

USANA HEALTH SCIENCES INC
Form 10-Q
August 05, 2010
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 0-21116

USANA HEALTH SCIENCES, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction
of incorporation or organization)

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

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

(Address of principal executive offices, Zip Code)

(801) 954-7100

(Registrant's telephone number, including area code)

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

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The number of shares outstanding of the registrant's common stock as of August 2, 2010 was 15,323,969.

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USANA HEALTH SCIENCES, INC.

FORM 10-Q

For the Quarterly Period Ended July 3, 2010

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands)

	As of January 2, 2010 (1)	As of July 3, 2010 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,658	\$ 28,427
Inventories	25,761	30,789
Prepaid expenses and other current assets	10,391	9,391
Deferred income taxes	2,116	2,519
Total current assets	51,926	71,126
Property and equipment, net	57,241	56,035
Goodwill	5,690	5,690
Other assets	8,581	10,821
	\$ 123,438	\$ 143,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,810	\$ 7,121
Other current liabilities	34,668	36,523
Total current liabilities	40,478	43,644
Line of credit	7,000	
Other long-term liabilities	1,587	1,470
Stockholders' equity		
Common stock, \$0.001 par value; Authorized 50,000 shares, issued and outstanding 15,309 as of January 2, 2010 and 15,319 as of July 3, 2010	15	15
Additional paid-in capital	16,425	20,662
Retained earnings	56,410	76,821
Accumulated other comprehensive income	1,523	1,060

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Total stockholders' equity		74,373		98,558
	\$	123,438	\$	143,672

(1) Derived from audited financial statements.

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(U.S. dollars in thousands, except per share data)

(unaudited)

	Quarter Ended	
	July 4, 2009	July 3, 2010
Net sales	\$ 112,093	\$ 126,011
Cost of sales	23,753	22,735
Gross profit	88,340	103,276
Operating expenses:		
Associate incentives	50,321	57,065
Selling, general and administrative	24,719	29,149
Total operating expenses	75,040	86,214
Earnings from operations	13,300	17,062
Other income (expense):		
Interest income	12	16
Interest expense	(146)	(5)
Other, net	259	(598)
Other income (expense), net	125	(587)
Earnings before income taxes	13,425	16,475
Income taxes	4,634	5,705
Net earnings	8,791	10,770
Earnings per common share		
Basic	\$ 0.57	\$ 0.70
Diluted	\$ 0.57	\$ 0.69
Weighted-average common shares outstanding		
Basic	15,350	15,318
Diluted	15,385	15,697

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(U.S. dollars in thousands, except per share data)

(unaudited)

	Six Months Ended	
	July 4, 2009	July 3, 2010
Net sales	\$ 209,392	\$ 245,098
Cost of sales	43,599	45,755
Gross profit	165,793	199,343
Operating expenses:		
Associate incentives	92,211	111,183
Selling, general and administrative	50,049	56,607
Total operating expenses	142,260	167,790
Earnings from operations	23,533	31,553
Other income (expense):		
Interest income	30	34
Interest expense	(435)	(26)
Other, net	440	(256)
Other income (expense), net	35	(248)
Earnings before income taxes	23,568	31,305
Income taxes	8,131	10,894
Net earnings	15,437	20,411
Earnings per common share		
Basic	\$ 1.01	\$ 1.33
Diluted	\$ 1.00	\$ 1.31
Weighted-average common shares outstanding		
Basic	15,350	15,315
Diluted	15,384	15,609

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

Six Months Ended July 4, 2009 and July 3, 2010

(in thousands)

(unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
For the Six Months Ended July 4, 2009						
Balance at January 3, 2009	15,350	15	8,089	24,107	(375)	31,836
Comprehensive income						
Net earnings				15,437		15,437
Foreign currency translation adjustment, net of tax benefit of \$613					911	911
Comprehensive income						16,348
Equity-based compensation expense			4,618			4,618
Balance at July 4, 2009	15,350	\$ 15	\$ 12,707	\$ 39,544	\$ 536	\$ 52,802
For the Six Months Ended July 3, 2010						
Balance at January 2, 2010	15,309	15	16,425	56,410	1,523	74,373
Comprehensive income						
Net earnings				20,411		20,411
Foreign currency translation adjustment, net of tax benefit of \$317					(463)	(463)
Comprehensive income						19,948
Equity-based compensation expense			4,140			4,140

