

GNC HOLDINGS, INC.  
Form 10-Q  
April 28, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2016

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

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

Commission File Number: 001-35113

GNC Holdings, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 20-8536244  
(State or other jurisdiction of (I.R.S. Employer  
Incorporation or organization) Identification No.)

300 Sixth Avenue 15222  
Pittsburgh, Pennsylvania (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (412) 288-4600

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:

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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

As of April 22, 2016, there were 68,367,171 outstanding shares of Class A common stock, par value \$0.001 per share (the "common stock"), of GNC Holdings, Inc.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(unaudited)

(in thousands)

	March 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$60,999	\$56,462
Receivables, net	126,898	142,486
Inventory (Note 3)	562,868	555,885
Deferred income taxes	10,926	10,916
Prepaid and other current assets	49,701	27,114
Total current assets	811,392	792,863
Long-term assets:		
Goodwill	646,343	649,892
Brands	720,000	720,000
Other intangible assets, net	117,158	119,204
Property, plant and equipment, net	224,818	230,535
Deferred income taxes	3,358	3,358
Other long-term assets	34,476	38,555
Total long-term assets	1,746,153	1,761,544
Total assets	\$2,557,545	\$2,554,407
Current liabilities:		
Accounts payable	\$208,666	\$152,099
Current portion of long-term debt (Note 5)	4,550	4,550
Deferred revenue and other current liabilities	154,586	121,062
Total current liabilities	367,802	277,711
Long-term liabilities:		
Long-term debt (Note 5)	1,536,390	1,444,628
Deferred income taxes	305,453	304,491
Other long-term liabilities	58,076	59,016
Total long-term liabilities	1,899,919	1,808,135
Total liabilities	2,267,721	2,085,846
Contingencies (Note 7)		
Stockholders' equity:		
Common stock	114	114
Additional paid-in capital	917,005	916,128
Retained earnings	1,094,550	1,058,148
Treasury stock, at cost	(1,715,121 )	(1,496,180 )
Accumulated other comprehensive loss	(6,724 )	(9,649 )
Total stockholders' equity	289,824	468,561
Total liabilities and stockholders' equity	\$2,557,545	\$2,554,407

The accompanying notes are an integral part of the consolidated financial statements.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Income

(unaudited)

(in thousands, except per share amounts)

	Three months ended	
	March 31,	
	2016	2015
Revenue	\$668,905	\$681,266
Cost of sales, including warehousing, distribution and occupancy	433,060	431,833
Gross profit	235,845	249,433
Selling, general, and administrative	143,072	139,768
Gains on franchising (Note 4)	(1,015 )	(338 )
Other (income) loss, net	(277 )	398
Operating income	94,065	109,605
Interest expense, net (Note 5)	14,443	11,515
Income before income taxes	79,622	98,090
Income tax expense (Note 11)	28,807	34,820
Net income	\$50,815	\$63,270
Earnings per share (Note 8):		
Basic	\$0.70	\$0.72
Diluted	\$0.69	\$0.72
Weighted average common shares outstanding (Note 8):		
Basic	73,078	87,865
Diluted	73,373	88,105
Dividends declared per share	\$0.20	\$0.18

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)

	Three months ended March 31,	
	2016	2015
Net income	\$50,815	\$63,270
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	2,925	(5,311 )
Comprehensive income	\$53,740	\$57,959

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES  
 Consolidated Statements of Stockholders' Equity  
 (unaudited)  
 (in thousands)

	Common Stock		Treasury	Paid-in	Retained	Accumulated	Total
	Class A	Dollars	Stock	Capital	Earnings	Other	Stockholders'
	Shares					Comprehensive	Equity
						Loss	
Balance at December 31, 2015	76,276	\$ 114	\$(1,496,180)	\$916,128	\$1,058,148	\$ (9,649 )	\$ 468,561
Comprehensive income	—	—	—	—	50,815	2,925	53,740
Purchase of treasury stock	(7,599 )	—	(218,941 )	—	—	—	(218,941 )
Dividends declared	—	—	—	—	(14,413 )	—	(14,413 )
Exercise of stock options	20	—	—	292	—	—	292
Restricted stock awards	16	—	—	—	—	—	—
Minimum tax withholding requirements	(19 )	—	—	(519 )	—	—	(519 )
Net excess tax benefits from stock-based compensation	—	—	—	(315 )	—	—	(315 )
Stock-based compensation	—	—	—	1,419	—	—	1,419
Balance at March 31, 2016	68,694	\$ 114	\$(1,715,121)	\$917,005	\$1,094,550	\$ (6,724 )	\$ 289,824
Balance at December 31, 2014	88,335	\$ 113	\$(1,016,381)	\$877,566	\$898,574	\$ (3,829 )	\$ 756,043
Comprehensive income (loss)	—	—	—	—	63,270	(5,311 )	57,959
Purchase of treasury stock	(1,394 )	—	(62,342 )	—	—	—	(62,342 )
Dividends declared	—	—	—	—	(15,797 )	—	(15,797 )
Exercise of stock options	41	1	—	896	—	—	897
Restricted stock awards	210	—	—	—	—	—	—
Minimum tax withholding requirements	(5 )	—	—	(216 )	—	—	(216 )
Net excess tax benefits from stock-based compensation	—	—	—	320	—	—	320
Stock-based compensation	—	—	—	1,305	—	—	1,305
Balance at March 31, 2015	87,187	\$ 114	\$(1,078,723)	\$879,871	\$946,047	\$ (9,140 )	\$ 738,169

The accompanying notes are an integral part of the consolidated financial statements.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$50,815	\$63,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	14,045	14,430
Amortization of debt costs	3,099	463
Stock-based compensation	1,419	1,305
Gains on refranchising	(1,015 )	(338 )
Changes in assets and liabilities:		
Decrease in receivables	17,402	1,597
(Increase) decrease in inventory	(13,021 )	10,942
(Increase) in prepaid and other current assets	(9,056 )	(10,978 )
Increase in accounts payable	41,364	22,482
Increase in deferred revenue and accrued liabilities	33,250	12,976
Other operating activities	4,023	788
Net cash provided by operating activities	142,325	116,937
Cash flows from investing activities:		
Capital expenditures	(10,542 )	(7,519 )
Refranchising proceeds	830	551
Store acquisition costs	(519 )	(278 )
Net cash used in investing activities	(10,231 )	(7,246 )
Cash flows from financing activities:		
Borrowings under revolving credit facility	90,000	—
Payments on long-term debt	(1,138 )	(1,199 )
Debt issuance costs	(1,712 )	—
Proceeds from exercise of stock options	292	896
Excess tax benefits from stock-based compensation	—	320
Minimum tax withholding requirements	(519 )	(216 )
Cash paid for treasury stock	(201,002)	(60,557 )
Dividends paid to shareholders	(14,274 )	(15,756 )
Net cash used in financing activities	(128,353)	(76,512 )
Effect of exchange rate changes on cash and cash equivalents	796	(87 )
Net increase in cash and cash equivalents	4,537	33,092
Beginning balance, cash and cash equivalents	56,462	133,834
Ending balance, cash and cash equivalents	\$60,999	\$166,926

The accompanying notes are an integral part of the consolidated financial statements.



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GNC HOLDINGS, INC. AND SUBSIDIARIES

Supplemental Cash Flow Information

(unaudited)

(in thousands)

	As of March	
	31,	
	2016	2015
Non-cash investing and financing activities:		
Accrued capital expenditures	\$2,871	\$2,130
Accrued treasury stock	17,939	1,783

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Condensed Notes to the Unaudited Consolidated Financial Statements

NOTE 1. NATURE OF BUSINESS

GNC Holdings, Inc., a Delaware corporation (“Holdings,” and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the “Company”), is a global specialty retailer of health, wellness and performance products, including protein, performance supplements, weight management supplements, vitamins, herbs and greens, wellness supplements, health and beauty, food and drink and other general merchandise.

