CARROLS RESTAURANT GROUP, INC.
Form S-1/A
December 08, 2006
Table of Contents

As filed with the Securities and Exchange Commission on December 8, 2006

Registration No. 333-137524

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 6

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CARROLS RESTAURANT GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**5812**	**16-0958146**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

968 James Street

Syracuse, New York 13203

(315) 424-0513

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Joseph A. Zirkman, Esq.

Vice-President, General Counsel, Secretary

Carrols Restaurant Group, Inc.

968 James Street

Syracuse, New York 13203

(315) 424-0513

(Name, Address Including Zip Code and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Wayne A. Wald, Esq.	**Eric S. Haueter, Esq.**
Evan L. Greebel, Esq.	**James O Connor, Esq.**
Katten Muchin Rosenman LLP	**Sidley Austin LLP**
575 Madison Avenue	**787 Seventh Avenue**
New York, New York 10022	**New York, New York 10019**
(212) 940-8800	**(212) 839-5300**

Approximate date of Commencement of Proposed Sale to the Public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common Stock, par value $.01 per share	17,250,000	$ 276,000,000	$ 29,532

(1) Includes shares of common stock that the underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(3) Pursuant to Rule 457(p) promulgated under the Securities Act of 1933, as amended, $29,532 of the registration fee paid by the registrant in connection with its filing of a Registration Statement on Form S-1 on June 22, 2004, Registration No. 333-116737 (which registration statement was withdrawn on October 25, 2004), shall offset in its entirety the registration fee currently due.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

EXPLANATORY NOTE

This Registration Statement on Form S-1 (Registration No. 333-137524) was originally filed with the name of the registrant as Carrols Holdings Corporation. On November 21, 2006, the registrant amended its Restated Certificate of Incorporation and changed its name to Carrols Restaurant Group, Inc. from Carrols Holdings Corporation. All references to the registrant in this registration statement have been changed to Carrols Restaurant Group, Inc.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell, nor does it seek an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED DECEMBER 8, 2006

15,000,000 Shares

Carrols Restaurant Group, Inc.

Common Stock

This is Carrols Restaurant Group, Inc. s initial public offering of common stock. We are offering 5,666,666 shares of our common stock and the selling stockholders identified in this prospectus are offering an additional 9,333,334 shares of our common stock. We currently estimate that the initial public offering price will be between $14.00 and $16.00 per share. We will not receive any proceeds from the sale of the shares offered by the selling stockholders.

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on The NASDAQ Global Market under the symbol TAST .

Investing in our common stock involves risks. See Risk Factors beginning on page 14.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Carrols Restaurant Group, Inc.	$	$
Proceeds to the Selling Stockholders	$	$

Delivery of the shares of our common stock will be made on or about , 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The selling stockholders have granted the underwriters an option to purchase a maximum of 2,250,000 additional shares of our common stock to cover over-allotments, if any, exercisable at any time until 30 days after the date of this prospectus.

Wachovia Securities **Banc of America Securities LLC**

RBC Capital Markets **Raymond James**

The date of this prospectus is , 2006.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

TABLE OF CONTENTS

You should rely only upon the information contained in this prospectus or in any free writing prospectus that we may provide you in connection with this offering. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell or seeking offers to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus and you should assume that the information appearing in any free writing prospectus that we may provide you in connection with this offering is accurate only as of the date of that free writing prospectus. Our business, financial condition, results of operations and prospects may have changed since those dates.

No action has or will be taken in any jurisdiction by us or by any underwriter that would permit a public offering of the common stock or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. In this prospectus references to dollars and $ are to United States dollars.

This prospectus has been prepared on the basis that all offers of our common stock within the European Economic Area will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area, from the requirement to produce a prospectus for offers of our common stock. Accordingly, any person making or intending to make any offer within the European Economic Area of shares of our common stock which are the subject of the offering contemplated in this prospectus should only do so in circumstances in which no obligation arises for us or any of the underwriters to produce a prospectus for such offer. Neither we nor any of the underwriters has authorized, nor do we or they authorize, the making of any offer of our common stock in the European Economic Area through any financial intermediary, other than offers made by underwriters which constitute the final offering of our common stock contemplated in this prospectus.

Table of Contents

Industry and Market Data

In this prospectus we refer to information, forecasts and statistics regarding the restaurant industry. Unless otherwise indicated, all restaurant industry data in this prospectus refers to the U.S. restaurant industry and is taken from or based upon the Technomic Information Services (Technomic) report entitled 2006 Technomic Top 500 Chain Restaurant Report. In addition, statements in this prospectus concerning the increasing disposable income of the Hispanic consumer base are based on an article appearing in the third quarter 2004 edition of Georgia Business and Economic Conditions , a publication of the Terry College of Business, The University of Georgia. In this prospectus we also refer to information, forecasts and statistics from the U.S. Census Bureau and the U.S. Bureau of Labor Statistics and regarding BKC, as defined below. Unless otherwise indicated, information regarding BKC in this prospectus has been made publicly available by BKC. We believe that all of these sources are reliable, but we have not independently verified any of this information and cannot guarantee its accuracy or completeness. The information, forecasts and statistics we have used from Technomic may reflect rounding adjustments.

Throughout this prospectus, any reference to BKC refers to Burger King Holdings, Inc. (NYSE: BKC) and its wholly-owned subsidiaries, including Burger King Corporation.

Burger King® is a registered trademark and service mark and Whopper® is a registered trademark of Burger King Brands, Inc., a wholly-owned subsidiary of BKC. Neither BKC nor any of its subsidiaries, affiliates, officers, directors, agents, employees, accountants or attorneys are in any way participating in, approving or endorsing this offering, any of the underwriting or accounting procedures used in this offering, or any representations made in connection with this offering. The grant by BKC of any franchise or other rights to us is not intended as, and should not be interpreted as, an express or implied approval, endorsement or adoption of any statement regarding financial or other performance which may be contained in this prospectus. All financial information in this prospectus is our sole responsibility.

Any review by BKC of this prospectus or the information included in this prospectus has been conducted solely for the benefit of BKC to determine conformance with BKC internal policies, and not to benefit or protect any other person. No investor should interpret such review by BKC as an internal approval, endorsement, acceptance or adoption of any representation, warranty, covenant or projection contained in this prospectus.

