a portion of the shares of Stock subject to such Award (including on payment in shares of Stock on exercise of a Stock Appreciation Right), any shares of Stock subject to the Award, to the extent of such termination, expiration, lapse, cash settlement or non-issuance, shall again be available for the grant of an Award pursuant to the Plan. Additionally, any shares of Stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by applicable law or any exchange rule, shares of Stock subject to Substitute Awards shall not be counted against shares of Stock available for grant pursuant to this Plan nor shall shares of Stock subject to a Substitute Award be added to the shares of Stock available for Awards under the Plan as provided above in this paragraph. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the shares of Stock authorized for grant under the Plan (and shares of Stock subject to such Awards shall not be added to the shares of Stock available for Awards under the Plan as provided above in this paragraph; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or a member of the Board prior to such acquisition or combination. The payment of Dividend Equivalents in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan.

3.2 *Stock Distributed.* Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

3.3 *Limitation on Number of Shares Subject to Awards.* Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, (a) the maximum number of shares of Stock with respect to one or more Options or Stock Appreciation Rights that may be granted to any one Participant during a one-year period (measured from the date of any grant) shall be 500,000, (b) the maximum number of shares of Stock with respect to one or more Performance-Based Awards that may be granted to any one Participant during a one-year period (measured from the date of any grant) shall be 500,000 and (c) the maximum dollar value payable to any one Participant during a one-year period with respect to awards of Performance Units shall be \$3,000,000.

## Table of Contents

3.4 *Limit on Awards to Independent Directors.* Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the date of grant in accordance with applicable financial accounting rules) of all Awards granted to any Independent Director during any single calendar year shall not exceed \$500,000.

## ARTICLE 4

### ELIGIBILITY AND PARTICIPATION

4.1 *Eligibility.* Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

4.2 *Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan.

4.3 *Foreign Participants.* In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

## ARTICLE 5

### STOCK OPTIONS

5.1 *General.* The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) *Exercise Price.* The exercise price per share of Stock subject to an Option (other than in connection with Substitute Awards) shall be not less than 100% of the Fair Market Value of a share of Stock on the date of the grant. Other than pursuant to Section 11.1, the Committee shall not without the approval of the Company's shareholders (a) lower the exercise price per share of Stock of an Option after it is granted, (b) cancel an Option when the exercise price per share of Stock exceeds the Fair Market Value of one share of Stock in exchange for cash or another Award (other than in connection with a Change in Control), or (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the shares of Stock are listed.

(b) *Time and Conditions of Exercise.* Each Option shall be fully exercisable at any time within the period beginning not earlier than six months after the date of the option grant and ending not later than ten years after the date of such grant, unless the Committee specifies otherwise (the "Option Term"). In no event, however, shall the Option Term extend beyond ten years after the date of the grant. No Option shall be exercisable after the expiration of the Option Term. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised. Notwithstanding the foregoing, in the event that on the last business day of the term of an Option (other than an Incentive Stock Option) (i) the exercise of the Option is prohibited by applicable law or (ii) shares of Stock may not be purchased or sold by certain employees or directors of the Company due to the "black-out period" of a Company policy or a "lock-up" agreement undertaken in connection with an issuance of securities by the Company, the term of the Option shall be extended for a period of

## Table of Contents

thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement. Notwithstanding the foregoing, an Award Agreement may provide that if on the last day of the term of an Option the Fair Market Value of one share of Stock exceeds the option price per share of Stock, the Participant has not exercised the Option (or a tandem Stock Appreciation Right, if applicable) and the Option has not expired, the Option shall be deemed to have been exercised by the Participant on such day with payment made by withholding shares of Stock otherwise issuable in connection with the exercise of the Option. In such event, the Company shall deliver to the Participant the number of shares of Stock for which the Option was deemed exercised, less the number of shares of Stock required to be withheld for the payment of the total purchase price and required withholding taxes; *provided, however*, any fractional share of Stock shall be settled in cash.

(c) *Payment* The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation: (i) cash, (ii) promissory note bearing interest at no less than such rate as shall preclude the imputation of interest under the Code, (iii) shares of Stock having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, or (iv) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option by means of a personal loan or other credit extended by the Company or in any other method which would violate Section 13(k) of the Exchange Act.

(d) *Evidence of Grant*. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include the number of shares of Stock subject to the Option, the exercise date, the Option Term, and such additional provisions as may be specified by the Committee.

5.2 *Incentive Stock Options*. The terms of any Incentive Stock Options granted pursuant to the Plan must comply with the conditions and limitations contained Section 13.2 and this Section 5.2.

(a) *Eligibility*. The Committee may grant one or more Incentive Stock Options to employees of the Company or any "subsidiary corporation" thereof (within the meaning of Section 424(f) of the Code and the applicable regulations promulgated thereunder). The date an Incentive Stock Option is granted shall mean the date selected by the Committee as of which the Committee shall allot a specific number of shares to a Participant pursuant to the Plan.

(b) *Individual Dollar Limitation*. The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. Multiple Incentive Stock Options may be granted to an Optionee in any calendar year.

(c) *Ten Percent Owners*. The Committee may determine to grant an Incentive Stock Option to an Employee who is also an individual who owns, at the date of grant, directly or indirectly according to the stock ownership attribution rules of Section 424(d) of the Code, Stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company. However, the exercise price of such Option granted shall not be less than 110% of Fair Market

## Table of Contents

Value on the date of grant. Furthermore, the Option may be exercisable for no more than five years from the date of grant.

(d) *Notice of Disposition.* The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such shares of Stock to the Participant. In order to obtain the favorable tax treatment available for Incentive Stock Options under Section 422 of the Code, the Optionee is prohibited from the sale, exchange, transfer, pledge, hypothecation, gift or other disposition of the shares of Stock underlying the Incentive Stock Options until the later of either two (2) years after the date of grant of the Incentive Stock Option, or one (1) year after the transfer to the Optionee of such underlying Stock after the Optionee's exercise of such Incentive Stock Option. Should Optionee choose to make a premature disposition of such underlying shares of Stock contrary to such restrictions, the Options related to such share of Stock shall be treated as Non-qualified Stock Options pursuant to the terms of the Plan.

(c) *Right to Exercise.* During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

5.3 *Substitution of Stock Appreciation Rights.* The Committee may provide in the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option, subject to the provisions of Section 7.2 hereof; *provided* that such Stock Appreciation Right shall be exercisable with respect to the same number of shares of Stock for which such substituted Option would have been exercisable.

5.4 *Paperless Exercise.* In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Options by a Participant may be permitted through the use of such an automated system.

5.5 *Granting of Options to Independent Directors.* The Committee may from time to time, in its sole discretion, and subject to the limitations of the Plan:

(a) Select from among the Independent Directors (including Independent Directors who have previously been granted Options under the Plan) such of them as in its opinion should be granted Options;

(b) Subject to Section 3.3, determine the number of shares of Stock that may be purchased upon exercise of the Options granted to such selected Independent Directors; and

(c) Subject to the provisions of this Article 5, determine the terms and conditions of such Options, consistent with the Plan.

Options granted to Independent Directors shall be Non-Qualified Stock Options.

## ARTICLE 6

### RESTRICTED STOCK AWARDS

6.1 *Grant of Restricted Stock.* The Committee is authorized to make Awards of Restricted Stock to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by a written Restricted Stock Award Agreement.

6.2 *Issuance and Restrictions.* Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation,



## Table of Contents

limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter. Notwithstanding the provisions of this Section, cash dividends, Stock and any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock that vests based upon Performance Criteria or other specific performance criteria (a) shall either (i) not be paid or credited or (ii) be accumulated, (b) shall be subject to restrictions and risk of forfeiture to the same extent as the Restricted Stock with respect to which such cash, stock or other property has been distributed and (c) shall be paid at the time such restrictions and risk of forfeiture lapse.

6.3 *Forfeiture.* Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; *provided, however*, that the Committee may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

6.4 *Certificates for Restricted Stock.* Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

## ARTICLE 7

### STOCK APPRECIATION RIGHTS

7.1 *Grant of Stock Appreciation Rights.* A Stock Appreciation Right may be granted to any Participant selected by the Committee. A Stock Appreciation Right may be granted (a) in connection and simultaneously with the grant of an Option, (b) with respect to a previously granted Option, or (c) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

#### 7.2 *Coupled Stock Appreciation Rights.*

(a) A Coupled Stock Appreciation Right ("CSAR") shall be related to a particular Option and shall be exercisable only when and to the extent the related Option is exercisable, *provided, however*, that the exercise price for any CSAR shall not be less than 100% of the Fair Market Value on the date of grant; and *provided, further*, that, the Committee in its sole and absolute discretion may provide that the CSAR may be exercised subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise.

(b) A CSAR may be granted to a Participant for no more than the number of shares subject to the simultaneously or previously granted Option to which it is coupled.

(c) A CSAR shall entitle the Participant (or other person entitled to exercise the Option pursuant to the Plan) to surrender to the Company the unexercised portion of the Option to which the CSAR relates (to the extent then exercisable pursuant to its terms) and to receive from the Company in exchange therefor an amount determined by multiplying the difference obtained by subtracting the Option exercise price from the Fair Market Value of a share of Stock on the date



## Table of Contents

of exercise of the CSAR by the number of shares of Stock with respect to which the CSAR shall have been exercised, subject to any limitations the Committee may impose.

### *7.3 Independent Stock Appreciation Rights.*

(a) An Independent Stock Appreciation Right ("ISAR") shall be unrelated to any Option and shall have a term set by the Committee. An ISAR shall be exercisable in such installments as the Committee may determine. An ISAR shall cover such number of shares of Stock as the Committee may determine. The exercise price per share of Stock subject to each ISAR shall be set by the Committee; *provided, however*, that the exercise price for any ISAR shall not be less than 100% of the Fair Market Value on the date of grant; and *provided, further*, that, the Committee in its sole and absolute discretion may provide that the ISAR may be exercised subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise. Other than pursuant to Section 11.1, the Committee shall not, without the approval of the Company's shareholders, (a) lower the exercise price per share of Stock subject to each ISAR after it is granted, (b) cancel an ISAR when the exercise price per share of Stock exceeds the Fair Market Value of one share of Stock in exchange for cash or another Award (other than in connection with a Change in Control), or (c) take any other action with respect to an ISAR that would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the shares of Stock are listed.

(b) An ISAR shall entitle the Participant (or other person entitled to exercise the ISAR pursuant to the Plan) to exercise all or a specified portion of the ISAR (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the ISAR from the Fair Market Value of a share of Stock on the date of exercise of the ISAR by the number of shares of Stock with respect to which the ISAR shall have been exercised, subject to any limitations the Committee may impose.

(c) Notwithstanding anything to the contrary in this Section 7.3, in the event that on the last business day of the term of an ISAR (x) the exercise of the ISAR is prohibited by applicable law or (y) shares of Stock may not be purchased or sold by certain employees or directors of the Company due to the "black-out period" of a Company policy or a "lock-up" agreement undertaken in connection with an issuance of securities by the Company, the term shall be extended for a period of thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement. In addition, an Award Agreement for an ISAR may provide that if on the last day of the term of the Fair Market Value of one share of Stock exceeds the grant price per share of Stock of the ISAR, the Participant has not exercised the ISAR, and the ISAR has not otherwise expired, the ISAR shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall make payment to the Participant in accordance with this Section, reduced by the number of shares of Stock (or cash) required for withholding taxes; *provided, however*, any fractional share of Stock shall be settled in cash.

### *7.4 Payment and Limitations on Exercise.*

(a) Subject to Section 7.4(b) and (c), payment of the amounts determined under Sections 7.2(c) and 7.3(b) above shall be in cash, in shares of Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee.

(b) To the extent payment for a Stock Appreciation Right is to be made in cash, the Award Agreement shall, to the extent necessary to comply with the requirements of Section 409A of the Code, specify the date of payment, which may be different than the date of exercise of the Stock

## Table of Contents

Appreciation Right. If the date of payment for a Stock Appreciation Right is later than the date of exercise, the Award Agreement may specify that the Participant be entitled to earnings on such amount until paid.

(c) To the extent any payment under Section 7.2(c) or 7.3(b) is effected in Stock it shall be made subject to satisfaction of any applicable provisions of Article 5 above pertaining to Options.

## ARTICLE 8

### OTHER TYPES OF AWARDS

8.1 *Performance Share Awards.* Any Participant selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.2 *Performance Units.* Any Participant selected by the Committee may be granted one or more Performance Unit awards which shall be denominated in units of value, including dollar value of shares of Stock, and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

#### 8.3 *Dividend Equivalents.*

(a) Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee. Notwithstanding the foregoing, Dividend Equivalents credited in connection with an Award that vests based on the achievement of Performance Criteria or other specific performance criteria shall be subject to restrictions and risk of forfeiture to the same extent as the Award with respect to which such Dividend Equivalents have been credited.

(b) Dividend Equivalents granted with respect to Options or SARs shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

8.4 *Stock Payments.* Any Participant selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares of Stock shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5 *Deferred Stock.* Any Participant selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Shares

## Table of Contents

of Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company shareholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the shares of Stock underlying the Deferred Stock Award have been issued.

**8.6 Restricted Stock Units.** The Committee is authorized to make Awards of Restricted Stock Units to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to Section 10.5(b), transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Company for such shares of Stock.

**8.7 Other Stock-Based Awards.** Any Participant selected by the Committee may be granted one or more Awards that provide Participants with shares of Stock or the right to purchase shares of Stock or that have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant.

**8.8 Term.** Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award shall be set by the Committee in its discretion.

**8.9 Exercise or Purchase Price.** The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Units, Deferred Stock, Stock Payments, Restricted Stock Units or Other Stock-Based Award; *provided, however*, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.

**8.10 Exercise Upon Termination of Employment or Service.** An Award of Performance Shares, Performance Units, Dividend Equivalents, Deferred Stock, Stock Payments, Restricted Stock Units and Other Stock-Based Award shall only be exercisable or payable while the Participant is an Employee, a Consultant, or a member of the Board, as applicable; *provided, however*, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units or Other Stock-Based Award may be exercised or paid subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise; *provided, however*, that any such provision with respect to Performance Shares or Performance Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation.

**8.11 Form of Payment.** Payments with respect to any Awards granted under this Article 8 shall be made in cash, in shares of Stock or a combination of both, as determined by the Committee.

**8.12 Award Agreement.** All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by an Award Agreement.

ARTICLE 9

PERFORMANCE-BASED AWARDS

9.1 *Purpose.* The purpose of this Article 9 is to provide the Committee the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however*, that the Committee may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 *Applicability.* This Article 9 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 *Procedures with Respect to Performance-Based Awards.* To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 6 and 8 which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 *Payment of Performance-Based Awards.* Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Subsidiary on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

9.5 *Additional Limitations.* Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

ARTICLE 10

PROVISIONS APPLICABLE TO AWARDS

10.1 *Stand-Alone and Tandem Awards.* Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

10.2 *Award Agreement.* Awards under the Plan shall be evidenced by Award Agreements that shall set forth the terms, conditions, limitations and award type for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

10.3 *Limits on Transfer.* Except as provided below, no right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, during the life of the recipient, such award shall be exercisable only by such person or by such person's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award without consideration (each transferee thereof, a "Permitted Assignee") (a) to the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (b) to a trust for the benefit of one or more of the Participant or the persons referred to in clause (a), (c) to a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (a) are the only partners, members or shareholders or (d) for charitable donations; *provided* that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and *provided further* that such Participant shall remain bound by the terms and conditions of the Plan.

10.4 *Death of Optionee.*

(a) *Options.* Notwithstanding Section 10.3, upon the death of the Optionee while either in the Company's employ or within six months after termination of Optionee's employment, any rights to the extent exercisable on the date of death may be exercised by the Optionee's estate, or by a person who acquires the right to exercise such Option by bequest or inheritance or by reason of the death of the Optionee, *provided* that such exercise occurs within both the remaining effective term of the Option and one year after the Optionee's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

(b) *Incentive Stock Options.* Upon the death of the Optionee while in the Company's employ or within not more than six months after termination of Optionee's employment, any Incentive Stock Option exercisable on the date of death may be exercised by the Optionee's estate or by a person who acquires the right to exercise such Incentive Stock Option by bequest or inheritance or by reason of the death of the Optionee, *provided* that such exercise occurs within

## Table of Contents

both the remaining Option Term of the Incentive Stock Option and one year after the Optionee's death.

### 10.5 *Retirement or Disability.*

(a) *Options.* Upon termination of the Optionee's employment by reason of retirement or permanent disability, the Optionee may, within 36 months from the date of termination, exercise any Options to the extent such Options are exercisable during such 36-month period.

(b) *Incentive Stock Options.* Upon termination of the Optionee's employment by reason of retirement or permanent disability, the Optionee may, within 36 months from the date of termination, exercise any Incentive Stock Options to the extent such Incentive Stock Options are exercisable during such 36-month period. However, the tax treatment available pursuant to Section 422 of the Code will not be available to an Optionee who exercises any Incentive Stock Option more than (i) 12 months after the date of termination of employment due to permanent disability, or (ii) three months after the date of termination of employment due to retirement.

10.6 *Termination for Other Reasons.* Except as provided herein or except as otherwise determined by the Committee, all Options shall terminate ninety (90) days after the termination of the Optionee's employment with the Company.

10.7 *Leaves of Absence and Performance Targets.* The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any leave of absence taken by the recipient of any Award. Without limiting the generality of the foregoing, the Committee shall be entitled to determine (a) whether or not any such leave of absence shall constitute a termination of employment within the meaning of the Plan and (b) the impact, if any, of such leave of absence on Awards under the Plan theretofore made to any recipient who takes such leave of absence. The Committee shall also be entitled to make such determination of performance targets, if any, as it deems appropriate.

10.8 *Newly Eligible Employees.* The Committee shall be entitled to make such rules, regulations, determinations and Awards as it deems appropriate in respect of any Employee who becomes eligible to participate in the Plan or any portion thereof, after the commencement of an Award or incentive period.

10.9 *Stock Certificates; Book Entry Procedures.* As soon as practicable after receipt of payment, the Company shall deliver to the Optionee a certificate(s) for such shares of Stock. Upon receipt of such certificate(s), the Optionee shall become a shareholder of the Company with respect to shares of Stock represented by share certificates so issued and as such shall be fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the shares of Stock are listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the shares of Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.



ARTICLE 11

CHANGES IN CAPITAL STRUCTURE

11.1 *Adjustments.*

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of Company assets to shareholders (other than normal cash dividends), or any other corporate event affecting the shares of Stock or the share price of the shares of Stock, the Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such changes with respect to (i) the aggregate number and type of shares of Stock that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3); (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iii) the grant or exercise price per share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section 11.1(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate (including without limitation any Change in Control), or of changes in applicable laws, regulations or accounting principles, and whenever the Committee determines that action is appropriate in order to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, either by amendment of the terms of any outstanding Awards or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 11.1(b) the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(iii) To make adjustments in the number and type of shares of Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

## Table of Contents

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

11.2 *Outstanding Awards—Other Changes.* In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 11, the Committee may, in its absolute discretion, make such adjustments in the number and kind of shares or other securities subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

11.3 *No Other Rights.* Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

## ARTICLE 12

### ADMINISTRATION

12.1 *Committee.* Pursuant to Utah Code Annotated Section 16-10a-624, and consistent with the provisions of Section 12.3 below, the Board may appoint a Committee consisting of two or more Non-Employee Directors to administer the Plan, as constituted from time to time.

12.2 *Committee Appointee Duration.* Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time, the Board may increase or change the size of the Committee, and appoint new members thereof, remove members (with or without cause) and appoint new members in substitution, fill vacancies, however caused, or remove all members of the Committee; *provided, however,* that at no time shall any person administer the Plan who is not otherwise a Non-Employee Director.

12.3 *Action by the Board.* Unless and until the Board delegates administration of the Plan to a Committee as set forth below, the Plan shall be administered by the full Board, and for such purposes the term "Committee" as used in this Plan shall be deemed to refer to the Board. The Board, at its discretion or as otherwise necessary to comply with the requirements of Section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act or to the extent required by any other applicable rule or regulation, shall delegate administration of the Plan to a Committee. The Committee shall consist solely of two or more members of the Board each of whom is an "outside director," within the meaning of Section 162(m) of the Code and any other applicable rules and regulations, a Non-Employee Director and an "independent director" for purpose of the rules of the principal U.S. national securities exchange on which the Shares are traded, to the extent required by such rules. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Independent Directors and, for purposes of such Awards, the term "Committee" as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 12.5. Appointment of Committee members shall be effective upon acceptance of appointment. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may only be filled by the Board.



## Table of Contents

**12.4 Action by the Committee.** A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

**12.5 Authority of Committee.** Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

The Committee may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable.

**12.6 Decisions Binding.** The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

**12.7 Delegation of Authority.** To the extent permitted by applicable law, the Committee may from time to time delegate to a committee of one or more members of the Committee or the Board or one or more officers of the Company the authority to grant or amend Awards to Participants other than (a) senior executives and Independent Directors of the Company who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or members of the Board) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation, and the Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.7 shall serve in such capacity at the pleasure of the Committee.

## Table of Contents

12.8 *Committee Administration.* One member of the Committee shall be elected by the Board as chairman. The Committee shall hold its meetings at such times and places as it shall deem advisable. The Committee may appoint a secretary and make such rules and regulations for the conduct of its business as it shall deem advisable, and shall keep minutes of its meetings.

12.9 *Liability.* No member of the Board or Committee shall be liable for any action taken or decision or determination made in good faith with respect to any Option, the Plan, or any award thereunder.

## ARTICLE 13

### EFFECTIVE AND EXPIRATION DATE

13.1 *Effective Date.* The Plan is effective as of the date the Plan is approved by a majority of the Board (the "*Effective Date*"). The Plan, however, shall be subject to approval by the shareholders. The Plan will be deemed to be approved by the shareholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company's Bylaws, but, in any event, held no later than 12 months after the Effective Date.

13.2 *Expiration Date.* The Plan will expire on, and no Incentive Stock Option or other Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

## ARTICLE 14

### AMENDMENT, MODIFICATION, AND TERMINATION

14.1 *Amendment, Modification, And Termination.* The Committee may at any time and from time to time terminate or modify or amend the Plan in any respect, except that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment or any modification of any Options or ISARs that would (i) cancel the Award in exchange for cash or another Award, (ii) reduce the exercise price of the Award, or (iii) otherwise be deemed a re-pricing under applicable rules, in such a manner and to such a degree as required, and (b) without shareholder approval the Committee may not (i) increase the maximum number of shares of Stock which may be issued under the Plan (other than increases pursuant to Section 11.1), (ii) increase the limitations in Sections 3.3 and 3.4 (other than increases pursuant to Section 11.1), (iii) amend to the Plan to permit the Committee to grant Options or ISARs with an exercise price that is below Fair Market Value on the date of grant, (iv) extend the term of the Plan, or (v) add Performance Criteria to Section 2.25. The termination or any modification or amendment of the Plan, except as provided in subsection (a), shall not without the consent of a Participant, affect his or her other rights under an Award previously granted to him or her.

14.2 *Awards Previously Granted.* No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

## ARTICLE 15

### COMPLIANCE WITH SECTION 409A OF THE CODE

15.1 *Awards subject to Code Section 409A.* Any Award that constitutes, or provides for, a deferral of compensation subject to Section 409A of the Code (a "*Section 409A Award*") shall satisfy the requirements of Section 409A of the Code and this Article 15, to the extent applicable. The Award

## Table of Contents

Agreement with respect to a Section 409A Award shall incorporate the terms and conditions required by Section 409A of the Code and this Article 15.

### *15.2 Distributions under a Section 409A Award.*

(a) Subject to subsection (b), any shares of Stock or other property or amounts to be paid or distributed upon the grant, issuance, vesting, exercise or payment of a Section 409A Award shall be distributed in accordance with the requirements of Section 409A(a)(2) of the Code, and shall not be distributed earlier than:

- (i) the Participant's separation from service;
- (ii) the date the Participant becomes disabled;
- (iii) the Participant's death;
- (iv) a specified time (or pursuant to a fixed schedule) specified under the Award Agreement at the date of the deferral compensation;
- (v) a change in the ownership or effective control of the Company or a Parent or Subsidiary, or in the ownership of a substantial portion of the assets of the Company or a Parent or Subsidiary; or
- (vi) the occurrence of an unforeseeable emergency with respect to the Participant.

(b) In the case of a Participant who is a "specified employee," the requirement of paragraph (a)(i) shall be met only if the distributions with respect to the Section 409A Award may not be made before the date which is six months after the Participant's separation from service (or, if earlier, the date of the Participant's death). For purposes of this subsection (b), a Participant shall be a "specified employee" if such Participant is a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of a corporation any stock of which is publicly traded on an established securities market or otherwise, as determined under Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder.

(c) The requirement of paragraph (a)(vi) shall be met only if, as determined under Treasury Regulations under Section 409A(a)(2)(B)(ii) of the Code, the amounts distributed with respect to the unforeseeable emergency do not exceed the amounts necessary to satisfy such unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such unforeseeable emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

(d) For purposes of this Section, the terms specified therein shall have the respective meanings ascribed thereto under Section 409A of the Code and the Treasury Regulations thereunder.

**15.3 Prohibition on Acceleration of Benefits.** The time or schedule of any distribution or payment of any shares of Stock or other property or amounts under a Section 409A Award shall not be accelerated, except as otherwise permitted under Section 409A(a)(3) of the Code and the Treasury Regulations thereunder.

### *15.4 Elections under Section 409A Awards.*

(a) Any deferral election provided under or with respect to an Award to any Eligible Individual, or to the Participant holding a Section 409A Award, shall satisfy the requirements of Section 409A(a)(4)(B) of the Code, to the extent applicable, and, except as otherwise permitted under paragraph (i) or (ii) below, any such deferral election with respect to compensation for

## Table of Contents

services performed during a taxable year shall be made not later than the close of the preceding taxable year, or at such other time as provided in Treasury Regulations.

(i) In the case of the first year in which an Eligible Individual or a Participant holding a Section 409A Award, becomes eligible to participate in the Plan, any such deferral election may be made with respect to services to be performed subsequent to the election with thirty days after the date the Eligible Individual, or the Participant holding a Section 409A Award, becomes eligible to participate in the Plan, as provided under Section 409A(a)(4)(B)(ii) of the Code.

(ii) In the case of any performance-based compensation based on services performed by an Eligible Individual, or the Participant holding a Section 409A Award, over a period of at least twelve months, any such deferral election may be made no later than six months before the end of the period, as provided under Section 409A(a)(4)(B)(iii) of the Code.

(b) In the event that a Section 409A Award permits, under a subsequent election by the Participant holding such Section 409A Award, a delay in a distribution or payment of any shares of Stock or other property or amounts under such Section 409A Award, or a change in the form of distribution or payment, such subsequent election shall satisfy the requirements of Section 409A(a)(4)(C) of the Code, and:

(i) such subsequent election may not take effect until at least twelve months after the date on which the election is made,

(ii) in the case such subsequent election relates to a distribution or payment not described in Section 10.2(a)(ii), (iii) or (vi), the first payment with respect to such election may be deferred for a period of not less than five years from the date such distribution or payment otherwise would have been made, and

(iii) in the case such subsequent election relates to a distribution or payment described in Section 10.2(a)(iv), such election may not be made less than twelve months prior to the date of the first scheduled distribution or payment under Section 10.2(a)(iv).