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Common stock issued under equity award plans, including tax benefit of \$38	10			97				97			
Balance at July 3, 2010	15,319	\$	15	\$	20,662	\$	76,821	\$	1,060	\$	98,558

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	July 4, 2009	July 3, 2010
Cash flows from operating activities		
Net earnings	\$ 15,437	\$ 20,411
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	3,569	3,623
Loss on sale of property and equipment	20	7
Equity-based compensation expense	4,618	4,140
Excess tax benefit from equity-based payment arrangements		(61)
Deferred income taxes	(1,508)	(2,240)
Provision for inventory valuation	334	601
Changes in operating assets and liabilities:		
Inventories	(600)	(5,781)
Prepaid expenses and other assets	2,359	996
Accounts payable	(2,200)	1,312
Other liabilities	(15,565)	2,319
Total adjustments	(8,973)	4,916
Net cash provided by operating activities	6,464	25,327
Cash flows from investing activities		
Receipts on notes receivable	\$ 108	\$
Increase in notes receivable	(1)	
Proceeds from sale of property and equipment	1	4
Purchases of property and equipment	(1,893)	(3,666)
Net cash used in investing activities	(1,785)	(3,662)
Cash flows from financing activities		
Proceeds from equity awards exercised	\$	\$ 59
Excess tax benefits from equity-based payment arrangements		61
Borrowings on line of credit	49,340	
Payments on line of credit	(56,160)	(7,000)
Net cash used in financing activities	(6,820)	(6,880)
Effect of exchange rate changes on cash and cash equivalents	30	(16)

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Net increase (decrease) in cash and cash equivalents	(2,111)	14,769
Cash and cash equivalents, beginning of period	13,281	13,658
Cash and cash equivalents, end of period	\$ 11,170	\$ 28,427
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 411	\$ 32
Income taxes	12,492	12,513

The accompanying notes are an integral part of these statements.

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USANA HEALTH SCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Basis of Presentation

The condensed balance sheet as of January 2, 2010, derived from audited financial statements, and the unaudited interim consolidated financial information of USANA Health Sciences, Inc. and its subsidiaries (collectively, the Company or USANA) 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 July 3, 2010 and results of operations for the quarters and six months ended July 4, 2009 and July 3, 2010. 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 January 2, 2010. The results of operations for the quarter and six months ended July 3, 2010, may not be indicative of the results that may be expected for the fiscal year 2010 ending January 1, 2011.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 addresses the accounting for sales arrangements that include multiple products or services by revising the criteria for when deliverables may be accounted for separately rather than as a combined unit. Specifically, this guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is necessary to separately account for each product or service. This hierarchy provides more options for establishing selling price than existing guidance. ASU 2009-13 is required to be applied prospectively to new or materially modified revenue arrangements in fiscal periods beginning on or after June 15, 2010. The Company adopted ASU 2009-13 during the second quarter ended July 3, 2010, and its application had no impact on the Company's consolidated financial statements.

NOTE A ORGANIZATION

USANA develops and manufactures high-quality nutritional and personal care products that are sold internationally through a network marketing system, which is a form of direct selling. The Company's products are sold throughout the United States (including direct sales from the United States to the United Kingdom and the Netherlands), Canada, Mexico, Australia, New Zealand, Singapore, Malaysia, the Philippines, Hong Kong, Taiwan, Japan, and South Korea.

NOTE B INVENTORIES

Inventories consist of the following:

	January 2, 2010	July 3, 2010
Raw materials	\$ 6,785	\$ 7,419
Work in progress	5,003	5,603
Finished goods	13,973	17,767
	\$ 25,761	\$ 30,789

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE C PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	January 2, 2010	July 3, 2010
Prepaid insurance	\$ 1,165	\$ 602
Other prepaid expenses	2,263	2,305
Federal income taxes receivable	505	462
Miscellaneous receivables, net	2,775	2,595
Deferred commissions	2,738	2,741
Other current assets	945	686
	\$ 10,391	\$ 9,391