The enforcement or waiver of any obligation of ours under any agreement between us and BKC or BKC affiliates is a matter of BKC or BKC affiliates sole discretion. No investor should rely on any representation, assumption or belief that BKC or BKC affiliates will enforce or waive particular obligations of ours under those agreements.

Throughout this prospectus, we refer to Carrols Restaurant Group, Inc., a Delaware corporation, as Carrols Restaurant Group and, together with its consolidated subsidiaries, as we, our and us, unless otherwise indicated or the context otherwise requires. Any reference to Carrols refers to our wholly-owned subsidiary, Carrols Corporation, a Delaware corporation, and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.

We use a 52 or 53 week fiscal year that ends on the Sunday closest to December 31. In this prospectus, we sometimes refer to the fiscal years ended December 30, 2001, December 29, 2002, December 28, 2003, January 2, 2005 and January 1, 2006 as 2001, 2002, 2003, 2004 and 2005, respectively, or as the years ended December 31, 2001, 2002, 2003, 2004 and 2005, respectively. All of such fiscal years consisted of 52 weeks except for 2004, which consisted of 53 weeks. Similarly, in this prospectus, the 13 weeks and 39 weeks ended October 2, 2005 and October 1, 2006 are referred to as the three months (or the quarter) and the nine months ended September 30, 2005 and 2006, respectively. Financial information and other data about us as of December 30, 2001, December 29, 2002, December 28, 2003, January 2, 2005, January 1, 2006, October 2, 2005 and October 1, 2006 is referred to in this prospectus as being as of December 31, 2001, December 31, 2002, December 31, 2003, December 31, 2004, December 31, 2005, September 30, 2005 and September 30, 2006, respectively.

PROSPECTUS SUMMARY

The following summary highlights selected information about our business and our common stock being sold in this offering. This is a summary of information contained elsewhere in this prospectus and does not contain all of the information that may be important to you. For a more complete understanding of our business and our common stock being sold in this offering, you should read this entire prospectus, including the section entitled Risk Factors and the Consolidated Financial Statements and related notes.

Throughout this prospectus, we use the terms Segment EBITDA and Segment EBITDA margin because they are financial indicators that are reported to our chief operating decision maker for purposes of allocating resources to our segments and assessing their performance. Segment EBITDA (defined as earnings attributable to the applicable segment before interest, income taxes, depreciation and amortization, impairment losses, stock-based compensation expense, bonus to employees and a director in connection with the December 2004 Transactions (as defined herein), other income and expense and loss on extinguishment of debt) may not be necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. The calculation of Segment EBITDA for our Burger King restaurants includes general and administrative expenses related directly to our Burger King segment, as well as the expenses associated with administrative support for all three of our segments including executive management, information systems and certain accounting, legal and other administrative functions. Segment EBITDA margin means Segment EBITDA as a percentage of the total revenues of the applicable segment. We consider our Pollo Tropical restaurants, Taco Cabana restaurants and Burger King restaurants to each constitute a separate segment. See Note 14 to our Consolidated Financial Statements included elsewhere in this prospectus.

Throughout this prospectus, we use the terms Consolidated Adjusted EBITDA and Consolidated Adjusted EBITDA margin because we believe they are useful financial indicators for measuring our ability, on a consolidated basis, to service and/or incur indebtedness. Consolidated Adjusted EBITDA (defined as earnings before interest, income taxes, depreciation and amortization, impairment losses, stock-based compensation expense, bonus to employees and a director in connection with the December 2004 Transactions, other income and expense and loss on extinguishment of debt) should not be considered as an alternative to consolidated cash flows as a measure of liquidity in accordance with generally accepted accounting principles (GAAP). Consolidated Adjusted EBITDA is not necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation. Management believes the most directly comparable measure to Consolidated Adjusted EBITDA calculated in accordance with GAAP is net cash provided from operating activities. Consolidated Adjusted EBITDA margin means Consolidated Adjusted EBITDA as a percentage of consolidated revenues. Our utilization of a non-GAAP financial measure is not meant to be considered in isolation or as a substitute for net income, income from operations, cash flow, gross margin and other measures of financial performance prepared in accordance with GAAP. See footnote 6 in Selected Historical Financial and Operating Data for a reconciliation of non-GAAP financial measures.

Our Company

We are one of the largest restaurant companies in the United States operating three restaurant brands in the quick-casual and quick-service restaurant segments with 542 restaurants located in 16 states as of September 30, 2006. We have been operating restaurants for more than 45 years. We own and operate two Hispanic restaurant brands, Pollo Tropical® and Taco Cabana® (together referred to by us as our Hispanic Brands), which we acquired in 1998 and 2000, respectively. We are also the largest Burger King franchisee, based on the number of restaurants, and have operated Burger King restaurants since 1976. As of September 30, 2006, our company-owned restaurants included 73 Pollo Tropical restaurants and 141 Taco Cabana restaurants, and we operated 328 Burger King restaurants under franchise agreements. We also franchise our Hispanic Brand restaurants with 29 franchised restaurants located in Puerto Rico, Ecuador and the United States as of September 30, 2006. We believe that the diversification and strength of our restaurant brands as well as the geographic dispersion of our restaurants provide us with stability and enhanced growth opportunities. Our primary growth strategy is to develop new company-owned Hispanic Brand restaurants. For the year ended December 31, 2005 and the nine months ended September 30, 2006, we had total revenues of $706.9 million and $562.7 million, respectively, and a net loss of $4.4 million and net income of $9.7 million, respectively.

Hispanic Brands. Our Hispanic Brands operate in the quick-casual restaurant segment, combining the convenience and value of quick-service restaurants with the menu variety, use of fresh ingredients and food quality more typical of casual dining restaurants. For the year ended December 31, 2005, our company-owned Pollo Tropical and Taco Cabana restaurants generated average annual sales per restaurant of $2.1 million and $1.6 million, respectively, which we believe are among the highest in the quick-casual and quick-service segments. For the year ended December 31, 2005 and the nine months ended September 30, 2006, aggregate revenues for our Hispanic Brands were $346.8 million and $287.3 million, respectively, which represented 49.1% and 51.1%, respectively, of our total consolidated revenues.