15.5 *Compliance in Form and Operation.* A Section 409A Award, and any election under or with respect to such Section 409A Award, shall comply in form and operation with the requirements of Section 409A of the Code and the Treasury Regulations thereunder.

## ARTICLE 16

### GENERAL PROVISIONS

16.1 *No Rights to Awards.* No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

16.2 *No Shareholders Rights.* The recipient of any Award under the Plan shall have no rights as a shareholder with respect thereto unless and until certificates for shares of Stock are issued to him or her.

16.3 *Withholding.* The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be

## Table of Contents

withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award within six months (or such other period as may be determined by the Committee) after such shares of Stock were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

**16.4 No Right to Employment or Services.** Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

**16.5 Unfunded Status of Awards.** The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

**16.6 Indemnification.** To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

**16.7 Relationship to other Benefits.** No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

**16.8 Expenses.** The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

**16.9 Titles and Headings.** The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

**16.10 Fractional Shares.** No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

**16.11 Limitations Applicable to Section 16 Persons.** Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by

## Table of Contents

applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

16.12 *Financial Restatements.* In the event of a restatement of the Company's financial statements, the Committee shall have the right to review any Award, the amount, payment or vesting of which was based on an entry in the financial statements that are the subject of the restatement. If the Committee determines that based on the results of the restatement, a lesser amount or portion of an Award should have been paid or vested, it may (i) cancel all or any portion of any outstanding Awards and (ii) require the Participant or other person to whom any payment has been made or shares or other property have been transferred in connection with the Award to forfeit and pay over to the Company, on demand, all or any portion of the gain (whether or not taxable) realized upon the exercise of any Option or Stock Appreciation Right and the value realized (whether or not taxable) on the vesting or payment of any other Award during the period beginning twelve months preceding the date of the restatement and ending with the date of cancellation of any outstanding Awards

16.13 *Government and Other Regulations.* The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act of 1933, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

16.14 *Governing Law.* The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Utah.

\* \* \* \* \*

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of USANA Health Sciences, Inc. on \_\_\_\_\_, 2015.

\* \* \* \* \*

I hereby certify that the foregoing Plan was approved by the shareholders of USANA Health Sciences, Inc. on \_\_\_\_\_, 2015.

Executed on this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

\_\_\_\_\_  
Corporate Secretary

USANA HEALTH SCIENCES, INC.  
ATTN: JOHNS FOLKES  
3555 N. PARKWAY BLVD.  
Salt Lake City, UT 84120

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**Electronic Delivery of Future PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-696-6963**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 61 Mercedes Way, Edenwood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

KEEP THIS PORTION FOR YOUR RECORDS  
DETACH AND RETURN THIS PORTION ONLY

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends you vote FOR the following:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
1. Election of Directors Business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
01 Robert Ancelet				
02 Gilbert A. Fuller				
03 Jerry G. McClain				
04 Ronald E. Pooleman				
05 Myron M. Westz, Ph.D.				
The Board of Directors recommends you vote FOR proposals 2 and 3.				
2 To approve the Company's 2015 Equity Incentive Award Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3 To ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year 2016.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
NOTE: To consider and act upon such other business as may properly come before the meeting or at any postponement or adjournment thereof.				
Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.				
Signature [PLEASE SIGN WITHIN BOX]		Date		
Signature (Joint Owners)		Date		

0000216729-1 RI 051160



Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Annual Report, Notice & Proxy Statement is/ are available at [www.proxyvote.com](http://www.proxyvote.com).

-----

**USANA HEALTH SCIENCES, INC.**  
**Annual Meeting of Shareholders**  
**May 6, 2015 11:00 AM**  
**This proxy is solicited by the Board of Directors**

The shareholder executing and delivering this Proxy hereby appoints David A. Wertz and Paul A. Jones and each of them as Proxies, with full power of substitution, and hereby authorizes them to represent and vote, as designated below, all shares of common stock of the Company held of record by the undersigned as of March 2, 2015, at the Annual Meeting of Shareholders of USANA Health Sciences, Inc., to be held at the Corporate headquarters, 3533 West Parkway Blvd., Salt Lake City, Utah 84120, on Wednesday, May 6, 2015, at 11:00 a.m., Mountain Daylight Time, or at any adjournment thereof. This Proxy is given in accordance with the instructions indicated and carries discretionary authority relative to any and all other matters that may come before the meeting and any adjournments thereof.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.

PLEASE SIGN EXACTLY AS THE SHARES ARE ISSUED. WHEN CO-TENANTS HOLD SHARES, BOTH SHOULD SIGN. WHEN SIGNING AS ATTORNEY, AS EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN, PLEASE GIVE FULL TITLE AS SUCH. IF A CORPORATION, PLEASE SIGN IN FULL CORPORATE NAME BY PRESIDENT OR OTHER AUTHORIZED OFFICER. IF A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON. PLEASE DATE, SIGN AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

000016279\_2\_81.D 0 51160

Continued and to be signed on reverse side

# **Addendum F**

---

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

---

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35024

---

**USANA HEALTH SCIENCES, INC.**

(Exact name of registrant as specified in its charter)

Utah  
(State or other jurisdiction  
of incorporation or organization)

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

---

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

---

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

The number of shares outstanding of the registrant's common stock as of August 1, 2014 was 12,984,073.

---

---

Table of Contents

USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended June 28, 2014

INDEX

	<u>Page</u>
 <u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1</u>	<u>Financial Statements (unaudited)</u>
	<u>Condensed Consolidated Balance Sheets</u> 3
	<u>Condensed Consolidated Statements of Comprehensive Income</u> 4
	<u>Condensed Consolidated Statements of Stockholders' Equity</u> 5
	<u>Condensed Consolidated Statements of Cash Flows</u> 6
	<u>Notes to Condensed Consolidated Financial Statements</u> 7-14
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 15-23
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 24
<u>Item 4</u>	<u>Controls and Procedures</u> 24
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 25
<u>Item 5</u>	<u>Other Information</u> 25
<u>Item 6</u>	<u>Exhibits</u> 26-27
<u>Signatures</u>	28

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)  
(unaudited)

	<u>As of December 28, 2013</u>	<u>As of June 28, 2014</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 137,343	\$ 118,267
Securities held-to-maturity, net	8,642	3,374
Inventories	47,242	44,528
Prepaid expenses and other current assets	35,818	35,756
Total current assets	<u>229,045</u>	<u>201,925</u>
Property and equipment, net	59,180	65,859
Goodwill	18,243	17,919
Intangible assets, net	42,329	41,015
Deferred tax assets	5,519	5,515
Other assets	14,154	22,688
	<u>\$ 368,470</u>	<u>\$ 354,921</u>

# **LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities		
Accounts payable	\$ 9,502	\$ 6,408
Other current liabilities	86,369	82,297
Total current liabilities	95,871	88,705
Deferred tax liabilities	10,866	10,672
Other long-term liabilities	1,211	1,290
Stockholders' equity		
Common stock, \$0.001 par value; Authorized — 50,000 shares, issued and outstanding 13,886 as of December 28, 2013 and 13,404 as of June 28, 2014	14	13
Additional paid-in capital	54,691	51,925
Retained earnings	200,023	196,992
Accumulated other comprehensive income	5,794	5,324
Total stockholders' equity	260,522	254,254
	<u>\$ 368,470</u>	<u>\$ 354,921</u>

The accompanying notes are an integral part of these statements.

## **Table of Contents**

### **USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES**

#### **CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands, except per share data)  
(unaudited)

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net sales	\$ 189,136	\$ 188,256	\$ 358,218	\$ 370,657
Cost of sales	31,905	34,865	62,166	68,693
Gross profit	157,231	153,391	296,052	301,964
Operating expenses:				
Associate incentives	77,801	81,098	147,656	159,972
Selling, general and administrative	42,978	43,206	85,382	87,783
Total operating expenses	120,779	124,304	233,038	247,755
Earnings from operations	36,452	29,087	63,014	54,209
Other income (expense):				
Interest income	81	215	159	427
Interest expense	—	—	—	(6)
Other, net	(164)	82	(268)	1
Other income (expense), net	(83)	297	(109)	422
Earnings before income taxes	36,369	29,384	62,905	54,631
Income taxes	12,159	10,083	20,916	18,793
Net earnings	<u>\$ 24,210</u>	<u>\$ 19,301</u>	<u>\$ 41,989</u>	<u>\$ 35,838</u>
Earnings per common share				
Basic	\$ 1.79	\$ 1.40	\$ 3.09	\$ 2.59
Diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50
Weighted average common shares outstanding				
Basic	13,513	13,768	13,578	13,843

Diluted	14,099	14,235	14,034	14,315
Comprehensive income:				
Net earnings	\$ 24,210	\$ 19,301	\$ 41,989	\$ 35,838
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(2,472)	802	(2,441)	(860)
Tax benefit (expense) related to foreign currency translation adjustment	798	(262)	732	390
Other comprehensive income (loss), net of tax	(1,674)	540	(1,709)	(470)
Comprehensive income	\$ 22,536	\$ 19,841	\$ 40,280	\$ 35,368

The accompanying notes are an integral part of these statements.

4

## Table of Contents

### USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Six Months Ended June 28, 2014

(in thousands)  
(unaudited)

	Common Stock		Additional	Retained	Accumulated	
	Shares	Value	Paid-in	Earnings	Other	Total
			Capital		Comprehensive	
					Income (Loss)	
Balance at December 28, 2013	13,886	\$ 14	\$ 54,691	\$ 200,023	\$ 5,794	\$ 260,522
Net earnings				35,838		35,838
Other comprehensive income (loss), net of tax					(470)	(470)
Equity-based compensation expense			4,071			4,071
Common stock repurchased and retired	(682)	(1)	(10,224)	(38,869)		(49,094)
Common stock issued under equity award plans, including tax benefit of \$3,387	200		3,387			3,387
Balance at June 28, 2014	13,404	\$ 13	\$ 51,925	\$ 196,992	\$ 5,324	\$ 254,254

The accompanying notes are an integral part of these statements.

5

## Table of Contents

### USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)  
(unaudited)

	Six Months Ended	
	June 29, 2013	June 28, 2014
Cash flows from operating activities		
Net earnings	\$ 41,989	\$ 35,838
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	4,631	4,408
(Gain) loss on sale of property and equipment	(6)	16

Equity-based compensation expense	4,427	4,071
Excess tax benefits from equity-based payment arrangements	(1,734)	(3,387)
Deferred income taxes	843	(605)
Changes in operating assets and liabilities:		
Inventories	(6,123)	3,034
Prepaid expenses and other assets	(3,295)	(5,144)
Accounts payable	155	(3,085)
Other liabilities	6,409	(3,896)
Net cash provided by (used in) operating activities	47,296	31,250
Cash flows from investing activities		
Additions to notes receivable	(2,232)	(2,520)
Purchases of investment securities held-to-maturity	—	(3,871)
Maturities of investment securities	—	9,137
Proceeds from sale of property and equipment	15	8
Purchases of property and equipment	(2,961)	(10,103)
Net cash provided by (used in) investing activities	(5,178)	(7,349)
Cash flows from financing activities		
Proceeds from equity awards exercised	454	—
Excess tax benefits from equity-based payment arrangements	1,734	3,387
Repurchase of common stock	(18,085)	(46,109)
Net cash provided by (used in) financing activities	(15,897)	(42,722)
Effect of exchange rate changes on cash and cash equivalents	(1,004)	(255)
Net increase (decrease) in cash and cash equivalents	25,217	(19,076)
Cash and cash equivalents, beginning of period	70,839	137,343
Cash and cash equivalents, end of period	\$ 96,056	\$ 118,267
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ —	\$ 6
Income taxes	21,040	9,963
Non-cash financing activities:		
Unsettled trades for repurchase of common stock	—	(2,985)

The accompanying notes are an integral part of these statements.

## Table of Contents

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

#### NOTE A — ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION

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

The condensed consolidated balance sheet as of December 28, 2013, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted



pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to state fairly the Company's financial position as of June 28, 2014 and results of operations for the quarters and six months ended June 29, 2013 and June 28, 2014. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended December 28, 2013. The results of operations for the quarter and six months ended June 28, 2014, may not be indicative of the results that may be expected for the fiscal year 2014 ending January 3, 2015.

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled to in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements

## 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

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

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

As of December 28, 2013 and June 28, 2014, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	December 28, 2013	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 9,249	\$ 9,249	\$ —	\$ —
Term deposits included in cash equivalents	348	—	348	—
	June 28, 2014	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 14,412	\$ 14,412	\$ —	\$ —

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the periods indicated.

The majority of the Company's non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 28, 2013 and June 28, 2014, there were no non-financial assets measured at fair value on a non-recurring basis.

At December 28, 2013 and June 28, 2014, the Company's financial instruments include cash equivalents, restricted cash, securities held-to-maturity ("HTM"), and notes receivable. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates. HTM securities consist of certificates of deposits. The fair value of a certificate of deposit is determined based on the pervasive interest rates in the market, which is considered to be a Level 2 input. The carrying values of these certificates of deposit approximate

their fair values due to their short-term maturities.

Table of Contents

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

**NOTE C — INVESTMENTS**

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

	As of December 28, 2013			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 8,642	\$ —	\$ —	\$ 8,642
Total HTM Securities	\$ 8,642	\$ —	\$ —	\$ 8,642

	As of June 28, 2014			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 3,374	\$ —	\$ —	\$ 3,374
Total HTM Securities	\$ 3,374	\$ —	\$ —	\$ 3,374

**NOTE D — INVENTORIES**

Inventories consist of the following:

	December 28, 2013	June 28, 2014
Raw materials	\$ 13,824	\$ 12,301
Work in progress	8,147	8,361
Finished goods	25,271	23,866
	\$ 47,242	\$ 44,528

**NOTE E — OTHER ASSETS**

The Company has extended non-revolving credit to its supplier of nutrition bars to allow this supplier to acquire the necessary equipment to manufacture the USANA nutrition bars. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as of December 28, 2013, and June 28, 2014, were \$4,942 and \$7,447, respectively.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the latter half of 2015. As part of this project, land use rights totaling \$1,483, and \$7,364 as of December 28, 2013 and June 28, 2014, respectively, have been purchased and will be amortized over 50 years. Land-use rights are classified within the "Other assets" line item in the Company's consolidated balance sheets.

Table of Contents

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

**NOTE F — CONTINGENCIES**

The Company is involved in various lawsuits, claims, and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

#### NOTE G — EQUITY BASED COMPENSATION

The Company utilizes a share-based compensation plan, which is more fully described in Note K to the Consolidated Financial Statements in Form 10-K for the year ended December 28, 2013.

Equity-based compensation expense for the quarters ended June 29, 2013, and June 28, 2014, was \$2,058 and \$2,235, respectively. The related tax benefit for these periods was \$697 and \$743, respectively. Expense for the six months ended June 29, 2013, and June 28, 2014, was \$4,427 and \$4,071, respectively. The related tax benefit for these periods was \$1,509 and \$1,359, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of June 28, 2014. This table does not include an estimate for future grants that may be issued.

2014	\$	4,643
2015		7,382
2016		5,504
2017		3,399
2018+		541
	\$	21,469

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value of stock-settled stock appreciation rights that were granted during the six months ended June 29, 2013, and June 28, 2014, was \$13.86 and \$17.73, respectively. Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated.

#### Table of Contents

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

#### NOTE G — EQUITY BASED COMPENSATION — CONTINUED

	Six Months Ended	
	June 29, 2013	June 28, 2014
Expected volatility (1)	43.1%	39.9%
Risk-free interest rate (2)	0.6%	1.2%
Expected life (3)	3.97 yrs	3.54 yrs
Expected dividend yield (4)	0.0%	0.0%
Weighted-average exercise price (5)	\$ 40.84	\$ 57.62

- (1) The Company utilizes historical volatility of the trading price of its common stock.
- (2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.
- (3) Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.
- (4) The Company historically has not paid dividends.
- (5) Exercise price is the closing price of the Company's common stock on the date of grant.

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

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value*
Outstanding at December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	686	57.62		

Exercised	(362)	32.26		
Forfeited	(20)	27.33		
Expired	—	—		
Outstanding at June 28, 2014	<u>2,131</u>	\$ 44.85	2.8	\$ 70,555
Exercisable at June 28, 2014	<u>412</u>	\$ 38.40	1.6	\$ 16,207

\* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised during the six months ended June 29, 2013, and June 28, 2014, was \$10,429 and \$14,404, respectively.

The total fair value of equity awards that vested during the six months ended June 29, 2013, and June 28, 2014, was \$1,553 and \$3,506, respectively. This total fair value includes equity-based awards issued in the form of stock options and stock-settled stock appreciation rights.

## Table of Contents

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

#### NOTE H — COMMON STOCK AND EARNINGS PER SHARE

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

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net earnings available to common shareholders	\$ <u>24,210</u>	\$ <u>19,301</u>	\$ <u>41,989</u>	\$ <u>35,838</u>
Basic EPS				
Shares				
Common shares outstanding entire period	13,821	13,886	13,821	13,886
Weighted average common shares:				
Issued during period	106	131	58	81
Canceled during period	<u>(414)</u>	<u>(249)</u>	<u>(301)</u>	<u>(124)</u>
Weighted average common shares outstanding during period	<u>13,513</u>	<u>13,768</u>	<u>13,578</u>	<u>13,843</u>
Earnings per common share from net earnings - basic	\$ <u>1.79</u>	\$ <u>1.40</u>	\$ <u>3.09</u>	\$ <u>2.59</u>
Diluted EPS				
Shares				
Weighted average common shares outstanding during period - basic	13,513	13,768	13,578	13,843
Dilutive effect of in-the-money equity awards	<u>586</u>	<u>467</u>	<u>456</u>	<u>472</u>
Weighted average common shares outstanding during period - diluted	14,099	14,235	14,034	14,315

Earnings per common share from net earnings - diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50
---	---------	---------	---------	---------

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

Quarter Ended		Six Months Ended	
June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
234	383	560	328

12

## Table of Contents

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

#### NOTE H — COMMON STOCK AND EARNINGS PER SHARE- CONTINUED

During the six months ended June 29, 2013 and the quarter and six months ended June 28, 2014, the Company repurchased and retired 414 shares and 682 shares, for \$18,085 and \$49,094 respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

Subsequent to the period ended June 28, 2014 and through August 1, 2014, the Company repurchased and retired 430 shares under the Company's share repurchase plan for a total of \$30,932. As of August 1, 2014, the remaining approved repurchase amount under the plan was \$119,953.

#### NOTE I — SEGMENT INFORMATION

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
USANA® Nutritional	81%	78%	80%	79%
USANA Foods	12%	14%	12%	13%
Sensé – beautiful science®	6%	7%	6%	7%

Selected financial information for the Company is presented for two geographic regions: Americas and Europe and Asia Pacific, with three sub-regions under Asia Pacific. Individual markets are categorized into these regions as follows:

- Americas and Europe — United States, Canada, Mexico, Colombia (1), the United Kingdom, France, Belgium, and the Netherlands.
- Asia Pacific —
  - Southeast Asia Pacific — Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
  - Greater China — Hong Kong, Taiwan and China(2)
  - North Asia — Japan and South Korea

(1) The Company commenced operations in Colombia in the third quarter of 2013.

(2) The Company's business in China is that of BabyCare, its wholly-owned subsidiary.

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

**NOTE 1 — SEGMENT INFORMATION - CONTINUED**

*Selected Financial Information*

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
<b>Net Sales to External Customers</b>				
Americas and Europe	\$ 66,769	\$ 63,661	\$ 130,921	\$ 127,476
Asia Pacific				
Southeast Asia Pacific	37,475	42,689	72,784	83,137
Greater China	77,388	74,091	140,373	144,938
North Asia	7,504	7,815	14,140	15,106
Asia Pacific Total	122,367	124,595	227,297	243,181
Consolidated Total	\$ 189,136	\$ 188,256	\$ 358,218	\$ 370,657

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
<b>Net sales:</b>				
China	\$ 23,559	\$ 51,223	\$ 36,984	\$ 89,983
United States	40,087	35,570	80,325	73,183
Hong Kong	45,938	N/A	87,535	38,926
	As of			
	December 28, 2013	June 28, 2014		
<b>Long-lived Assets:</b>				
China	\$ 61,716	\$ 73,026		
United States	51,260	53,004		

Table of Contents

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

The following discussion and analysis of USANA's financial condition and results of operations is presented in six sections:

- Overview
- Customers
- Current Focus and Recent Developments
- Results of Operations
- Liquidity and Capital Resources
- Forward-Looking Statements and Certain Risks

This discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and Notes thereto that are contained in this quarterly report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations that are included in our Annual Report on Form 10-K for the year ended December 28, 2013, and our other filings, including Current Reports on Form 8-K, that have been filed with the Securities and Exchange Commission ("SEC") through the date of this report.

**Overview**

We develop and manufacture high-quality, science-based nutritional and personal care products that are distributed internationally



through a network marketing system, which is a form of direct selling. Our customer base comprises two types of customers: "Associates" and "Preferred Customers." Associates are independent distributors of our products who also purchase our products for their personal use. Preferred Customers purchase our products strictly for their personal use and are not permitted to resell or to distribute the products. As of June 28, 2014, we had approximately 283,000 active Associates and approximately 79,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased from us at any time during the most recent three-month period, either for personal use or for resale.

We have ongoing operations in the following markets, which are grouped and presented as follows:

- Americas and Europe — United States, Canada, Mexico, Colombia(1), the United Kingdom, France, Belgium, and the Netherlands
- Asia Pacific
  - Southeast Asia Pacific — Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
  - Greater China — Hong Kong, Taiwan, and China (2)
  - North Asia — Japan and South Korea

- 
- (1) We commenced operations in Colombia in the third quarter of 2013.  
 (2) Our business in China is that of BabyCare, our wholly-owned subsidiary.

Our primary product lines consist of USANA® Nutritionals, USANA Foods, and Sensé — beautiful science® (Sensé), which is our line of personal care products. The USANA Nutritionals product line is further categorized into two separate classifications: Essentials and Optimizers. The following tables summarize the approximate percentage of total product revenue that has been contributed by our major product lines and our top-selling products for the current and prior-year periods as indicated:

## Table of Contents

	Six Months Ended	
	June 29, 2013	June 28, 2014
<b>Product Line</b>		
USANA® Nutritionals		
Essentials	27%	25%
Optimizers	53%	54%
USANA Foods	12%	13%
Sensé — beautiful science®	6%	7%
All Other	2%	1%
<b>Key Product</b>		
USANA® Essentials	18%	16%
Proflavanol®	12%	13%

We believe that our ability to attract and retain Associates and Preferred Customers to sell and consume our products is positively influenced by a number of factors, some of which include: the general public's heightened awareness and understanding of the connection between diet and long-term health, and the growing desire for a secondary source of income and small business ownership.

We believe that our high-quality products and our financially rewarding Associate Compensation Plan are the key components to attracting and retaining Associates. We strive to ensure that our products are formulated with the latest science in nutrition research and to keep our product lines relatively compact, which we believe simplifies the selling and buying process for our Associates and Preferred Customers. We also periodically make changes to our Compensation Plan in an effort to ensure that our plan is among the most rewarding in the industry, to encourage behavior that we believe leads to a successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings.

To further support our Associates in building their businesses, we sponsor meetings and events throughout the year, which offer information about our products and our network marketing system. These meetings are designed to assist Associates in their business development and to provide a forum for interaction with our Associate leaders and members of our management team. We also provide low cost sales tools, including online sales, business management, and training tools, which we believe are an integral part of building and maintaining a successful home-based business for our Associates. Although we provide training and sales tools, we ultimately rely on our Associates to sell our products, attract new customers to purchase our products, and educate and train new Associates.

Because we have operations in multiple markets, with sales and expenses being generated and incurred in multiple currencies, our reported U.S. dollar sales and earnings can be significantly affected by fluctuations in currency exchange rates. In general, net sales and gross profit are affected positively by a weakening of the U.S. dollar and negatively by a strengthening of the U.S. dollar. Associate incentives and selling, general and administrative expenses, however, are affected negatively by a weakening of the U.S. dollar and positively by a strengthening



of the U.S. dollar. During the six months ended June 28, 2014, net sales outside of the United States represented 80.3% of consolidated net sales. In our net sales discussions that follow, we approximate the impact of currency fluctuations on net sales by translating current year sales at the average exchange rates in effect during the comparable periods of the prior year.

## Customers

Because we utilize a direct selling model for the distribution of our products, the success and growth of our business is primarily based on our ability to attract new Associates and retain existing Associates to sell and consume our products. Notably, sales to Associates account for the majority of our product sales, representing approximately 90% of product sales during the six months ended June 28, 2014. Additionally, it is important to attract and retain Preferred Customers as consumers of our products. Increases or decreases in product sales are typically the result of variations in product sales volumes relating to fluctuations in the number of active Associates and Preferred Customers purchasing our products. The number of active Associates and Preferred Customers is, therefore, used by management as a key non-financial measure.

## Table of Contents

The tables below summarize the changes in our active customer base by geographic region. These numbers have been rounded to the nearest thousand as of the dates indicated.

	Active Associates By Region				Change from Prior Year
	As of June 29, 2013		As of June 28, 2014		
Americas and Europe	82,000	32.3%	82,000	29.0%	—
Asia Pacific:					
Southeast Asia Pacific	60,000	23.6%	67,000	23.7%	7,000
Greater China	103,000	40.6%	125,000	44.1%	22,000
North Asia	9,000	3.5%	9,000	3.2%	—
Asia Pacific Total	172,000	67.7%	201,000	71.0%	29,000
	254,000	100.0%	283,000	100.0%	29,000

	Preferred Customers By Region				Change from Prior Year
	As of June 29, 2013		As of June 28, 2014		
Americas and Europe	57,000	81.4%	60,000	75.9%	3,000
Asia Pacific:					
Southeast Asia Pacific	7,000	10.0%	11,000	13.9%	4,000
Greater China	4,000	5.7%	3,000	3.8%	(1,000)
North Asia	2,000	2.9%	5,000	6.4%	3,000
Asia Pacific Total	13,000	18.6%	19,000	24.1%	6,000
	70,000	100.0%	79,000	100.0%	9,000

## Current Focus and Recent Developments

Our primary objective, both on a short- and long-term basis, is to strengthen and grow our active customer counts throughout the world. To this end, in August 2013 we announced and implemented several strategic changes to our business, which we refer to as the “2013 strategic changes” throughout this report. These changes are aimed at simplifying our business model for our Associates and promoting customer loyalty, enjoyment and success with USANA. The 2013 Strategic Changes included: (i) simplification of our pricing structure, which included an overall 10% price reduction, while maintaining a price discount on products ordered through our monthly Auto Order program (collectively “price discounts”), (ii) a new reward based on the amount of a customer’s initial product order to then be credited on their subsequent two Auto Orders, and (iii) increased payout under and simplification of our Compensation Plan.

We increased the payout under our Compensation Plan in several ways, including: (i) paying higher compensation to newer Associates, (ii) increasing compensation for Associates who grow their business through our Auto Order program, and (iii) simplifying the commission qualification requirements under the plan, resulting in a greater number of Associates earning compensation. Additionally, we simplified our rank advancement system to make it easier for Associates to advance in our business, and we added new recognition benefits for Associate leaders.