The Company is vertically integrated as its operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three reportable segments, which include Retail, Franchise, and Manufacturing / Wholesale. Corporate retail store operations are located in the United States, Canada, Puerto Rico, and, beginning with the acquisition of THSD d/b/a The Health Store (“The Health Store”) in 2014, Ireland. In addition, the Company offers products on the Internet through its websites, GNC.com and LuckyVitamin.com. The Company also offered product on the Internet through its 2013 acquisition of A1 Sports Limited d/b/a Discount Supplements (“Discount Supplements”) up to and including December 31, 2015 when the assets of Discount Supplements were sold and operations were ceased. Franchise locations exist in the United States and approximately 50 other countries. The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, Indiana, Pennsylvania and South Carolina. The Company manufactures the majority of its branded products, but also merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

The processing, formulation, packaging, labeling and advertising of the Company’s products are subject to regulation by various federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture and the Environmental Protection Agency. These activities are also regulated by various agencies of the states and localities in which the Company’s products are sold.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements, which have been prepared in accordance with the applicable rules of the Securities and Exchange Commission, include all adjustments (consisting of a normal and recurring nature) that management considers necessary to fairly state the Company's results of operations, financial position and cash flows. The December 31, 2015 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 10-K”). Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2016.

Revision for Sublease Rent Income

The Company revised its presentation of sublease income received from its franchisees for prior year periods to conform to the current period’s presentation with no impact on previously reported gross profit, operating income, net income, shareholders’ equity or cash flow from operations. The Company is the primary obligor of the leases for the majority of its franchise store locations and makes rental payments directly to the landlord and separately bills the franchisee for reimbursement. Accordingly, sublease rental income received from franchisees is now appropriately

presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy" on the consolidated statements of income. In addition, the deferred rent asset associated with recognizing sublease rental income for lease agreements that contain escalation clauses, which are fixed and determinable, on a straight-line basis is now appropriately presented in "Other long-term assets" compared with the previous presentation as a reduction to the deferred rent liability in "Other long-term liabilities" on the consolidated balance sheets. This revision is not material to prior periods.

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The following table includes the revisions to the consolidated statements of income for the interim periods during 2015 and 2014:

	For the Three Months Ended				Year
	March 31	June 30	September 30	December 31	Ended December 31
2015:	(in thousands)				
Revenue:					
Prior to revision	\$ 670,247	\$ 678,520	\$ 672,244	\$ 618,201	\$ 2,639,212
Revision	11,019	11,044	11,114	10,909	44,086
As Revised	\$ 681,266	\$ 689,564	\$ 683,358	\$ 629,110	\$ 2,683,298
Cost of sales, including warehousing, distribution and occupancy:					
Prior to revision	\$ 420,814	\$ 422,188	\$ 421,600	\$ 389,967	\$ 1,654,569
Revision	11,019	11,044	11,114	10,909	44,086
As Revised	\$ 431,833	\$ 433,232	\$ 432,714	\$ 400,876	\$ 1,698,655
2014:					
Revenue:					
Prior to revision	\$ 674,456	\$ 675,216	\$ 656,326	\$ 607,156	\$ 2,613,154
Revision	10,122	10,321	10,585	10,824	41,852
As Revised	\$ 684,578	\$ 685,537	\$ 666,911	\$ 617,980	\$ 2,655,006
Cost of sales, including warehousing, distribution and occupancy:					
Prior to revision	\$ 420,737	\$ 416,636	\$ 408,578	\$ 386,963	\$ 1,632,914
Revision	10,122	10,321	10,585	10,824	41,852
As Revised	\$ 430,859	\$ 426,957	\$ 419,163	\$ 397,787	\$ 1,674,766

The following table includes the revision to the consolidated balance sheet:

	December 31, 2015
Other long-term assets:	(in thousands)
Prior to revision (*)	\$ 32,891
Revision	5,664
As Revised	\$ 38,555
Other long-term liabilities:	
Prior to revision	\$ 53,352
Revision	5,664
As Revised	\$ 59,016

(\*) Includes the adoption of ASU 2015-03 and 2015-15 relating to the presentation of deferred financing fees as described below, which reclassified \$3.3 million of debt issuance costs from "Other long-term assets" to "Long-term debt" at December 31, 2015 on the consolidated balance sheet.

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### Correction of Prior Year Immaterial Error

During the quarter ended March 31, 2015, the Company identified a \$2.8 million error relating to prior periods in the calculation of the portion of the accrued payroll liability relating to certain amounts paid to store employees. The impact of this error was not material to any prior period. Consequently, the Company corrected the error in the first quarter of 2015 by increasing selling, general and administrative expense on the consolidated statement of income and deferred revenue and other current liabilities on the consolidated balance sheet by \$2.8 million. The impact to net income was a decrease of \$1.8 million for the three months ended March 31, 2015. This correction had no impact on cash flows from operations for the prior year quarter.

### Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, which requires an entity to present debt issuance costs related to a recognized debt liability as a direct reduction from the carrying amount of that debt liability, consistent with the treatment of debt discounts. This standard does not affect the recognition and measurement guidance for debt issuance costs. In August 2015, the FASB subsequently issued ASU 2015-15, which clarifies that ASU 2015-03 does not address the presentation of debt issuance costs related to line-of-credit arrangements. This standard is effective for fiscal years beginning after December 15, 2015. Accordingly, the Company adopted these standards during the first quarter of fiscal 2016, with retrospective application. Net debt issuance costs in the amount of \$3.3 million, which were previously classified as "Other long-term assets" at December 31, 2015, were reclassified as a reduction to "Long-term debt" on the Company's consolidated balance sheet to conform to the current year presentation.

### Recently Issued Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, which includes multiple provisions intended to simplify various aspects of accounting and reporting for share-based payments. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about the entity's leasing arrangements. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018. The Company is currently evaluating the impact this guidance will have on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, which requires an entity to classify deferred tax assets and liabilities as noncurrent on the balance sheet. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. The Company does not believe the adoption of this guidance will have a material effect on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, which requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. The Company does not believe the adoption of this guidance will have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, which updates revenue recognition guidance relating to contracts with customers. This standard states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in

exchange for those goods or services. In August 2015, the FASB subsequently issued ASU 2015-14, which approved a one year deferral of ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance will have on the consolidated financial statements.

#### Other Revisions

In addition to the sublease rent revision and the adoption of ASU 2015-03 as explained above, certain amounts in the consolidated financial statements for prior year periods have been revised to conform to the current period's



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presentation. The impact to prior periods of these revisions was not significant with no impact on previously reported operating income, net income, cash flows from operations or stockholders' equity.

## NOTE 3. INVENTORY

The net realizable value of inventory consisted of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Finished product ready for sale	\$497,682	\$487,075
Work-in-process, bulk product and raw materials	59,200	62,242
Packaging supplies	5,986	6,568
Total inventory	\$562,868	\$555,885

## NOTE 4. REFRANCHISING

## Held for Sale

The Company classifies assets as held for sale when it commits to a plan to dispose of the assets by refranchising specific stores in their current condition at a price that is reasonable, and the Company believes completing the sale within one year is probable without significant changes. Assets held for sale are recorded at the lower of their carrying value or fair value, less costs to sell and depreciation is ceased on assets at the time they are classified as held for sale.

The Company has begun to execute its previously announced refranchising strategy, which includes increasing the proportion of its domestic stores that are franchise locations. In March 2016, the Company completed an asset purchase agreement to sell 84 of its company-owned stores to a franchisee with the sale expected to occur in the second quarter of 2016. The Company also expects to complete a sale of 10 of its stores to another franchisee in 2016, half of which are expected to close in the second quarter.