Pollo Tropical: Our Pollo Tropical restaurants are known for their fresh grilled chicken marinated in our own blend of tropical fruit juices and spices. Our menu also features other items including roast pork, sandwiches, grilled ribs offered with a selection of sauces, Caribbean style made from scratch side dishes and salads. Most menu items are made fresh daily in each of our Pollo Tropical restaurants, which feature open display cooking that enables customers to observe the preparation of menu items, including chicken grilled on large, open-flame grills. Pollo Tropical opened its first restaurant in 1988 in Miami. As of September 30, 2006, we owned and operated a total of 73 Pollo Tropical restaurants, of which 72 were located in Florida, including 60 in South Florida, and one of which was located in the New York City metropolitan area, in northern New Jersey. For the year ended December 31, 2005, the average sales transaction at our company-owned Pollo Tropical restaurants was $8.72 reflecting, in part, strong dinner traffic, with dinner sales representing the largest sales day-part of Pollo Tropical restaurant sales. For the year ended December 31, 2005 and the nine months ended September 30, 2006, Pollo Tropical generated total revenues of $137.0 million and $115.3 million, respectively.

Taco Cabana: Our Taco Cabana restaurants serve fresh Tex-Mex and traditional Mexican style food, including sizzling fajitas, quesadillas, enchiladas, burritos, tacos, other Tex-Mex dishes, fresh-made flour tortillas, frozen margaritas and beer. Most menu items are made fresh daily in each of our Taco Cabana restaurants, which feature open display cooking that enables customers to observe the preparation of menu items, including fajitas cooking on a grill and a machine making fresh tortillas. A majority of our Taco Cabana restaurants are open 24 hours a day, generating customer traffic and restaurant sales across multiple day-parts by offering a convenient and quality experience to our customers. Taco Cabana pioneered the Mexican patio café concept with its first restaurant in San Antonio, Texas in 1978. As of September 30, 2006, we owned and operated 141 Taco Cabana restaurants located in Texas, Oklahoma and New Mexico, of which 135 were located in Texas. For the year ended December 31, 2005, the average sales transaction at our company-owned Taco Cabana restaurants was $7.08 with dinner sales representing the largest sales day-part of Taco Cabana restaurant sales. For the year ended December 31, 2005 and the nine months ended September 30, 2006, Taco Cabana generated total revenues of $209.8 million and $172.0 million, respectively.

Burger King. Burger King is the second largest hamburger restaurant chain in the world (as measured by the number of restaurants and system-wide sales) and we are the largest franchisee in the Burger King system, based on number of restaurants. Burger King restaurants are part of the quick-service restaurant segment which is the largest of the five major segments of the U.S. restaurant industry based on 2005 sales. Burger King restaurants feature the popular flame-broiled Whopper sandwich, as well as a variety of hamburgers and other sandwiches, fries, salads, breakfast items and other offerings. According to BKC, historically it has spent between 4% and 5% of its annual system sales on marketing, advertising and promotion to sustain and increase its high brand awareness. We benefit from BKC s marketing initiatives as

Table of Contents

well as its development and introduction of new menu items. As of September 30, 2006, we operated 328 Burger King restaurants located in 12 Northeastern, Midwestern and Southeastern states. For the year ended December 31, 2005, the average sales transaction at our Burger King restaurants was $5.03. Our Burger King restaurants generated average annual sales per restaurant of $1.0 million for the year ended December 31, 2005. In addition, for the year ended December 31, 2005 and the nine months ended September 30, 2006, our Burger King restaurants generated total revenues of $360.1 million and $275.4 million, respectively.

Our Competitive Strengths

We believe we have the following strengths:

Strong Hispanic Brands. We believe that the following factors have contributed, and will continue to contribute, to the success of our Hispanic Brands:

- freshly-prepared food at competitive prices with convenience and value;
- a variety of menu items including signature dishes with Hispanic flavor profiles designed to appeal to consumers desire for freshly-prepared food and menu variety;
- successful dinner day-part representing the largest sales day-part at both of our Hispanic Brands, providing a higher average check size than other day-parts;
- broad consumer appeal that attracts both the growing Hispanic consumer base, with increasing disposable income to spend on items such as traditional foods prepared at restaurants rather than at home, and non-Hispanic consumers in search of new flavor profiles, grilled rather than fried entree choices and varied product offerings at competitive prices in an appealing atmosphere;
- ability to control the consistency and quality of the customer experience and the strategic growth of our restaurant operations through our system consisting of primarily company-owned restaurants compared to competing brands that focus on franchising;
- high market penetration of company-owned restaurants in our core markets that provides operating and marketing efficiencies, convenience for our customers and the ability to effectively manage and enhance brand awareness;
- well positioned to continue to benefit from the projected population growth in Florida and Texas;
- established infrastructure at our Hispanic Brands to manage operations and develop and introduce new menu offerings, positioning us to build customer frequency and broaden our customer base; and
- well positioned to continue to capitalize on the home meal replacement trend.

For the year ended December 31, 2005 and the nine months ended September 30, 2006, aggregate revenues for our Hispanic Brands were $346.8 million and $287.3 million, respectively, which represented 49.1% and 51.1%, respectively, of our total consolidated revenues.

Strong Restaurant Level Economics and Operating Metrics for our Hispanic Brands. We believe that the strong average annual sales at our company-owned Hispanic Brand restaurants are among the highest in the quick-casual and quick-service segments. We also believe that the operating margins of our Hispanic Brands generate unit economics and returns on invested capital which will enable us to accelerate and sustain new unit growth.

Largest Burger King Franchisee. We are Burger King s largest franchisee and are well positioned to leverage the scale and marketing of one of the most recognized brands in the restaurant industry. The size of our Burger King business has contributed significantly to our large aggregate restaurant base, enabling us to enhance operating efficiencies and realize benefits across all three of our brands from economies of scale with respect to our management team and management information and operating systems. In addition, our Burger King business has significantly contributed, and is expected to continue to significantly contribute, to our consolidated operating cash flows. For the year ended December 31, 2005 and the nine months ended September 30, 2006, revenues for our Burger King restaurants were $360.1 million and $275.4 million, respectively, which represented 50.9% and 48.9%, respectively, of our total consolidated revenues.

Infrastructure in Place for Growth. We believe that our operating disciplines, seasoned management, operational infrastructure and marketing and product development capabilities, supported by our corporate and restaurant management information systems and comprehensive training and development programs, will support significant expansion.

Experienced Management Team. We believe that our senior management team s extensive experience in the restaurant industry, knowledge of the demographic and other characteristics of our core markets and its long and successful history of developing, acquiring, integrating and operating quick-service and quick-casual restaurants, provide us with a competitive advantage.