During the second quarter, we continued training our Associates on the benefits of the 2013 Strategic Changes and emphasized Associate recognition. We also continued to achieve progress on several business indicators that we monitor to measure the success of the 2013 Strategic Changes. These indicators include: active customer counts; world-wide unit volume; percent of sales processed through our Auto Order program; and the number of Associates earning a commission check. On a year-over-year basis, we achieved double-digit growth for most of these indicators.

## Table of Contents

The positive impact to net sales, however, from improvements in these indicators will, in the short-term, be partially offset by the aforementioned price discounts. For instance, overall customers grew by nearly 12% during the second quarter of 2014, compared to the prior year quarter, while net sales were essentially flat. This difference can, in most part, be attributed to the price discounts and is manifest more greatly in markets with higher Auto Order penetration. Our annual pricing update, which takes effect during the first quarter of the year, softened the impact of the price discounts as we increased prices in several markets.

## Results of Operations

### Summary of Financial Results

Although the number of active Associates and Preferred Customers increased 11.4% and 12.9%, respectively, in the second quarter of 2014 when compared with the second quarter of 2013, net sales were essentially flat at \$188.3 million. Net sales, on a comparative basis, were negatively impacted by: (i) \$7.0 million of incremental sales that occurred ahead of a worldwide policy change that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which did not recur in 2014; (ii) \$3.3 million from unfavorable changes in currency exchange rates, and (iii) the price discounts noted above.

Net earnings for the second quarter of 2014 decreased 20.3%, to \$19.3 million, compared with the second quarter of 2013. This decrease was primarily the result of higher relative Associate incentives expense and lower gross margins, which are discussed further below.

### Quarters Ended June 29, 2013 and June 28, 2014

#### Net Sales

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

	Net Sales by Region (in thousands) Quarter Ended				Change from Prior Year	Percent Change			
	June 29, 2013		June 28, 2014						
Americas and Europe	\$	66,769	35.3%	\$	63,661	33.8%	\$	(3,108)	(4.7)%
Asia Pacific:									
Southeast Asia Pacific		37,475	19.8%		42,689	22.7%		5,214	13.9%
Greater China		77,388	40.9%		74,091	39.4%		(3,297)	(4.3)%
North Asia		7,504	4.0%		7,815	4.1%		311	4.1%
Asia Pacific Total		122,367	64.7%		124,595	66.2%		2,228	1.8%
	\$	189,136	100.0%	\$	188,256	100.0%	\$	(880)	(0.5)%

**Americas and Europe:** The decline in net sales in this region was due to a decrease in net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$1.4 million. Net sales in the United States decreased \$4.5 million, or 11.3%, due to pressure from price discounts, combined with a decrease in the number of active Associates and Preferred Customers of 7.0% and 2.7%, respectively. The decreases in the United States, however, were partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 4.8% in Canada and 12.2% in Mexico due to continued growth in the number of active Associates and Preferred Customers in these markets. Our newest market, Colombia, also contributed \$0.9 million to net sales during the quarter.

**Asia Pacific:** The increase in net sales in this region was driven primarily by growth in Southeast Asia Pacific, partially offset by a decrease in sales in Greater China.

The increase in Southeast Asia Pacific was driven by growth in every market within this region, despite a \$1.7 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines and Singapore, where net sales

## Table of Contents

increased 20.2% and 24.2%, respectively. On a local currency basis, sales in these two markets increased 27.1% and 24.4%, respectively. The number of active Associates in the Philippines and Singapore increased 11.1% and 40.0%, respectively. Sales in Singapore benefited from another year-over-year increase in sales of our MyHealthPak product to our Associates in other Asia Pacific markets, as sales of this item started gaining traction late in the second quarter of 2013.

The decline in net sales in Greater China was the result of a 66.5% decrease in net sales in Hong Kong, which was partially offset by triple-digit sales growth in mainland China. Notably, the decrease in Hong Kong includes an estimated \$7.0 million in incremental sales generated ahead of a worldwide policy that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only),

which makes for a difficult year-over-year comparable.

#### *Gross Profit*

Gross profit decreased to 81.5% of net sales for the second quarter of 2014, from 83.1% for the second quarter of 2013. This decline can be attributed to price discounts, unfavorable currency fluctuations, production inefficiencies, and an increase in relative freight costs. This decrease was partially offset by favorable changes in product and market mix and from our annual pricing update.

#### *Associate Incentives*

Associate incentives increased to 43.1% of net sales for the second quarter of 2014, from 41.1% for the second quarter of 2013. This increase was the result of the 2013 Strategic Changes, and was partially offset by changes from our annual pricing update.

#### *Selling, General and Administrative Expenses*

In absolute terms, our selling, general and administrative expense was essentially flat when compared with the second quarter of 2013. Selling, general and administrative expense as a percentage of net sales increased 23 basis points in the second quarter of 2014 compared with the second quarter of 2013, which can primarily be attributed to the impact from the price discounts introduced in 2013.

#### *Income Taxes*

Our effective income tax rate during the second quarter of 2014 was 34.3%, compared with 33.4% in the second quarter of 2013. This increase was due to a reduction in our United States manufacturing deduction benefit as a result of increased sales in China where products are manufactured in-market, and a reduction in tax benefits from lower tax rate jurisdictions, where sales have decreased.

#### *Diluted Earnings Per Share*

Diluted earnings per share decreased 20.9% in the second quarter of 2014 when compared with the prior year quarter. This decrease was the result of reduced net earnings as discussed above.

---

#### Table of Contents

#### **Six Months Ended June 29, 2013 and June 28, 2014**

#### *Net Sales*

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

	Net Sales by Region (in thousands)				Change from Prior Year	Percent Change
	Six Months Ended					
	June 29, 2013		June 28, 2014			
Americas and Europe	\$ 130,921	36.5%	\$ 127,476	34.4%	\$ (3,445)	(2.6)%
Asia Pacific:						
Southeast Asia Pacific	72,784	20.3%	83,137	22.4%	10,353	14.2%
Greater China	140,373	39.2%	144,938	39.1%	4,565	3.3%
North Asia	14,140	4.0%	15,106	4.1%	966	6.8%
Asia Pacific Total	227,297	63.5%	243,181	65.6%	15,884	7.0%
	\$ 358,218	100.0%	\$ 370,657	100.0%	\$ 12,439	3.5%

*Americas and Europe:* The decrease in net sales in this region was due to a decrease in net sales in the United States and to changes in currency exchange rates, which reduced net sales by \$3.3 million. Net sales in the United States decreased \$7.1 million, or 8.9%, due to pressure from price discounts, combined with a decrease in the average number of active Associates and Preferred Customers. The decreases in the United States, however, were partially offset by net sales growth in other markets within the region. Most notably, local currency sales increased 9.7% in Canada and 13.4% in Mexico due to continued growth in the number of active Associates and Preferred Customers in these markets. Our newest market, Colombia, also contributed \$1.5 million to net sales for the six month period.

*Asia Pacific:* The increase in net sales in this region was driven mostly by growth in Southeast Asia Pacific and Greater China, which was primarily the result of an increase in the average number of active Associates.

The increase in Southeast Asia Pacific was driven by growth in every market within this region despite a \$5.3 million reduction from changes in currency exchange rates. The strongest growth in this region came from the Philippines and Singapore, where net sales increased 18.5% and 43.0%, respectively. On a local currency basis, sales in these two markets increased 27.9% and 44.9%, respectively. Sales in Singapore benefited from a year-over-year increase in sales of our MyHealthPak product to our Associates in other Asia Pacific markets, as sales of this item

started gaining traction late in the second quarter of 2013.

Sales in Australia and New Zealand during the first six months of 2014 increased 3.0% even with a \$2.0 million reduction from changes in currency exchange rates. On a local currency basis, net sales in this market increased 10.5%.

The increase in net sales in Greater China included a 143.3% increase in net sales in mainland China, offset in great part by a 55.5% decrease in Hong Kong. Notably, the decrease in Hong Kong includes an estimated \$7.0 million in incremental sales generated ahead of a worldwide policy that we implemented during the second quarter of 2013 (restricting Associate purchases to in-market purchases only), which makes for a difficult year-over-year comparable. We have also experienced a change in the trend of our unearned revenue as a result of these policy changes and anticipate being able to begin recognizing breakage in the near future.

#### *Gross Profit*

Gross profit declined to 81.5% of net sales for the first six months of 2014, compared with 82.6% in the prior year period. This decline can be attributed to price discounts and unfavorable currency fluctuations. This decrease was partially offset by favorable changes in product and market mix.

---

#### Table of Contents

##### *Associate Incentives*

Associate incentives increased to 43.2% of net sales for the first six months of 2014, from 41.2% in the prior year period. This increase was the result of the 2013 Strategic Changes, and was partially offset by changes from our annual pricing update.

##### *Selling, General and Administrative Expenses*

In absolute terms, our selling, general and administrative expense increased \$2.4 million during the first six months of 2014 when compared with the same period of the prior year. This increase is the result of costs associated with supporting a higher sales base, spending on new markets, and spending to support our personalization initiative. Relative to net sales, selling, general and administrative expense remained relatively flat in the first six months of 2014 compared with the same period of the prior year, due to leverage gained on a higher sales base.

##### *Income Taxes*

Our effective income tax rate during the first six months of 2014 was 34.4%, compared with 33.3% in same period of 2013. This increase was primarily the result of a reduction in our United States manufacturing deduction benefit due to increased sales in China where products are manufactured in-market, and a reduction in tax benefits from lower tax rate jurisdictions, where sales decreased.

##### *Diluted Earnings Per Share*

Diluted earnings per share decreased 16.4% in the first six months of 2014 when compared with the prior year period. This decrease was the result of reduced net earnings as discussed above.

##### **Liquidity and Capital Resources**

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by drawing on our line of credit. Our principal source of liquidity is our operating cash flow. Although we are required to maintain cash deposits with banks in some of our markets, there are currently no material restrictions on our ability to transfer and remit funds among our international markets. The hypothetical repatriation of \$10.2 million that relates to earnings considered indefinitely reinvested in certain of our markets at June 28, 2014, would result in a tax liability to the Company.

We have historically generated positive cash flow due to our strong operating margins. Net cash flow from operating activities totaled \$31.3 million in the first six months of 2014, compared with \$47.3 million in the first six months of 2013. Items affecting year-over-year changes in cash flow from operating activities include the impact of our 2013 Strategic Changes on operating income, and the overall change in operating assets and liabilities. Included in the change in operating assets and liabilities were: (i) an increase in other assets, related mostly to the purchase of land use rights for our new facility in China, (ii) an overall decrease in other liabilities resulting primarily from changes in accrued compensation, accrued commissions, and deferred convention revenue, and (iii) a decrease in accounts payable in the current year quarter due to the timing of invoices and payments. These items were partially offset by lower spending on inventory in the current year compared with the prior year.

Net cash flow from operating activities in the first six months of 2014 was offset by share repurchases as discussed below. As a result, cash and cash equivalents decreased to \$118.3 million at June 28, 2014, from \$137.3 million at December 29, 2013. Of the \$118.3 million cash and cash equivalents held at June 28, 2014, \$47.5 million was held in the United States and \$70.8 million was held by international subsidiaries. Of the \$137.3 million held at December 28, 2013, \$65.8 million was held in the United States and \$71.5 million was held by international subsidiaries. Net working capital decreased to \$113.2 million at June 28, 2014, from \$133.2 million at December 28, 2013.

We have extended non-revolving credit to the supplier of our nutrition bars to allow this supplier to acquire the necessary equipment to manufacture our bars. Notes receivable from this supplier as of June 28, 2014, were \$7.4 million.



We are building a state-of-the-art manufacturing and production facility in China, which we anticipate will become operational during the latter half of 2015. We anticipate that this project will require a total investment of approximately \$40 million, of which

---

## Table of Contents

approximately \$24 million will be incurred in 2014. During the first six months of 2014, we incurred \$11.8 million on this project of which \$5.9 million was for land use rights.

### *Line of credit*

We have a long-standing relationship with Bank of America. We currently maintain a \$75.0 million credit facility pursuant to a credit agreement with Bank of America, which expires in April 2016. Bank guarantees are considered a reduction of the overall availability of credit. As of June 28, 2014, such normal course of business bank guarantees reduced our available borrowing limit by \$3.9 million. We did not otherwise draw on this line of credit at any time during the quarter and, as of June 28, 2014, there was no actual outstanding balance on our line of credit.

The agreement for this credit facility contains restrictive covenants, which require us to maintain a consolidated rolling four-quarter adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") equal to or greater than \$60.0 million, and a ratio of consolidated funded debt to adjusted EBITDA of 2.0 to 1.0 at the end of each quarter. The adjusted EBITDA under this agreement is modified for certain non-cash expenses. As of June 28, 2014, we were in compliance with these covenants. Management is not aware of any issues currently impacting Bank of America's ability to honor their commitment to extend credit under this facility.

### *Share repurchase*

We have a share repurchase plan that has been ongoing since the fourth quarter of 2000. The objective of this plan is to return value to our shareholders. Our Board of Directors has periodically approved additional dollar amounts for share repurchases under that plan. Share repurchases are made from time-to-time, in the open market, through block trades or otherwise, and are based on market conditions, the level of our cash balances, general business opportunities, and other factors. During the quarter ended June 28, 2014, our Board of Directors authorized an increase in the amount available for repurchase under this plan to a total of \$200 million. During the quarter and six months ended June 28, 2014, we repurchased and retired 681,719 shares of common stock for a total investment of \$49.1 million, at an average market price of \$72.02 per share. Additionally, subsequent to the quarter ended June 28, 2014, and through August 1, 2014, we repurchased and retired 429,774 shares of common stock for a total investment of \$30.9 million, at an average market price of \$71.97 per share pursuant to a preset trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 as amended. As of August 1, 2014, there was \$120.0 million remaining under the current share repurchase authorization and there is currently no expiration date on the remaining approved repurchase amount and no requirement for future share repurchases.

### *Summary*

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

### **Forward-Looking Statements and Certain Risks**

The statements contained in this report that are not purely historical are considered to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as "believes," "expects," "anticipates," "should," "plans," "estimates," and "potential," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund our future operations and capital spending needs. Readers are

---

## Table of Contents

cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in these forward-looking statements for the reasons that are detailed in our most recent Annual Report on Form 10-K. The fact that some of these risk factors may be the same or similar to those in our past SEC reports means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in the industry in which we operate and will likely be present in all periods reported. The fact that certain risks are common in the industry does not lessen their significance. The forward-looking statements contained in this report are made as of the date of this report, and we assume no obligation to update them or to update the reasons why our actual results could differ from those that we have projected. Among others, risks and uncertainties that may affect our business, financial condition, performance, development, and results of operations include:

- Our ability to attract and maintain a sufficient number of Associates;
- Our dependence upon a network marketing system to distribute our products and the activities of our independent Associates;
- The integration of BabyCare's operations and expansion of our business in China through BabyCare;
- Unanticipated effects of changes to our Compensation Plan;
- Our planned expansion into international markets, including delays in commencement of sales or product offerings in any new market, delays in compliance with local marketing or other regulatory requirements, or changes in target markets;
- General economic conditions, both domestically and internationally;
- Potential political events, natural disasters, or other events that may negatively affect economic conditions;
- Potential effects of adverse publicity regarding the Company, nutritional supplements, or the network marketing industry;
- Reliance on key management personnel;
- Extensive government regulation of the Company's products, manufacturing, and network marketing system;
- Potential inability to sustain or manage growth, including the failure to continue to develop new products;
- An increase in the amount of Associate incentives;
- Our reliance on the use of information technology;
- The effects of competition from new and established network and direct selling organizations in our key markets;
- The adverse effect of the loss of a high-level sponsoring Associate, together with a group of leading Associates, in that person's downline;
- The loss of product market share or Associates to competitors;
- Potential adverse effects of customs, duties, taxation, and transfer pricing regulations, including regulations governing distinctions between and Company responsibilities to employees and independent contractors;
- The fluctuation in the value of foreign currencies against the U.S. dollar;
- Our reliance on outside suppliers for raw materials and certain manufactured items;
- Shortages of raw materials that we use in certain of our products;
- Significant price increases of our key raw materials;
- Product liability claims and other risks that may arise with our manufacturing activity;
- Intellectual property risks;
- Liability claims that may arise with our "Athletic Guarantee" program;
- Continued compliance with debt covenants;
- Disruptions to shipping channels that are used to distribute our products to international warehouses;

---

#### Table of Contents

- The introduction of new laws or changes to existing laws, both domestically and internationally; or
- The outcome of regulatory and litigation matters.

#### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to information presented from that presented for the year ended December 28, 2013.

## Item 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 28, 2014.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 28, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Table of Contents

## PART II. OTHER INFORMATION

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

#### (c) Repurchases

The following table presents information with respect to purchases of USANA common stock made by the Company during the three months ended June 28, 2014:

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

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 (Mar. 30, 2014 through May 3, 2014)	44	\$ 69.31	44	\$ 196,948
Fiscal May (May 4, 2014 through May 31, 2014)	378	\$ 69.92	378	\$ 170,542
Fiscal June (Jun. 1, 2014 through Jun. 28, 2014)	260	\$ 75.52	260	\$ 150,905
	<u>682</u>	<u>\$ 72.02</u>	<u>682</u>	

\* The Company's share repurchase plan has been ongoing since the fourth quarter of 2000, with the Company's Board of Directors periodically approving additional dollar amounts for share repurchases under the plan. The Company began the second quarter of 2014 with \$13,622 remaining under the plan. As announced in a publicly issued press release on April 29, 2014, the Board of Directors authorized an increase in the amount available for repurchase under the plan to a total of \$200,000. Subsequent to the quarter ended June 28, 2014, and through August 1, 2014, the Company repurchased 430 shares for a total of \$30,932, at an average market price of \$71.97 per share pursuant to a Rule 10b5-1 trading plan. As of August 1, 2014, the Company had \$119,953 available under the share repurchase plan. There currently is no expiration date on the approved repurchase amount.

### Item 5. OTHER INFORMATION

On July 23, 2013, the Company disclosed that the Securities and Exchange Commission ("SEC") was conducting a formal investigation, which appeared to involve possible issues regarding trading in the Company's stock during late 2012 by certain of the Company's directors, including the Chairman. On May 28, 2014, the Company received a letter from the SEC which indicated that the SEC had concluded its



---

Table of Contents

**Item 6. EXHIBITS**

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

Table of Contents

10.16 Share Purchase Agreement, dated as of August 16, 2010, among USANA Health Sciences, Inc., Petlane, Inc., Yaolan Ltd., and

BabyCare Holdings Ltd. (Incorporated by Reference to Report on Form 8-K, filed August 16, 2010)

10.17	Amended and Restated Credit Agreement, dated as of April 27, 2011 (Incorporated by reference to Report on Form 8-K, filed April 28, 2011)
10.18	Form of Executive Confidentiality, Non-Disclosure and Non-Solicitation Agreement (Incorporated by reference to Quarterly Report on Form 10-Q for the period ended October 1, 2011, filed November 9, 2011)*
10.19	Separation and Release of Claims Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)*
10.20	Amendment to Confidentiality, Non-Disclosure and Non-Solicitation Agreement dated as of December 21, 2012 by and between USANA Health Sciences, Inc. and Roy Truett (incorporated by reference to Report on Form 8-K/A, filed December 26, 2012)*
10.21	Amendment to Amended and Restated Credit Agreement, dated as of July 18, 2013 (Incorporated by reference to Report on Form 8-K, filed July 23, 2013)
31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Denotes a management contract or compensatory plan or arrangement.

27

---

## Table of Contents

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USANA HEALTH SCIENCES, INC.

Date: August 5, 2014

/s/ Paul A. Jones

Paul A. Jones  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

28

## CHIEF EXECUTIVE OFFICER CERTIFICATION

I, David A. Wentz, certify that:

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

Date: August 5, 2014

/s/ David A. Wentz  
\_\_\_\_\_  
David A. Wentz  
Chief Executive Officer  
(Principal Executive Officer)

## CHIEF FINANCIAL OFFICER CERTIFICATION

I, Paul A. Jones, certify that:

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

Date: August 5, 2014

/s/ Paul A. Jones

Paul A. Jones  
Chief Financial Officer  
(Principal Accounting and Financial Officer)

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

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended June 28, 2014 as filed August 5, 2014 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: August 5, 2014

/s/ David A. Wentz  
\_\_\_\_\_  
David A. Wentz  
Chief Executive Officer  
(Principal Executive Officer)

---

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

The undersigned hereby certifies that the Quarterly Report on Form 10-Q of USANA Health Sciences, Inc. for the period ended June 28, 2014 as filed August 5, 2014 with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of The Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of USANA Health Sciences, Inc.

Date: August 5, 2014

/s/ Paul A. Jones

Paul A. Jones

Chief Financial Officer

(Principal Accounting and Financial Officer)

---

<b>Segment Information</b> <b>(Consolidated Net Sales And</b> <b>Long Lived Assets By</b> <b>Percent) (Details) (USD \$)</b> <b>In Thousands, unless</b> <b>otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>		
	<b>Jun. 28,</b> <b>2014</b>	<b>Jun. 29,</b> <b>2013</b>	<b>Jun. 28,</b> <b>2014</b>	<b>Jun. 29,</b> <b>2013</b>	<b>Dec. 28,</b> <b>2013</b>
<b><u>Revenues from External Customers and Long-Lived Assets [Line Items]</u></b>					
<u>Net sales</u>	\$ 188,256	\$ 189,136	\$ 370,657	\$ 358,218	
China [Member]					
<b><u>Revenues from External Customers and Long-Lived Assets [Line Items]</u></b>					
<u>Net sales</u>	51,223	23,559	89,983	36,984	
<u>Long-lived Assets</u>	73,026		73,026		61,716
United States [Member]					
<b><u>Revenues from External Customers and Long-Lived Assets [Line Items]</u></b>					
<u>Net sales</u>	35,570	40,087	73,183	80,325	
<u>Long-lived Assets</u>	53,004		53,004		51,260
Hong Kong [Member]					
<b><u>Revenues from External Customers and Long-Lived Assets [Line Items]</u></b>					
<u>Net sales</u>		\$ 45,938	\$ 38,926	\$ 87,535	

Equity-Based Compensation (Schedule Of Stock Option Activity) (Details) (USD \$) In Thousands, except Share data, unless otherwise specified	6 Months Ended  Jun. 28, 2014	12 Months Ended  Dec. 28, 2013
<u>Equity-Based Compensation [Abstract]</u>		
<u>Shares, Outstanding</u>	1,827	
<u>Shares, Granted</u>	686	
<u>Shares, Exercised</u>	(362)	
<u>Shares, Forfeited</u>	(20)	
<u>Shares, Outstanding</u>	2,131	1,827
<u>Shares, Exercisable</u>	412	
<u>Weighted-average grant price, Outstanding</u>	\$ 37.37	
<u>Weighted-average grant price, Granted</u>	\$ 57.62	
<u>Weighted-average grant price, Exercised</u>	\$ 32.26	
<u>Weighted-average grant price, Forfeited</u>	\$ 27.33	
<u>Weighted-average grant price, Outstanding</u>	\$ 44.85	\$ 37.37
<u>Weighted-average grant price, Exercisable</u>	\$ 38.40	
<u>Weighted-average remaining contractual term, Outstanding</u>	2 years 9 months 18 days	2 years 7 months 6 days
<u>Weighted-average remaining contractual term, Exercisable</u>	1 year 7 months 6 days	
<u>Aggregate intrinsic value, Outstanding</u>	\$ 74,160	[1]
<u>Aggregate intrinsic value, Outstanding</u>	70,555	[1] 74,160
<u>Aggregate intrinsic value, Exercisable</u>	\$ 16,207	[1]
Closing price of common stock	\$ 77.76	\$ 77.72

[1] Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.



**Fair Value Measures**  
**(Narrative) (Details) (USD \$)**      **Mar. 29, 2014 Dec. 28, 2013**

**Fair Value Measures [Abstract]**

<u>Transfers of financial assets or liabilities</u>	\$ 0	\$ 0
<u>Non-financial assets</u>	\$ 0	\$ 0

**Segment Information  
(Percentage Of Total Product  
Revenue Contributed By  
Company's Nutritional And  
Care Products) (Details)**

	3 Months Ended		6 Months Ended	
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013

USANA Nutritionals [Member]

**Revenue from External Customer [Line Items]**

<u>Percentage of product revenue</u>	78.00%	81.00%	80.00%	79.00%
--------------------------------------	--------	--------	--------	--------

USANA Foods [Member]

**Revenue from External Customer [Line Items]**

<u>Percentage of product revenue</u>	14.00%	12.00%	12.00%	12.00%
--------------------------------------	--------	--------	--------	--------

Sense - Beautiful Science [Member]

**Revenue from External Customer [Line Items]**

<u>Percentage of product revenue</u>	7.00%	6.00%	6.00%	7.00%
--------------------------------------	-------	-------	-------	-------

## Fair Value Measures

6 Months Ended

Jun. 28, 2014

### Fair Value Measures

#### [Abstract]

### Fair Value Measures

#### NOTE B – FAIR VALUE MEASURES

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

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

#### NOTE B – FAIR VALUE MEASURES - CONTINUED

As of December 28, 2013 and June 28, 2014, the following financial assets and liabilities were measured at fair value on a recurring basis using the type of inputs shown:

	December 28, 2013	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 9,249	\$ 9,249	\$ -	-
Term deposits included in cash equivalents	348	-	348	-

	June 28, 2014	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 14,412	\$ 14,412	\$ -	-

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the periods indicated.

The majority of the Company's non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or tested at least annually for goodwill and indefinite-lived intangibles) such that a non-financial asset is required to be evaluated for impairment, an impairment is recorded to reduce the carrying value to the fair value, if the carrying value exceeds the fair value. At December 28, 2013 and March 29, 2014, there were no non-financial assets measured at fair value on a non-recurring basis.

At December 28, 2013 and June 28, 2014, the Company's financial instruments include cash equivalents, restricted cash, securities held-to-maturity ("HTM"), and notes receivable. The recorded values of cash equivalents and restricted cash approximate their fair values, based on their short-term nature. The carrying value of the notes receivable approximate fair value because the variable interest rates in the notes reflect current market rates. HTM securities consist of certificates of deposits. The fair value of a certificate of deposit is determined based on the pervasive interest rates in the market, which is considered to be a Level 2 input. The carrying values of these certificates of deposit approximate their fair values due to their short-term maturities.