As of March 31, 2016, the Company classified as held for sale, within "Prepaid and other current assets" in the accompanying consolidated balance sheet, the applicable assets of 94 company-owned stores the Company expects to sell during the next 12 months as described above with a corresponding reduction to inventory, goodwill and property, plant and equipment, net. The fair values of these assets exceeded their respective carrying values. The following summarizes the financial statement carrying amounts of assets as held for sale at March 31, 2016:

	(in thousands)
Inventory	\$ 7,803
Goodwill	3,849
Property, plant and equipment, net	1,736
Total held for sale assets	\$ 13,388

## Gains on Refranchising

Refranchising pre-tax gains of approximately \$20 million are expected to be recorded associated with the sale of 94 company-owned stores as explained above, the majority of which will be recognized in the second quarter of 2016. These gains are calculated by subtracting the carrying value of applicable assets disposed of from the sales proceeds.

In addition, the initial franchise fee received is included in the gain along with any other costs incurred by the Company to get the underlying assets ready for sale. The Company recognizes gains on refranchising after the asset purchase agreement is signed, the franchisee has taken possession of the store and management is satisfied that the franchisee can meet its financial obligations. Gains of \$1.0 million and \$0.3 million were recorded in the current quarter and prior year quarter, respectively.

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## NOTE 5. LONG-TERM DEBT

Long-term debt consisted of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Term Loan Facility (net of \$2.4 million and \$3.3 million discount)	\$1,173,398	\$1,174,369
Revolving Credit Facility	133,000	43,000
Notes	237,581	235,085
Debt issuance costs	(3,039 )	(3,276 )
Total debt	1,540,940	1,449,178
Less: current maturities	(4,550 )	(4,550 )
Long-term debt	\$1,536,390	\$1,444,628

The Company maintains a \$1.2 billion term loan facility (the "Term Loan Facility") that matures in March 2019. The Company also maintains a \$300.0 million revolving credit facility (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Senior Credit Facility") that matures in September 2018 as described in more detail below. On August 10, 2015, the Company issued \$287.5 million principal amount of 1.5% convertible senior notes due 2020 (the "Notes") in a private offering.

At March 31, 2016 and December 31, 2015, the interest rate under the Term Loan Facility was 3.25%. The Revolving Credit Facility had a weighted average interest rate of 2.7% and 2.6% at March 31, 2016 and December 31, 2015, respectively. At March 31, 2016 and December 31, 2015, the commitment fee on the undrawn portion of the Revolving Credit Facility was 0.5%, and the fee on outstanding letters of credit was 2.50%.

## Refinancing of Revolving Credit Facility

The Company amended the Revolving Credit Facility on March 4, 2016, to extend its maturity from March 2017 to September 2018 and increase total availability from \$130.0 million to \$300.0 million. In connection with this transaction, the Company incurred \$1.7 million of costs, which were capitalized as deferred financing fees within "Other long-term assets" and will be amortized to interest expense over the new term of the Revolving Credit Facility. At March 31, 2016, the Company had \$161.4 million available under the Revolving Credit Facility, after giving effect to \$133.0 million of borrowings outstanding (including \$90.0 million drawn in the current quarter) and \$5.6 million utilized to secure letters of credit.

## Convertible Debt

The Notes consist of the following components:

	March 31, 2016	December 31, 2015
	(in thousands)	
Liability component		
Principal	\$287,500	\$287,500
Conversion feature	(44,039 )	(46,271 )
Discount related to debt issuance costs	(5,880 )	(6,144 )
Net carrying amount	\$237,581	\$235,085
Equity component		
Conversion feature	\$49,680	\$49,680
Debt issuance costs	(1,421 )	(1,421 )

Deferred taxes	(17,750 )	(17,750 )
Net amount recorded in additional paid-in capital	\$30,509	\$30,509

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## Interest Expense

Interest expense consisted of the following:

	Three months ended March 31, 2016      2015 (in thousands)	
Senior Credit Facility:		
Term Loan Facility coupon	\$9,666	\$10,932
Revolver	616	168
Amortization of discount and debt issuance costs	592	463
Total Senior Credit Facility	10,874	11,563
Notes:		
Coupon	1,078	—
Amortization of conversion feature	2,232	—
Amortization of discount and debt issuance costs	275	—
Total Notes	3,585	—
Interest income and other	(16      )	(48      )
Interest expense, net	\$14,443	\$11,515

## NOTE 6. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Accounting Standards Codification 820, Fair Value Measurements and Disclosures defines fair value as a market-based measurement that should be determined based on the assumptions that marketplace participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 — observable inputs such as quoted prices in active markets for identical assets and liabilities;

Level 2 — observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other inputs that are observable, or can be corroborated by observable market data; and

Level 3 — unobservable inputs for which there are little or no market data, which require the reporting entity to develop its own assumptions.

The carrying amounts of cash and cash equivalents, receivables, accounts payable, accrued liabilities and the Revolving Credit Facility approximate their respective fair values. Based on the interest rates currently available and their underlying risk, the carrying value of franchise notes receivable approximates its fair value.

The carrying value and estimated fair value of the Term Loan Facility and Notes (excluding the equity component classified in stockholders' equity) were as follows:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Term Loan Facility	\$1,173,398	\$1,163,131	\$1,174,369	\$1,145,010
Notes	237,581	194,222	235,085	188,940

The fair value of the Term Loan Facility was determined using the instrument's trading value in markets that are not active, which are considered Level 2 inputs. The fair value of the Notes was determined based on quoted market prices and bond terms and conditions, which are considered Level 2 inputs.

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NOTE 7. CONTINGENCIES

Litigation

The Company is engaged in various legal actions, claims and proceedings arising in the normal course of business, including claims related to breach of contracts, product liabilities, intellectual property matters and employment-related matters resulting from the Company's business activities.

The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. Currently, none of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's financial position. However, if the Company ultimately is required to make a payment in connection with an adverse outcome in any of the matters discussed below, it is possible that it could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

The Company's contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement posture of the parties. Consequently, except as otherwise noted below with regard to a particular matter, the Company cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and the Company is unable to estimate a possible loss or range of loss.

As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. Although the effects of these claims to date have not been material to the Company, it is possible that current and future product liability claims could have a material adverse effect on its business or financial condition, results of operations or cash flows. The Company currently maintains product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. The Company typically seeks and has obtained contractual indemnification from most parties that supply raw materials for its products or that manufacture or market products it sells. The Company also typically seeks to be added, and has been added, as an additional insured under most of such parties' insurance policies. The Company is also entitled to indemnification by Numico for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. Consequently, the Company may incur material product liability claims, which could increase its costs and adversely affect its reputation, revenue and operating income.

DMAA / Aegeline Claims. Prior to December 2013, the Company sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/dimethylamylamine/13-dimethylamylamine, or "DMAA," which were recalled from the Company's stores in November 2013, and/or Aegeline, a compound extracted from bael trees. As of March 31, 2016, the Company was named in 28 personal injury lawsuits involving products containing DMAA and/or Aegeline.

As a general matter, the proceedings associated with these personal injury cases, which generally seek indeterminate money damages, are in the early stages, and any losses that may arise from these matters are not probable or reasonably estimable at this time.

The Company is contractually entitled to indemnification by its third-party vendors with regard to these matters, although the Company's ability to obtain full recovery in respect of any such claims against it is dependent upon the creditworthiness of the vendors and/or their insurance coverage and the absence of any significant defenses available to its insurer.

California Wage and Break Claims. In July 2011, Charles Brewer, on behalf of himself and all others similarly situated, sued General Nutrition Corporation in federal court, alleging state and federal wage and hour claims. In

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October 2011, plaintiff filed an eight-count amended complaint alleging, among other matters, meal, rest break and overtime violations on behalf of sales associates and store managers. In January 2013, the Court conditionally certified a Fair Labor Standards Act ("FLSA") class with respect to one of Plaintiff's claims, and in November 2014, the Court granted in part and denied in part the plaintiff's motion to certify a California class and granted the Company's motion for decertification of the FLSA class. In May 2015, plaintiffs filed a motion for partial summary judgment as to the Company's alleged liability for non-compliant wage statements, which was granted in part and denied in part in September 2015. On February 5, 2016, the Company and attorneys representing the putative class agreed to class-wide settlements of the Brewer case and an additional, immaterial case raising similar claims, pursuant to which the Company agreed to pay up to \$9.5 million in the aggregate, including attorneys' fees and costs. Following a hearing on April 19, 2016, the Court preliminarily approved the settlement agreement, which remains subject to final Court approval. As a result of this settlement, the Company recorded a charge of \$6.3 million in the fourth quarter of 2015, in addition to \$3.2 million previously accrued in the first quarter of 2015.