NOTE D PROPERTY AND EQUIPMENT

Cost of property and equipment and their estimated useful lives is as follows:

	Years	January 2, 2010	July 3, 2010
Buildings	40	\$ 37,346	\$ 37,013
Laboratory and production equipment	5-7	16,242	16,641
Sound and video library	5	600	600
Computer equipment and software	3-5	27,419	27,544
Furniture and fixtures	3-5	4,561	4,601
Automobiles	3-5	256	259
Leasehold improvements	3-5	4,478	4,447
Land improvements	15	2,025	2,014
		92,927	93,119
Less accumulated depreciation and amortization		43,714	46,489
		49,213	46,630

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Land	7,352	7,027
Deposits and projects in process	676	2,378
	\$ 57,241	\$ 56,035

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE E OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	January 2, 2010	July 3, 2010
Associate incentives	\$ 8,008	\$ 8,804
Accrued employee compensation	8,508	7,382
Income taxes	284	834
Sales taxes	3,683	3,208
Associate promotions	1,026	1,883
Deferred revenue	7,387	7,565
Provision for returns and allowances	1,115	1,092
All other	4,657	5,755
	\$ 34,668	\$ 36,523

NOTE F LONG TERM DEBT AND LINE OF CREDIT

The Company has a \$40,000 line of credit. At the year ended 2009, there was an outstanding balance of \$7,000 associated with the line of credit, with a weighted-average interest rate of 1.23%. The interest rate is computed at the bank's Prime Rate or LIBOR, adjusted by features specified in the Credit Agreement. The collateral for this line of credit is the pledge of the capital stock of certain subsidiaries of the Company, as set forth in a separate pledge agreement with the bank. The Credit Agreement contains restrictive covenants based on adjusted EBITDA and a debt coverage ratio.

At July 3, 2010, there was no outstanding debt on this line of credit. The Company will be required to pay any balance on this line of credit in full at the time of maturity in May 2011 unless the line of credit is replaced or terms are renegotiated.

NOTE G EQUITY-BASED COMPENSATION

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Equity-based compensation expense for the quarters ended July 4, 2009, and July 3, 2010, was \$2,104 and \$2,184, respectively. The related tax benefit for these periods was \$758 and \$787, respectively. Expense for the six months ended July 4, 2009, and July 3, 2010, was \$4,618 and \$4,140, respectively. The related tax benefit for these periods was \$1,647 and \$1,514, respectively.

The following table shows the remaining unrecognized compensation expense on a pre-tax basis for all types of equity awards that were outstanding as of July 3, 2010. This table does not include an estimate for future grants that may be issued.

Remainder of 2010	\$	4,968
2011		8,572
2012		7,357
2013		4,696
2014		2,143
2015		596
	\$	28,332

The cost above is expected to be recognized over a weighted-average period of 2.5 years.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE G EQUITY-BASED COMPENSATION CONTINUED

The following table includes weighted-average assumptions that the Company has used to calculate the fair value of equity awards that were granted during the periods indicated. Deferred stock units are full-value shares at the date of grant and have been excluded from the table below:

	Quarter Ended		Six Months Ended	
	July 4, 2009	July 3, 2010	July 4, 2009	July 3, 2010
Expected volatility	37.3%	54.8%	37.3%	54.9%
Risk-free interest rate	1.6%	2.0%	1.7%	2.0%
Expected life	4.0 yrs.	4.2 yrs.	4.0 yrs.	4.2 yrs.
Expected dividend yield				
Weighted-average grant price	\$ 24.99	\$ 35.47	\$ 26.04	\$ 34.46

A summary of the Company's stock option and stock-settled stock appreciation right activity for the six months ended July 3, 2010 is as follows:

	Shares	Weighted-average grant price	Weighted-average remaining contractual term	Aggregate intrinsic value*
Outstanding at January 2, 2010	4,267	\$ 30.26	3.8	\$ 17,173
Granted	652	34.46		
Exercised	(17)	18.49		
Canceled or expired	(71)	34.16		
Outstanding at July 3, 2010	4,831	\$ 30.81	3.5	\$ 33,641
Exercisable at July 3, 2010	1,840	\$ 32.86	3.1	\$ 9,969

* 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 weighted-average fair value of stock-settled stock appreciation rights that were granted during the six-month periods ended July 4, 2009, and July 3, 2010 was \$8.16 and \$15.50, respectively.

