

GNC HOLDINGS, INC.  
Form 10-Q  
October 31, 2013  
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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 **September 30, 2013**

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

**300 Sixth Avenue**  
**Pittsburgh, Pennsylvania**  
(Address of principal executive offices)

**20-8536244**  
(I.R.S. Employer  
Identification No.)

**15222**  
(Zip Code)

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

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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

As of October 25, 2013, there were 94,995,650 outstanding shares of Class A common stock, par value \$0.001 per share (the Class A common stock), of GNC Holdings, Inc.

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****GNC HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(in thousands, including share data)

	<b>September 30, 2013 (unaudited)</b>	<b>December 31, 2012</b>
Current assets:		
Cash and cash equivalents	\$ 77,678	\$ 158,541
Receivables, net	152,452	129,641
Inventories (Note 3)	543,883	491,599
Prepays and other current assets	35,464	39,016
Total current assets	809,477	818,797
Long-term assets:		
Goodwill (Note 4)	641,026	639,915
Brands (Note 4)	720,000	720,000
Other intangible assets, net (Note 4)	135,707	141,717
Property, plant and equipment, net	201,064	199,487
Other long-term assets	32,720	32,124
Total long-term assets	1,730,517	1,733,243
Total assets	\$ 2,539,994	\$ 2,552,040
Current liabilities:		
Accounts payable	\$ 161,736	\$ 125,165
Current portion, long-term debt (Note 5)	3,099	3,817
Deferred revenue and other current liabilities	102,557	116,337
Total current liabilities	267,392	245,319
Long-term liabilities:		
Long-term debt (Note 5)	1,092,993	1,094,745
Deferred tax liabilities, net	284,252	283,203
Other long-term liabilities	51,476	46,734
Total long-term liabilities	1,428,721	1,424,682
Total liabilities	1,696,113	1,670,001
Stockholders' equity:		
Common stock, \$0.001 par value, 300,000 shares authorized:		
Class A, 112,684 shares issued and 94,875 shares outstanding and 17,809 shares held in treasury at September 30, 2013 and 111,725 shares issued and 99,244 shares outstanding and 12,481 shares held in treasury at December 31, 2012	112	111
Paid-in-capital	837,199	810,094
Retained earnings	666,707	492,687

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Treasury stock, at cost	(662,306)	(423,900)
Accumulated other comprehensive income	2,169	3,047
Total stockholders' equity	843,881	882,039
Total liabilities and stockholders' equity	\$ 2,539,994	\$ 2,552,040

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

Table of Contents**GNC HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statements of Income**

(unaudited)

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 675,594	\$ 621,607	\$ 2,016,561	\$ 1,864,961
Cost of sales, including cost of warehousing, distribution and occupancy	421,649	386,393	1,250,586	1,149,600
Gross profit	253,945	235,214	765,975	715,361
Compensation and related benefits	79,283	78,707	239,932	237,126
Advertising and promotion	16,751	15,697	53,473	45,327
Other selling, general and administrative	31,956	28,717	98,539	91,075
Foreign currency gain	(19)	(8)	(134)	(84)
Transaction related costs	-	924	-	1,610
Operating income	125,974	111,177	374,165	340,307
Interest expense, net (Note 5)	11,237	12,080	33,353	32,958
Income before income taxes	114,737	99,097	340,812	307,349
Income tax expense (Note 10)	41,704	36,868	123,448	114,592
Net income	\$ 73,033	\$ 62,229	\$ 217,364	\$ 192,757
<b>Income per share - Basic and Diluted:</b>				
Earnings per share:				
Basic	\$ 0.77	\$ 0.61	\$ 2.24	\$ 1.84
Diluted	\$ 0.76	\$ 0.60	\$ 2.22	\$ 1.81
Weighted average common shares outstanding:				
Basic	95,183	102,541	97,189	104,946
Diluted	96,078	103,721	98,096	106,515
Dividends declared per share:	\$ 0.15	\$ 0.11	\$ 0.45	\$ 0.33

**Consolidated Statements of Comprehensive Income**

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(unaudited)

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$ 73,033	\$ 62,229	\$ 217,364	\$ 192,757
<i>Other comprehensive income (loss):</i>				
Foreign currency translation adjustments	428	848	(878)	622
Other comprehensive income (loss)	428	848	(878)	622
Comprehensive income	\$ 73,461	\$ 63,077	\$ 216,486	\$ 193,379

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



Table of Contents**GNC HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity****(unaudited)****(in thousands, including per share data)**