On February 29, 2012, former Senior Store Manager, Elizabeth Naranjo, individually and on behalf of all others similarly situated, sued General Nutrition Corporation in the Superior Court of the State of California for the County of Alameda. The complaint contains eight causes of action, alleging, among other matters, meal, rest break and overtime violations. As of March 31, 2016, an immaterial liability has been accrued in the accompanying financial statements.

Jason Olive v. General Nutrition Corp. In April 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles, for misappropriation of likeness in which he alleges that the Company continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Mr. Olive is seeking compensatory, punitive and statutory damages and attorneys' fees and costs. The trial in this matter is scheduled for July 11, 2016. As of March 31, 2016, an immaterial liability has been accrued in the accompanying financial statements.

Oregon Attorney General. On October 22, 2015, the Attorney General for the State of Oregon sued General Nutrition Corporation in Multnomah County Circuit Court for alleged violations of Oregon's Unlawful Trade Practices Act, in connection with its sale in Oregon of certain third-party products. The Company intends to vigorously defend against these allegations. As any losses that may arise from this matter are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying interim consolidated financial statements. Moreover, the Company does not anticipate that any such losses are likely to have a material impact on the Company, its business or results of operations. The Company is contractually entitled to indemnification and defense by its third-party vendors, which have accepted the Company's tender request for defense and indemnification. Ultimately, however, the Company's ability to obtain full recovery in respect of any such claims against it is dependent upon the creditworthiness of its vendors and/or their insurance coverage and the absence of any significant defenses available to their insurers.

## Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the "DHEC") requested that the Company investigate contamination associated with historical activities at its South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from the facility. The Company entered into a Voluntary Cleanup Contract with the DHEC regarding the matter on September 24, 2012. Pursuant to such contract, the Company is completing additional investigations with the DHEC's approval. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of the Company's potential liability, therefore no liability is recorded.

In addition to the foregoing, the Company is subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation and disposal of the Company's non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its



operations into the environment, including discharges to air, surface water and groundwater. Failure to comply with such laws and regulations could result in costs for remedial actions, penalties or the imposition of other liabilities. New laws, changes in existing laws or the interpretation thereof, or the development of new facts or changes in their processes could also cause the Company to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. The Company is also subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or for properties to which substances or wastes that were sent in connection with current or former operations at its facilities. The

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presence of contamination from such substances or wastes could also adversely affect the Company's ability to sell or lease its properties, or to use them as collateral for financing. From time to time, the Company has incurred costs and obligations for correcting environmental and health and safety noncompliance matters and for remediation at or relating to certain of the Company's properties or properties at which the Company's waste has been disposed. However, compliance with the provisions of national, state and local environmental laws and regulations has not had a material effect upon the Company's capital expenditures, earnings, financial position, liquidity or competitive position. The Company believes it has complied with, and is currently complying with, its environmental obligations pursuant to environmental and health and safety laws and regulations and that any liabilities for noncompliance will not have a material adverse effect on its business, financial performance or cash flows. However, it is difficult to predict future liabilities and obligations, which could be material.

**NOTE 8. EARNINGS PER SHARE**

The following table represents the Company's basic and dilutive weighted average shares:

	Three months ended March 31, 2016 2015 (in thousands)	
Basic weighted-average shares	73,078	87,865
Effect of dilutive stock-based awards	295	240
Diluted weighted-average shares	73,373	88,105

In each of the three months ended March 31, 2016 and 2015, the Company had 0.1 million of time-based and market-based stock awards that were not included in the computation of diluted earnings per share because the impact of applying the treasury stock method was anti-dilutive. Because certain conditions have not been met as of March 31, 2016 with respect to the Company's performance-based awards, the Company has determined these awards to be contingently issuable; as a result, all 0.1 million outstanding performance-based awards were not included in the diluted EPS calculation in each of the three months ended March 31, 2016 and 2015.

The Company has the intent and ability to settle the principal portion of its Notes in cash, and as such, has applied the treasury stock method, which has resulted in all underlying convertible shares being anti-dilutive as the Company's average stock price in the current quarter is less than the conversion price. Refer to Note 5, "Long-Term Debt" for more information on the Notes.

**NOTE 9. STOCK-BASED COMPENSATION PLANS AND SHARE REPURCHASE PROGRAM****Stock and Incentive Plans**

The Company has outstanding stock-based compensation awards that were granted by the Compensation and Organizational Development Committee (the "Compensation Committee") of Holdings' board of directors (the "Board") under the following two stock-based employee compensation plans:

the GNC Holdings, Inc. 2015 Stock and Incentive Plan (the "2015 Stock Plan") amended and adopted in May 2015, formerly the GNC Holdings, Inc. 2011 Stock and Incentive Plan (the "2011 Stock Plan") adopted in March 2011; and the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan adopted in March 2007 (as amended, the "2007 Stock Plan").

Both plans have provisions allowing for the granting of stock options, restricted stock and other stock-based awards and are available to eligible employees, directors, consultants or advisers as determined by the Compensation Committee. The Company will not grant any additional awards under the 2007 Stock Plan. Up to 11.5 million shares of common stock may be issued under the 2015 Stock plan (subject to adjustment to reflect certain transactions and

events specified in the 2015 Stock Plan for any award grant), of which 7.1 million shares remain available for issuance as of March 31, 2016.

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The following table sets forth a summary of all stock-based compensation awards outstanding under all plans:

	March 31, 2016	December 31, 2015
	(in thousands)	
Time-based stock options	1,288	688
Time-based restricted stock awards	322	194
Performance-based restricted stock awards	141	141
Market-based restricted stock awards	167	—
Total	1,918	1,023

## Stock-Based Compensation Activity

During the three months ended March 31, 2016, the Company granted the following stock-based compensation awards:

	March 31, 2016 (in thousands)
Time-based stock options	629
Time-based restricted stock awards	194
Market-based restricted stock awards	167
Total	990

Time-based stock options vest 25% per year over a period of four years and the fair value was determined using the Black-Scholes model. Key assumptions used for the options granted during the quarter include a dividend yield between 2.31% and 3.06%, an expected term of 6.3 years, volatility of 30.7%, and a risk-free rate between 1.32% and 1.90%. Time-based restricted stock awards vest one-third per year over a period of three years.

Market-based awards vest at the end of a three-year period based upon total shareholder return compared with that of a selected group of peer companies. Total shareholder return is defined as share price appreciation plus the value of dividends paid during the three-year vesting period. Fair value of these awards was determined using a Monte Carlo simulation, which requires various inputs and assumptions, including the Company's common stock price. Compensation cost for these awards is recognized regardless of whether the market condition is achieved. Vested shares may range from 0% to 200% of the original target. Key assumptions used in the Monte Carlo simulation for the awards granted during the quarter include peer group volatility of 34.2% and a risk-free rate of 0.89%.

The awards granted during the quarter will result in compensation expense of \$14.1 million, net of expected forfeitures, over the requisite service period assuming the market-based awards vest at 100% of the original target award.

The Company recognized \$1.4 million and \$1.3 million of total non-cash stock-based compensation expense for the three months ended March 31, 2016 and 2015, respectively. At March 31, 2016, there was approximately \$22.5 million of total unrecognized compensation cost related to non-vested stock-based compensation for all awards previously made that are expected to be recognized over a weighted average period of approximately 1.8 years.