Our Growth Strategy

Our primary growth strategy is as follows:

Develop New Hispanic Brand Restaurants in Core and Other Markets. We believe that we have significant opportunities to develop new Pollo Tropical and Taco Cabana restaurants in their respective core markets within Florida and Texas and expand into new markets both within Florida and Texas as well as other regions of the United States. By increasing the number of restaurants we operate in a particular market, we believe that we can continue to increase brand awareness and effectively leverage our field supervision, corporate infrastructure and marketing expenditures. We also believe that the appeal of our Hispanic Brands and our high brand recognition in our core markets provide us with opportunities to expand into other markets in Florida and Texas. In addition, we believe that there are a number of geographic regions in the United States outside of Florida and Texas where the size of the Hispanic population and its influence on the non-Hispanic population provide significant opportunities for development of additional Hispanic Brand restaurants. In March 2006, we opened our first Pollo Tropical restaurant in the New York City metropolitan area. In 2005, we opened a total of six new Pollo Tropical restaurants in Florida and six new Taco Cabana restaurants in Texas and we acquired four additional Taco Cabana restaurants in Texas from a franchisee. During the nine months ended September 30, 2006, we opened four Pollo Tropical restaurants (including one restaurant in the New York City metropolitan area as described above) and seven Taco Cabana restaurants in Texas and we currently plan to open four Pollo Tropical restaurants (including one additional restaurant in the New York City metropolitan area) and three Taco Cabana restaurants in Texas in the fourth quarter of 2006. In 2007, we currently plan to open between seven and ten Pollo Tropical restaurants and between ten and twelve Taco Cabana restaurants.

Increase Comparable Restaurant Sales. Our strategy is to grow sales in our existing restaurants by continuing to develop new menu offerings and enhance the effectiveness of our proprietary advertising and promotional programs for our Hispanic Brands, further capitalize on attractive industry and demographic trends and enhance the quality of the customer experience at our restaurants. We also believe that our Burger King restaurants are well-positioned to benefit from BKC s initiatives with respect to the Burger King brand.

Continue to Improve Income from Operations and Leverage Existing Infrastructure. We believe that our continuing development of new company-owned Hispanic Brand restaurants, combined
with our strategy to increase sales at our existing Hispanic Brand restaurants, will increase revenues generated by our Hispanic Brands as a percentage of our consolidated revenues, positioning us to continue to improve our overall income from operations. We also believe that our large restaurant

base, skilled management team, sophisticated management information and operating systems, and training and development programs support our strategy of enhancing operating efficiencies for our existing restaurants and profitably growing our restaurant base.

Utilize Financial Leverage to Maintain an Efficient Capital Structure to Support Growth. We intend to continue utilizing financial leverage in an effort to enhance returns to our stockholders. We believe our operating cash flows will allow us to allocate sufficient capital towards new store development and repayment of our outstanding indebtedness as part of our strategy to support earnings growth, while providing the flexibility to alter our capital allocation depending on changes in market conditions and available expansion opportunities.

Recent Developments

We have, in the past, entered into sale-leaseback transactions involving certain restaurant properties that did not qualify for sale-leaseback accounting and, as a result, have been classified as financing transactions under Statement of Financial Accounting Standards No. 98, Accounting for Leases (SFAS 98). Under the financing method, the assets remain on our consolidated balance sheet and continue to be depreciated and proceeds received by us from these transactions are recorded as a financing liability. Payments under these leases are applied as payments of imputed interest and deemed principal on the underlying financing obligations.

During the nine months ended September 30, 2006, we exercised our right of first refusal under the leases for 14 restaurant properties subject to lease financing obligations and purchased these 14 restaurant properties from the respective lessors. Concurrently with these purchases, the properties were sold in qualified sale-leaseback transactions. We recorded deferred gains representing the amounts by which the sales prices exceeded the net book value of the underlying assets. Deferred gains are being amortized as an adjustment to rent expense over the term of the leases, which is generally 20 years.

We also amended lease agreements for 21 restaurant properties in the second quarter of 2006 and amended a master lease agreement covering 13 restaurant properties in the third quarter of 2006, all of which were previously accounted for as lease financing obligations, to eliminate or otherwise cure the provisions that precluded the original sale-leaseback accounting under SFAS 98. As a result of such amendments, we recorded these sale-leaseback transactions as sales, removed all of the respective assets under lease financing obligations and related liabilities from our consolidated balance sheet and recognized gains from the sales, which were generally deferred and are being amortized as an adjustment to rent expense over the remaining term of the underlying leases.

As a result of the above transactions that occurred during the nine months ended September 30, 2006, we reduced our lease financing obligations by $52.8 million, reduced our assets under lease financing obligations by $36.2 million and recorded deferred gains of $18.3 million. We also recorded interest expense of $2.0 million which represents the net amount by which the purchase price for the restaurant properties sold exceeded the lease financing obligations. Of these amounts, $37.5 million of lease financing obligations and $24.7 million of assets under lease financing obligations have been reflected as non-cash transactions in the consolidated statements of cash flows for the nine months ended September 30, 2006.

Beginning in the third quarter of 2006 the effect of the recharacterization of all of the transactions described above as qualified sales under SFAS 98 and the payments associated with the related operating leases as restaurant rent expense, rather than as payments of interest and principal associated with lease financing obligations, has been to reduce interest expense, reduce depreciation expense and increase restaurant rent expense. See Note 9 to our Consolidated Financial Statements included elsewhere in this prospectus.

Interest expense for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 was $43.0 million, $31.8 million and $34.6 million, respectively. On a pro forma basis, after giving effect to the leasing transactions and the lease amendments described above as if these transactions and amendments occurred at the beginning of the respective periods, interest expense for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 would have been $37.7 million, $27.8 million and $32.0 million, respectively, or a reduction of $5.3 million, $4.0 million and $2.6 million, respectively, from historical interest expense for these periods.

Depreciation and amortization expense for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 was $33.1 million, $24.9 million and $25.2 million, respectively. On a pro forma basis, after giving effect to the leasing transactions and the lease amendments described above as if these transactions and amendments occurred at the beginning of the respective periods, depreciation and amortization expense for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 would have been $31.8 million, $23.9 million and $24.5 million, respectively, or a reduction of $1.3 million, $1.0 million and $0.7 million, respectively, from historical depreciation and amortization expense for these periods.