**Other Assets (Details) (USD  
\$)**

**In Thousands, unless  
otherwise specified**

**6 Months Ended 12 Months Ended**

**Jun. 28, 2014      Dec. 28, 2013**

**Other Assets [Line Items]**

<u>Credit facility issued</u>	\$ 7,000	
<u>Receivable</u>	7,447	4,942
<u>Land-use rights</u>	\$ 7,364	\$ 1,483
<u>Amortization period</u>	50 years	

London Interbank Offered Rate (LIBOR) [Member]

**Other Assets [Line Items]**

<u>Variable rate</u>	4.00%
----------------------	-------

**Inventories (Details) (USD \$)**

In Thousands, unless  
otherwise specified

Jun. 28, 2014 Dec. 28, 2013

**Inventories [Abstract]**

<u>Raw materials</u>	\$ 12,301	\$ 13,824
<u>Work in progress</u>	8,361	8,147
<u>Finished goods</u>	23,866	25,271
<u>Inventories</u>	\$ 44,528	\$ 47,242

**Equity-Based Compensation  
(Narrative) (Details) (USD \$)  
In Thousands, except Per  
Share data, unless otherwise  
specified**

**3 Months Ended**

**6 Months Ended**

**Jun. 28, 2014    Mar. 29, 2014    Jun. 29, 2013    Mar. 30, 2013    Jun. 28, 2014    Jun. 29, 2013**

**Equity-Based Compensation [Abstract]**

<u>Equity-based compensation expense</u>	\$ 2,235		\$ 2,058		\$ 4,071	\$ 4,427
<u>Equity-based compensation related tax benefit</u>	743		697		1,359	1,509
<u>Unrecognized compensation expense weighted average period of recognition</u>					2 years 1 month 6 days	
<u>Weighted-average grant date fair value</u>		\$ 17.73		\$ 13.34		
<u>Total intrinsic value of stock options and stock-settled stock appreciation rights exercised</u>					14,404	10,429
<u>Total fair value of equity awards vested</u>					\$ 3,506	\$ 1,553

**Equity-Based Compensation  
(Schedule Of Remaining  
Unrecognized Compensation  
Expense For Unvested  
Awards) (Details) (USD \$)  
In Thousands, unless  
otherwise specified**

**6 Months Ended**

**Jun. 28, 2014**

**Equity-Based Compensation [Abstract]**

<u>2014</u>	\$ 4,643
<u>2015</u>	7,382
<u>2016</u>	5,504
<u>2017</u>	3,399
<u>2018+</u>	541
<u>Total</u>	\$ 21,469

Unrecognized compensation expense weighted average period of recognition 2 years 1 month 6 days

**Organization, Consolidation,  
And Basis Of Presentation**

**6 Months Ended**

**Jun. 28, 2014**

**Organization, Consolidation,  
And Basis Of Presentation**  
**[Abstract]**

**Organization, Consolidation, And  
Basis Of Presentation**

**NOTE A – ORGANIZATION, CONSOLIDATION, AND BASIS OF PRESENTATION**

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

The condensed balance sheet as of December 28, 2013, derived from audited financial statements, and the unaudited interim consolidated financial information of the Company have been prepared in accordance with Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures that are normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting of normal recurring adjustments that are necessary to state fairly the Company’s financial position as of June 28, 2014 and results of operations for the quarters and six months ended June 29, 2013 and June 28, 2014. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended December 28, 2013. The results of operations for the quarter and six months ended June 28, 2014, may not be indicative of the results that may be expected for the fiscal year 2014 ending January 3, 2015.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled to in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.



**Equity-Based Compensation  
(Schedule Of Fair Value  
Assumptions) (Details) (USD  
\$)**

**6 Months Ended**

**Jun. 28, 2014**

**Jun. 29, 2013**

**Equity-Based Compensation [Abstract]**

<u>Expected volatility</u>	39.90%	[1]	43.10%	[1]
<u>Risk-free interest rate</u>	1.20%	[2]	0.60%	[2]
<u>Expected life</u>	3 years 6 months 15 days	[3]	3 years 11 months 19 days	[3]
<u>Expected dividend yield</u>	0.00%	[4]	0.00%	[4]
<u>Weighted-average grant price</u>	\$ 57.62	[5]	\$ 40.84	[5]

[1] The Company utilizes historical volatility of the trading price of its common stock.

[2] Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

[3] Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

[4] The Company historically has not paid dividends.

[5] Exercise price is the closing price of the Company's common stock on the date of grant.

**Condensed Consolidated  
Balance Sheets (USD \$)  
In Thousands, unless  
otherwise specified**

	Jun. 28, 2014	Dec. 28, 2013
<b><u>ASSETS</u></b>		
<u>Cash and cash equivalents</u>	\$ 118,267	\$ 137,343
<u>Securities held-to-maturity, net</u>	3,374	8,642
<u>Inventories</u>	44,528	47,242
<u>Prepaid expenses and other current assets</u>	35,756	35,818
<u>Total current assets</u>	201,925	229,045
<u>Property and equipment, net</u>	65,859	59,180
<u>Goodwill</u>	17,919	18,243
<u>Intangible assets, net</u>	41,015	42,329
<u>Deferred tax assets</u>	5,515	5,519
<u>Other assets</u>	22,688	14,154
<u>Total assets</u>	354,921	368,470
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<u>Accounts payable</u>	6,408	9,502
<u>Other current liabilities</u>	82,297	86,369
<u>Total current liabilities</u>	88,705	95,871
<u>Deferred tax liabilities</u>	10,672	10,866
<u>Other long-term liabilities</u>	1,290	1,211
<b><u>Stockholders' equity</u></b>		
<u>Common stock, \$0.001 par value; Authorized -- 50,000 shares, issued and outstanding 13,886 as of December 28, 2013 and 13,404 as of June 28, 2014</u>	13	14
<u>Additional paid-in capital</u>	51,925	54,691
<u>Retained earnings</u>	196,992	200,023
<u>Accumulated other comprehensive income</u>	5,324	5,794
<u>Total stockholders' equity</u>	254,254	260,522
<u>Total liabilities and stockholder's equity</u>	\$ 354,921	\$ 368,470

**Condensed Consolidated  
Statement Of Stockholders'  
Equity (Parenthetical) (USD  
\$)**

**6 Months Ended**

**In Thousands, unless  
otherwise specified**

**Jun. 28, 2014**

**Condensed Consolidated Statement Of Stockholders' Equity [Abstract]**

**Common stock issued under equity award plans, including tax benefit (expense) \$ 3,387**

**Common Stock And Earnings  
Per Share (Schedule Of  
Common Stock And Earnings  
Per Share) (Details) (USD \$)  
In Thousands, except Per  
Share data, unless otherwise  
specified**

**3 Months Ended 6 Months Ended**

**Jun. 28, Jun. 29, Jun. 28, Jun. 29, Mar. Dec. 28, Mar. Dec. 29,  
2014 2013 2014 2013 29, 2014 2013 30, 2013 2012**

**Common Stock And Earnings Per Share  
[Abstract]**

<u>Net earnings available to common shareholders</u>	\$	\$	\$	\$				
	19,301	24,210	35,838	41,989				
<u>Common shares outstanding entire period</u>	13,404		13,404		13,886	13,886	13,821	13,821
<u>Weighted average common shares issued during period</u>	131	106	81	58				
<u>Weighted average common shares cancelled during period</u>	(249)	(414)	(124)	(301)				
<u>Weighted average common shares outstanding during period</u>	13,768	13,513	13,843	13,578				
<u>Earnings per common share from net earnings - basic</u>	\$ 1.40	\$ 1.79	\$ 2.59	\$ 3.09				
<u>Weighted average common shares outstanding during period - basic</u>	13,768	13,513	13,843	13,578				
<u>Dilutive effect of in-the-money equity awards</u>	467	586	472	456				
<u>Weighted average common shares outstanding during period - diluted</u>	14,235	14,099	14,315	14,034				
<u>Earnings per common share from net earnings - diluted</u>	\$ 1.36	\$ 1.72	\$ 2.50	\$ 2.99				
<u>Equity awards for the following shares were not included in the their effect would be anti-dilutive:</u>	383	234	328	560				

Common Stock And Earnings  
Per Share (Tables)

6 Months Ended  
Jun. 28, 2014

Common Stock And Earnings Per  
Share [Abstract]  
Schedule Of Common Stock And  
Earnings Per Share

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>	<u>June 29, 2013</u>	<u>June 28, 2014</u>
Net earnings available to common shareholders	\$ 24,210	\$ 19,301	\$ 41,989	\$ 35,838
<u>Basic EPS</u>				
Shares				
Common shares outstanding entire period	13,821	13,886	13,821	13,886
Weighted average common shares:				
Issued during period	106	131	58	81
Canceled during period	(414)	(249)	(301)	(124)
Weighted average common shares outstanding during period	<u>13,513</u>	<u>13,768</u>	<u>13,578</u>	<u>13,843</u>
Earnings per common share from net earnings - basic	\$ 1.79	\$ 1.40	\$ 3.09	\$ 2.59
<u>Diluted EPS</u>				
Shares				
Weighted average common shares outstanding during period - basic	13,513	13,768	13,578	13,843
Dilutive effect of in-the-money equity awards	586	467	456	472
Weighted average common shares outstanding during period - diluted	<u>14,099</u>	<u>14,235</u>	<u>14,034</u>	<u>14,315</u>
Earnings per common share from net earnings - diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50
Equity awards for the following shares were not included in the computation of diluted EPS due to the fact that their effect would be anti-dilutive:				
	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2013</u>	<u>June 28, 2014</u>	<u>June 29, 2013</u>	<u>June 28, 2014</u>
	234	383	560	328

**Segment Information**  
**(Narrative) (Details)**

**6 Months Ended**  
**Jun. 28, 2014**

**Segment Information [Abstract]**

Percentage of revenue from major customers, maximum 10.00%

Organization, Consolidation,  
And Basis Of Presentation  
(Details)

6 Months Ended  
Jun. 28, 2014  
item

Organization, Consolidation, And Basis Of Presentation [Abstract]

Geographic regions 2

Sub-geographical regions 3

**Condensed Consolidated  
Statements Of Cash Flows**  
(USD \$)  
In Thousands, unless  
otherwise specified

**6 Months Ended**

**Jun. 28,  
2014**      **Jun. 29,  
2013**

**Cash flows from operating activities**

<u>Net earnings</u>	\$ 35,838	\$ 41,989
---------------------	-----------	-----------

**Adjustments to reconcile net earnings to net cash provided by (used in) operating activities**

<u>Depreciation and amortization</u>	4,408	4,631
<u>(Gain) loss on sale of property and equipment</u>	16	(6)
<u>Equity-based compensation expense</u>	4,071	4,427
<u>Excess tax benefits from equity-based payment arrangements</u>	(3,387)	(1,734)
<u>Deferred income taxes</u>	(605)	843

**Changes in operating assets and liabilities:**

<u>Inventories</u>	3,034	(6,123)
<u>Prepaid expenses and other assets</u>	(5,144)	(3,295)
<u>Accounts payable</u>	(3,085)	155
<u>Other liabilities</u>	(3,896)	6,409
<u>Net cash provided by (used in) operating activities</u>	31,250	47,296

**Cash flows from investing activities**

<u>Additions to notes receivable</u>	(2,520)	(2,232)
<u>Purchases of investment securities held-to-maturity</u>	(3,871)	
<u>Maturities of investment securities</u>	9,137	
<u>Proceeds from sale of property and equipment</u>	8	15
<u>Purchases of property and equipment</u>	(10,103)	(2,961)
<u>Net cash provided by (used in) investing activities</u>	(7,349)	(5,178)

**Cash flows from financing activities**

<u>Proceeds from equity awards exercised</u>		454
<u>Excess tax benefits from equity-based payment arrangements</u>	3,387	1,734
<u>Repurchase of common stock</u>	(46,109)	(18,085)
<u>Net cash provided by (used in) financing activities</u>	(42,722)	(15,897)
<u>Effect of exchange rate changes on cash and cash equivalents</u>	(255)	(1,004)
<u>Net increase (decrease) in cash and cash equivalents</u>	(19,076)	25,217
<u>Cash and cash equivalents, beginning of period</u>	137,343	70,839
<u>Cash and cash equivalents, end of period</u>	118,267	96,056

**Supplemental disclosures of cash flow information**

<u>Interest</u>	6	
<u>Income taxes</u>	9,963	21,040

**Non-cash financing activities:**

<u>Unsettled trades for repurchase of common stock</u>	\$ (2,985)	
--	------------	--



**Condensed Consolidated  
 Balance Sheets  
 (Parenthetical) (USD \$)  
 In Thousands, except Per  
 Share data, unless otherwise  
 specified**

**Jun. 28, 2014 Dec. 28, 2013**

**Condensed Consolidated Balance Sheets [Abstract]**

<u>Common stock, par value</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	50,000	50,000
<u>Common stock, shares issued</u>	13,404	13,886
<u>Common stock, shares outstanding</u>	13,404	13,886

**Organization, Consolidation,  
And Basis Of Presentation  
(Policy)**

**6 Months Ended**

**Jun. 28, 2014**

**Organization, Consolidation,  
And Basis Of Presentation**

**[Abstract]**

**Recent Accounting  
Pronouncements**

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 includes a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled to in exchange for those goods or services. The standard also will require enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. Accordingly, the Company will adopt this ASU on January 1, 2017. ASU 2014-09 permits companies the use of either a full retrospective or a modified retrospective approach to adopt this ASU, and the Company is currently evaluating which transition approach to use. The Company is currently evaluating the impact ASU 2014-09 will have on its consolidated financial statements.

**Document And Entity  
Information**

**6 Months Ended  
Jun. 28, 2014**

**Aug. 01, 2014**

**Document And Entity Information [Abstract]**

<u>Document Type</u>	10-Q	
<u>Amendment Flag</u>	false	
<u>Document Period End Date</u>	Jun. 28, 2014	
<u>Document Fiscal Period Focus</u>	Q2	
<u>Entity Central Index Key</u>	0000896264	
<u>Entity Registrant Name</u>	USANA HEALTH SCIENCES INC	
<u>Current Fiscal Year End Date</u>	--01-03	
<u>Document Fiscal Year Focus</u>	2014	
<u>Entity Filer Category</u>	Accelerated Filer	
<u>Entity Common Stock, Shares Outstanding</u>		12,984,073

**Fair Value Measures  
(Tables)**

**6 Months Ended  
Jun. 28, 2014**

**Fair Value Measures [Abstract]**

**Schedule Of Assets And Liabilities Measured  
At Fair Value**

	December 28, 2013	<u>Fair Value Measurements Using:</u>		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 9,249\$	9,249\$	-	-
Term deposits included in cash equivalents	348	-	348	-

	June 28, 2014	<u>Fair Value Measurements Using:</u>		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money market funds included in cash equivalents	\$ 14,412\$	14,412\$	-	-

<p style="text-align: center;">Condensed Consolidated Statements Of Comprehensive Income (USD \$) In Thousands, except Per Share data, unless otherwise specified</p>	3 Months Ended		6 Months Ended	
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013
<b><u>Condensed Consolidated Statements Of Comprehensive Income</u></b>				
<b><u>[Abstract]</u></b>				
<u>Net sales</u>	\$ 188,256	\$ 189,136	\$ 370,657	\$ 358,218
<u>Cost of sales</u>	34,865	31,905	68,693	62,166
<u>Gross profit</u>	153,391	157,231	301,964	296,052
<b><u>Operating expenses:</u></b>				
<u>Associate incentives</u>	81,098	77,801	159,972	147,656
<u>Selling, general and administrative</u>	43,206	42,978	87,783	85,382
<u>Total operating expenses</u>	124,304	120,779	247,755	233,038
<u>Earnings from operations</u>	29,087	36,452	54,209	63,014
<b><u>Other income (expense):</u></b>				
<u>Interest income</u>	215	81	427	159
<u>Interest expense</u>			(6)	
<u>Other, net</u>	82	(164)	1	(268)
<u>Other income (expense), net</u>	297	(83)	422	(109)
<u>Earnings before income taxes</u>	29,384	36,369	54,631	62,905
<u>Income taxes</u>	10,083	12,159	18,793	20,916
<u>Net earnings</u>	19,301	24,210	35,838	41,989
<b><u>Earnings per common share</u></b>				
<u>Basic</u>	\$ 1.40	\$ 1.79	\$ 2.59	\$ 3.09
<u>Diluted</u>	\$ 1.36	\$ 1.72	\$ 2.50	\$ 2.99
<b><u>Weighted average common shares outstanding</u></b>				
<u>Basic</u>	13,768	13,513	13,843	13,578
<u>Diluted</u>	14,235	14,099	14,315	14,034
<b><u>Comprehensive income:</u></b>				
<u>Net earnings</u>	19,301	24,210	35,838	41,989
<b><u>Other comprehensive income (loss), net of tax:</u></b>				
<u>Foreign currency translation adjustment</u>	802	(2,472)	(860)	(2,441)
<u>Tax benefit (expense) related to foreign currency translation adjustment</u>	(262)	798	390	732
<u>Other comprehensive income (loss), net of tax</u>	540	(1,674)	(470)	(1,709)
<u>Comprehensive income</u>	\$ 19,841	\$ 22,536	\$ 35,368	\$ 40,280

## Other Assets

6 Months Ended

Jun. 28, 2014

### Other Assets [Abstract]

#### Other Assets

#### NOTE E – OTHER ASSETS

The Company has extended non-revolving credit to its supplier of nutrition bars of up to \$7,000 to allow this supplier to acquire the necessary equipment to manufacture the USANA nutrition bars. Notes receivable are valued at their unpaid principal balance plus any accrued but unpaid interest, which approximates fair value. Interest accrues at an annual interest rate of LIBOR plus 400 basis points. The note has a maturity date of February 1, 2024 and will be repaid by a combination of cash payments and credits for the manufacture of USANA's nutrition bars. There is no prepayment penalty. Notes receivable from this supplier as December 28, 2013, and June 28, 2014 were \$4,942 and \$7,447, respectively.

The Company is building a state-of-the-art manufacturing and production facility in China, which is expected to become operational during the latter half of 2015. As part of this project, land use rights totaling \$1,483, and \$7,364 as of December 28, 2013 and June 28, 2014, respectively, have been purchased and will be amortized over 50 years. Land-use rights are classified within the "Other assets" line item in the Company's consolidated balance sheets.

## Inventories

6 Months Ended  
Jun. 28, 2014

### Inventories [Abstract]

#### Inventories

#### NOTE D – INVENTORIES

Inventories consist of the following:

	December 28, 2013	June 28, 2014
Raw materials	\$ 13,824	\$ 12,301
Work in progress	8,147	8,361
Finished goods	25,271	23,866
	<u>\$ 47,242</u>	<u>\$ 44,528</u>

# Segment Information (Tables)

6 Months Ended

Jun. 28, 2014

## Segment Information [Abstract]

### Schedule Of Revenue Percentage By Product

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
USANA* Nutritionals	81%	78%	79%	80%
USANA Foods	12%	14%	12%	12%
Sensé – beautiful science*	6%	7%	7%	6%

### Schedule Of Revenues From External Customers By Geographical Areas

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net Sales to External Customers				
Americas and Europe	\$ 66,769\$	63,661\$	130,921\$	127,476
Asia Pacific				
Southeast Asia Pacific	37,475	42,689	72,784	83,137
Greater China	77,388	74,091	140,373	144,938
North Asia	7,504	7,815	14,140	15,106
Asia Pacific Total	122,367	124,595	227,297	243,181
Consolidated Total	\$ 189,136\$	188,256\$	358,218\$	370,657

### Consolidated Net Sales And Long Lived Assets

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net sales:				
China	\$ 23,559\$	51,223\$	36,984\$	89,983
United States	40,087	35,570	80,325	73,183
Hong Kong	45,938	N/A	87,535	38,926
			As of	
			December 28, 2013	June 28, 2014
Long-lived Assets:				
China			\$ 61,716\$	73,026
United States			51,260	53,004



## Investments (Tables)

6 Months Ended

Jun. 28, 2014

Investments [Abstract]Schedule Of Held-To-MaturitySecurities

As of December 28, 2013

	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 8,642	\$ -	\$ -	8,642
Total HTM Securities	\$ 8,642	\$ -	\$ -	8,642

As of June 28, 2014

	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 3,374	\$ -	\$ -	3,374
Total HTM Securities	\$ 3,374	\$ -	\$ -	3,374

Common Stock And Earnings  
Per Share

6 Months Ended  
Jun. 28, 2014

Common Stock And Earnings  
Per Share [Abstract]

Common Stock And Earnings Per Share NOTE H — COMMON STOCK AND EARNINGS PER SHARE

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

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net earnings available to common shareholders	\$ 24,210	\$ 19,301	\$ 41,989	\$ 35,838
<hr/> Basic EPS <hr/>				
Shares				
Common shares outstanding entire period	13,821	13,886	13,821	13,886
Weighted average common shares:				
Issued during period	106	131	58	81
Canceled during period	(414)	(249)	(301)	(124)
Weighted average common shares outstanding during period	13,513	13,768	13,578	13,843
Earnings per common share from net earnings - basic	\$ 1.79	\$ 1.40	\$ 3.09	\$ 2.59
<hr/> Diluted EPS <hr/>				
Shares				
Weighted average common shares outstanding during period - basic	13,513	13,768	13,578	13,843
Dilutive effect of in-the-money equity awards	586	467	456	472
Weighted average common shares outstanding during period - diluted	14,099	14,235	14,034	14,315
Earnings per common share from net earnings - diluted	\$ 1.72	\$ 1.36	\$ 2.99	\$ 2.50

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

Quarter Ended		Six Months Ended	
June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014

**NOTE H — COMMON STOCK AND EARNINGS PER SHARE - CONTINUED**

During the six months ended June 29, 2013 and the quarter and six months ended June 28, 2014, the Company repurchased and retired 414 shares and 682 shares, for \$18,085 and \$49,094, respectively, under the Company's share repurchase plan. The excess of the repurchase price over par value is allocated between additional paid-in capital and retained earnings on a pro-rata basis. The purchase of shares under this plan reduces the number of shares outstanding in the above calculations.

Subsequent to the period ended June 28, 2014 and through August 1, 2014, the Company repurchased and retired 430 shares under the Company's share repurchase plan for a total of \$30,932. As of August 1, 2014, the remaining approved repurchase amount under the plan was \$119,953.

## Contingencies

6 Months Ended

Jun. 28, 2014

### Contingencies [Abstract]

#### Contingencies

#### NOTE F – CONTINGENCIES

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. While complete assurance cannot be given to the outcome of these proceedings, management does not currently believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

## Equity-Based Compensation

6 Months Ended

Jun. 28, 2014

### Equity-Based Compensation

#### [Abstract]

#### Equity-Based Compensation

#### NOTE G — EQUITY BASED COMPENSATION

The Company utilizes a share-based compensation plan, which is more fully described in Note K to the Consolidated Financial Statements in Form 10-K for the year ended December 28, 2013.

Equity-based compensation expense for the quarters ended June 29, 2013 and June 28, 2014, was \$2,058, and \$2,235 respectively. The related tax benefit for these periods was \$697, and \$743, respectively. Expense for the six months ended June 29, 2013, and June 28, 2014, was \$4,427 and \$4,071, respectively. The related tax benefit for these periods was \$1,509 and \$1,359, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of unvested equity awards outstanding as of March 29, 2014. This table does not include an estimate for future grants that may be issued.

2014	\$ 4,643
2015	7,382
2016	5,504
2017	3,399
2018+	541
	<u>\$ 21,469</u>

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its equity awards. The weighted-average fair value of stock-settled stock appreciation rights that were granted during the three months ended March 30, 2013, and March 29, 2014, was \$13.34 and \$17.73, respectively. Following is a table that includes the weighted-average assumptions that the Company used to calculate fair value of equity awards that were granted during the periods indicated.

	Six Months Ended	
	June 29, 2013	June 28, 2014
Expected volatility (1) .	43.1%	39.9%
Risk-free interest rate (2) .	0.6%	1.2%
Expected life (3) .	3.97 yrs	3.54 yrs
Expected dividend yield (4) .	0.0%	0.0%
Weighted-average exercise price (5) .	\$ 40.84	\$ 57.62

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, expected life may be a weighted-average that includes historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

(4) The Company historically has not paid dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

## NOTE G – EQUITY-BASED COMPENSATION – CONTINUED

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

	Shares	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value*
Outstanding at December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	686	57.62		
Exercised	(362)	32.26		
Forfeited	(20)	27.33		
Expired	-	-		
Outstanding at June 28, 2014	<u>2,131</u>	\$ 44.85	2.8	\$ 70,555
Exercisable at June 28, 2014	<u>412</u>	\$ 38.40	1.6	\$ 16,207

\* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

The total intrinsic value of stock options and stock-settled stock appreciation rights exercised during the six months ended June 29, 2013, and June 28, 2014, was \$10,429 and \$14,404, respectively.

The total fair value of equity awards that vested during the six months ended June 29, 2013, and June 28, 2014, was \$1,553 and \$3,506, respectively. This total fair value includes equity-based awards issued in the form of stock options and stock-settled stock appreciation rights.

## Segment Information

6 Months Ended

Jun. 28, 2014

### Segment Information

#### [Abstract]

#### Segment Information

#### NOTE I – SEGMENT INFORMATION

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
USANA* Nutritionals	81%	78%	79%	80%
USANA Foods	12%	14%	12%	12%
Sensé – beautiful science*	6%	7%	7%	6%

Selected financial information for the Company is presented for two geographic regions: Americas and Europe and Asia Pacific, with three sub-regions under Asia Pacific. Individual markets are categorized into these regions as follows:

- Americas and Europe – United States, Canada, Mexico, Colombia <sup>(1)</sup>, the United Kingdom, France, Belgium, and the Netherlands.
- Asia Pacific –
  - Southeast Asia Pacific – Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand
  - Greater China – Hong Kong, Taiwan and China <sup>(2)</sup>
  - North Asia – Japan and South Korea

<sup>(1)</sup> The Company commenced operations in Colombia in the third quarter of 2013.

<sup>(2)</sup> The Company’s business in China is that of BabyCare, its wholly-owned subsidiary.

# NOTE 1 – SEGMENT INFORMATION - CONTINUED

## *Selected Financial Information*

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net Sales to External Customers				
Americas and Europe	\$ 66,769	\$ 63,661	\$ 130,921	\$ 127,476
Asia Pacific				
Southeast Asia Pacific	37,475	42,689	72,784	83,137
Greater China	77,388	74,091	140,373	144,938
North Asia	7,504	7,815	14,140	15,106
Asia Pacific Total	122,367	124,595	227,297	243,181
Consolidated Total	<u>\$ 189,136</u>	<u>\$ 188,256</u>	<u>\$ 358,218</u>	<u>\$ 370,657</u>

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014
Net sales:				
China	\$ 23,559	\$ 51,223	\$ 36,984	\$ 89,983
United States	40,087	35,570	80,325	73,183
Hong Kong	45,938	N/A	87,535	38,926
Long-lived Assets:	As of			
	December 28, 2013		June 28, 2014	
China	\$ 61,716		\$ 73,026	
United States	51,260		53,004	



Common Stock And Earnings Per Share (Narrative) (Details) (USD \$) In Thousands, except Share data, unless otherwise specified	3 Months Ended		6 Months Ended		0 Months Ended	1 Months Ended
	Jun. 28, 2014	Jun. 29, 2013	Jun. 28, 2014	Jun. 29, 2013	Aug. 01, 2014 Subsequent Event [Member]	Aug. 01, 2014 Subsequent Event [Member]
<u>Equity, Class of Treasury Stock [Line Items]</u>						
<u>Equity awards of stock excluded in computation of diluted EPS</u>	383,000	234,000	328,000	560,000		
<u>Shares repurchased and retired</u>			682	414		430
<u>Value of shares repurchased and retired</u>			\$ 49,094	\$ 18,085	\$ 30,932	
<u>Remaining approved repurchase amount</u>					\$ 119,953	

**Equity-Based Compensation  
(Tables)**

**6 Months Ended  
Jun. 28, 2014**

**Equity-Based Compensation [Abstract]**

**Schedule Of Remaining Unrecognized  
Compensation Expense For Unvested Awards**

2014	\$ 4,643
2015	7,382
2016	5,504
2017	3,399
2018+	541
	<u>\$ 21,469</u>

The cost above is expected to be recognized over a weighted-average period of 2.1 years.