## Share Repurchase Program

In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of Holdings' common stock. Holdings repurchased \$218.9 million of common stock (including \$17.9 million purchased that cash settled in April) during the three months ended March 31, 2016 and has utilized \$792.0 million of the current repurchase program. As of March 31, 2016, \$208.0 million remains available for purchase under the program.

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## NOTE 10. SEGMENTS

The Company aggregates its operating segments into three reportable segments, which include Retail, Franchise, and Manufacturing / Wholesale. The Company's chief operating decision maker, its chief executive officer, evaluates segment operating results based primarily on performance indicators, including revenue and operating income. Operating income of each reportable segment excludes certain items that are managed at the consolidated level, such as warehousing, distribution and corporate costs. The following table represents key financial information for each of the Company's reportable segments. Refer to Note 2, "Basis of Presentation" for a description of the prior period revision associated with sublease rent income. Refer to Note 12, "Subsequent Events" for a description of the change in the Company's reportable segments effective in the second quarter of 2016.

	Three months ended	
	March 31,	
	2016	2015
	(in thousands)	
Revenue:		
Retail	\$495,962	\$503,466
Franchise	115,480	122,276
Manufacturing / Wholesale:		
Intersegment revenues	63,031	66,254
Third-party	57,463	55,524
Subtotal Manufacturing / Wholesale	120,494	121,778
Total reportable segment revenues	731,936	747,520
Elimination of intersegment revenues	(63,031 )	(66,254 )
Total revenue	\$668,905	\$681,266
Operating income:		
Retail	\$80,562	\$92,362
Franchise	35,971	39,683
Manufacturing / Wholesale	19,300	21,122
Total reportable segment operating income	135,833	153,167
Unallocated corporate and other costs:		
Warehousing and distribution costs	(18,008 )	(17,785 )
Corporate costs	(23,760 )	(25,777 )
Subtotal unallocated corporate and other costs	(41,768 )	(43,562 )
Total operating income	94,065	109,605
Interest expense, net	14,443	11,515
Income before income taxes	\$79,622	\$98,090

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NOTE 11. INCOME TAXES

The Company recognized \$28.8 million of income tax expense (or 36.2% of pre-tax income) during the three months ended March 31, 2016 compared with \$34.8 million (or 35.5% of pre-tax income) in the prior year quarter.

At March 31, 2016 and December 31, 2015, the Company had \$6.8 million (which if recognized, would affect the effective tax rate) and \$7.3 million of unrecognized tax benefits, respectively, excluding interest and penalties. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued \$1.7 million and \$1.8 million at March 31, 2016 and December 31, 2015, respectively, for potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to the ultimate settlement of uncertain tax positions, amounts previously accrued will be reversed as a reduction to income tax expense.

Holdings files a consolidated federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it and its subsidiaries operate. The statutes of limitation for the Company's U.S. federal income tax returns are closed for years through 2011. The Company's 2010 and 2011 federal income tax returns have been examined by the Internal Revenue Service. The Internal Revenue Service closed the examination without making any material adjustments to the returns. The Company has various state and local jurisdiction tax years open to possible examination (the earliest open period is generally 2011), and the Company also has certain state and local tax filings currently under audit.

NOTE 12. SUBSEQUENT EVENTS

On April 26, 2016, the Board authorized and declared a cash dividend for the second quarter of 2016 of \$0.20 per share of common stock, payable on or about June 24, 2016 to stockholders of record as of the close of business on June 10, 2016.

As described in Note 4, "Refranchising", the Company expects to sell 94 corporate stores to two franchisees and record pre-tax gains of approximately \$20 million, the majority of which will be recognized in the second quarter of 2016.

The Company's previously disclosed refranchising strategy, which will increase the proportion of domestic stores that are franchise locations in 2016 and beyond, will result in a change in the Company's organizational structure and the financial reporting utilized by the Company's chief operating decision maker (its chief executive officer) to assess performance and allocate resources; as a result, the Company's reportable segments will change effective in the second quarter of 2016. The Company believes that the new segments will better present management's new view of the business. The new reportable segments will be disclosed beginning in the Company's second quarter of 2016. The following table shows the new reportable segments compared with the previous reporting structure.

Old	New
<p>Segment: Retail</p> <p>Includes: Company-owned stores in the U.S., Puerto Rico and Canada, The Health Store and e-commerce, including Discount Supplements, which was sold in the fourth quarter of 2015</p>	<p>Segment: U.S. and Canada</p> <p>Includes: Company-owned stores in the U.S., Puerto Rico and Canada, franchise stores in the U.S. and e-commerce</p>
<p>Segment: Franchise</p> <p>Includes: Domestic and international franchise locations and China operations</p>	<p>Segment: International</p> <p>Includes: Franchise locations in approximately 50 countries, The Health Store and China operations</p>

Segment: Manufacturing / Wholesale

Includes: Manufactured product sold to the Company's other segments, third-party contract manufacturing and sales to wholesale partners

Segment: Manufacturing / Wholesale  
Includes: Manufactured product sold to the Company's other segments, third-party contract manufacturing and sales to wholesale partners (no change from old)

Other

Includes: Discount Supplements, an e-commerce business which was sold in the fourth quarter of 2015



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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q. The following information presented for the three months ended March 31, 2016 and 2015 was prepared by management, is unaudited, and was derived from our unaudited consolidated financial statements and accompanying notes. In the opinion of management, all adjustments necessary for a fair statement of our financial position and operating results for such periods and as of such dates have been included.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and any documents incorporated by reference herein or therein include forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Forward-looking statements can often be identified by the use of terminology such as "subject to," "believe," "anticipate," "plan," "potential," "predict," "expect," "intend," "estimate," "project," "may," "will," "should," "would," "continue," "seek," "could," "can," "this" and "that," variations thereon and similar expressions, or by discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others including, but not limited to, those we describe under the caption "Risk Factors" in this Quarterly Report on Form 10-Q and our 2015 10-K, could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- significant and growing competition in our industry;
- unfavorable publicity or consumer perception of our industry or products, as well as general changes in consumer behaviors and trends;
- increases in the cost of borrowings and limitations on availability of additional debt or equity capital;
- our debt levels and restrictions in our debt agreements;
- incurrence of material product liability and product recall costs;
- loss or retirement of key members of management;
- costs of compliance or any failure on our part to comply with new and existing governmental regulations governing our products, including, but not limited to, proposed dietary supplement legislation and regulations;
- changes in our tax obligations;
- costs of litigation or investigations involving our company and any failure to successfully defend lawsuits and other claims against us;
- failure of our franchisees to conduct their operations profitably and limitations on our ability to terminate or replace under-performing franchisees;
- economic, political and other risks associated with our international operations, including fluctuations in foreign exchange rates relative to the U.S. dollar;
- failure to keep pace with the demands of our customers for new products and services;
- limitations of or disruptions in our manufacturing system or losses of manufacturing certifications;
- limitations of or disruptions in our distribution network;



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lack of long-term experience with human consumption of ingredients in some of our products;  
increases in the frequency and severity of insurance claims, particularly claims for which we are self-insured;  
failure to adequately protect or enforce our intellectual property rights against competitors;  
changes in raw material costs and pricing of our products;  
failure to successfully execute our growth strategy, including any delays in our planned future growth, any inability to expand our franchise operations or attract new franchisees, any inability to expand our company-owned retail operations, any inability to grow our international footprint, or any inability to expand our e-commerce business;  
any failure by our current marketing initiatives to timely produce the results that we anticipate;  
changes in applicable laws relating to our franchise operations;  
damage or interruption to our information systems;  
risks and costs associated with data loss, credit card fraud and identity theft;  
impact of current economic conditions on our business;  
unusually adverse weather conditions;  
natural disasters, pandemic outbreaks, boycotts, and geo-political events; and  
failure to maintain effective internal controls.