Restaurant rent expense for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 was $34.7 million, $25.8 million and $27.2 million, respectively. On a pro forma basis, after giving effect to the leasing transactions and the lease amendments described above as if these transactions and amendments occurred at the beginning of the respective periods, restaurant rent expense for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 would have been $38.4 million, $28.6 million and $29.0 million, respectively, or an increase of $3.7 million, $2.8 million and $1.8 million, respectively, from historical restaurant rent expense for these periods.

On a pro forma basis, after giving effect to the leasing transactions and lease amendments described above as if these transactions and amendments occurred at the beginning of the respective periods, operating income for the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006 would have increased $2.8 million, $2.2 million and $1.5 million, respectively, from historical operating income for those periods.

Equity Ownership

Our executive officers, including Alan Vituli, our Chairman and Chief Executive Officer, and Daniel T. Accordino, our President and Chief Operating Officer, will, upon consummation of this offering, own a total of 2,343,769 shares representing approximately 10.8% of our outstanding common stock, based on shares outstanding as of September 30, 2006 (excluding shares of common stock issuable upon the exercise of options to be granted in connection with this offering under our 2006 Stock Incentive Plan). Our other equity investors are BIB Holdings (Bermuda) Ltd., which we refer to as BIB, and funds managed by entities affiliated with Madison Dearborn Partners, LLC, which we refer to as Madison Dearborn, which will each own shares representing approximately 8.0% of our outstanding common stock upon consummation of this offering (or approximately 2.8% if the over-allotment option granted to the underwriters is exercised in full). BIB acquired a controlling interest in our company in 1996 and Madison Dearborn acquired its interest in our company in 1997. Both BIB and Madison Dearborn are the only selling stockholders participating in this offering and are sometimes referred to as the selling stockholders. BIB is a wholly-owned subsidiary of Bahrain International Bank (E.C.). Madison Dearborn is a leading private equity firm.

Corporate Information

Our principal executive offices are located at 968 James Street, Syracuse, New York 13203 and our telephone number at that address is (315) 424-0513. Our corporate website address is www.carrols.com. Such website address is a textual reference only, meaning that the information contained on our website is not a part of this prospectus and is not incorporated by reference in this prospectus. Carrols Restaurant Group is a Delaware corporation, incorporated in 1986. Carrols Restaurant Group conducts all of its operations through its direct and indirect subsidiaries and has no assets other than the shares of Carrols, its direct wholly-owned subsidiary. Prior to November 21, 2006 we were known as Carrols Holdings Corporation. On November 21, 2006, we amended our certificate of incorporation to change our name to Carrols Restaurant Group, Inc.

Table of Contents

The Offering

Common stock offered by us	5,666,666 shares
Common stock offered by the selling stockholders	9,333,334 shares
Common stock outstanding immediately after this offering	21,625,540 shares
Use of proceeds	We intend to contribute the net proceeds we receive from this offering to Carrols, which will use it to repay approximately $76.0 million principal amount of term loan borrowings under the senior credit facility.
	We will not receive any of the proceeds from the sale of shares by the selling stockholders, including any shares that may be sold upon exercise by the underwriters of the over-allotment option granted by the selling stockholders.
	See Use of Proceeds and Certain Relationships and Related Party Transactions.
NASDAQ Global Market symbol	TAST

The number of shares of common stock that will be outstanding immediately after this offering includes an aggregate of 20,100 shares of restricted common stock to be issued to three of our outside directors and an aggregate of 54,900 shares of restricted common stock to be issued to certain of our employees in connection with this offering under our 2006 Stock Incentive Plan, and excludes the following:

- an aggregate of 1,300,000 shares issuable upon the exercise of options to be issued in connection with this offering under our 2006 Stock Incentive Plan at an exercise price equal to the initial public offering price for our common stock in this offering, with respect to 50% of such stock options, and an exercise price equal to 120% of the initial public offering price of our common stock in this offering with respect to the other 50% of such options; and

- an aggregate of 1,925,000 additional shares that will be available for future awards under our 2006 Stock Incentive Plan.

Unless otherwise expressly stated or the context otherwise requires, the information in this prospectus:

- gives effect to an 11.288 for one split of our outstanding common stock that we will effect prior to completion of this offering;

- assumes no exercise of the underwriters over-allotment option to purchase up to 2,250,000 additional shares of common stock from the selling stockholders;

assumes the effectiveness of our 2006 Stock Incentive Plan, which occurred on November 21, 2006; and

assumes the filing of our restated certificate of incorporation with the State of Delaware and the effectiveness of our amended and restated bylaws, which will occur prior to completion of this offering.

Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus regarding or based on the number of our shares to be outstanding immediately after this offering is based on the number of shares outstanding as of September 30, 2006 and includes an aggregate of 20,100 shares of restricted common stock to be issued to three of our outside directors and an aggregate of 54,900 additional shares of restricted common stock to be issued to certain of our employees in connection with this offering under our 2006 Stock Incentive Plan.

Table of Contents

Risk Factors

Investing in our common stock involves substantial risk. You should carefully consider all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth under Risk Factors in deciding whether to invest in our common stock.

Table of Contents

Summary Financial and Operating Data

The following table sets forth summary historical financial data derived from our audited consolidated financial statements for each of the years ended December 31, 2003, 2004 and 2005 and our unaudited consolidated financial statements for the nine months ended September 30, 2005 and 2006 which are included elsewhere in this prospectus. As described on page ii, we use a 52 or 53 week fiscal year ending on the Sunday closest to December 31. All of the fiscal years reflected in the following table consisted of 52 weeks except for 2004 which consisted of 53 weeks. As a result, some of the variations between 2004 and the other fiscal years reflected in the following table may be due to the additional week included in 2004. Each of the nine months ended September 30, 2005 and 2006 reflected in the following table consisted of 39 weeks.

The unaudited consolidated financial statements for the nine months ended September 30, 2005 and 2006, included elsewhere in this prospectus, include all adjustments, consisting of normal recurring adjustments, which, in our opinion, are necessary for a fair presentation of our results of operations for these periods. The results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year.

We restated our consolidated financial statements for the periods presented below that ended prior to January 1, 2005. See Selected Historical Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements and Note 2 to our Consolidated Financial Statements included elsewhere in this prospectus for a discussion of the restatement. All amounts affected by the restatement that appear in this prospectus have also been restated.

Table of Contents

The information in the table below is only a summary and should be read together with our Consolidated Financial Statements, Selected Historical Financial and Operating Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, all included elsewhere in this prospectus. The amounts in the table below reflect rounding adjustments.