**Schedule Of Fair Value Assumptions**

	<b>Six Months Ended</b>	
	<b>June 29, 2013</b>	<b>June 28, 2014</b>
Expected volatility (1) .	43.1%	39.9%
Risk-free interest rate (2) .	0.6%	1.2%
Expected life (3) .	3.97 yrs	3.54 yrs
Expected dividend yield (4) .	0.0%	0.0%
Weighted-average exercise price (5) .	\$ 40.84	\$ 57.62

(1) The Company utilizes historical volatility of the trading price of its common stock.

(2) Risk-free interest rate is based on the U.S. Treasury yield curve with respect to the expected life of the award.

(3) Depending upon the terms of the award, expected life may be a weighted-average that includes

historical settlement data of the Company's equity awards and a hypothetical holding period for outstanding awards, or it may be calculated under the simplified method.

(4) The Company historically has not paid dividends.

(5) Exercise price is the closing price of the Company's common stock on the date of grant.

**Schedule Of Stock Option Activity**

	<u>Shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term</u>	<u>Aggregate intrinsic value*</u>
Outstanding at December 28, 2013	1,827	\$ 37.37	2.6	\$ 74,160
Granted	686	57.62		
Exercised	(362)	32.26		
Forfeited	(20)	27.33		
Expired	<u>-</u>	<u>-</u>		
Outstanding at June 28, 2014	<u>2,131</u>	\$ 44.85	2.8	\$ 70,555
Exercisable at June 28, 2014	<u>412</u>	\$ 38.40	1.6	\$ 16,207

\* Aggregate intrinsic value is defined as the difference between the current market value at the reporting date (the closing price of the Company's common stock on the last trading day of the period) and the exercise price of awards that were in-the-money. The

closing price of the Company's common stock at December 28, 2013, and June 28, 2014, was \$77.72 and \$77.76, respectively.

Fair Value Measures  
(Schedule Of Assets And  
Liabilities Measured At Fair  
Value) (Details) (USD \$)  
In Thousands, unless  
otherwise specified

Jun. 28,  
2014

Dec. 28,  
2013

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]**

<u>Money market funds included in cash equivalents</u>	\$ 14,412	\$ 9,249
--	-----------	----------

<u>Term deposits included in cash</u>		348
---------------------------------------	--	-----

Fair Value, Inputs, Level 1 [Member]

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]**

<u>Money market funds included in cash equivalents</u>	14,412	9,249
--	--------	-------

Fair Value, Inputs, Level 2 [Member]

**Fair Value, Assets and Liabilities Measured on Recurring and Nonrecurring Basis [Line Items]**

<u>Term deposits included in cash</u>		\$ 348
---------------------------------------	--	--------

Condensed Consolidated Statement Of Stockholders' Equity (USD \$) In Thousands, except Share data	Common Stock [Member]	Additional Paid-in Capital [Member]	Retained Earnings [Member]	Accumulated Other Comprehensive Income (Loss) [Member]	Total
<u>Balance, value at Dec. 28, 2013</u>	\$ 14	\$ 54,691	\$ 200,023	\$ 5,794	\$ 260,522
<u>Balance, shares at Dec. 28, 2013</u>	13,886,000				13,886,000
<u>Net earnings</u>			35,838		35,838
<u>Other comprehensive income (loss), net of tax</u>				(470)	(470)
<u>Equity-based compensation expense</u>		4,071			4,071
<u>Common stock repurchased and retired, shares</u>	(682,000)				(682)
<u>Common stock repurchased and retired, value</u>	(1)	(10,224)	(38,869)		(49,094)
<u>Common stock issued under equity award plans, including tax benefit, shares</u>	200,000				
<u>Common stock issued under equity award plans, including tax benefit, value</u>		3,387			3,387
<u>Balance, value at Jun. 28, 2014</u>	\$ 13	\$ 51,925	\$ 196,992	\$ 5,324	\$ 254,254
<u>Balance, shares at Jun. 28, 2014</u>	13,404,000				13,404,000

# Investments

6 Months Ended

Jun. 28, 2014

## Investments [Abstract]

### Investments

#### NOTE C – INVESTMENTS

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

	As of December 28, 2013			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 8,642	\$ -	\$ -	8,642
Total HTM Securities	\$ 8,642	\$ -	\$ -	8,642

	As of June 28, 2014			
	Amortized Cost	Unrecognized Holding Gains	Unrecognized Holding Losses	Estimated Fair Value
Certificates of Deposit	\$ 3,374	\$ -	\$ -	3,374
Total HTM Securities	\$ 3,374	\$ -	\$ -	3,374

Investments (Details) (USD

)

In Thousands, unless  
otherwise specified

Jun. 28, 2014 Dec. 28, 2013

Schedule of Held-to-maturity Securities [Line Items]

<u>Amortized Cost</u>	\$ 3,374	\$ 8,642
-----------------------	----------	----------

<u>Estimated Fair Value</u>	3,374	8,642
-----------------------------	-------	-------

Certificates of Deposit [Member]

Schedule of Held-to-maturity Securities [Line Items]

<u>Amortized Cost</u>	3,374	8,642
-----------------------	-------	-------

<u>Estimated Fair Value</u>	\$ 3,374	\$ 8,642
-----------------------------	----------	----------

<b>Segment Information</b> <b>(Schedule Of Revenues From</b> <b>External Customers And</b> <b>Assets By Geographic</b> <b>Region) (Details) (USD \$)</b> <b>In Thousands, unless</b> <b>otherwise specified</b>	<b>3 Months Ended</b>		<b>6 Months Ended</b>	
	<b>Jun. 28,</b> <b>2014</b>	<b>Jun. 29,</b> <b>2013</b>	<b>Jun. 28,</b> <b>2014</b>	<b>Jun. 29,</b> <b>2013</b>
<b><u>Revenues From External Customers By Geographic Area [Line Items]</u></b>				
<u>Net Sales to External Customers</u>	\$ 188,256	\$ 189,136	\$ 370,657	\$ 358,218
Americas And Europe [Member]				
<b><u>Revenues From External Customers By Geographic Area [Line Items]</u></b>				
<u>Net Sales to External Customers</u>	63,661	66,769	127,476	130,921
Southeast Asia/Pacific [Member]				
<b><u>Revenues From External Customers By Geographic Area [Line Items]</u></b>				
<u>Net Sales to External Customers</u>	42,689	37,475	83,137	72,784
Greater China [Member]				
<b><u>Revenues From External Customers By Geographic Area [Line Items]</u></b>				
<u>Net Sales to External Customers</u>	74,091	77,388	144,938	140,373
North Asia [Member]				
<b><u>Rcvenucs From External Customers By Geographic Area [Line Items]</u></b>				
<u>Net Sales to External Customers</u>	7,815	7,504	15,106	14,140
Asia Pacific [Member]				
<b><u>Revenues From External Customers By Geographic Area [Line Items]</u></b>				
<u>Net Sales to External Customers</u>	\$ 124,595	\$ 122,367	\$ 243,181	\$ 227,297



Inventories (Tables)

6 Months Ended

Jun. 28, 2014

Inventories [Abstract]

Schedule Of Inventories

Inventories consist of the following:

	December 28, 2013	June 28, 2014
Raw materials	\$ 13,824	\$ 12,301
Work in progress	8,147	8,361
Finished goods	25,271	23,866
	<u>\$ 47,242</u>	<u>\$ 44,528</u>

# **Addendum G**

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

**SCHEDULE 14A**

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant R  
Filed by a Party other than the Registrant £

Check the appropriate box:

- ☐ Preliminary Proxy Statement  
☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
☒ Definitive Proxy Statement  
☐ Definitive Additional Materials  
☐ Soliciting Material Pursuant to §240.14a-12

**CytRx Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.  
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

# CytRx Corporation

11726 San Vicente Boulevard, Suite 650  
Los Angeles, California 90049

May 1, 2014

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of CytRx Corporation. The meeting will be held at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, on Tuesday, June 24, 2014.

The Notice of Meeting and the Proxy Statement on the following pages cover the formal business of the Annual Meeting. At the Annual Meeting, I will also report on CytRx's current operations and will be available to respond to appropriate questions from stockholders.

We sincerely hope you will be able to attend the Annual Meeting. Whether or not you plan to attend, however, and regardless of the number of shares you own, it is important that your shares be represented at the Annual Meeting. Therefore, please take the time to vote your shares by completing and mailing the enclosed proxy card to us.

Thank you for your continued support.

Sincerely,

/s/ STEVEN A. KRIEGSMAN

Steven A. Kriegsman  
President and Chief Executive Officer

# CytRx Corporation

11726 San Vicente Boulevard, Suite 650  
Los Angeles, California 90049

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS to be held on June 24, 2014

Notice is hereby given to the holders of common stock, \$.001 par value per share, of CytRx Corporation that the Annual Meeting of Stockholders will be held on Tuesday, June 24, 2014 at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, for the following purposes:

- (1) The election of two directors to serve until the 2017 Annual Meeting of Stockholders;
- (2) The advisory approval of the compensation of our named executive officers as disclosed in this proxy statement;
- (3) The ratification of the selection of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014; and
- (4) The transaction of such other business as may properly come before the Annual Meeting and at any postponement or adjournment thereof.

Only those stockholders of record at the close of business on May 1, 2014 are entitled to notice of and to vote at the Annual Meeting and at any postponement or adjournment thereof. A complete list of stockholders entitled to vote at the Annual Meeting will be available at the Annual Meeting.

By Order of the board of directors,

/s/ BENJAMIN S. LEVIN

Benjamin S. Levin  
Corporate Secretary

May 1, 2014

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE ENCLOSED BUSINESS REPLY ENVELOPE (OR USE TELEPHONE OR INTERNET VOTING PROCEDURES, IF AVAILABLE THROUGH YOUR BROKER). IF YOU ATTEND THE ANNUAL MEETING AND WISH TO DO SO, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON.

---

# CytRx Corporation

11726 San Vicente Boulevard, Suite 650  
Los Angeles, California 90049

To Be Held June 24, 2014

## PROXY STATEMENT

This Proxy Statement is furnished to holders of common stock, \$.001 par value per share, of CytRx Corporation, a Delaware corporation ("we," "us," "our," "CytRx" or the "company") in connection with the solicitation of proxies by our board of directors for use at our 2014 Annual Meeting of Stockholders to be held at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, on Tuesday, June 24, 2014, and at any postponement or adjournment thereof.

This Proxy Statement and the accompanying proxy card are first being mailed to our stockholders on or about May 3, 2014.

Our board of directors is asking you to vote your shares by completing, signing and returning the proxy card. If you attend the Annual Meeting in person, you may vote at the Annual Meeting even if you have previously returned a proxy. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the Annual Meeting, you must obtain a proxy issued in your name from that record holder.

### What is a proxy?

A proxy is the legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated Steven A. Kriegsman, our President and Chief Executive Officer, and Benjamin S. Levin, our General Counsel, Senior Vice President - Legal Affairs and Corporate Secretary, as proxies for the Annual Meeting. By completing, signing and returning the accompanying proxy card, you are authorizing Messrs. Kriegsman and Levin to vote your shares at the Annual Meeting as you have instructed them on the proxy card. This way, your shares will be voted whether or not you attend the Annual Meeting. Even if you plan to attend the Annual Meeting, it is advisable to complete, sign and return your proxy card before the Annual Meeting date just in case your plans change. You may vote, in person, at the Annual Meeting even if you have previously returned a proxy.

### What is a Proxy Statement?

A Proxy Statement is a document that regulations of the Securities and Exchange Commission, or SEC, require us to give you when we ask you to sign a proxy card designating Messrs. Kriegsman and Levin as proxies to vote on your behalf.

### What is in this proxy statement?

This Proxy Statement describes the proposals on which we would like you, as a stockholder, to vote at the Annual Meeting. It gives you information on the proposals, as well as other information about us, so that you can make an informed decision.

### What am I voting on?

At the Annual Meeting, stockholders will act upon the proposals referred to in the attached Notice of Meeting and described in detail in this proxy statement. These proposals are:

- (1) the election of two directors to serve until the 2017 annual meeting of stockholders;
- (2) the advisory approval of the compensation of our named executive officers as disclosed in this proxy statement;
- (3) the ratification of our appointment of independent accountants; and
- (4) the transaction of such other business as may properly come before the Annual Meeting and at any postponement or adjournment thereof.

In addition, management will report on our performance during fiscal 2013 and respond to appropriate questions from stockholders.

**Who is entitled to vote at the Annual Meeting?**

Only stockholders of record at the close of business on May 1, 2014 are entitled to notice of, and to vote at, the Annual Meeting and at any adjournment or postponement thereof.

**What does it mean if I receive more than one proxy card?**

It means that you have multiple accounts at the transfer agent or with stockbrokers. Please complete, sign and return all proxy cards to ensure that all your shares are voted. Unless you need multiple accounts for specific purposes, it may be less confusing if you consolidate as many of your transfer agent or brokerage accounts as possible under the same name and address.

**What if I change my mind after I return my proxy card?**

You may revoke your proxy card and change your vote by:

- signing another proxy card with a later date and returning it before the polls close at the Annual Meeting, or
- voting in person at the Annual Meeting.

However, if you hold your shares in street name, you must request a proxy from the person in whose name your shares are held, usually your stockbroker, to vote at the Annual Meeting.

**Will my shares be voted if I do not return my proxy card?**

If your shares are held in street name, your brokerage firm, under certain circumstances, may vote your shares.

Brokerage firms have authority under the rules of The NASDAQ Capital Market to vote customers' unvoted shares on "routine" matters. If you do not give instructions to your broker, your broker can vote your shares with respect to routine matters only. Under these rules, Proposals 1 and 2 are considered non-routine, so if you do not give your broker instructions, your shares will be treated as broker non-votes with respect to each Proposals 1 and 2. Proposal 3 is considered a routine matter.

If you do not return a proxy card to vote your shares, your brokerage firm may either:

- vote your shares on routine matters, or
- leave your shares unvoted.

We encourage you to provide instructions to your brokerage firm by returning your proxy card. This ensures that your shares will be voted at the Annual Meeting with respect to all of the proposals described in this proxy statement.

#### What constitutes a quorum?

Our Restated Bylaws provide that the presence, in person or by proxy, at the Annual Meeting of the holders of a majority of outstanding shares of our common stock will constitute a quorum for the transaction of business.

For the purpose of determining the presence of a quorum, proxies marked "withhold authority" or "abstain" will be counted as present. Shares represented by proxies that include so-called broker non-votes (shares held by a broker or nominee that has no authority to vote upon a particular matter) also will be counted as shares present for purposes of establishing a quorum. On the record date, there were 55,776,523 shares of our common stock issued and outstanding, exclusive of treasury shares.

#### What are the voting rights of the holders of our common stock?

Holders of our common stock are entitled to one vote per share with respect to each of the matters to be presented at the Annual Meeting. With regard to the election of directors, the two nominees receiving the greatest number of affirmative votes cast will be elected. Approval of each of the other proposals requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote on that proposal at the Annual Meeting.

In the election of directors, you may vote "FOR" or "WITHHOLD AUTHORITY" with respect to each of the nominees. In tabulating the voting results for the election of directors, only "FOR" votes will be counted.

With respect to each of Proposals 2 and 3, you may vote "FOR," "AGAINST" or "ABSTAIN." If you elect to abstain, it will have the same effect as an "AGAINST" vote.

Broker non-votes have no effect and will not be counted toward the vote total for any proposal.

#### What happens if a nominee is unable to stand for election?

Our board of directors may reduce the number of nominees or select a substitute nominee. In the latter case, if you have completed, signed and returned your proxy card, Messrs. Kriegsmann and Levin can vote your shares for a substitute nominee. They cannot vote for more than two nominees.

#### What are the board's recommendations?

The recommendations of our board of directors are set forth together with the description of each Proposal in this Proxy Statement. In summary, our board of directors recommends a vote:

- "FOR" election of the incumbent directors named in this Proxy Statement as described in Proposal 1;
- "FOR" advisory approval of the compensation of our named executive officers as disclosed in this Proxy Statement as described in Proposal 2; and
- "FOR" ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2014 as described in Proposal 3.



## Proxies

If the enclosed proxy card is executed, returned in time and not revoked, the shares represented thereby will be voted at the Annual Meeting and at any postponement or adjournment thereof in accordance with the directions indicated on the proxy card. IF NO DIRECTIONS ARE INDICATED, PROXIES WILL BE VOTED IN ACCORDANCE WITH OUR BOARD OF DIRECTORS' RECOMMENDATIONS IN THIS PROXY STATEMENT AND, AS TO ANY OTHER MATTERS PROPERLY BROUGHT BEFORE THE ANNUAL MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF, IN THE SOLE DISCRETION OF THE PROXIES.

### Is my vote kept confidential?

Proxies, ballots and voting tabulations identifying stockholders are kept confidential and will not be disclosed to third parties except as may be necessary to meet legal requirements.

### Where do I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will publish the final results in a Form 8-K. We intend to file the Form 8-K no later than June 30, 2014 with the Securities and Exchange Commission, or SEC. You may obtain a copy of the 8-K report by contacting us at (310) 826-5698 or at an SEC public reference room. For the location of an SEC public reference room, please contact the SEC at (800) SEC-0330.

You can also get a copy of the 8-K report that will contain the voting results on the Internet at [www.cytRx.com](http://www.cytRx.com) or through the SEC's electronic data system called EDGAR at [www.sec.gov](http://www.sec.gov).

### How do I receive an annual report?

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 is being delivered with this proxy statement to each stockholder. A copy of the Annual Report is also available on our website at [www.cytRx.com](http://www.cytRx.com) and on the SEC's website at [www.sec.gov](http://www.sec.gov). Copies of exhibits to the Annual Report will be made available for a reasonable charge upon written request to CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, Attention: Corporate Secretary.

We encourage you to review the Company's disclosures in its period reports filed with the SEC, including, but not limited to, the Company's Form 10-Q, filed on May 1, 2014.

### Do we have a policy about directors' attendance at the annual meeting?

We do not have a policy regarding attendance of directors at our annual meetings of stockholders. At our last annual meeting, all of our directors were in attendance.

### How are proxies solicited, and what is the cost?

We pay all expenses incurred in connection with distributing and soliciting proxies. As part of this process, we reimburse brokers, nominees, fiduciaries and other custodians' reasonable fees and expenses in forwarding proxy materials to stockholders. Our directors and employees may solicit proxies by mail, telephone or other means. Our directors and employees do not receive any additional compensation for these activities.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON JUNE 24, 2014** – This Proxy Statement, along with the proxy card, and letter of transmittal from our President and Chief Executive Officer accompanying our Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission are available at our website, <http://www.cytRx.com>, under "Investor Relations."

## TABLE OF CONTENTS

PROPOSAL 1 — ELECTION OF DIRECTORS	6
PROPOSAL 2 — ADVISORY VOTE ON EXECUTIVE COMPENSATION	36
PROPOSAL 3 — RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	37
STOCKHOLDER PROPOSALS	38
OTHER MATTERS	39

## PROPOSAL 1

### ELECTION OF DIRECTORS

Pursuant to our Restated Bylaws, our board of directors has fixed the number of our directors at seven. Our Restated Certificate of Incorporation and our Restated Bylaws provide for the classification of our directors into three classes, which we refer to as Class I, Class II and Class III, with each Class to consist as nearly as possible of an equal number of directors. One Class of directors is to be elected at each annual meeting of stockholders to serve for a term of three years.

We have two incumbent directors in Class II whose term expires at the Annual Meeting. The board of directors has nominated the incumbent Class II directors, Steven A. Kriegsmann and Marvin R. Selter, for reelection as Class II directors to serve until the 2017 Annual Meeting of Stockholders and until their successors are duly elected and qualified.

Information concerning Messrs. Kriegsmann and Selter, as well as the directors whose terms of office will continue after the Annual Meeting, is set forth below. Each director's age is indicated in parentheses after his name.

#### **Class II — Nominees to Serve as Directors Until the 2017 Annual Meeting**

We believe that Messrs. Kriegsmann and Selter will be available and able to serve as directors. In the event that one of them is unable or unwilling to serve, the proxy holders will vote the proxies for such other nominee as they may determine.

*Steven A. Kriegsmann* (72) has been CytRx's President and Chief Executive Officer and a director since July 2002. He also serves as a director of Galena Biopharma, a listed public company, and is Chairman of its Compensation Committee and a member of its Strategy Committee. Mr. Kriegsmann also serves on the Board of Directors of Catasys, Inc. He previously served as Director and Chairman of Global Genomics from June 2000 until 2002. Mr. Kriegsmann is an inactive Chairman and Founder of Kriegsmann Capital Group LLC, a financial advisory firm specializing in the development of alternative sources of equity capital for emerging growth companies in the healthcare industry. During his career, he has advised such companies as SuperGen Inc., Closure Medical Corporation, Novoste Corporation, Miravant Medical Technologies, and Maxim Pharmaceuticals. In the past five years, Mr. Kriegsmann has also served on the Board of Directors of Bradley Pharmaceuticals, Inc. and Hythiam, Inc. Mr. Kriegsmann has a B.S. degree with honors from New York University in Accounting and completed the Executive Program in Mergers and Acquisitions at New York University, The Management Institute. Mr. Kriegsmann is a graduate of the Stanford Law School Directors' College.

Mr. Kriegsmann was formerly a Certified Public Accountant with KPMG in New York City. In February 2006, Mr. Kriegsmann received the Corporate Philanthropist of the Year Award from the Greater Los Angeles Chapter of the ALS Association and in October 2006, he received the Lou Gehrig Memorial Corporate Award from the Muscular Dystrophy Association. Mr. Kriegsmann has been a guest speaker and lecturer at various universities including California Institute of Technology (Caltech), Brown University, and New York University. Mr. Kriegsmann has been active in various charitable organizations including the Biotechnology Industry Organization, the California Health Institute, the ALS Association, the Los Angeles Venture Association, the Southern California Biomedical Council, the American Association of Dance Companies and the Palisades-Malibu YMCA.

Mr. Kriegsmann's extensive history as a member of management is vital to the board of directors' collective knowledge of our day-to-day operations. Mr. Kriegsmann also provides great insight as to how CytRx grew as an organization and his institutional knowledge is an invaluable asset to the board of directors in effecting its oversight of CytRx's strategic plans. Mr. Kriegsmann's presence on the board of directors also allows for a flow of information and ideas between the board of directors and management.

*Marvin R. Selter* (86) has been a director since October 2003. He has been President and Chief Executive Officer of CMS, Inc. since he founded that firm in 1968. CMS, Inc. is a national management consulting firm. In 1972, Mr. Selter originated the concept of employee leasing. He served as a member of the Business Tax Advisory Committee—City of Los Angeles, Small Business Board—State of California and the Small Business Advisory Commission—State of California. Mr. Selter also serves on the Valley Economic Development Center as past Chairman and Audit Committee Chairman, the Board of Valley Industry and Commerce Association as past Chairman, the Advisory Board of the San Fernando Economic Alliance and the California State University—Northridge as Past Chairman of the Economic Research Center; and President of the Olive View-UCLA Medical Center Foundation. He has served, and continues to serve, as a member of boards of directors of various hospitals, universities, private medical companies and other organizations. Mr. Selter attended Rutgers—The State University, majoring in Accounting and Business Administration, and is the recipient of an honorary Ph.D. from American Jewish University. He was an LPA having served as Controller, Financial Vice President and Treasurer at distribution, manufacturing and service firms. He has lectured extensively on finance, corporate structure and budgeting for the American Management Association and other professional teaching associations.

Mr. Selter has founded, operated, and grown his own successful businesses, which gives him a valuable insight into the financial constraints and operational challenges facing companies in the development stage and as they mature. He also has many years of involvement in various governmental agencies and charitable organizations, which affords him an important perspective on the business regulatory process and capital-raising activities. In addition, he has significant education and work experience in accounting and financial matters that he is able to utilize as the named financial expert on our Audit Committee.

#### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ELECTION OF MSRRS. KRIEGSMANN AND SELTER AS DIRECTORS.**

## Continuing Directors

The following is a description of the incumbent Class III and Class I directors whose terms of office will continue after the Annual Meeting:

### *Class III — Term Expiring at the 2015 Annual Meeting*

**Max Link, Ph.D. (73)**, our Chairman of the Board, has been a director since 1996. Dr. Link has been retired from business since 2003. From March 2002 until its acquisition by Zimmer Holdings, Dr. Link served as Chairman and CEO of Centerpulse, Ltd. From May 1993 to June 1994, Dr. Link served as the Chief Executive Officer of Corange Ltd. (the holding company for Boehringer Mannheim Therapeutics, Boehringer Mannheim Diagnostics and DePuy International). From 1992 to 1993, Dr. Link was Chairman of Sandoz Pharma, Ltd. From 1987 to 1992, Dr. Link was the Chief Executive Officer of Sandoz Pharma and a member of the Executive Board of Sandoz, Ltd., Basel. Prior to 1987, Dr. Link served in various capacities with the United States operations of Sandoz, including President and Chief Executive Officer. Dr. Link currently serves as a director of Alexion Pharmaceuticals, Inc. and Celsion Corporation, Inc., and has previously served on the Boards of Directors of Cell Therapeutics, Inc., Columbia Laboratories, Inc., Human Genome Sciences, Inc., Protein Design Laboratories and Discovery Laboratories, Inc., each a listed public company.

Dr. Link has extensive executive-level experience with a number of large pharmaceutical companies, including Sandoz Pharma, Ltd. In these positions, he was responsible for major strategic and other business initiatives, including new drug development, acquisitions and dispositions of new drug candidates and other technology, licensing, marketing and distribution agreements and other key contractual strategic arrangements that affect, or are likely to affect, our company's own business efforts. As an executive officer and board member of these other companies, he has experience with the regulatory schemes in foreign jurisdictions and also has been exposed to different approaches to corporate governance matters, potential conflicts of interest, and similar matters, which enables him to offer importance guidance to our Board of Directors.

**Richard L. Wennkamp (71)** has been a director since October 2003. He retired from Community Bank in June 2008 where he was the Senior Vice President-Credit Administration since October 2002. From September 1980 to July 2002, Mr. Wennkamp was an executive officer of Bank of America Corporation, holding various positions, including Managing Director-Credit Product Executive for the last four years of his 22-year term with the bank. From 1977 through 1980, Mr. Wennkamp was a Special Assistant to former President of the United States, Gerald R. Ford, and the Executive Director of the Ford Transition Office. Prior thereto, he served as Staff Assistant to the President of the United States for one year, and as the Special Assistant to the Assistant Secretary of Commerce of the U.S.

Mr. Wennkamp's senior executive experience in the banking and financial services industry distinguishes him from our other directors and adds unique capabilities and a different perspective to the deliberations of our Board of Directors. As a former chief credit officer at Bank of America and Community Bank, he understands the credit needs, financing requirements, and operational constraints of development-stage and mature businesses.