Consequently, forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

## Business Overview

We are a global specialty retailer of health, wellness and performance products, including protein, performance supplements, weight management supplements, vitamins, herbs and greens, wellness supplements, health and beauty, food and drink and other general merchandise. We derive our revenues principally from: product sales through our company-owned stores; the Internet through our websites, GNC.com and LuckyVitamin.com; domestic and international franchise activities; and sales of products manufactured in our facilities to third parties. We sell products through a worldwide network of more than 9,000 locations operating under the GNC brand name.

We benefit from significant competitive strengths that we believe drive our business and position us for ongoing success, including our:

Highly-valued and well-recognized brand;  
Loyal customer base;  
Strong market position;  
Unique product offerings and robust innovation capabilities;  
Diversified business model;  
Vertically integrated operations that underpin our business strategy;  
Differentiated service model that fosters an exceptional customer experience; and  
Highly experienced management team.

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### Executive Overview

Our executive team is committed to our core principles and strategic evolution plan, which started during the second half of 2014 with the appointment of our new chief executive officer and other key executive positions.

Foundationally, we remain focused on a customer-focused evolution of our brand and culture defined by core principles that we believe enable GNC to foster one-to-one customer engagement and, ultimately, to connect our customers to their best. These principles include development of:

- meaningful, long-term connections with our customers;
- deep expertise in health, wellness and performance;
- solutions tailored to meet our customers' unique goals;
- a best-in-class shopping experience; and
- customer-driven decision making and rigorous quality standards.

To further our strategic evolution, we implemented a rigorous, customer-focused testing process in our merchandising, marketing, store operations and other key decision-making focal points relevant to our business. We reset our stores with an enhanced focus on plant and nature based proteins, women's beauty products and functional foods, while also significantly expanding the assortment of products available to customers in many of our stores and simplifying our pricing communications. We undertook a transition toward more brand-relevant and product-focused marketing to improve the overall effectiveness of our marketing efforts. Additionally, we made a series of operational changes to optimize our inventory processes, which helped our associates dedicate additional time to developing product knowledge and servicing our customers.

However, while our business remains profitable and we continue to recognize strong cash flow, with approximately 95% of our company-owned stores' cash flow exceeding our weighted average cost of capital, we also have faced recent significant challenges to our strategy and our business, including increased competition, intensified regulatory and other governmental scrutiny, including inquiries from state attorneys general, and negative media coverage of our industry, year-over-year declines in same store sales and, consequently, heightened volatility in the trading price of our common stock.

Our key initiatives for 2016 aimed at addressing these current challenges include the following:

Raising industry standards through the creation of an industry-wide coalition. We remain focused, together with other industry leaders and industry trade associations, on initiatives begun in 2015 to build an industry-led coalition aimed at raising the bar for quality and compliance throughout the dietary supplement industry. Coalition initiatives include: developing standardized raw material "good manufacturing practices" ("GMPs"), including "farm to factory" traceability standards; creating a product-registry database accessible to industry participants, consumers and the FDA; establishing minimum certification standards for manufacturing facilities, including an annual facility inspection process and product quality seals, and providing media support for a coordinated industry including positive messaging with accurate product information to help change the narrative around our industry. We believe that over time, these initiatives will prove beneficial for the industry, for the FDA and other regulators, and lead to substantial improvement in regulatory and consumer trust and confidence in our industry.

Executing our refranchising strategy. We have undertaken an accelerated drive to increase the proportion of our domestic stores that are franchise locations, which we expect to accomplish both by increasing the proportion of new stores that are franchise locations and by transitioning company-owned stores to franchise locations. We are currently targeting a balanced portfolio of domestic company-owned and franchise locations over the next three to four years, beginning in 2016. As part of this effort, we remain focused on creating and nurturing franchise partnerships that support our brand image. We believe that this strategy can result in significant value creation for our stockholders. During the first quarter of 2016, we executed an agreement to refranchise 84 stores to one franchisee during the second quarter of 2016 and expect to refranchise another 10 stores to a second franchisee in 2016, half of which are expected to close in the second quarter. We expect the refranchising of these 94 stores will result in pre-tax gains on refranchising of approximately \$20 million, the majority of which will be recognized during the second quarter of 2016.

Implementing a revised pricing strategy. Early in 2016, we began to launch an intensive effort to develop and implement an improved pricing strategy to be applied primarily to our domestic company-owned stores. Our intent is to appropriately identify and price known value items, to create a clear definition of role and intent by

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product category, further improve the clarity of our price message and more closely align the customer's perception of our pricing with the quality and value of our products. We expect the results of this initiative to be evident beginning in late 2016 and beyond.

Enhancing our customer loyalty program. Following extensive consumer research during 2015, we currently are in the process of reviewing various enhancements to our loyalty program, which currently includes 6.5 million Gold Card customers. We believe that further developing and encouraging active customer participation in a robust customer loyalty program is an important step toward our goals for building meaningful, long-term connection with our customers. We expect the results of this initiative to be evident beginning in 2017 and beyond.

We believe that our combined efforts on these fronts will enable us to better leverage the competitive strengths that remain at the core of our business and will drive future success.

### Recent Trends and Uncertainties

The following trends and uncertainties in our industry could affect our operating performance as follows:

- broader consumer awareness of health and wellness issues and rising healthcare costs may increase the use of the products we offer and positively affect our operating performance;

- interest in, and demand for, condition-specific products based on scientific research may positively affect our operating performance if we can timely develop and offer such condition-specific products;

- the effects of favorable and unfavorable publicity on consumer demand with respect to the products we offer may have similarly favorable or unfavorable effects on our operating performance;

- a lack of long-term experience with human consumption of ingredients in some of our products could create uncertainties with respect to the health risks, if any, related to the consumption of such ingredients and negatively affect our operating performance;

- increased costs and other demands associated with heightened regulatory scrutiny, including but not limited to complying with new and existing governmental regulation, and/or legal challenges associated with products that we sell may negatively affect our operating performance;

- consolidation within our industry and increasing participation in our market by mass market retailers and consumer product manufacturers could continue to intensify competition within our industry and could continue to negatively affect our market performance;

- a decline in disposable income available to consumers may lead to a reduction in consumer spending and negatively affect our operating performance; and

- an aging population in the United States may positively impact sales of some of the products that we offer.

### Key Indicators

We evaluate segment operating results based on several indicators. The primary key performance indicators are revenues and operating income for each segment. Revenues and operating income, as evaluated by our chief operating decision maker (our chief executive officer), exclude certain items that are managed at the consolidated level, such as warehousing, distribution and corporate costs. The following discussion compares the revenues and the operating income by segment, as well as those items excluded from the segment totals.

Same store sales growth represents the percentage change in same store point-of-sale retail sales in the period presented compared with the prior year period. Same store sales are calculated on a daily basis for each store and exclude the net sales of a store for any period if the store was not open during the same period of the prior year. We include our internet sales of GNC.com in our domestic retail company-owned same store sales calculation and effective January 1, 2016 we are excluding Drugstore.com, which does not have a significant impact. When a store's square footage has been changed as a result of reconfiguration or relocation in the same mall or shopping center, the store continues to be treated as a same store. If, during the period presented, a store was closed, relocated to a different mall or shopping center, or converted to a franchise store or a company-owned store, sales from that store up to and including the closing day or the day immediately preceding the relocation or conversion are included as same store



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sales as long as the store was open during the same period of the prior year. We exclude sales during the period presented that occurred on or after the date of relocation to a different mall or shopping center or the date of a conversion.