	Year Ended December 31, Restated 2003(1)	Restated 2004(1)(2)	2005	Nine Months Ended September 30, 2005	2006
	(dollar amounts in thousands, except share and per share data)				
Statements of Operations Data:					
Revenues:					
Restaurant sales	$ 643,579	$ 696,343	$ 705,422	$ 531,442	$ 561,719
Franchise royalty revenues and fees	1,406	1,536	1,488	1,160	1,002
Total revenues	644,985	697,879	706,910	532,602	562,721
Costs and expenses:					
Cost of sales	181,182	202,624	204,620	154,424	158,299
Restaurant wages and related expenses	194,315	206,732	204,611	153,740	164,400
Restaurant rent expense	31,089	34,606	34,668	25,818	27,183
Other restaurant operating expenses	89,880	92,891	102,921	75,976	82,466
Advertising expense	27,351	24,711	25,523	19,791	20,768
General and administrative(3)	37,388	43,585	58,621	47,837	35,799
Depreciation and amortization	40,228	38,521	33,096	24,929	25,177
Impairment losses	4,151	1,544	1,468	1,427	832
Bonus to employees and a director(4)		20,860			
Other expense (income)(5)		2,320			(1,389)

Earnings per common share		
Basic	$ 0.71	$ 0.92
Diluted	$ 0.70	$ 0.90
Weighted average common shares outstanding		
Basic	15,911	14,964
Diluted	16,217	15,288
Comprehensive income:		
Net earnings	$ 11,350	$ 13,751
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	864	695
Tax (expense) benefit related to foreign currency translation adjustment	(208)	(295)
Other comprehensive income, net of tax	656	400
Comprehensive income	$ 12,006	$ 14,151

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Three Months Ended April 2, 2011 and March 31, 2012

(in thousands)

(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
For the Three Months Ended April 2, 2011						
Balance at January 1, 2011	15,985	$ 16	$ 51,222	$ 90,207	$ 5,357	$ 146,802
Net earnings				11,350		11,350
Other comprehensive income, net of tax					656	656
Equity-based compensation expense			3,235			3,235
Common stock repurchased and retired	(251)		(3,030)	(5,492)		(8,522)
Common stock issued under equity award plans, including tax benefit of $35	8		35			35
Balance at April 2, 2011	15,742	16	51,462	96,065	6,013	153,556
For the Three Months Ended March 31, 2012						
Balance at December 31, 2011	14,940	$ 15	49,257	118,799	5,839	173,910
Net earnings				13,751		13,751
Other comprehensive income, net of tax					400	400
Equity-based compensation expense			2,866			2,866
Common stock issued under equity award plans, including tax benefit of $176	51		176			176
Tax impact of canceled vested equity awards			(41)			(41)
Balance at March 31, 2012	14,991	$ 15	$ 52,258	$ 132,550	$ 6,239	$ 191,062

The accompanying notes are an integral part of these statements.

Table of Contents

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended April 2, 2011	Three Months Ended March 31, 2012
Cash flows from operating activities		
Net earnings	$ 11,350	$ 13,751
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	2,136	2,196
(Gain) loss on sale of property and equipment		(22)
Equity-based compensation expense	3,235	2,866
Excess tax benefits from equity-based payment arrangements	(35)	(176)
Deferred income taxes	(1,743)	(729)
Changes in operating assets and liabilities:		
Inventories, net	640	2,185
Prepaid expenses and other assets	5,721	414
Accounts payable	1,440	(314)
Other liabilities	(5,199)	2,472
Total adjustments	6,195	8,892
Net cash provided by operating activities	17,545	22,643
Cash flows from investing activities		
Proceeds from sale of property and equipment		51
Purchases of property and equipment	(676)	(2,227)
Net cash used in investing activities	(676)	(2,176)
Cash flows from financing activities		
Excess tax benefits from equity-based payment arrangements	35	176
Repurchase of common stock	(8,522)	
Net cash (used in) provided by financing activities	(8,487)	176
Effect of exchange rate changes on cash and cash equivalents	114	168
Net increase in cash and cash equivalents	8,496	20,811
Cash and cash equivalents, beginning of period	24,222	50,353
Cash and cash equivalents, end of period	$ 32,718	$ 71,164

Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest	$	7	$	
Income taxes		344		741

The accompanying notes are an integral part of these statements.

USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

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: North America and Asia Pacific, which is further divided into three sub-regions; Southeast Asia/Pacific, Greater China, and North Asia. North America includes the United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France, and Belgium. 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 inter-company accounts and transactions have been eliminated in this consolidation.

The condensed balance sheet as of December 31, 2011, 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 present fairly the Company s financial position as of March 31, 2012 and results of operations for the three months ended April 2, 2011 and March 31, 2012. 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 31, 2011. The results of operations for the three months ended March 31, 2012, may not be indicative of the results that may be expected for the fiscal year 2012 ending December 29, 2012.

Recently adopted accounting pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). The objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate the convergence of U.S. GAAP and IFRS, ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. Under the amendments in this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Also, the amendments do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. The Company adopted ASU 2011-05 during the first quarter ended March 31, 2012. Adoption of this standard did not have a material impact on the Company s consolidated financial statements, as it only affected financial statement presentation.

7

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

Revisions

As disclosed in the Company s annual report on Form 10-K for the year ended December 31, 2011, revisions have been made to the Company s previously issued financial statements to record the impact of currency translation on intangible assets acquired as a part of the 2010 purchase of BabyCare Holdings, Ltd. These revisions had no effect on our earnings from operations, net earnings or earnings per share.

The following tables illustrate the effects of the revision on the Company s consolidated financial statements for only those line items that were affected and have not been previously disclosed:

Consolidated Statements of Comprehensive Income

(in thousands)

	For the three months ended April 2, 2011		
	As Previously Reported	Adjustment	As Revised
Comprehensive income	$ 11,667	$ 339	$ 12,006

Consolidated Statements of Stockholders Equity

(in thousands)

	For the three months ended April 2, 2011		
	As Previously Reported	Adjustment	As Revised
Other comprehensive income, net of tax	$ 317	$ 339	$ 656
Accumulated Other Comprehensive Income (Loss), Balance at April 2, 2011	4,038	1,975	6,013
Total Stockholders Equity, Balance at April 2, 2011	151,581	1,975	153,556

NOTE A INVENTORIES

Inventories consist of the following:

	December 31, 2011	March 31, 2012
Raw materials	$ 9,670	$ 9,981
Work in progress	6,917	7,104
Finished goods	20,381	18,201
	$ 36,968	$ 35,286

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

NOTE B 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. 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.