Table of Contents**NOTES TO 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. 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.

	For the Quarter Ended	
	July 4, 2009	July 3, 2010
Net earnings available to common shareholders	\$ 8,791	\$ 10,770
<u>Basic EPS</u>		
Shares		
Common shares outstanding - entire period		
Weighted-average common shares:	15,350	15,309
Issued during period		9
Canceled during period		
Weighted-average common shares outstanding during period	15,350	15,318
Earnings per common share from net earnings - basic	\$ 0.57	\$ 0.70
<u>Diluted EPS</u>		
Shares		
Weighted-average shares outstanding during period - basic	15,350	15,318
Dilutive effect of equity awards	35	379
Weighted-average shares outstanding during period - diluted	15,385	15,697
Earnings per common share from net earnings - diluted	\$ 0.57	\$ 0.69

Equity awards for 1,584 and 1,256 shares of stock were not included in the computation of diluted EPS for the quarters ended July 4, 2009, and July 3, 2010, 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 H COMMON STOCK AND EARNINGS PER SHARE CONTINUED

	For the Six Months Ended	
	July 4, 2009	July 3, 2010
Net earnings available to common shareholders	\$ 15,437	\$ 20,411
<u>Basic EPS</u>		
Shares		
Common shares outstanding - entire period		
Weighted-average common shares:	15,350	15,309
Issued during period		6
Canceled during period		
Weighted-average common shares outstanding during period	15,350	15,315
Earnings per common share from net earnings - basic	\$ 1.01	\$ 1.33
<u>Diluted EPS</u>		
Shares		
Weighted-average shares outstanding during period - basic	15,350	15,315
Dilutive effect of equity awards	34	294
Weighted-average shares outstanding during period - diluted	15,384	15,609
Earnings per common share from net earnings - diluted	\$ 1.00	\$ 1.31

Equity awards for 2,935 and 1,833 shares of stock were not included in the computation of diluted EPS for the six-month periods ended July 4, 2009, and July 3, 2010, respectively, due to the fact that their exercise prices were greater than the average market price of the shares.

NOTE I COMPREHENSIVE INCOME

Total comprehensive income consisted of the following:

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	Quarter Ended		Six Months Ended	
	July 4, 2009	July 3, 2010	July 4, 2009	July 3, 2010
Net earnings	\$ 8,791	\$ 10,770	\$ 15,437	\$ 20,411
Foreign currency translation adjustment	1,157	(762)	911	(463)
Comprehensive income	\$ 9,948	\$ 10,008	\$ 16,348	\$ 19,948

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE J 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.

Product Line	Quarter Ended		Six Months Ended	
	July 4, 2009	July 3, 2010	July 4, 2009	July 3, 2010
USANA® Nutritionals	77%	76%	76%	76%
USANA Foods	11%	13%	12%	13%
Sensé beautiful science®	9%	8%	9%	8%

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
- Canada
- Mexico
- Asia Pacific

- Southeast Asia Pacific Australia, New Zealand, Singapore, Malaysia, and the Philippines
- East Asia Hong Kong and Taiwan
- North Asia Japan and South Korea

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

(in thousands, except per share data)

(unaudited)

NOTE J SEGMENT INFORMATION CONTINUED*Selected Financial Information*

Selected financial information, presented by geographic region, is listed below for the periods ended as of the dates indicated:

	Quarter Ended		Six Months Ended	
	July 4, 2009	July 3, 2010	July 4, 2009	July 3, 2010
Net Sales to External Customers				
North America				
United States	\$ 39,908	\$ 37,992	\$ 76,397	\$ 75,598
Canada	16,454	18,373	31,390	35,933
Mexico	6,379	5,748	10,849	11,102
North America Total	62,741	62,113	118,636	122,633
Asia Pacific				
Southeast Asia Pacific	24,518	23,968	44,456	48,501
East Asia	19,649	34,437	36,604	62,700
North Asia	5,185	5,493	9,696	11,264
Asia Pacific Total	49,352	63,898	90,756	122,465
Consolidated Total	\$ 112,093	\$ 126,011	\$	