### *Class I — Nominees to Serve as Directors Until the 2016 Annual Meeting*

**Louis Ignarro, Ph.D. (72)** has been a director since July 2002. He previously served as a director of Global Genomics since November 20, 2000. Dr. Ignarro serves as the Jerome J. Belzer, M.D. Distinguished Professor of Pharmacology in the Department of Molecular and Medical Pharmacology at the UCLA School of Medicine. Dr. Ignarro has been at the UCLA School of Medicine since 1985 as a professor, acting chairman and assistant dean. Dr. Ignarro received the Nobel Prize for Medicine in 1998. Dr. Ignarro received a B.S. in pharmacy from Columbia University and his Ph.D. in Pharmacology from the University of Minnesota. Dr. Ignarro is a Nobel Laureate and an esteemed medical researcher whose experience enables him to offer important scientific guidance to our Board of Directors.

**Joseph Rubinfeld, Ph.D. (81)** has been a director since July 2002. He co-founded SuperGen, Inc. in 1991 and has served as its Chief Executive Officer and President and as a director since its inception until December 31, 2003. He resigned as Chairman Emeritus of SuperGen, Inc. on February 8, 2005. Dr. Rubinfeld was also Chief Scientific Officer of SuperGen from 1991 until September 1997. Dr. Rubinfeld is also a founder of JJ Pharma. Dr. Rubinfeld was one of the four initial founders of Amgen, Inc. in 1980 and served as a Vice President and its Chief of Operations until 1983. From 1987 until 1990, Dr. Rubinfeld was a Senior Director at Cetus Corporation and from 1968 to 1980, Dr. Rubinfeld was employed at Bristol-Myers Company, International Division in a variety of positions. Dr. Rubinfeld received a B.S. degree in chemistry from C.C.N.Y. and an M.A. and Ph.D. in chemistry from Columbia University.

Dr. Rubinfeld served as a senior executive of several large pharmaceutical companies before leaving to co-found SuperGen and served as Chief Executive Officer or in other senior executive capacities with highly successful companies. Dr. Rubinfeld's academic training and business experience enhances the breadth and scope of our Board's oversight of our company's management, business, strategic relationships, and other activities, while his vision adds to the long-range planning of our Board of Directors and management.

## Meetings of the Board of Directors and Committees

### *Board of Directors*

The property, affairs and business of CytRx are conducted under the general supervision and management of our board of directors as called for under the laws of Delaware and our Restated Bylaws. Our board of directors has established a standing Audit Committee, Compensation Committee, and Nomination and Governance Committee.

The board of directors held five meetings during 2013. Each director attended at least 75% of the total meetings of the board during 2013. Each director who served on a committee of our board of directors attended at least 75% of all committee meetings during 2013. Board agendas include regularly scheduled executive sessions for the independent directors to meet without management present. In 2013, the independent directors met two times in executive session.

### *Director Independence*

Our board of directors has determined that Messrs. Link, Selter, Rubinfeld, Ignarro and Wennekamp are "independent" under the current independence standards of both The NASDAQ Capital Market and the SEC, and have no material relationships with us (either directly or as a partner, shareholder or officer of any entity) that are inconsistent with a finding of their independence as members of our board of directors. Our board has determined that Messrs. Link, Selter and Wennekamp also met the higher standards of The NASDAQ Capital Market of "independence" for purposes of service as the members of our Audit Committee and our Compensation Committee.

In making these determinations, our board of directors has broadly considered all relevant facts and circumstances, recognizing that material relationships can include commercial, banking, consulting, legal, accounting, and familial relationships, among others.

The following table provides information concerning the current membership of our board committees:

Name	Class of Directors	Audit Committee	Compensation Committee	Nomination and Governance Committee
Steven A. Kriegsman	II			
Louis Ignarro, Ph.D.	I			
Max Link, Ph.D.	III	(1)	(2)	
Joseph Rubinfeld, Ph.D.	I		(2)	(3)
Marvin R. Selter	II	(1)	(2)	(3)
Richard L. Wennekamp	III	(1)	(2)	(3)

- (1) Members of our Audit Committee. Mr. Selter is the Chairman of the committee.
- (2) Members of our Compensation Committee. Dr. Rubinfeld is Chairman of the committee.
- (3) Members of our Nominating and Corporate Governance Committee. Mr. Wennekamp is Chairman of the committee.

#### *Audit Committee*

Our board of directors has determined that each of the current members of the Audit Committee is "independent" under the current independence standards of The NASDAQ Capital Market and the SEC. Our board of directors has also determined that Mr. Selter, the Chairman of the Audit Committee, is an audit committee financial expert.

The Audit Committee's responsibilities include oversight activities described below under the "Report of the Audit Committee." The Audit Committee reviews our financial structure, policies and procedures, appoints our independent registered public accounting firm, reviews with our independent registered public accounting firm the plans and results of the audit engagement, approves audit and permitted non-audit services provided by our independent registered public accounting firm, reviews the independence of our independent registered public accountants and reviews the adequacy of our internal accounting controls.

The Audit Committee has discussed with our independent registered public accounting firm the firm's independence from management and us, including the matters in the written disclosures required by the Independence Standards board and considered the compatibility of permitted non-audit services with the auditors' independence. The Audit Committee operates pursuant to a written charter, a copy of which is available on our website at <http://www.cytrx.com>.

#### *Audit Committee Report*

Set forth below is the Audit Committee Report:

*The following Report does not constitute soliciting material and should not be considered or deemed filed, or incorporated by reference into any filing, by us with the SEC, except to the extent we specifically incorporate this Report by reference.*

The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities relating to:

- The quality and integrity of our financial statements and reports.
- Our independent registered public accounting firm's qualifications and independence.
- The performance of our internal audit function and our independent auditors.

The Audit Committee operates under a written charter adopted by our board of directors, a copy of which is available on our website at <http://www.cytrx.com>.

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor our financial reporting process and internal control system.
- Review and appraise the audit efforts of our independent accountants and internal audit function.
- Provide an open avenue of communication among the independent accountants, internal auditors, our management and the board of directors.

The Audit Committee provides assistance to the board of directors in fulfilling its oversight responsibility to the stockholders, potential stockholders, the investment community and others relating to our financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of our financial statements and the ethics programs when established by our management and the board of directors. The Audit Committee has the sole authority (subject, if applicable, to stockholder ratification) to appoint or replace the outside auditors and is directly responsible for determining the compensation of the independent auditors.

The Audit Committee must pre-approve all auditing services and all permitted non-auditing services to be provided by the outside auditors. In general, the Audit Committee's policy is to grant such approval where it determines that the non-audit services are not incompatible with maintaining the auditors' independence and there are cost or other efficiencies in obtaining such services from the auditors as compared to other possible providers. During 2013, the Audit Committee approved all of the audit and non-audit services proposals submitted to it.

The Audit Committee met four times during 2013. The Audit Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention, with full access to all of our books, records, facilities and personnel, and to retain its own legal counsel and other advisers as it deems necessary or appropriate.

As part of its oversight of our financial statements, the Audit Committee reviews and discusses with both management and its outside auditors our interim financial statements and annual audited financial statements that are included in our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K, respectively. Our management advised the Audit Committee in each case that all such financial statements were prepared in accordance with accounting principles generally accepted in the United States and reviewed significant accounting issues with the Audit Committee. These reviews included discussion with the outside auditors of matters required to be discussed pursuant to the Public Company Accounting Oversight Board ("PCAOB") Statement on Auditing Standards No. 16 (Communication with Audit Committees).

The Audit Committee retained BDO USA, LLP to audit our financial statements for 2013. The Audit Committee also has selected BDO USA, LLP as our independent registered public accounting firm for fiscal 2014.

The Audit Committee discussed with BDO USA, LLP, which audited our annual financial statements for 2013, matters relating to its independence, including a review of audit and non-audit fees and the letter and written disclosures made by BDO USA, LLP to the Audit Committee as required by the PCAOB.

In addition, the Audit Committee reviewed initiatives aimed at strengthening the effectiveness of CytRx's internal control structure. As part of this process, the Audit Committee continued to monitor and review staffing levels and steps taken to implement recommended improvements in internal procedures and controls.

Taking all of these reviews and discussions into account, the Audit Committee recommended to our board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC.

Respectfully submitted,

Audit Committee:

Marvin R. Selter, Chairman  
Max Link, Ph.D.  
Richard L. Wennekamp

### *Compensation Committee*

The Compensation Committee is authorized to determine the annual salaries and bonuses of our officers and to determine in its sole discretion all grants of stock options, the exercise price of each option, and the number of shares to be issuable upon the exercise of each option under our various stock option plans. The Committee also is authorized to interpret our stock option plans, to prescribe, amend and rescind rules and regulations relating to the plans, to determine the term and provisions of the respective option agreements, and to make all other determinations deemed necessary or advisable for the administration of the plans. The Compensation Committee operates pursuant to a written charter, a copy of which is available on our website at [www.cytix.com](http://www.cytix.com). Our board of directors has determined that each of the current members of the Compensation Committee, Messrs. Rubinfeld, Link, Selter and Wennkamp, are "independent" under the current independence standards of The NASDAQ Capital Market for purposes of service as the members of our Compensation Committee.

The Compensation Committee has reviewed our compensation policies and practices for all employees, including our named executive officers, as they relate to risk management practices and risk-taking incentives, and has determined that there are no risks arising from these policies and practices that are reasonably likely to have a material adverse effect on us.

The Compensation Committee held five meetings during 2013.

### *Nomination and Governance Committee*

The Nomination and Governance Committee assists our board of directors in discharging its duties relating to corporate governance and the compensation and evaluation of the board. The Nomination and Governance Committee also operates pursuant to a written charter, a copy of which likewise is available on our website at [www.cytix.com](http://www.cytix.com). As indicated above with respect to service on our Audit Committee, our board of directors has determined that each of the current members of the Nomination and Governance Committee, Messrs. Wennkamp, Rubinfeld and Selter, are "independent" under the current independence standards of The NASDAQ Capital Market.

The principal responsibilities of the Nomination and Governance Committee include:

- Overseeing our corporate governance practices and developing and recommending to our board a set of Corporate Governance Guidelines.
- Assisting our board in identifying qualified director candidates, selecting nominees for election as directors at meetings of stockholders and selecting candidates to fill vacancies on our board.
- Creating and recommending to our board a policy regarding the consideration of director candidates recommended by stockholders and procedures for stockholders' submission of nominees of director candidates.

Reviewing and recommending the compensation for non-employee directors and making recommendations to our board for its approval.

- Establishing criteria for our board and for all committees (including the Nomination and Governance Committee) to use to evaluate their performance on an annual basis.
- Overseeing and advising our board regarding developments related to corporate governance.

The Nomination and Governance Committee has sole authority, in connection with the identification of qualified director candidates, to retain and terminate any search firm for such purpose (including the authority to approve any such firm's fees and other retention terms). We do not currently employ an executive search firm, or pay a fee to any other third party, to locate qualified candidates for director positions.

The Nomination and Governance Committee held two meetings during 2013.

The Nomination and Governance Committee has not established any specific minimum qualifications for director candidates, or any specific qualities or skills that a candidate must possess in order to be considered qualified to be nominated as a director.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing board composition. In making its nominations, our Nomination and Governance Committee generally will consider, among other things, an individual's business experience, industry experience, financial background, breadth of knowledge about issues affecting our company, time available for meetings and consultation regarding company matters and other particular skills and experience possessed by the individual. We have no formal policy of considering diversity in identifying director nominees, but the Nomination and Governance Committee seeks to include on the board of directors a complementary mix of individuals with diverse backgrounds and skills reflecting the broad set of challenges that the board of directors confronts. These individual qualities can include matters such as experience in the company's industry, technical experience (*i.e.*, medical or research expertise), experience gained in situations comparable to the company's, leadership experience, and relevant geographical diversity.



#### Stockholder Recommendations of Director Candidates

The policy of the Nomination and Governance Committee is that a stockholder wishing to submit recommendations for director candidates for consideration by the Nomination and Governance Committee for election at an annual meeting of shareholders must do so in writing by December 15 of the previous calendar year. The written recommendation must include the following information:

- A statement that the writer is a stockholder and is proposing a candidate for consideration.
- The name and contact information for the candidate.
- A statement of the candidate's business and educational experience.
- Information regarding the candidate's qualifications to be a director.
- The number of shares of our common stock, if any, owned either beneficially or of record by the candidate and the length of time such shares have been so owned.
- The written consent of the candidate to serve as a director if nominated and elected.
- Information regarding any relationship or understanding between the proposing stockholder and the candidate.
- A statement that the proposed candidate has agreed to furnish us all information as we deem necessary to evaluate such candidate's qualifications to serve as a director.

As to the stockholder giving the notice, the written recommendation must state the name and address of the stockholder and the number of shares of our common stock which are owned beneficially or of record by the shareholder.

Any recommendations in proper form received from stockholders will be evaluated in the same manner that potential nominees recommended by our board members or management are evaluated.

#### Stockholder Nominations of Directors

Our Bylaws specify the procedures by which stockholders may nominate director candidates directly, as opposed to merely recommending a director candidate to the Nomination and Governance Committee as described above. Any stockholder nominations must comply with the requirements of our Bylaws and should be addressed to: Corporate Secretary, CyRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049.

#### Stockholder Communication with Board Members

Stockholders who wish to communicate with our board members may contact us by telephone, facsimile or regular mail at our principal executive office. Written communications specifically marked as a communication for our board of directors, or a particular director, except those that are clearly marketing or soliciting materials, will be forwarded unopened to the Chairman of our board, or to the particular director to which they are addressed, or presented to the full board or the particular director at the next regularly scheduled board meeting. In addition, communications sent to us via telephone or facsimile for our board of directors or a particular director will be forwarded to our board or the director by an appropriate officer.

## Transactions with Related Persons

### General

Our Audit Committee is responsible for reviewing and approving, as appropriate, all transactions with related persons, in accordance with its Charter and NASDAQ Marketplace Rules.

Transactions between us and one or more related persons may present risks or conflicts of interest or the appearance of conflicts of interest. Our Code of Ethics requires all employees, officers and directors to avoid activities or relationships that conflict, or may be perceived to conflict, with our interests or adversely affect our reputation. It is understood, however, that certain relationships or transactions may arise that would be deemed acceptable and appropriate so long as there is full disclosure of the interest of the related parties in the transaction and review and approval by disinterested directors to ensure there is a legitimate business reason for the transaction and that the transaction is fair to us and our stockholders.

As a result, the procedures followed by the Audit Committee to evaluate transactions with related persons require:

- that all related person transactions, all material terms of the transactions, and all the material facts as to the related person's direct or indirect interest in, or relationship to, the related person transaction must be communicated to the Audit Committee; and
- that all related person transactions, and any material amendment or modification to any related person transaction, be reviewed and approved or ratified by the Audit Committee, as required by the requirements of The NASDAQ Capital Market.

Our Audit Committee will evaluate related person transactions based on:

- information provided by members of our board of directors in connection with the required annual evaluation of director independence;
- pertinent responses to the Directors' and Officers' Questionnaires submitted periodically by our officers and directors and provided to the Audit Committee by our management;
- background information on nominees for director provided by the Nominating and Corporate Governance Committee of our board of directors; and
- any other relevant information provided by any of our directors or officers.

In connection with its review and approval or ratification, if appropriate, of any related person transaction, our Audit Committee is to consider whether the transaction will compromise standards included in our Code of Ethics. In the case of any related person transaction involving an outside director or nominee for director, the Audit Committee also is to consider whether the transaction will compromise the director's status as an independent director as prescribed by The NASDAQ Capital Market.

On December 2, 2008, we entered into a written consulting agreement with Joseph Rubinfeld, Ph.D., under which Dr. Rubinfeld agrees to serve as our Chief Scientific Advisor. In exchange, we granted to Dr. Rubinfeld under our 2008 Stock Incentive Plan a ten-year stock option to purchase up to 50,000 shares of our common stock at an exercise price of \$2.45 per share, which equaled the market price of our common stock as of the grant date. The fair value of this option grant was \$116,900. The stock option vested immediately upon grant as to 7,143 of the option shares and vested as to the remaining option shares in 36 equal monthly installments, and is now fully vested. The consulting agreement is terminable at any time by either party upon notice to the other party.

On December 10, 2012, we entered into an amendment to our written consulting agreement with Dr. Rubinfeld, Ph.D. to provide for the one-time grant to Dr. Rubinfeld under our 2008 Plan of an option to purchase 30,000 shares of our common stock at an exercise price of \$1.83 per share, which was equal to the market price of our common stock on the grant date. The option has a term of ten years and is fully vested. The fair grant date value of this option grant was \$47,400.

#### **Applicable Definitions**

For purposes of our Audit Committee's review:

- "related person" has the meaning given to such term in Item 404(a) of Securities and Exchange Commission Regulation S-K ("Item 404(a)"); and
- "related person transaction" means any transaction for which disclosure is required under the terms of Item 404(a) involving the company and any related persons.

#### **Board Member Attendance at Annual Meetings**

Our board of directors has no formal policy regarding attendance of directors at our annual stockholder meetings. Our 2013 Annual Meeting of Stockholders was attended by all of our directors.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Each of our executive officers and directors and persons who owns more than 10% of our outstanding shares of common stock is required under Section 16(a) of the Securities Exchange Act to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of those reports. Based solely on our review of copies of reports we have received and written representations from certain reporting persons, we believe that our directors and executive officers and greater than 10% shareholders for 2013 complied with all applicable Section 16(a) filing requirements.

## Security Ownership of Certain Beneficial Owners and Management

Based solely upon information made available to us, the following table sets forth information with respect to the beneficial ownership of our common stock as of May 1, 2014 by: (1) each person who is known by us to beneficially own more than five percent of our common stock; (2) each of our directors; (3) our named executive officers listed in the Summary Compensation Table under the caption "Executive Compensation"; and (4) all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the SEC rules. Shares of common stock subject to warrants or options that are presently exercisable, or exercisable within 60 days of May 1, 2014, which are indicated by footnote, are deemed outstanding in computing the percentage ownership of the person holding the warrants or options, but not in computing the percentage ownership of any other person. The percentage ownership reflected in the table is based on 55,776,523 shares of our common stock outstanding as of May 1, 2014. Except as otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares of common stock shown, subject to applicable community property laws. An asterisk (\*) represents beneficial ownership of less than 1%.

Name of Beneficial Owner	Shares of Common Stock	
	Number	Percent
QVT Financial LP (1)	5,164,600	9.3%
Capital Ventures International (2)	3,250,000	5.8%
Gene Z. Salkind, M.D. (3)	3,493,116	6.3%
Scott Patterson, D.D.S. (4)	4,577,605	8.2%
Louis Ignarro, Ph.D.(5)	336,702	*
Steven A. Kriegsman (6)	1,653,567	3.0%
Max Link, Ph.D.(7)	361,886	*
Joseph Rubinfeld, Ph.D. (8)	403,571	*
Marvin R. Selter(9)	65,351	*
Richard L. Wennekamp (10)	340,281	*
Dan Levitt, M.D., Ph.D.(12)	411,033	*
John Y. Caloz (11)	160,493	*
Scott Wieland, Ph.D.(13)	156,667	*
Benjamin S. Levin (14)	263,125	*
All executive officers and directors as a group (ten persons) (15)	4,152,676	7.4%

- (1) According to a schedule 13G filed with the SEC on March 21, 2014, QVT Financial LP is a Delaware limited partnership and investment manager for QVT Fund V LP and other private investment funds (collectively, the "Funds"). In the aggregate, these Funds own 5,164,600 shares of CytRx common stock. QVT Financial GP LLC, as General Partner of QVT Financial LP, may be deemed to beneficially own the same number of shares of common stock as reported by QVT Financial LP.
- (2) According to a schedule 13G filed with the SEC on February 7, 2014, Capital Ventures International is a Cayman Islands company. Heights Capital Management, Inc. is a Delaware corporation and investment manager to Capital Ventures International. As such, Heights Capital Management, Inc. may exercise voting and dispositive powers over the shares shown and may be deemed to beneficially own such shares. The principal business addresses of Capital Ventures International and Heights Capital Management, Inc. are P.O. Box 897, Winward I, Regality Office Park, West Bay Road, Grand Cayman KY1-1103, Cayman Islands and 101 California Street, Suite 3250, San Francisco, California 94111, respectively.
- (3) Of the shares shown, Dr. Salkind has sole voting and dispositive power over 1,360,038 shares and shares voting and dispositive power with his wife, Catherine Salkind, over 2,133,078 shares. Mrs. Salkind may be deemed to beneficially own the shares shown. Dr. and Mrs. Salkind's address is 1165 Wrack Road, Meadowbrook, Pennsylvania 19046.
- (4) Dr. Patterson's address is 128 Spoonbill Court, Jupiter, Florida 33458-8879.
- (5) Includes 323,571 shares subject to options or warrants.
- (6) Includes 1,056,456 shares subject to options or warrants.
- (7) Includes 324,699 shares subject to options or warrants.
- (8) Includes 403,571 shares subject to options or warrants.
- (9) The shares shown are owned, of record, by the Selter Family Trust or Selter IRA Rollover.
- (10) Includes 323,571 shares subject to options or warrants.
- (11) Includes 155,951 shares subject to options or warrants.
- (12) Includes 249,996 shares subject to options or warrants and 100,000 restricted shares, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date.
- (13) Includes 156,667 shares subject to options or warrants.
- (14) Consists of 258,328 shares subject to options or warrants.
- (15) Includes 3,252,810 shares subject to options or warrants.

## Executive Officers

Set forth below is information regarding our current executive officers (other than information relating to Steven A. Kriegsmann, our President and Chief Executive Officer, which is set forth above under "Continuing Directors"). Each officer's age is indicated in parentheses after his name.

*Daniel Levitt, M.D., Ph.D.* (66) joined us in October 2009 as our Chief Medical Officer, and was recently promoted to the position of Executive Vice President in 2013. Dr. Levitt brings more than 24 years of senior management experience, having spearheaded numerous drug development programs to commercialization at leading biotechnology and pharmaceutical companies. Prior to joining CytRx, Dr. Levitt served from January 2007 to February 2009 as Executive Vice President, Research and Development at Cerimon Pharmaceuticals, Inc. Prior to that, from August 2003 to April 2006, he was Chief Medical Officer and Head of Clinical and Regulatory Affairs at Dynavax Technologies Corporation, managing clinical trials for four programs and overseeing multi-country regulatory strategies. From August 2002 to July 2003, Dr. Levitt was Chief Operating Officer and Head of Research and Development at Affymax, Inc., and prior to that he spent six years at Protein Design Labs, Inc., completing his tenure as that firm's President and Head of Research and Development. Dr. Levitt's past experience includes a position as Head of Drug Development at Geron Corporation, and Head of the Cytokine Development Unit and Global Clinical Oncology at Sandoz Pharmaceuticals Ltd., and as Director, Clinical Oncology and Immunology at Hoffmann-LaRoche, Inc. Dr. Levitt graduated Magna Cum Laude and Phi Beta Kappa with a Bachelor of Arts degree from Brandeis University. He earned both his M.D. and his Ph.D. in Biology from the University of Chicago, Pritzker School of Medicine. Dr. Levitt has received ten major research awards and authored or co-authored nearly 200 papers and abstracts.

*John Y. Caloz* (62) joined us in October 2007 as our Chief Accounting Officer. In January 2009 Mr. Caloz was named Chief Financial Officer. He has a history of providing senior financial leadership in the life sciences sector, as Chief Financial Officer of Oculogix, Inc., a NASDAQ listed, medical therapy company. Prior to that, Mr. Caloz served as Chief Financial Officer of IRIS International Inc., a Chatsworth, CA based medical device manufacturer. He served as Chief Financial Officer of San Francisco-based Synarc, Inc., a medical imaging company, and from 1993 to 1999 he was Senior Vice President, Finance and Chief Financial Officer of Phoenix International Life Sciences Inc. of Montreal, Canada, which was acquired by MDS Inc. in 1999. Mr. Caloz was a partner at Rooney, Greig, Whitrod, Filion & Associates of Saint Laurent, Quebec, Canada, a firm of Chartered Accountants specializing in research and development and high tech companies, from 1983 to 1993. Mr. Caloz, a Chartered Accountant, holds a degree in Accounting from York University, Toronto, Canada.

*Scott Wieland, Ph.D.* (55) joined CytRx in 2005 as Vice President, Clinical and Regulatory Affairs and was promoted to the position of Senior Vice President, Drug Development in December 2008. Prior to that, he served in senior level positions in the areas of Drug Development, Clinical and Regulatory Affairs at various biotech firms. He spent five years at NeoTherapeutics, Inc. serving as the Director of Product Development and was later promoted to Vice President of Product Development. From 1990 to 1997, he served as Director of Regulatory Affairs at CoCensys, Inc. Dr. Wieland has a Ph.D. in Biopsychology and an M.A. in Psychology from the University of Arizona. He has an MBA from Webster University. Dr. Wieland received his B.S. in Physiological Psychology from the University of California, Santa Barbara.

*Benjamin S. Levin* (38) joined us in July 2004 as our General Counsel and Corporate Secretary, and since December 2013 has served additionally as Senior Vice President. From November 1999 to June 2004, Mr. Levin was an associate in the transactions department of the Los Angeles office of O'Melveny & Myers LLP. Mr. Levin received his S.B. in Economics from the Massachusetts Institute of Technology, and a J.D. from Stanford Law School.

*David J. Haen* (36) joined CytRx in October 2003 as Director of Business Development and was promoted to Vice President of Business Development in December 2007. From 1999 to 2003, Mr. Haen worked as an associate for Kriegsmann Capital Group LLC, a financial advisory firm focused on emerging companies in the life sciences field. Mr. Haen received a B.A. in Communications and Business from Loyola Marymount University.

## Compensation Discussion and Analysis

### *Overview of Executive Compensation Program*

The Compensation Committee of our board of directors has responsibility for establishing, implementing and monitoring our executive compensation program philosophy and practices. Generally speaking, the Compensation Committee determines compensation of our Chief Executive Officer and other named executive officers, and those determinations are ratified by our board of directors.

The Compensation Committee seeks to ensure that the total compensation paid to our named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to the named executive officers are similar to those provided to our other officers.

The Compensation Committee operates under a formal charter, copies of which are available on our website at [www.cytrx.com](http://www.cytrx.com), that governs its duties and conduct.

At the 2013 Annual Meeting of Stockholders, our stockholders, on a non-binding, advisory basis, approved the compensation of our executive officers as disclosed in our 2013 proxy statement. Based upon the results of this advisory vote, the Compensation Committee has determined to follow the stockholders' recommendation by continuing our present compensation policies and practices.

Throughout this Proxy Statement, the individuals included in the Summary Compensation Table below are referred to as our "named executive officers."

### *Compensation Philosophy and Objectives*

The components of our executive compensation consist of salary, annual and special cash bonuses awarded based on the Compensation Committee's subjective assessment of the achievement of corporate goals and each individual executive's job performance, stock option grants to provide executives with longer-term incentives, and occasional special compensation awards (either cash, stock or stock options) to reward extraordinary efforts or results such as the position interim results of our Phase 2b clinical trial of aldoxorubicin in STS or successful capital raising activities.