## Results of Operations

(Expressed as a percentage of total consolidated revenue)

	Three months ended March 31,			
	2016		2015	
Revenues:				
Retail	74.1	%	73.9	%
Franchise	17.3	%	17.9	%
Manufacturing / Wholesale:				
Intersegment revenues	9.4	%	9.7	%
Third party	8.6	%	8.2	%
Subtotal Manufacturing / Wholesale	18.0	%	17.9	%
Elimination of intersegment revenue	(9.4)	)%	(9.7)	)%
Total net revenues	100.0	%	100.0	%
Operating expenses:				
Cost of sales, including warehousing, distribution and occupancy	64.7	%	63.4	%
Gross profit	35.3	%	36.6	%
Selling, general and administrative	21.4	%	20.5	%
Gains on refranchising	(0.2)	)%	(0.1)	)%
Other (income) loss, net	—	%	0.1	%
Total operating expenses	85.9	%	83.9	%
Operating income:				
Retail	12.0	%	13.6	%
Franchise	5.4	%	5.8	%
Manufacturing / Wholesale	2.9	%	3.1	%
Unallocated corporate and other costs:				
Warehousing and distribution costs	(2.7)	)%	(2.6)	)%
Corporate costs	(3.5)	)%	(3.8)	)%
Subtotal unallocated corporate and other costs	(6.2)	)%	(6.4)	)%
Total operating income	14.1	%	16.1	%
Interest expense, net	2.2	%	1.7	%
Income before income taxes	11.9	%	14.4	%
Income tax expense	4.3	%	5.1	%
Net income	7.6	%	9.3	%

Note: The presentation of certain immaterial amounts in our consolidated financial statements of prior periods have been revised to conform to the current periods presented. Specifically, sublease rental income received from franchisees is presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy." This revision has no impact on operating income. For additional information regarding this revision, see Item 1, "Financial Statements," Note 2, "Basis of Presentation" under "Revision for Sublease Rent Income."





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The following table summarizes our stores for the periods indicated:

	Three months ended March 31, 2016 2015	
Company-Owned <sup>(a)</sup> :		
Beginning of period balance	3,594	3,497
Store Openings	8	21
Acquired franchise stores <sup>(b)</sup>	5	7
Franchise conversions <sup>(c)</sup>	(4 )	(2 )
Store closings	(20 )	(7 )
End of period balance	3,583	3,516
Franchise:		
Domestic		
Beginning of period balance	1,084	1,070
Store openings	4	8
Acquired franchise stores <sup>(b)</sup>	(5 )	(7 )
Franchise conversions <sup>(c)</sup>	4	2
Store closings	(5 )	(2 )
End of period balance	1,082	1,071
International <sup>(d)</sup>		
Beginning of period balance	2,085	2,140
Store openings	18	19
Store closings	(44 )	(37 )
End of period balance	2,059	2,122
Store-within-a-store (Rite Aid):		
Beginning of period balance	2,327	2,269
Store openings	14	9
Store closings	(1 )	(1 )
End of period balance	2,340	2,277
Total Stores	9,064	8,986

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(a) Includes Canada and 10 locations of The Health Store.

(b) Stores that were acquired from franchisees and subsequently converted into company-owned stores.

(c) Company-owned store locations sold to franchisees.

(d) Includes franchise locations in approximately 50 countries (including distribution centers where sales are made).



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Comparison of the Three Months Ended March 31, 2016 (current quarter) and 2015 (prior year quarter)

Revenues

Our consolidated net revenues decreased \$12.4 million, or 1.8%, to \$668.9 million for the three months ended March 31, 2016 compared with \$681.3 million for the same period in 2015. The decrease was the result of lower sales in the Retail and Franchise segments, partially offset by higher sales in our Manufacturing / Wholesale segment, excluding intersegment revenue.

Retail. Revenues in our Retail segment decreased \$7.5 million, or 1.5%, to \$496.0 million for the three months ended March 31, 2016 compared with \$503.5 million in the prior year quarter due in part to the sale of Discount Supplements in the fourth quarter of 2015, which resulted in a decrease in revenue of \$7.2 million year-over-year. In addition, negative domestic retail same store sales of 2.6% resulted in an \$11.5 million decrease in revenue year-over-year. Negative same store sales were primarily due to lower sales in the vitamin category including the impact of deep discounts related to excess vitamin inventory nearing expiration. In addition, the timing of the Easter holiday (March in the current year compared with April in the prior year) around which sales historically are low and unfavorable January weather contributed to the decrease.

The impact of foreign exchange rate changes, primarily related to the Canadian dollar, resulted in a decrease of \$2.9 million to segment revenue. Partially offsetting the above decreases was an increase of approximately \$13 million from the addition of 67 net new company-owned stores, which increased from 3,516 at March 31, 2015 to 3,583 at March 31, 2016.

Franchise. Revenues in our Franchise segment decreased \$6.8 million, or 5.6%, to \$115.5 million in the current quarter compared with \$122.3 million in the prior year quarter. Domestic franchise revenue decreased \$4.1 million to \$81.8 million in the current quarter compared with \$85.9 million in the prior year quarter due to lower wholesale sales and royalties. Our franchisees did not participate in all corporate promotions and many have not adopted our expanded assortment initiative; as a result, our franchisees reported lower retail same store sales as compared with our corporate stores or negative 5.6% in the first quarter of 2016.

International revenue decreased by \$2.7 million due to lower wholesale sales and royalties primarily resulting from challenges we are experiencing in Turkey and Australia, partially offset by an increase in revenue associated with our China operations. Our international franchisees have reported negative retail same store sales of 3.5% in the current quarter excluding the impact of foreign exchange rate changes relative to the U.S. dollar.

Manufacturing / Wholesale. Revenues in our Manufacturing / Wholesale segment, excluding intersegment sales, increased \$2.0 million, or 3.5%, to \$57.5 million for the three months ended March 31, 2016 compared with \$55.5 million in the prior year quarter. Third-party contract manufacturing sales increased \$5.7 million, or 23.1%, to \$30.4 million for the three months ended March 31, 2016 compared with \$24.7 million in the prior year quarter. This increase was partially offset by a decrease in wholesale sales of \$3.7 million, or 12.2%.

Cost of Sales and Gross Profit

Cost of sales, which includes product costs, warehousing, distribution and occupancy costs increased \$1.3 million to \$433.1 million for the three months ended March 31, 2016 compared with \$431.8 million in the prior year quarter, which together with the decrease in revenue resulted in a \$13.6 million decrease in gross profit, which declined from \$249.4 million in the prior year quarter to \$235.8 million in the current quarter. Gross profit, as a percentage of net revenue, decreased from 36.6% for the quarter ended March 31, 2015 to 35.3% in the current quarter due to lower domestic retail product margin rate resulting from deep discounts on excess vitamin inventory nearing expiration and

occupancy expense deleverage associated with negative same store sales.

Selling, General and Administrative (“SG&A”) Expense

SG&A expense, including compensation and related benefits, advertising and other expenses, increased \$3.3 million, or 2.4%, to \$143.1 million for the three months ended March 31, 2016 compared with \$139.8 million in the prior year quarter. SG&A expense, as a percentage of net revenue, was 21.4% and 20.5% for the three months ended March 31, 2016 and 2015, respectively.

During the prior year quarter, the Company recorded an increase to a legal accrual and a decrease in bad debt expense associated with a reduction in the previously established allowance for certain of our international

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franchisees, based on cash collected. Together, these changes resulted in an increase in SG&A expense of \$1.8 million. Also in the prior year quarter, SG&A expense increased by \$2.8 million as a result of the correction of an immaterial error as further explained in Item 1, "Financial Statements," Note 2, "Basis of Presentation." Excluding these expenses, SG&A expense increased \$7.9 million in the current quarter from \$135.2 million to \$143.1 million.

The increase in SG&A expense of \$7.9 million, excluding the prior year charges noted above, was primarily due to an increase of \$4.5 million in advertising expense in the current quarter as we restored marketing spend to more normalized levels, which includes the impact of the timing of the current year "just ask, we make it simple" campaign occurring in the current quarter compared with the prior year "80 years of quality" campaign occurring in the second quarter. In addition, compensation and related benefits increased \$2.5 million, excluding the prior year charge noted above, primarily due to higher salaries and benefits to support our increased company-owned store base, including the impact of the completion in early 2016 of our senior management team.