	Three Months Ended	
	April 2, 2011	March 31, 2012
Net earnings available to common shareholders	$ 11,350	$ 13,751
Basic EPS		
Shares		
Common shares outstanding entire period	15,985	14,940
Weighted average common shares:		
Issued during period	4	24
Canceled during period	(78)	
Weighted average common shares outstanding during period	15,911	14,964
Earnings per common share from net earnings - basic	$ 0.71	$ 0.92
Diluted EPS		
Shares		
Weighted average common shares outstanding during period - basic	15,911	14,964
Dilutive effect of in-the-money equity awards	306	324
Weighted average common shares outstanding during period - diluted	16,217	15,288
Earnings per common share from net earnings - diluted	$ 0.70	$ 0.90

Equity awards for 1,312 and 1,148 shares of stock were not included in the computation of diluted EPS for the quarters ended April 2, 2011, and March 31, 2012, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

NOTE C SEGMENT INFORMATION

USANA operates in a single operating segment 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 has determined that the Company operates in one reportable business segment. Performance for a region or market is primarily evaluated based on sales. The Company does not use profitability reports on a regional or market basis for making business decisions. 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.

	Three Months Ended	
	April 2, 2011	March 31, 2012
USANA® Nutritionals	78%	80%
USANA Foods	11%	11%
Sensé beautiful science®	8%	7%

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

- North America United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France(1), and Belgium(1)

- Asia Pacific

- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand(2)

- Greater China Hong Kong, Taiwan, and China

- North Asia Japan and South Korea

---

(1) The Company commenced operations in France and Belgium during the last week of the first quarter of 2012. Net sales and customer count information for these two markets have been included with the United States for the quarter ended March 31, 2012.

(2) The Company commenced operations in Thailand at the end of the first quarter of 2012.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(in thousands, except per share data)

(unaudited)

NOTE C SEGMENT INFORMATION CONTINUED

Selected Financial Information

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

	Three Months Ended April 2, 2011	Three Months Ended March 31, 2012
Net Sales to External Customers		
North America	$ 60,021	$ 58,632
Asia Pacific		
Southeast Asia/Pacific	24,694	32,252
Greater China	52,111	56,635
North Asia	6,740	6,601
Asia Pacific Total	83,545	95,488
Consolidated Total	$ 143,566	$ 154,120

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

	Three Months Ended April 2, 2011	Three Months Ended March 31, 2012
Net Sales to External Customers		
Hong Kong	$ 40,203	$ 43,807
United States	37,036	36,491
Canada	17,327	16,189

	As of December 31, 2011	As of March 31, 2012
Long-lived Assets		
China	$ 59,806	$ 59,662

United States	46,991	46,605
Australia	15,280	15,408

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 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 31, 2011, 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 March 31, 2012, we had approximately 219,000 active Associates and approximately 67,000 active Preferred Customers worldwide. For purposes of this report, we only count as active customers those Associates and Preferred Customers who have purchased product from USANA 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:

- North America United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, France(1), and Belgium(1)

- Asia Pacific

- Southeast Asia/Pacific Australia, New Zealand, Singapore, Malaysia, the Philippines, and Thailand(2)

- Greater China Hong Kong, Taiwan, and China

- North Asia Japan and South Korea

---

(1) We commenced operations in France and Belgium during the last week of the first quarter of 2012. We have included sales and customer count information for these two markets with the United States for this quarter.

(2) We commenced operations in Thailand at the end of the first quarter of 2012.

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 indicated:

	Quarter Ended	
	April, 2, 2011	March 31, 2012
Product Line		
USANA® Nutritionals		
Essentials	29%	28%
Optimizers	49%	52%
USANA Foods	11%	11%
Sensé beautiful science®	8%	7%
All Other	3%	2%
Key Product		
USANA® Essentials	18%	18%
Proflavanol®	12%	12%
HealthPak 100	9%	8%

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 these factors include: the general public s heightened awareness and understanding of the connection between diet and long-term health, the aging of the worldwide population as older people generally tend to consume more nutritional supplements, 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 up-to-date 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 more successful business for our Associates, and to ensure that our plan provides us with leverage to grow sales and earnings. There is a risk, however, that such changes may not accomplish their intended purpose and may cause an unanticipated shift in Associate behavior, which could negatively affect our business.

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 some of 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. Currency fluctuations, however, have the opposite effect on our Associate incentives and selling, general and administrative expenses. During the quarter ended March 31, 2012, net sales outside of the United States represented approximately 76.4% 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.

Table of Contents

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 90% of product sales during the quarter ended March 31, 2012. 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.

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

Active Associates By Region

	As of April 2, 2011		**As of March 31, 2012**		**Change from Prior Year**	**Percent Change**
North America	83,000	39.0%	77,000	35.1%	(6,000)	(7.2)%
Asia Pacific:						
Southeast Asia/Pacific	40,000	18.8%	51,000	23.3%	11,000	27.5%
Greater China	82,000	38.5%	83,000	37.9%	1,000	1.2%
North Asia	8,000	3.7%	8,000	3.7%		0.0%
Asia Pacific Total	130,000	61.0%	142,000	64.9%	12,000	9.2%
	213,000	100.0%	219,000	100.0%	6,000	2.8%

Active Preferred Customers By Region

	As of April 2, 2011		**As of March 31, 2012**		**Change from Prior Year**	**Percent Change**
North America	55,000	78.6%	53,000	79.1%	(2,000)	(3.6)%
Asia Pacific:						
Southeast Asia/Pacific	6,000	8.6%	6,000	9.0%		0.0%
Greater China	8,000	11.4%	7,000	10.4%	(1,000)	(12.5)%
North Asia	1,000	1.4%	1,000	1.5%		0.0%
Asia Pacific Total	15,000	21.4%	14,000	20.9%	(1,000)	(6.7)%
	70,000	100.0%	67,000	100.0%	(3,000)	(4.3)%

Current Focus and Recent Developments

We are currently focusing our efforts on: (i) growing our business in Greater China, (ii) the implementation of our strategy to stabilize and grow our North American markets, and (iii) international expansion.