The Compensation Committee believes that an effective executive compensation program should provide base annual compensation that is reasonable in relation to individual executive's job responsibilities and reward the achievement of strategic goals of our company. We use annual and other periodic cash bonuses to reward an officer's achievement of specific goals, including goals related to the development of our drug candidates and replenishment and management of our working capital. We use employee stock options as a retention tool and as a means to align the executive's long-term interests with those of our stockholders, with the ultimate objective of affording our executives an appropriate incentive to improve stockholder value. The Compensation Committee evaluates both performance and compensation to maintain our company's ability to attract and retain excellent employees in key positions and to assure that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of comparable companies.

Each of the corporate goals established and subsequently reviewed by the Compensation Committee results from a collaboration among our named executive officers, including the leadership of our President and Chief Executive Officer and the support of our principal legal, financial, clinical, medical and business development officers. The Compensation Committee's assessment of the relative contribution of each named executive officer is based on periodic reports to our full board of directors regarding the progress of these business accomplishments and the individual efforts of our named executive officers, and year-end consultations, which include discussions of performance reviews, with our President and Chief Executive Officer that are a normal part of the Compensation Committee's compensation determinations. The Compensation Committee employs no objective measure of any individual's contribution.

The bonus amounts awarded to our eligible named executive officers are a function of their office and total compensation relative to the total compensation of our President and Chief Executive Officer, as adjusted by their relative employee evaluation, and with consideration given to comparable company data for similarly situated employees. The bonus amounts awarded to each named executive officer is set forth in the Summary Compensation Table.

Because of the size of our company, the small number of executive officers in our company, and our company's financial priorities, the Compensation Committee has not implemented any pension benefits, deferred compensation plans or other similar plans for our named executive officers.

### *Role of Executive Officers in Compensation Decisions*

The Compensation Committee annually determines the compensation of our named executive officers. Our President and Chief Executive Officer, or "CEO," typically attends all meetings of the Compensation Committee, except for executive sessions at which his compensation is determined. At the request of the Compensation Committee, our CEO provides his assessment of the performance of our named executive officers other than himself. Our CEO also takes an active part in the discussions of the compensation of named executive officers other than himself and assists in the development of a review matrix of each executive's contributions to the goals of the company that forms the basis for some compensation determinations. The Compensation Committee gives due consideration to our CEO's assessments when making determinations regarding the compensation of our named executive officers. All Compensation Committee deliberations and determinations regarding the compensation of our CEO are made without the presence of our CEO.

### *Setting Executive Compensation*

Based on the foregoing objectives, the Compensation Committee has structured the company's annual cash and incentive-based cash and non-cash executive compensation to seek to motivate our named executives to achieve our company's business goals, including goals related to the development of our drug candidates and management of working capital, to reward the executives for achieving such goals, and to retain the executives. In doing so, the Compensation Committee historically has not employed outside compensation consultants. During 2013, the Compensation Committee obtained three industry compensation surveys and used them in its compensation deliberations regarding cash and equity compensation for our executive officers. The surveys used were an Equilar survey of public companies with a market capitalization between \$50 million and \$200 million, the Radford Global Life Sciences Survey, which is a survey of public and private life sciences companies of all sizes, and a survey of public and private companies in Los Angeles provided by salary.com (which the Compensation Committee uses to adjust to geographic differences in cost of living).

The Compensation Committee utilized this data to set annual salary increases and bonus amounts for our executive officers at levels targeted at or around the third quartile of compensation amounts provided to executives at comparable companies, considering each individual's experience level related to their position with us. The Compensation Committee has no policy regarding the use of benchmarks, and we have no established policy or target for the allocation between cash and non-cash incentive compensation.

The Compensation Committee is authorized to retain its own independent advisors to assist in carrying out its responsibilities, but has not relied upon outside compensation consultants.

### *Company Performance Goals*

For 2013, the Compensation Committee and the Board of Directors approved the following performance goals:

- Complete the aldoxorubicin Phase 2b STS clinical trial and the aldoxorubicin Phase 1 pharmacokinetics clinical trial;
- Initiate the aldoxorubicin Phase 3 STS clinical trial, and obtain FDA approval of an SPA for that study;
- Complete enrollment of the tamibarotene Phase 2b clinical trial in non-small-cell lung cancer trial;
- Raise additional capital.

For 2013, the Compensation Committee determined that, with the exception of the completion of enrollment of the tamibarotene Phase 2b clinical trial (which was discontinued due to a failure to show efficacy), each of the corporate goals had either been achieved, or substantial progress towards achievement had been made, and noted the particular contributions of executive officers to the achievement of those goals.

### *Individual Performance*

The Compensation Committee reviews our executive officers' performance based on overall achievement of the corporate goals and a review of individual goals developed for each executive officer every year. The Compensation Committee, with the assistance of our CEO, determines the relative achievement of the performance goals applicable to each executive officer, and assigns a performance rating based on a set of criteria set forth in an evaluation form. No specific formula is used with respect to setting any particular element of compensation based on the individual performance metrics. The score assigned to each officer was based on a subjective assessment by our Compensation Committee members of the officer's performance against the scoring standards of:

- 1 – Consistently Exceeds Expectations
- 2 – Sometimes Exceeds Expectations
- 3 – Meets Expectations
- 4 – Sometimes Meets Expectations
- 5 – Needs Improvement

The numerical job scores, with a 1.0 being the best and 5.0 being the worst, are determined based on an initial self-assessment by the officer, which is subject to change based on an evaluation of the self-assessment by the officer's direct supervisor and on the Compensation Committee's own assessment of the officer's job performance.

For 2013, our Compensation Committee determined that the individual performance scores indicated below were merited by the officer's respective contributions to our key business achievements discussed above, as well as the performance of their day-to-day responsibilities. On an officer-by-officer basis, our Compensation Committee also considered the following:

Mr. Kriegsman's individual performance goals relate primarily to overall corporate objectives, including building stockholder value as reflected in the market capitalization of our managing working capital, managing and directing the executive management team, and successfully developing our company's operations and personnel for future success. Based on those criteria, and noting the highly positive results of our global Phase 2b clinical trial of STS aldoxorubicin for STS and progress of our other clinical trials of aldoxorubicin, the Compensation Committee gave a rating of 1.1 to Mr. Kriegsman.

Mr. Caloz's individual performance goals relate primarily to achievement of key financial objectives, such as managing and raising working capital, controlling spending, managing accounting personnel and maintaining regulatory compliance. Based on those criteria, the Compensation Committee noted Mr. Caloz's role in obtaining needed working capital, his efforts to control expenditures, the continued improvement of our accounting department, and our compliance with filing deadlines, and gave a rating of 1.5 to Mr. Caloz.

Dr. Levitt's individual performance goals relate primarily to the achievement of key strategic and clinical objectives related to our clinical research programs, including ultimate oversight of the design and execution of our clinical programs, and analysis and implementation of new clinical opportunities improve stockholder value. Based on those criteria, the Compensation Committee noted Dr. Levitt's efforts towards our achievement of our key clinical goals, including the initiation of multiple new clinical trials and the announcement of positive data from our Phase 2b clinical trial of STS aldoxorubicin for STS and, his development of strategic plans to build value, and gave a rating of 1.5 to Dr. Levitt.

Mr. Levin's individual performance goals relate primarily to the management of the company's legal risk, advice provided to the board of directors and management, and maintaining regulatory compliance. Based on those criteria, the Compensation Committee noted Mr. Levin's timely and useful advice on key corporate matters that reduced corporate risk, and his work ensuring compliance with various regulations, and gave a rating of 1.6 to Mr. Levin. Mr. Levin was also promoted to the title of Senior Vice President.

Dr. Wieland's individual performance goals relate primarily to the execution of the objectives related to our clinical development, including planning, initiation, budgeting and management of our clinical programs. Based on those criteria, the Compensation Committee noted Dr. Wieland's role in our achievement of key clinical goals, including the initiation of multiple new clinical trials, and gave a rating of 2.0 to Dr. Wieland.



### *2013 Executive Compensation Components*

For 2013, as in recent years, the principal components of compensation for the named executive officers were:

- base salary;
- annual bonuses; and
- equity incentive compensation.

#### *Base Salary*

We provide named executive officers and other employees with base salary to compensate them for services rendered during the year. Generally, the base salary element of compensation is used to recognize the experience, skills, knowledge and responsibilities required of each named executive officer, and reflects our executive officers' overall sustained performance and contributions to our business.

During its review of base salaries for executives, the Compensation Committee primarily considers:

- the negotiated terms of each executive's employment agreement, if any;
- each executive's individual performance;
- an internal review of the executive's compensation, both individually and relative to other named executive officers; and
- to a lesser extent, base salaries paid by comparable companies.

Salary levels are typically considered annually as part of our company's performance review process, as well as upon a change in job responsibility. Merit-based increases to salaries are based on our company's available resources and the Compensation Committee's assessment of the individual's performance. This assessment is based upon written evaluations of such criteria as job knowledge, communication, problem solving, initiative, goal-setting, and expense management. In 2013, the Compensation Committee considered our successful achievement or substantial progress towards our corporate performance goals, and with consideration of the challenging financial environment, and our anticipation of clinical results in 2013 and beyond, awarded increases in base salary for 2013 for most executives. Base salaries were also reviewed in light of the Equilar, Radford and salary.com survey data to validate that they were within acceptable ranges based on market salaries.

### *Annual and Special Bonuses*

As we do not generate significant revenue and have not commercially released any products, the Compensation Committee bases its discretionary annual bonus awards on the achievement of corporate and individual goals, efforts related to extraordinary transactions, effective fund-raising efforts, effective management of personnel and capital resources, and bonuses paid by comparable companies, among other criteria. Mr. Kriegsman's employment agreement entitles him to an annual cash bonus in an amount to be determined in our discretion, but not less than \$150,000, and Dr. Levitt's employment agreement provides that his bonus will not be less than \$150,000. Any cash bonuses to our other named executive officers are entirely in our discretion.

During 2013, the Compensation Committee granted Mr. Kriegsman an annual cash bonus of \$330,000, and granted cash bonuses to the other named executive officers ranging from \$100,000 to \$300,000, principally based on their efforts in helping us advance the development of aldoxorubicin.

### *Equity Incentive Compensation*

We believe that strong long-term corporate performance is achieved with a corporate culture that encourages a long-term focus by our executive officers through the use of equity awards, the value of which depends on our stock performance. We have established equity incentive plans to provide all of our employees, including our executive officers, with incentives to help align those employees' interests with the interests of our stockholders and to enable them to participate in the long-term appreciation of our stockholder value. Additionally, equity awards provide an important retention tool for key employees, as the awards generally are subject to vesting over an extended period of time based on continued service with us.

Typically, equity awards are granted annually at the end of each year based primarily on corporate performance as a whole during the preceding year. In addition, we may grant equity awards upon the occurrence of certain events during the year, for example, upon an employee's hire or achievement of a significant business objective such as positive results or other progress of our clinical trials or successful capital-raising efforts.

No formula is used in setting equity award grants and the determination of whether to grant equity awards, or the size of such equity awards, to our executive officers; rather, it involves subjective assessments by our board of directors, Compensation Committee and, with respect to executive officers other than himself, our CEO. Generally, annual equity awards are driven by our retention of experienced employees, and we consider individual performance and contributions during the preceding year to the extent our Board of Directors and Compensation Committee believe such factors are relevant. As with base salary and cash bonuses, for 2013 our Board of Directors and Compensation Committee also considered data from three surveys in determining equity award grants to our executive officers.

In March and December, 2013, respectively, the Compensation Committee granted to Mr. Kriegsman nonqualified options to purchase 74,176 share of our common stock at a price of \$2.46 per share and 925,000 shares of our common stock at a price of \$2.39 per share, which equaled the closing market prices on the dates of grant. The options vest monthly over three years, unless Mr. Kriegsman's employment is terminated by us without "cause," or by Mr. Kriegsman for "good reason," in which case they vest immediately. In addition, in connection with the annual review of our other named executive officers, the Compensation Committee also granted an aggregate of 1,100,000 stock options to those named executive officers. All of the other stock options had an exercise price equal to the closing market price on the date of grant, and also vest monthly over three years, provided that such executives remain in our employ through such monthly vesting periods. The Compensation Committee also granted Dr. Levitt 100,000 shares of CytRx Corporation restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date.

Generally speaking, we have not taken into consideration any amounts realized by our named executive officers from prior stock option or stock awards in determining whether to grant new stock options or stock awards. No named executive officers have exercised options since 2003.

#### *Retirement Plans, Perquisites and Other Personal Benefits*

Our executive officers are eligible to participate in the same group insurance and employee benefit plans as our other salaried employees. These benefits include medical, dental, vision, and disability benefits and life insurance.

We have adopted a tax-qualified employee savings and retirement plan, our 401(k) Plan, for eligible U.S. employees, including our named executive officers. Eligible employees may elect to defer a percentage of their eligible compensation in the 401(k) Plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) Plan in an amount determined by our board of directors. We did not make any matching contribution to the 401(k) Plan for 2013. Matching contributions, if any, immediately vest, as do all employee contributions. We intend the 401(k) Plan, and the accompanying trust, to qualify under Sections 401(k) and 501 of the Internal Revenue Code so that contributions by employees to the 401(k) Plan, and income earned (if any) on plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan, and so that we will be able to deduct our contributions, if any, when made. The trustee under the 401(k) Plan, at the direction of each participant, may invest the assets of the 401(k) Plan in any of a number of investment options.

We do not provide any of our executive officers with any other perquisites or personal benefits, other than benefits to Mr. Kriegsmann provided for in his employment agreement. We are required by his employment agreement to carry a life insurance policy for Mr. Kriegsmann in the amount of \$1.4 million under which Mr. Kriegsmann's designee is the beneficiary. We purchased a policy with a face value of \$2 million, on which we pay the premiums, and Mr. Kriegsmann immediately reimbursed the company for the premium relating to the \$0.6 million of additional coverage. We periodically review the levels of perquisites and other personal benefits provided to our named executive officers, but no changes to these benefits were made during 2013, and we do not expect any such changes in the foreseeable future.

#### *Employment Agreements and Severance Arrangements*

We have entered into written employment agreements with each of our named executive officers. The main purpose of these agreements is to protect the company from business risks such as competition for the executives' service, loss of confidentiality or trade secrets, and solicitation of our other employees, and to define our right to terminate the employment relationship. The employment agreements also protect the executive from termination without "cause" (as defined) and, in both Mr. Kriegsmann and Dr. Levitt's case, entitle them to resign for "good reason" (as defined). Each employment agreement was individually negotiated, so there are some minor variations in the terms among executive officers. Generally speaking, however, the employment agreements provide for termination and severance benefits that the Compensation Committee believes are consistent with industry practices for similarly situated executives. The Compensation Committee believes that the termination and severance benefits help the company retain the named executive officers by providing them with a competitive employment arrangement and protection against unknowns such as termination without "cause" that go along with the position.

In the event of termination without "cause," the named executive officers will be entitled to a lump-sum payment equal to six months of base salary (12 months in the case of Dr. Levitt and 24 months in the case of Mr. Kriegsmann). The named executive officers' agreements also provide for our continuation of medical benefits during the severance period (including, for Mr. Kriegsmann, payments for life insurance). If Mr. Kriegsmann's or Dr. Levitt's employment is terminated by us without "cause," or by Mr. Kriegsmann or Dr. Levitt for "good reason," within two years following a change of control of CytRx, they also would be entitled under their employment agreement to receive a "gross-up" payment equal to the sum of any excise tax on termination benefits (including any accelerated vesting of his options under our Plans as described below) plus any penalties and interest. In addition, if a named executive officer's employment is terminated by us without "cause" (or by Mr. Kriegsmann or Dr. Levitt for "good reason," or due to Mr. Kriegsmann's death or disability), his unvested stock options vest immediately.

#### *Change of Control Arrangements*

The company's 2000 Long-Term Incentive Plan and 2008 Stock Incentive Plan provide generally that, upon a change of control of CytRx, all unvested stock options and awards under the Plans held by plan participants, including the named executive officers, will become immediately vested and exercisable immediately prior to the effective date of the transaction. The Compensation Committee believes that such "single trigger" change of control policy is consistent with the objective of aligning the interests of the named executive officer's and of the company's stockholders by allowing the executives to participate equally with stockholders in the event of a change of control transaction.

The foregoing severance and change of control arrangements, including the quantification of the payment and benefits provided under these arrangements, are described in more detail elsewhere in this Proxy Statement under the heading "Executive Compensation – Employment Agreements and Potential Payment Upon Termination or Change in Control."

### *Ownership Guidelines*

The Compensation Committee has no requirement that each named executive officer maintain a minimum ownership interest in our company.

Our long-term incentive compensation consists solely of periodic grants of stock options to our named executive officers. The stock option program:

- links the creation of stockholder value with executive compensation;
- provides increased equity ownership by executives;
- functions as a retention tool, because of the vesting features included in all options granted by the Compensation Committee; and
- helps us to maintain competitive levels of total compensation.

We normally grant stock options to new executive officers when they join our company based upon their position with us and their relevant prior experience. The options granted by the Compensation Committee generally vest monthly over the first three years of the ten-year option term. Vesting and exercise rights generally (except in the case of Mr. Kriegsman) cease upon termination of employment (or, in the case of exercise rights, 90 days thereafter), except in the case of death (subject to a one-year limitation), disability or retirement. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents. In addition to the initial option grants, our Compensation Committee may grant additional options to retain our executives and reward, or provide incentive for, the achievement of corporate goals and strong individual performance. Our board of directors has granted our President and Chief Executive Officer the discretion to grant up to 200,000 options to employees upon joining our company, and to make grants from an additional "discretionary pool" of up to 200,000 options during each annual employee review cycle. Options are granted based on a combination of individual contributions to our company and on general corporate achievements, which may include the attainment of product development milestones (such as commencement and completion of clinical trials) and attaining other annual corporate goals and objectives. On an annual basis, the Compensation Committee assesses the appropriate individual and corporate goals for our executives and provides additional option grants based upon the achievement by the new executives of both individual and corporate goals. We expect that we will continue to provide new employees with initial option grants in the future to provide long-term compensation incentives and will continue to rely on performance-based and retention grants to provide additional incentives for current employees. Additionally, in the future, the Compensation Committee may consider awarding additional or alternative forms of equity incentives, such as grants of bonus stock, restricted stock and restricted stock units.

It is our policy to award stock options at an exercise price equal to The NASDAQ Capital Market's closing price of our common stock on the date of the grant. In certain limited circumstances, the Compensation Committee may grant options to an executive at an exercise price in excess of the closing price of the common stock on the grant date. The Compensation Committee has never granted options with an exercise price that is less than the closing price of our common stock on the grant date, nor has it granted options which are priced on a date other than the grant date. For purposes of determining the exercise price of stock options, the grant date is deemed to be the first day of employment for newly hired employees, or the date on which the Compensation Committee or the Chief Executive Officer, as applicable, approves the stock option grant to existing employees.

We have no program, practice or plan to grant stock options to our executive officers, including new executive officers, in coordination with the release of material nonpublic information. We also have not timed the release of material nonpublic information for the purpose of affecting the value of stock options or other compensation to our executive officers, and we have no plan to do so. We have no policy regarding the adjustment or recovery of stock option awards in connection with the restatement of our financial statements, as our stock option awards have not been tied to the achievement of specific financial goals.

## Tax and Accounting Implications

### *Deductibility of Executive Compensation*

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that corporations may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. We believe that compensation paid to our executive officers generally is fully deductible for federal income tax purposes.

### *Accounting for Share-Based Compensation*

Beginning on January 1, 2006, we account for share-based compensation in accordance with the requirements of ASC 718, *Compensation – Stock Compensation*. This accounting treatment has not significantly affected our compensation decisions. The Compensation Committee takes into consideration the tax consequences of compensation to the named executive officers, but tax considerations are not a significant part of the company's compensation policy.

These policies remained in place throughout 2013, and we expect to continue to follow them for the foreseeable future.

### *Compensation Committee Interlocks and Insider Participation in Compensation Decisions*

There are no "interlocks," as defined by the SEC, with respect to any member of the Compensation Committee. Max Link, Ph.D., Joseph Rubinfeld, Ph.D., Marvin R. Selter and Richard L. Wennkamp served as members of the Compensation Committee during 2013.

## Summary Compensation Table

The following table presents summary information concerning all compensation paid or accrued by us for services rendered in all capacities during 2013, 2012 and 2011 by Steven A. Kriegsmann and John Y. Caloz, who are the only individuals who served as our principal executive and financial officers during the year ended December 31, 2013, and our three other most highly compensated executive officers who were serving as executive officers as of December 31, 2013:

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Option Awards (\$)(2)(4)	All Other Compensation (\$)(3)	Total (\$)
Steven A. Kriegsmann President and Chief Executive Officer	2013	700,000	330,000	1,714,150	13,700	2,757,850
	2012	700,000	150,000	655,000	13,700	1,518,700
	2011	700,000	150,000	342,000	10,000	1,202,000
John Y. Caloz Chief Financial Officer and Treasurer	2013	350,000	100,000	256,800	—	703,800
	2012	340,000	75,000	131,000	—	546,000
	2011	335,000	45,000	45,600	—	425,600
Daniel Levitt, M.D., Ph.D. Executive Vice President and Chief Medical Officer	2013	525,000	300,000	1,483,000	—	2,308,000
	2012	450,000	150,000	186,900	—	786,900
	2011	450,000	112,500	114,000	—	676,500
Benjamin S. Levin General Counsel, General Counsel, Senior Vice President and Secretary	2013	350,000	150,000	513,600	—	1,013,600
	2012	340,000	75,000	131,000	—	546,000
	2011	340,000	55,000	57,000	—	452,000
Scott Wieland, Ph.D. Senior Vice President – Drug Development	2013	350,000	100,000	256,800	—	703,800
	2012	330,000	75,000	131,000	—	546,000
	2011	330,000	30,000	45,600	—	405,600

- (1) Bonuses to the named executive officers reported above were paid in December of the applicable year.
- (2) The values shown in this column represent the aggregate grant date fair value of equity-based awards granted during the fiscal year, in accordance with ASC 718, "Share Based-Payment." The fair value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model, based on the assumptions described in Note 12 of the Notes to Financial Statements included in this Annual Report.
- (3) This amount represents life insurance premiums.
- (4) In the case of Dr. Levitt, for 2013, this amount includes the aggregate grant date fair value of a restricted stock award granted during the fiscal 2013, as well as the aggregate grant date fair value of an equity-based award granted during the fiscal year. The restricted stock awarded in 2013 was issued in January 2014. For 2012, the amount represents the aggregate grant date fair value of a restricted stock award granted and issued during the fiscal year.

## 2013 Grants of Plan-Based Awards

In 2013, we granted stock options to our named executive officers under our 2008 Stock Incentive Plan as follows:

### 2013 Grants of Plan-Based Awards

Name	Grant Date	All Other Option Awards (# of CytRx Shares)	Exercise Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$)
Steven A. Kriegsman	12/10/2013	925,000(1)	\$ 2.39	\$ 1,583,600
President and Chief Executive Officer	3/08/2013	74,176(1)	\$ 2.46	\$ 130,550
John Y. Caloz	12/10/2013	150,000(1)	\$ 2.39	\$ 256,800
Chief Financial Officer and Treasurer				
Daniel Levitt, M.D., Ph.D.	12/10/2013	500,000(1)	\$ 2.39	\$ 856,000
Executive Vice President and Chief Medical Officer				
Benjamin S. Levin	12/10/2013	300,000(1)	\$ 2.39	\$ 513,600
General Counsel, Senior Vice President and Secretary				
Scott Wieland, Ph.D.	12/10/2013	150,000(1)	\$ 2.39	\$ 256,800
Senior Vice President – Drug Development				

- (1) Options vest in 36 equal monthly installments, subject to the option holder's remaining in our continuous employ through such dates. If employment is terminated by us without "cause" (or, in the cases of Mr. Kriegsman and Dr. Levitt, for "good reason"), unvested options will immediately vest in full.

We also granted to Dr. Levitt 100,000 shares of CytRx Corporation restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date. The shares of restricted stock granted to Dr. Levitt had a grant date fair value of \$627,000.

## 2000 Long-Term Incentive Plan and 2008 Stock Incentive Plan

The purpose of our 2000 Long-Term Incentive Plan, or 2000 Plan, and our 2008 Stock Incentive Plan, or 2008 Plan, is to promote our success and enhance our value by linking the personal interests of our employees, officers, consultants and directors to those of our stockholders. The 2000 Plan was originally adopted by our Board of Directors on August 24, 2000 and by our stockholders on June 7, 2001, with certain amendments to the Plan having been subsequently approved by our Board of Directors and stockholders. On May 11, 2009, our Board of Directors approved an amendment to the 2000 Plan to allow for a one-time stock option re-pricing program for our employees. The 2008 Plan was adopted by our Board of Directors on November 21, 2008 and by our stockholders on July 1, 2009.

### 2000 Plan and 2008 Plan Descriptions

The 2000 Plan and the 2008 Plan, or the Plans, are administered by the Compensation Committee of our Board of Directors. The Compensation Committee has the power, authority and discretion to:

- designate participants;
- determine the types of awards to grant to each participant and the number, terms and conditions of any award;
- establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Plan; and
- make all other decisions and determinations that may be required under, or as the Compensation Committee deems necessary or advisable to administer, the Plan.

### Awards under the 2000 Plan

The 2000 Plan expired on August 6, 2010, and thus no shares are available for future grant under the 2000 Plan.

### Awards under the 2008 Plan

The following is a summary description of financial instruments that may be granted to participants in our 2008 Plan by the Compensation Committee of our Board of Directors. The Compensation Committee to date has only granted stock options to participants in the 2008 Plan.

*Stock Options.* The Compensation Committee is authorized to grant both incentive stock options and non-qualified stock options. The terms of any incentive stock option must meet the requirements of Section 422 of the Internal Revenue Code. The exercise price of an option may not be less than the fair market value of the underlying stock on the date of grant, and no option may have a term of more than 10 years from the grant date.

*Restricted Stock.* The Compensation Committee may make awards of restricted stock, which will be subject to forfeiture to us and other restrictions as the Compensation Committee may impose.



*Stock Bonus Awards.* The Compensation Committee may make awards of stock bonus awards in consideration for past services actually rendered, which will be subject to repurchase by us and such other terms as the Compensation Committee may impose.

*Limitations on Transfer; Beneficiaries.* Stock Option awards under the 2008 Plan may generally not be transferred or assigned by participants other than by will or the laws of descent and distribution. Awards of Restricted Stock or Stock Bonus awards may be transferred or assigned only upon such terms and conditions as set forth in the award agreement or as determined by the Compensation Committee in its discretion.

*Acceleration Upon Certain Events.* In the event of a "Corporate Transaction" as defined in the 2008 Plan, all outstanding options will become fully vested, subject to the holder's consent with respect to incentive stock options, and exercisable and all restrictions on all outstanding awards will lapse. Unless the surviving or acquiring entity assumes the awards in the Corporate Transaction or the stock award agreement provides otherwise, the stock awards will terminate if not exercised at or prior to the Corporate Transaction.