### Gains on refranchising

Gains on refranchising, which represents gains on the sale of company-owned stores to franchisees, increased \$0.7 million to \$1.0 million for the three months ended March 31, 2016 compared with \$0.3 million in the prior year quarter. The increase was due to the sale of four corporate stores to franchisees in the current quarter compared with the sale of two corporate stores in the prior year quarter.

### Other Income, net

Other income, net, includes a foreign currency gain \$0.3 million in the current quarter compared with a currency loss of \$0.4 million recorded in the prior year quarter.

### Operating Income

As a result of the foregoing, consolidated operating income decreased \$15.5 million or 14.2%, to \$94.1 million for the three months ended March 31, 2016 compared with \$109.6 million in the prior year quarter. Operating income, as a percentage of net revenue, was 14.1% and 16.1% for the three months ended March 31, 2016 and 2015, respectively.

Retail. Operating income decreased \$11.8 million, or 12.8%, to \$80.6 million for the three months ended March 31, 2016 compared with \$92.4 million for the same period in 2015. Operating income as a percentage of segment revenue was 16.2% in the current quarter compared with 18.3% in the prior year quarter. The decrease compared with the prior year quarter was primarily due to lower domestic retail product margin rate resulting from discounts on excess vitamin inventory nearing expiration, occupancy expense deleverage associated with negative same store sales and higher advertising expense as described above. These decreases to operating income were partially offset by the prior year \$2.8 million correction of an immaterial error as described above and the sale of Discount Supplements in the fourth quarter of 2015, which resulted in an increase to operating income of \$1.4 million year-over-year.

Franchise. Operating income decreased \$3.7 million, or 9.4%, to \$36.0 million for the three months ended March 31, 2016 compared with \$39.7 million in the prior year quarter. Operating income was 31.1% of segment revenue in the current quarter compared with 32.5% in the prior year quarter. Gains on refranchising were \$1.0 million and \$0.3 million in the current quarter and prior year quarter, respectively. Excluding these gains and the prior year reduction in the previously established bad debt allowance associated with certain of our international franchisees explained above, operating income was 30.3% and 30.2% of segment revenue in the three months ended March 31, 2016 and 2015, respectively.

Manufacturing / Wholesale. Operating income decreased \$1.8 million, or 8.6%, to \$19.3 million for the three months ended March 31, 2016 compared with \$21.1 million in the prior year quarter. Operating income as a percentage of segment revenue decreased from 17.3% in the prior year quarter to 16.0% in the current quarter primarily due to lower proprietary sales, which generally contribute higher margins.

Corporate costs. Corporate overhead costs decreased \$2.0 million to \$23.8 million for the three months ended March 31, 2016 compared with \$25.8 million in the prior year quarter, primarily due to a legal accrual recorded in the prior year quarter, partially offset by higher compensation and related benefits primarily due to the completion in early 2016 of our senior management team.

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Interest Expense, net

Interest expense was \$14.4 million in the three month period ended March 31, 2016 compared with \$11.5 million in the three months ended March 31, 2015. The increase in interest expense was primarily due to the convertible debt issuance in August 2015 and amounts drawn under the Revolving Credit Facility.

Income Tax Expense

We recognized \$28.8 million of income tax expense (or 36.2% of pre-tax income) during the three months ended March 31, 2016 compared with \$34.8 million (or 35.5% of pre-tax income) for the same period in 2015.

Net Income

As a result of the foregoing, consolidated net income decreased \$12.5 million to \$50.8 million for the three months ended March 31, 2016 compared with \$63.3 million for the same period in 2015.

Diluted Earnings Per Share

Diluted earnings per share decreased 4.2% from \$0.72 for the three months ended March 31, 2015 to \$0.69 for the same period in 2016 due to a 19.7% decrease in net income, partially offset by a decrease in the weighted average diluted shares outstanding of 16.7% as a result of the share repurchase program.

Change in Reportable Segments

Our previously disclosed refranchising strategy, which will increase the proportion of domestic stores that are franchise locations in 2016 and beyond, will result in a change in the organizational structure and the financial reporting utilized by our chief operating decision maker (our chief executive officer) to assess performance and allocate resources; as a result, our reportable segments will change effective in the second quarter of 2016. We believe that the new segments will better present our new view of the business. The new reportable segments will be disclosed beginning in the Company's second quarter of 2016.

The following table shows the new reportable segments compared with the previous reporting structure.

Old	New
<p>Segment: Retail Includes: Company-owned stores in the U.S., Puerto Rico and Canada, The Health Store and e-commerce including Discount Supplements, which was sold in the fourth quarter of 2015</p>	<p>Segment: U.S. and Canada Includes: Company-owned stores in the U.S., Puerto Rico and Canada, franchise stores in the U.S. and e-commerce</p>
<p>Segment: Franchise Includes: Domestic and international franchise locations and China operations</p>	<p>Segment: International Includes: Franchise locations in approximately 50 countries, The Health Store and China operations</p>
<p>Segment: Manufacturing / Wholesale Includes: Manufactured product sold to the our other segments, third-party contract manufacturing and sales to wholesale partners</p>	<p>Segment: Manufacturing / Wholesale Includes: Manufactured product sold to the our other segments, third-party contract manufacturing and sales to wholesale partners (no change from old)</p>



Other

Includes: Discount Supplements, an e-commerce business which was sold in the fourth quarter of 2015

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The table below presents the current quarter results and the interim periods in 2015 and 2014 under the new reportable segments. As part of this change, warehousing and distribution costs will be allocated, as appropriate, to our reportable segments.

(Unaudited)	2016	2015	2014								
	Q1 3/31	Full Year	Q1 3/31	Q2 6/30	Q3 9/30	Q4 12/31	Full Year	Q1 3/31	Q2 6/30	Q3 9/30	
Revenue:	(in thousands)										
U.S. and Canada	\$574,600	\$2,240,515	\$578,938	\$582,584	\$565,252	\$513,741	\$2,207,283	\$572,494	\$574,557	\$565,252	
International	36,842	183,007	39,624	44,159	50,568	48,656	174,934	41,554	42,737	45,568	
Manufacturing / Wholesale:											
Intersegment revenues	63,031	267,377	66,254	72,984	67,511	60,628	291,220	81,195	75,723	73,000	
Third-party	57,463	235,680	55,524	56,233	61,620	62,303	241,176	61,944	59,566	61,620	
Subtotal											
Manufacturing / Wholesale	120,494	503,057	121,778	129,217	129,131	122,931	532,396	143,139	135,289	130,620	
Total reportable segment revenues	731,936	2,926,579	740,340	755,960	744,951	685,328	2,914,613	757,187	752,583	730,620	
Other	—	24,096	7,180	6,588	5,918	4,410	31,613	8,586	8,677	7,300	
Elimination of intersegment revenues	(63,031 )	(267,377 )	(66,254 )	(72,984 )	(67,511 )	(60,628 )	(291,220 )	(81,195 )	(75,723 )	(73,000 )	
Total revenue	\$668,905	\$2,683,298	\$681,266	\$689,564	\$683,358	\$629,110	\$2,655,006	\$684,578	\$685,537	\$685,320	
Operating income:											
U.S. and Canada	\$86,301	\$378,233	\$100,555	\$105,519	\$93,745	\$78,414	\$382,248	\$103,022	\$103,785	\$93,745	
International	13,103	64,486	16,214	15,693	16,118	16,461	59,734	16,061	15,502	12,500	
Manufacturing / Wholesale	18,433	86,172	20,007	21,061	22,521	22,583	85,539	22,562	21,869	21,061	
Total reportable segment operating income	117,837	528,891	136,776	142,273	132,384	117,458	527,521	141,645	141,156	127,306	
Other	(11 )	(37,444 )	(1,394 )	(1,088 )	(29,591 )	(5,371 )	411				