Our development efforts in China during the first quarter of 2012 included further educating our Associates on the USANA products that we introduced in that market throughout 2011, and on our China compensation plan. Additionally, we continued our efforts to obtain additional provincial licenses and opened a new branch office in Shenzhen, which is a key city for our business in southern China.

Table of Contents

In North America, we continue to execute our stabilization and growth strategy and expect initial results from this strategy as early as the fourth quarter of 2012. In this regard, we held several meetings and events during the first quarter where members of our management team worked together with our Associate Leaders to strengthen our relationship with our North American Associate base and offered a promotion specifically for Mexico that has delivered short-term success.

In terms of international expansion, we commenced operations in Thailand toward the end of the first quarter of 2012, and commenced operations in France and Belgium during the last week of the quarter. Thailand operated on a limited basis for much of the first quarter as we worked to finalize logistical issues, but became fully operational near the end of the quarter. We expect Thailand, France and Belgium to begin contributing to our results of operations during the second quarter of 2012.

Results of Operations

Summary of Financial Results

Net sales for the first quarter of 2012 increased 7.4%, or $10.6 million, compared with the first quarter in 2011. The increase in net sales for the quarter was primarily due to: (i) sales growth in our Southeast Asia Pacific region, which was driven by significant sales and Associate growth in the Philippines, as well as higher sales in several other markets in this region; and (ii) sales growth in our Greater China region, which was driven by higher sales in our Hong Kong and Taiwan markets. The sales growth in these regions was partially offset by a 2.3% sales decline in our North America region. Several factors contributed to our sales results in these regions, the most significant of which are discussed below under our regional results. Currency fluctuation during the quarter had a very minor impact on year-over-year net sales growth.

Net earnings for the first quarter of 2012 increased 21.2%, or $2.4 million, to $13.8 million, compared with the first quarter in 2011. This increase was primarily the result of higher net sales and lower relative Associate incentives.

Quarters Ended April 2, 2011 and March 31, 2012

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			
	April 2, 2011	March 31, 2012	Change from prior year	Percent change

North America		60,021	41.8%	58,632	38.1%	(1,389)	(2.3)%
Asia Pacific:						
Southeast Asia/Pacific	24,694	17.2%	32,252	20.9%	7,558	30.6%
Greater China	52,111	36.3%	56,635	36.7%	4,524	8.7%
North Asia	6,740	4.7%	6,601	4.3%	(139)	(2.1)%
Asia Pacific Total	83,545	58.2%	95,488	61.9%	11,943	14.3%
	$ 143,566	100.0%	$ 154,120	100.0%	$ 10,554	7.4%

North America: The decrease in net sales in this region was the result of fewer active Associates in the United States and Canada. These decreases were partially offset by an increase in sales and the number of active Associates in Mexico, where local currency net sales increased 13.2%. During the quarter, we continued to execute our strategy in North America by working to strengthen our sales force, advance our personalization strategy, and implement incentives specifically for North America. As noted above, we commenced operations in France and Belgium during the last week of the quarter ended March 31, 2012, and anticipate that these markets will contribute to our regional results beginning in the second quarter.

Table of Contents

Asia Pacific: The increase in net sales in this region was the result of higher product sales volume in Southeast Asia Pacific and Greater China. The increase in product sales volume in Southeast Asia Pacific was primarily the result of a 180.7% increase in net sales in the Philippines and, to a lesser extent, higher net sales in Singapore, Malaysia and Australia. The net sales increase in the Philippines was driven by a 162.5% increase in the number of active Associates, and an increase in average spending per Associate on a year-over-year basis, which we believe is due to commission qualification changes for new Associates that were implemented in late 2010 and, to a lesser extent, a price increase in December of 2011. The net sales increase in Singapore and Malaysia was the result of a temporary increase in sales volume per Associate ahead of price changes that occurred in these markets during the quarter. The net sales increase in Australia was due, primarily, to our Asia Pacific convention, which was held in Sydney during the quarter and added approximately $1.7 million to net sales (this event was held in Hong Kong during the same period in 2011).

The increase in net sales in Greater China was due, primarily, to a temporary increase in product sales volume per Associate ahead of price changes that occurred in Hong Kong towards the end of the quarter. We estimate that this surge in sales volume added approximately $9.0 million in net sales in Hong Kong during the quarter. This increase was partially offset by certain events that contributed to Hong Kong s sales in the first quarter of 2011 that did not occur during the first quarter of 2012, namely: (i) the recognition of approximately $3.0 million of deferred revenue during the first quarter of 2011, and (ii) the addition of approximately $3.0 million in sales from our Asia Pacific Convention that was held in Hong Kong during the first quarter of 2011 (this event was held in Australia during 2012).

Net sales in Taiwan also increased 15.6% on a year-over-year basis due to a temporary increase in sales volume per Associate ahead of price changes in Taiwan during the quarter. Net sales in China for the quarter were essentially flat at $5.6 million, while the number of active Associates in this market increased by 18.2% to 13,000. We believe that our sales results in China are due to some minor changes to our China compensation plan, which, in the short-term, have lowered Associate productivity. We believe, however, that these changes will promote long-term growth in China.

Gross Profit

Gross profit improved to 82.3% of net sales for the first quarter of 2012 from 82.1% for the first quarter of 2011. This improvement is related to an increasing percentage of sales coming from certain international markets where we have higher gross margins and where we have also recognized slight currency benefits. Additionally, the price changes noted above also provided a slight benefit to gross profit margin and are expected to have more of a positive effect going forward. These improvements to gross margins were partially offset by an expected increase in the cost of certain raw materials and in costs related to our product personalization efforts.

Associate Incentives

Associate incentives decreased to 44.1% of net sales during the first quarter of 2012, compared with 45.1% for the first quarter of 2011. This decrease can be attributed primarily to a lower payout under our Matching Bonus program as a result of our continued efforts to efficiently manage this component of our Associate Compensation Plan. This decrease was also due to a lower payout of base commissions, as a percent of sales, due to the temporary surge in sales we experienced ahead of the price changes discussed above (when we experience a temporary surge or decline in sales our Associate incentives as a percent of net sales typically react in an inverse manner), as well as the relative impact of the actual price changes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to 24.7% of net sales for the first quarter of 2012, compared with 25.0% for the first quarter of 2011. This relative decrease can be attributed to leverage gained on increased sales outside the United States in markets where selling, general and administrative expenses are lower. This improvement was partially offset by costs associated with opening our new markets and low initial sales in these markets.