#### **Termination and Amendment**

Our Board of Directors or the Compensation Committee may, at any time and from time to time, terminate or amend the 2008 Plan without stockholder approval; provided, however, that our board or the Compensation Committee may condition any amendment on the approval of our stockholders if such approval is necessary or deemed advisable with respect to tax, securities or other applicable laws, policies or regulations. No termination or amendment of the Plans may adversely affect any award previously granted without the written consent of the participants affected. The Compensation Committee may amend any outstanding award without the approval of the participants affected, except that no such amendment may diminish or impair the value of an award.

# Holdings of Previously Awarded Equity

Equity awards held as of December 31, 2013 by each of our named executive officers were issued under our 2000 Plan and 2008 Plan. The following table sets forth outstanding equity awards held by our named executive officers as of December 31, 2013:

## 2013 Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options		Option Awards	
	Exercisable	Unexercisable	Exercisable	Unexercisable
			(#)	(#)
Steven A. Kriegsmann President and Chief Executive Officer	—	(1 )	925,000	—
	18,566	(1 )	55,610	—
	166,650	(1 )	333,350	—
	142,843	(1 )	71,443	—
	107,143		—	—
	107,143		—	—
	42,857		—	—
	64,286		—	—
	50,000		—	—
	28,571		—	—
	42,857		—	—
John Y. Caloz Chief Financial Officer and Treasurer	—	(1 )	150,000	—
	33,330	(1 )	66,670	—
	19,045	(1 )	9,526	—
	7,143		—	—
	17,857		—	—
	7,143		—	—
	7,143		—	—
	3,571		—	—
	3,571		—	—
	10,714		—	—
Daniel Leviitt, M.D., Ph.D. Executive Vice President and Chief Medical Officer	—	(3 )	100,000	—
	—	(1 )	500,000	—
	46,751	(4 )	—	—
	47,615	(1 )	23,814	—
	35,714		—	—
	71,429		—	—
Benjamin S. Levin General Counsel, Sr. Vice President — Legal Affairs and Secretary	—	(1 )	300,000	—
	33,330	(1 )	66,670	—
	23,807	(1 )	11,907	—
	14,286		—	—
	14,286		—	—
	14,286		—	—
	14,286		—	—
	14,286		—	—
	12,857		—	—
	21,429		—	—
	22,857		—	—
Scott Wieland, Ph.D. Senior Vice President — Drug Development	—	(1 )	150,000	—
	33,330	(1 )	66,670	—
	19,045	(1 )	9,526	—
	14,286		—	—
	14,286		—	—
	4,286		—	—
	7,143		—	—
	14,286		—	—
	3,571		—	—

- (1) These options vest in 36 equal monthly installments, subject to the option holder's remaining in our continuous employment through such dates. If employment is terminated by us without "cause" (or, in the case of Mr. Kriegsmann and Dr. Leviitt, for "good reason"), unvested options will immediately vest in full.
- (2) The reported options with prices of \$8.05 were re-priced to that exercise price on July 1, 2009.
- (3) Represents 100,000 shares of restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Leviitt remains employed by us on each such date. These shares were awarded in December, 2013, but issued in January, 2014.
- (4) Represents restricted stock fully-vested at December 31, 2013. On December 31, 2012, Dr. Leviitt was granted 100,000 of restricted stock. We reacquired 53,249 shares in order to satisfy income tax withholding obligations, as permitted under the agreement.

## Employment Agreements and Potential Payment upon Termination or Change in Control

### *Employment Agreement with Steven A. Kriegsman*

Mr. Kriegsman is employed as our Chief Executive Officer and President pursuant to a fourth amended and restated employment agreement dated as of May 10, 2012 that was to expire on December 31, 2015. On March 4, 2014, the employment agreement was amended to extend the expiration date by three years to December 31, 2018. The employment agreement will automatically renew following the expiration date for an additional one-year period, unless either Mr. Kriegsman or we elect not to renew it.

In connection with the amendment to his employment agreement, we paid Mr. Kriegsman a cash bonus of \$300,000.

Under his employment agreement as amended, Mr. Kriegsman is entitled to receive an annual base salary of \$850,000. Our board of directors (or its Compensation Committee) will review the base salary annually and may increase (but not decrease) it in its sole discretion. In addition to his annual salary, Mr. Kriegsman is eligible to receive an annual bonus as determined by our board of directors (or its Compensation Committee) in its sole discretion, but not to be less than \$150,000. Pursuant to his employment agreement with us, we have agreed that he shall serve on a full-time basis as our Chief Executive Officer and President and that he may continue to serve as Chairman of the Kriegsman Group only so long as necessary to complete certain current assignments.

Mr. Kriegsman is eligible to receive grants of options to purchase shares of our common stock. The number and terms of those options, including the vesting schedule, will be determined by our board of directors (or its Compensation Committee) in its sole discretion.

Under Mr. Kriegsman's employment agreement, we have agreed that, if he is made a party, or threatened to be made a party, to a suit or proceeding by reason of his service to us, we will indemnify and hold him harmless from all costs and expenses to the fullest extent permitted or authorized by our certificate of incorporation or bylaws, or any resolution of our board of directors, to the extent not inconsistent with Delaware law. We also have agreed to advance to Mr. Kriegsman such costs and expenses upon his request if he undertakes to repay such advances if it ultimately is determined that he is not entitled to indemnification with respect to the same. These employment agreement provisions are not exclusive of any other rights to indemnification to which Mr. Kriegsman may be entitled and are in addition to any rights he may have under any policy of insurance maintained by us.

In the event we terminate Mr. Kriegsman's employment without "cause" (as defined), or if Mr. Kriegsman terminates his employment with "good reason" (as defined), (i) we have agreed to pay Mr. Kriegsman a lump-sum equal to his salary and prorated minimum annual bonus through to his date of termination, plus his salary and minimum annual bonus for a period of two years after his termination date, or until the expiration of the amended and restated employment agreement, whichever is later, (ii) he will be entitled to immediate vesting of all stock options or other awards based on our equity securities, and (iii) he will also be entitled to continuation of his life insurance premium payments and continued participation in any of our health plans through to the later of the expiration of the amended and restated employment agreement or 24 months following his termination date. Mr. Kriegsman will have no obligation in such events to seek new employment or offset the severance payments to him by any compensation received from any subsequent reemployment by another employer.

Under Mr. Kriegsman's employment agreement, he and his affiliated company, The Kriegsman Group, are to provide us during the term of his employment with the first opportunity to conduct or take action with respect to any acquisition opportunity or any other potential transaction identified by them within the biotech, pharmaceutical or health care industries and that is within the scope of the business plan adopted by our board of directors. Mr. Kriegsman's employment agreement also contains confidentiality provisions relating to our trade secrets and any other proprietary or confidential information, which provisions shall remain in effect for five years after the expiration of the employment agreement with respect to proprietary or confidential information and for so long as our trade secrets remain trade secrets.

*Potential Payment upon Termination or Change in Control for Steven A. Kriegsman*

Mr. Kriegsman's employment agreement contains no provision for payment to him in the event of a change in control of CytRx. If, however, a change in control (as defined in our 2000 Plan or our 2008 Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman's employment is terminated by us without "cause" or by him for "good reason" (each as defined in his employment agreement), then, in addition to the severance benefits described above, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman resulting from the termination of his employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we have agreed to pay Mr. Kriegsman, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax.

*Employment Agreement with Daniel Levitt, M.D., Ph.D.*

Daniel Levitt is employed as our Executive Vice President and Chief Medical Officer pursuant to an employment agreement dated as of January 1, 2014 that is to expire on December 31, 2014. Dr. Levitt is entitled under his employment agreement to receive an annual base salary of \$525,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion, but not to be less than \$150,000. In the event we terminate Dr. Levitt's employment without cause or Dr. Levitt resigns with good reason (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to one year's salary under his employment agreement.

In connection with his new employment agreement, on January 1, 2014, we granted to Dr. Levitt 100,000 shares of CytRx Corporation restricted stock, of which 50,000 shares will vest on June 30, 2014, and the remaining 50,000 shares will vest over the subsequent six months, provided that Dr. Levitt remains employed by us on each such date.

*Employment Agreement with John Y. Caloz*

John Y. Caloz is employed as our Chief Financial Officer and Treasurer pursuant to an employment agreement dated as of January 1, 2014 that was to expire on December 31, 2014. On March 4, 2014, the employment agreement was amended to extend the expiration date for one year to December 31, 2015. Mr. Caloz is entitled under his employment agreement to receive an annual base salary of \$350,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Caloz's employment without cause (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' salary under his employment agreement.

*Employment Agreement with Scott Wieland, Ph.D.*

Scott Wieland is employed as our Senior Vice President — Drug Development pursuant to an employment agreement dated as of January 1, 2014 that was to expire on December 31, 2014. On March 4, 2014, the employment agreement was amended to extend the expiration date for one year to December 31, 2015. Dr. Wieland is paid an annual base salary of \$350,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Dr. Wieland's employment without "cause" (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' base salary.

*Employment Agreement with Benjamin S. Levin*

Benjamin S. Levin is employed as our Senior Vice President — Legal Affairs, General Counsel and Secretary pursuant to an employment agreement dated as of January 1, 2014 that was to expire on December 31, 2014. On March 4, 2014, the employment agreement was amended to extend the expiration date for one year to December 31, 2015. Mr. Levin is paid an annual base salary of \$350,000 and is eligible to receive an annual bonus as determined by our board of directors (or our Compensation Committee) in its sole discretion. In the event we terminate Mr. Levin's employment without "cause" (as defined), we have agreed to pay him a lump-sum equal to his accrued but unpaid salary and vacation, plus an amount equal to six months' base salary.

## Quantification of Termination Payments and Benefits

The table below reflects the amount of compensation to each of our named executive officers in the event of termination of such executive's employment without "cause" or his resignation for "good reason," termination following a change in control and termination upon the executive's death or permanent disability. The named executive officers are not entitled to any payments other than accrued compensation and benefits in the event of their voluntary resignation. The amounts shown in the table below assume that such termination was effective as of December 31, 2013, and thus includes amounts earned through such time, and are estimates only of the amounts that would be payable to the executives. The actual amounts to be paid will be determined upon the occurrence of the events indicated.

### Termination Payments and Benefits

Termination w/o Cause or, for Steven A. Kriegsman and Dr. Daniel Levitt, for Good Reason

Name	Benefit	Before Change in Control (\$)	After Change in Control (\$)	Death (\$)	Disability (\$)	Change in Control (\$)
Steven A. Kriegsman President and Chief Executive Officer	Severance Payment(4)	2,000,000	2,000,000	2,000,000	2,000,000	—
	Stock Options (1)	5,700,000	5,700,000	5,700,000	5,700,000	5,700,000
	Health Insurance (2)	80,200	80,200	80,200	80,200	80,200
	Life Insurance	13,700	13,700	—	13,700	—
	Bonus	300,000	300,000	300,000	300,000	—
	Tax Gross Up (3)	—	—	—	—	—
	Severance Payment(4)	175,000	350,000	—	—	—
John Y. Caloz Chief Financial Officer	Stock Options (1)	—	920,000	—	—	920,000
	Severance Payment(4)	675,000	1,350,000	—	—	—
Daniel Levitt, M.D., Ph.D. Executive Vice President and Chief Medical Officer	Stock Options (1)	—	2,040,000	—	—	2,040,000
	Health Insurance	—	3,700	—	—	3,700
Benjamin S. Levin General Counsel, Senior Vice President and Secretary	Severance Payment(4)	175,000	350,000	—	—	—
	Stock Options (1)	—	1,510,000	—	—	1,510,000
Scott Wieland, Ph.D. Senior Vice President -- Drug Development	Severance Payment(4)	175,000	350,000	—	—	—
	Stock Options (1)	—	920,000	—	—	920,000

- (1) Represents the aggregate value of stock options that vest and become exercisable immediately upon each of the triggering events listed as if such events took place on December 31, 2013, determined by the aggregate difference between the stock price as of December 31, 2013 and the exercise prices of the underlying options.
- (2) Represents the cost as of December 31, 2013 for the family health benefits provided to Mr. Kriegsman for a period of two years.
- (3) Each of Mr. Kriegsman's and Dr. Levitt's employment agreements provides that if a change in control (as defined in our 2000 Plan or our 2008 Plan) occurs during the term of the employment agreement, and if, during the term and within two years after the date on which the change in control occurs, Mr. Kriegsman's or Dr. Levitt's employment, respectively, is terminated by us without "cause" or by him for "good reason" (each as defined in their respective employment agreement), then, to the extent that any payment or distribution of any type by us to or for the benefit of Mr. Kriegsman or Dr. Levitt, respectively, resulting from the termination of their respective employment is or will be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we will pay Mr. Kriegsman or Dr. Levitt, respectively, prior to the time the excise tax is payable with respect to any such payment (through withholding or otherwise), an additional amount that, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of (i) the excise tax on such payments plus (ii) any penalty and interest assessments associated with such excise tax. Based on each of Mr. Kriegsman's and Dr. Levitt's past compensation and the estimated payment that would result from a termination of employment following a change in control, we have estimated that a gross-up payment would not be required. "Good reason" as defined in each of Mr. Kriegsman's and Dr. Levitt's employment agreement includes any change in Mr. Kriegsman's or Dr. Levitt's duties or title, as applicable, that are inconsistent with their respective positions.
- (4) Severance payments are prescribed by our employment agreements with the named executive officers and represent a factor of their annual base compensation ranging from six months to two years.

## Compensation of Directors

We use a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on our board of directors. Directors who also are employees of our company currently receive no compensation for their service as directors or as members of board committees. In setting director compensation, we consider the significant amount of time that directors dedicate to the fulfillment of their director responsibilities, as well as the competency and skills required of members of our board. The directors' current compensation schedule has been in place since December 2013. The directors' annual compensation year begins with the annual election of directors at the annual meeting of stockholders. The annual retainer year period has been in place for directors since 2003. Periodically, our board of directors reviews our director compensation policies and, from time to time, makes changes to such policies based on various criteria the board deems relevant.

Our non-employee directors receive a quarterly retainer of \$6,000 (plus an additional \$12,500 for the Chairman of the Board, \$5,000 for the Chairmen of the Audit Committee and Compensation Committee, and \$1,500 for the Chairman of the Nomination and Governance Committee), a fee of \$3,000 for each board meeting attended (\$750 for board actions taken by unanimous written consent), \$2,000 for each meeting of the Audit Committee and Compensation Committee attended, and \$1,000 for each meeting of the Nomination and Governance Committee meeting attended. Non-employee directors who serve as the chairman of a board committee receive an additional \$2,000 for each meeting of the Nomination and Governance Committee attended and an additional \$2,500 for each meeting of the Audit Committee or the Compensation Committee attended. In December 2013, we also granted ten-year stock options to purchase 180,000 shares of our common stock to each non-employee director at an exercise price equal to the market value of our common stock on the date of grant. The options vested, in full, upon grant.

The following table sets forth the compensation paid to our directors other than our Chief Executive Officer for 2013:

Director Compensation Table

Name (1)	Fees Earned or Paid in Cash (\$ (2)	Option Awards (\$ (3)	Total (\$)
Max Link, Ph.D., Chairman	104,000	363,060	467,060
Marvin R. Selter, Vice Chairman	86,000	363,060	449,060
Louis Ignarro, Ph.D., Director	39,000	363,060	402,060
Joseph Rubinfeld, Ph.D., Director	62,000	363,060	425,060
Richard L. Wennekamp, Director	66,000	363,060	429,060

- (1) Steven A. Kriegsman does not receive additional compensation for his role as a Director. For information relating to Mr. Kriegsman's compensation as President and Chief Executive Officer, see the Summary Compensation Table above.
- (2) The amounts in this column represent cash payments made to Non-Employee Directors for annual retainer fees, committee and/or chairmanship fees and meeting fees during the year.
- (3) In December 2013, we granted stock options to purchase 180,000 shares of our common stock to each non-employee director at an exercise price equal to the current market value of our common stock on the date of grant, which had an aggregate grant date fair value of \$363,060 calculated in accordance with FASB ASC Topic 718. The amount recognized for these awards was calculated using the Black Scholes option-pricing model, and reflect grants from our 2008 Long-Term Incentive Plan, which is described in Note 12 of the Notes to Consolidated Financial Statements.

#### *Joseph Rubinfeld, Ph.D. Consulting Agreement*

On December 2, 2008, we entered into a written consulting agreement with Joseph Rubinfeld, Ph.D., under which Dr. Rubinfeld agrees to serve as our Chief Scientific Advisor. In exchange, we granted to Dr. Rubinfeld under our 2008 Stock Incentive Plan a ten-year stock option to purchase up to 50,000 shares of our common stock at an exercise price of \$2.45 per share, which equaled the market price of our common stock as of the grant date. The fair value of this option grant was \$116,900. The stock option vested immediately upon grant as to 7,143 of the option shares and vested as to the remaining option shares in 36 equal monthly installments, and is now fully vested. The consulting agreement is terminable at any time by either party upon notice to the other party.

On December 10, 2012, we entered into an amendment to our written consulting agreement with Dr. Rubinfeld, Ph.D. to provide for the one-time grant to Dr. Rubinfeld under our 2008 Plan of an option to purchase 30,000 shares of our common stock at an exercise price of \$1.83 per share, which was equal to the market price of our common stock on the grant date. The option has a term of ten years and is fully vested. The fair grant date value of this option grant was \$47,400.

Joseph Rubinfeld, Ph.D. Consulting Agreement

#### **Code of Ethics**

We have adopted a Code of Ethics applicable to all employees, including our principal executive officer, principal financial officer and principal accounting officer, a copy of which is available on our website at [www.cytrx.com](http://www.cytrx.com). We will furnish, without charge, a copy of our Code of Ethics upon request. Such requests should be directed to Attention: Corporate Secretary, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California, or by telephone at 310-826-5648.

#### **Board Leadership Structure**

Our board of directors has placed the responsibilities of Chairman with an independent non-employee member of the board, which we believe provides better accountability between the board and our management team. We believe it is beneficial to have an independent Chairman whose sole responsibility to us is guiding our board members as they provide leadership to our executive team. Our Chairman is responsible for communication among the directors, setting the board meeting agendas in consultation with the President and Chief Executive Officer and presiding at board meetings, executive sessions and stockholder meetings. This delineation of duties allows the President and Chief Executive Officer to focus his attention on managing the day-to-day business of the company. We believe this structure provides strong leadership for our board, while positioning our President and Chief Executive Officer as the leader of the company in the eyes of our employees and other stakeholders.

#### *Board of Directors' Role in Risk Oversight*

In connection with its oversight responsibilities, our board of directors, including the Audit Committee, periodically assesses the significant risks that we face. These risks include, but are not limited to, financial, technological, competitive, and operational risks. Our board of directors administers its risk oversight responsibilities through our Chief Executive Officer and Chief Financial Officer, who review and assess the operations of our business as well as operating management's identification, assessment and mitigation of the material risks affecting our operations.



**PROPOSAL 2**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 entitles our stockholders to vote to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with SEC rules.

Please refer to the discussion under "Executive Compensation" for a description of the compensation of our named executive officers.

We are asking for stockholder approval of the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with SEC rules, which include the compensation disclosed under "Executive Compensation—Compensation Discussion and Analysis," the compensation tables and the related narrative discussion following the compensation tables. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the compensation policies and practices described in this Proxy Statement.

This vote is advisory in nature and therefore not binding on us, our Compensation Committee or our board of directors. Our board and our Compensation Committee, however, value the opinions of our stockholders. To the extent there is any significant vote against the named executive officer compensation as disclosed in this Proxy Statement, we will consider the stockholders' concerns, and our Compensation Committee will evaluate whether any actions are necessary to address those concerns.

**Vote Required**

The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to be voted on Proposal 2 at the Annual Meeting is required for advisory approval of the proposal.

**Recommendation of the board of directors**

**OUR BOARD RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.**

---

### PROPOSAL 3

#### RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

##### Appointment of BDO USA, LLP ("BDO")

BDO currently serves as our independent registered public accounting firm and has audited our financial statements for each of the years ended December 31, 2013, 2012 and 2011. BDO does not have and has not had any financial interest, direct or indirect, in CytRx, and does not have and has not had any connection with CytRx except in its professional capacity as our independent auditors.

Our Audit Committee has reappointed BDO to serve as our independent registered public accounting firm for the year ending December 31, 2014. The ratification by our stockholders of the appointment of BDO is not required by law or by our Restated Bylaws. Our board of directors, consistent with the practice of many publicly held corporations, is nevertheless submitting this appointment for ratification by the stockholders. If this appointment is not ratified at the Annual Meeting, the Audit Committee intends to reconsider its appointment of BDO. Even if the appointment is ratified, the Audit Committee in its sole discretion may direct the appointment of a different independent registered public accounting firm at any time during the fiscal year if the Committee determines that such a change would be in the best interests of CytRx and its stockholders.

Any material non-audit services to be provided by BDO are subject to the prior approval of the Audit Committee. In general, the Audit Committee's policy is to grant such approval where it determines that the non-audit services are not incompatible with maintaining the independent registered public accounting firm's independence and there are cost or other efficiencies in obtaining such services from the independent registered public accounting firm as compared to other possible providers.

We expect that representatives of BDO will be present at the Annual Meeting, will have an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

##### Audit Fees

The fees for 2013 and 2012 from BDO for professional services rendered for the audit of our annual consolidated financial statements and internal controls over financial reporting, the review of quarterly financial statements and of our shelf-Registration Statements on Form S-3 and related matters were \$391,730 and \$376,300, respectively.

##### Tax Fees

The aggregate fees billed by BDO for professional services for tax compliance, tax advice and tax planning were \$27,225 and \$23,325 for 2013 and 2012, respectively.

##### All Other Fees

No other services were rendered by BDO for 2013 and 2012.

##### Pre-Approval Policies and Procedures

It is the policy of our Audit Committee that all services to be provided by our independent registered public accounting firm, including audit services and permitted audit-related and non-audit services, must be pre-approved by our Audit Committee. Our Audit Committee pre-approved all services, audit and non-audit, provided to us by BDO for 2013 and 2012.

##### Vote Required

The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to be voted on this proposal at the Annual Meeting is required for approval of this proposal.

##### Recommendation of Our board of directors

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

## STOCKHOLDER PROPOSALS

Any proposal which a stockholder intends to present in accordance with Rule 14a-8 of the Securities Exchange Act of 1934 at our next Annual Meeting of Stockholders to be held in 2015 must be received by us on or before February 23, 2015. Notice of stockholder proposals submitted outside of Rule 14a-8 of the Exchange Act will be considered untimely if received by us after that date. Only proper proposals under Rule 14a-8 which are timely received will be included in the Proxy Statement in 2015.

## OTHER MATTERS

### Expenses of Solicitation

We are soliciting proxies on behalf of our board of directors. This solicitation is being made by mail, but also may be made by telephone or in person. We and our directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means. These persons will not be compensated for these solicitation activities.

We have engaged Alliance Advisors to assist in the solicitation of proxies. We will pay a fee of \$8,000 plus reasonable out-of-pocket charges and a flat fee of \$5.00 per outbound proxy solicitation call.

We will ask banks, brokers and other institutions, nominees and fiduciaries to forward our proxy materials to their principals and to obtain their authority to execute proxies and voting instructions and will reimburse them for their reasonable expenses.

### Delivery of Proxy Materials to Households

Some banks, brokers, and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this notice and proxy statement may have been sent to multiple stockholders in your household. If you would prefer to receive separate copies of a proxy statement or annual report either now or in the future, please contact your bank, broker or other nominee. Upon written request to us at CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, Attention: Corporate Secretary, or by telephone at 310-826-5648, we will promptly deliver without charge, upon oral or written request, a separate copy of the proxy material to any stockholder residing at an address to which only one copy was mailed. In addition, stockholders sharing an address can request delivery of a single copy of annual reports or proxy statements if they are receiving multiple copies upon written or oral request to us at the address and telephone number stated above.

### Miscellaneous

Our management does not intend to present any other items of business and is not aware of any matters other than those set forth in this Proxy Statement that will be presented for action at the Annual Meeting. However, if any other matters properly come before the Annual Meeting, the persons named in the enclosed proxy intend to vote the shares of our common stock that they represent in accordance with their best judgment.

### Annual Report

Accompanying this Proxy Statement is a letter of transmittal from our President and Chief Executive Officer, along with a copy of our Annual Report on Form 10-K, without exhibits, for the year ended December 31, 2013 filed with the SEC. These accompanying materials constitute our annual report to stockholders. We will provide, without charge upon written request, a further copy of our Annual Report on Form 10-K, including the financial statements and the financial statement schedules. Copies of the Form 10-K exhibits also are available without charge. Stockholders who would like such copies should direct their requests in writing to: CytRx Corporation, 11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049, Attention: Corporate Secretary.

By Order of the board of directors

/s/ BENJAMIN S. LEVIN

Benjamin S. Levin  
Corporate Secretary

May 1, 2014

PROXY

# CytRx Corporation

11726 San Vicente Boulevard, Suite 650, Los Angeles, California 90049  
Annual Meeting of Stockholders

The undersigned stockholder of CytRx Corporation (the "Company") hereby revokes all prior proxies and constitutes and appoints Steven A. Kriegsman and Benjamin S. Levin, or either one of them, as proxy and attorney-in-fact, each with full power of substitution, to vote the number of shares of common stock of the Company that the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders to be held at the Hotel Bel Air, 701 Stone Canyon Road, Los Angeles, California at 10:00 A.M., local time, on Tuesday, June 24, 2014, and at any postponement or adjournment thereof (the "Annual Meeting"), upon the proposals described in the Notice of Annual Meeting of Stockholders and Proxy Statement, both dated May 1, 2014, the receipt of which is acknowledged, in the manner specified below:

1. *Election of Directors.* On the Company's proposal to elect as directors the following nominees for Class I director to serve until the 2017 Annual Meeting of Stockholders of the Company and until his respective successor is duly elected and qualified:

Steven A. Kriegsman	For £	Withhold Authority £
Marvin R. Selter	For £	Withhold Authority £

2. *Advisory Vote on Executive Compensation.* On the proposal for an advisory vote to approve the compensation of our named executive officers as disclosed in the Proxy Statement:

For	£	Against	£	Abstain	£
-----	---	---------	---	---------	---

3. *Appointment of Independent Registered Public Accounting Firm.* On the proposal to ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014:

For	£	Against	£	Abstain	£
-----	---	---------	---	---------	---

This Proxy, if properly executed and returned prior to the Annual Meeting, will be voted in the manner directed above. If no direction is made, this Proxy will be voted "FOR" each of Proposals 1-3 and in the proxy holder's discretion on all other matters that may properly come before the Annual Meeting or any adjournment or postponement thereof.

Please sign this Proxy exactly as your name appears on your stock certificate and date it below. Where shares are held jointly, each stockholder must sign. When signing as executor, administrator, trustee, or guardian, please give your full title as such. If a corporation, please sign using the full corporate name by president or other authorized officer, indicating the officer's title. If a partnership, please sign in the partnership's name by an authorized person.

Shares Held:

Signature of Stockholder

Signature of Stockholder (if held jointly)

Dated: \_\_\_\_\_, 2014

Dated: \_\_\_\_\_, 2014

THIS PROXY IS SOLICITED ON BEHALF OF CYTRX CORPORATION'S BOARD OF DIRECTORS AND MAY BE REVOKED BY THE STOCKHOLDER PRIOR TO ITS EXERCISE.