	Common Stock				Treasury Stock	Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity
	Class A Shares	Dollars	Class B Shares	Dollars					
<b>Balance at December 31, 2012</b>	<b>99,244</b>	<b>\$ 111</b>	-	\$ -	<b>\$(423,900)</b>	<b>\$810,094</b>	<b>\$492,687</b>	<b>\$ 3,047</b>	<b>\$ 882,039</b>
Comprehensive income (loss)	-	-	-	-	-	-	217,364	(878)	216,486
Repurchase of treasury stock	(5,328)	-	-	-	(238,406)	-	-	-	(238,406)
Common stock dividends	-	-	-	-	-	-	(43,344)	-	(43,344)
Conversions to common stock	959	1	-	-	-	21,244	-	-	21,245
Non-cash stock-based compensation	-	-	-	-	-	5,861	-	-	5,861
<b>Balance at September 30, 2013 (unaudited)</b>	<b>94,875</b>	<b>\$ 112</b>	-	\$ -	<b>\$(662,306)</b>	<b>\$837,199</b>	<b>\$666,707</b>	<b>\$ 2,169</b>	<b>\$ 843,881</b>
<b>Balance at December 31, 2011</b>	<b>102,985</b>	<b>\$ 105</b>	<b>2,060</b>	<b>\$ 2</b>	<b>\$(65,048)</b>	<b>\$741,848</b>	<b>\$298,831</b>	<b>\$ 2,724</b>	<b>\$ 978,462</b>
Comprehensive income	-	-	-	-	-	-	192,757	622	193,379
Conversion of Class B stock to Class A stock	2,060	2	(2,060)	(2)	-	-	-	-	-
Repurchase of treasury stock	(9,477)	-	-	-	(358,852)	-	-	-	(358,852)
Common stock dividends	-	-	-	-	-	-	(34,300)	-	(34,300)
Conversions to common stock	3,505	4	-	-	-	57,246	-	-	57,250
Non-cash stock-based compensation	-	-	-	-	-	3,609	-	-	3,609
Other	-	-	-	-	-	-	(1,051)	-	(1,051)
<b>Balance at September 30, 2012 (unaudited)</b>	<b>99,073</b>	<b>\$ 111</b>	-	\$ -	<b>\$(423,900)</b>	<b>\$802,703</b>	<b>\$456,237</b>	<b>\$ 3,346</b>	<b>\$ 838,497</b>

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

Table of Contents**GNC HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(unaudited)****(in thousands)**

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Net income	\$ 217,364	\$ 192,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	37,922	36,476
Amortization of debt costs	1,887	1,811
Increase in provision for inventory losses	13,315	8,902
Increase in receivables	(24,343)	(23,273)
Increase in inventory	(65,270)	(78,193)
Decrease in prepaids and other current assets	4,217	4,568
Increase (decrease) in accounts payable	36,091	(7,855)
(Decrease) increase in deferred revenue and other current liabilities	(14,254)	8,721
Other operating activities	8,455	(1,962)
<b>Net cash provided by operating activities</b>	<b>215,384</b>	<b>141,952</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Capital expenditures	(33,631)	(29,856)
Other investing activities	(1,101)	(1,966)
<b>Net cash used in investing activities</b>	<b>(34,732)</b>	<b>(31,822)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Dividends paid to shareholders	(43,309)	(34,300)
Payments on long-term debt	(2,850)	(1,757)
Proceeds from exercised stock options	10,282	23,840
Tax benefit from exercise of stock options	12,195	35,605
Repurchase of treasury stock	(238,406)	(359,990)
Proceeds from issuance of long-term debt	-	199,000
Deferred financing fees	-	(1,148)
Other financing activities	-	(2,500)
<b>Net cash used in financing activities</b>	<b>(262,088)</b>	<b>(141,250)</b>
Effect of exchange rate on cash and cash equivalents	573	(523)
Net decrease in cash and cash equivalents	(80,863)	(31,643)
Beginning balance, cash and cash equivalents	158,541	128,438
Ending balance, cash and cash equivalents	\$ 77,678	\$ 96,795

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

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**NOTE 1. NATURE OF BUSINESS**

**General 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 and wellness products, which include: vitamins, minerals and herbal supplements, sports nutrition products, diet products and other wellness products.

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 segments: Retail, Franchising and Manufacturing/Wholesale. Corporate retail store operations are located in the United States, Canada and Puerto Rico, and in addition, the Company offers products domestically through GNC.com, LuckyVitamin.com and www.drugstore.com. Franchise stores are located in the United States and over 50 international countries (including distribution centers where retail sales are made). The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, 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 one or more federal agencies, including the Food and Drug Administration (the FDA ), 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.

**Recent Significant Transactions.** In April 2011, Holdings consummated an initial public offering (the IPO ) of 25.9 million shares of its Class A common stock, par value \$0.001 per share (the Class A common stock ), at an IPO price of \$16.00 per share. Prior to the IPO, Holdings' outstanding common stock was principally owned by Ontario Teachers' Pension Plan Board ( OTPP ) and Ares Corporate Opportunities Fund II L.P. ( Ares ), and together with OTPP, collectively referred to as the Sponsors ). In March 2012, OTPP converted all of its shares of Class B common stock into an equal number of shares of Class A common stock. Subsequent to the IPO, certain of Holdings' stockholders, including the Sponsors, completed the following registered offerings of Class A common stock:

- in October 2011, 23.0 million shares at \$24.75 per share;
- in March 2012, 19.6 million shares at \$33.50 per share;
- in August 2012, 10.0 million shares at \$38.42 per share; and
- in November 2012, 11.7 million shares at \$35.20 per share.

In conjunction with the August 2012 offering, the Company repurchased an additional six million shares of Class A common stock from Ares as part of a share repurchase program. As of December 31, 2012, Ares no longer owns any shares of our capital stock and OTPP owns less than 10,000 shares of our Class A common stock. The IPO, the offerings, and the repurchase of the six

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million shares of Class A common stock are collectively herein referred to as the Offerings.

As of September 30, 2013, the Company had completed \$238.4 million of its February 2013 approved \$250.0 million share repurchase program of Class A common stock.

In March 2011, GNC Corporation and General Nutrition Centers, Inc., each a wholly owned subsidiary of Holdings, entered into a Credit Agreement (the Credit Agreement ), that provided for a \$1.2 billion term loan (the Term Loan Facility ) and an \$80.0 million revolving credit facility (the Revolving Credit Facility and together with the Term Loan Facility, the Senior Credit Facility ). In August 2012, the Credit Agreement was amended to increase the outstanding borrowings by \$200.0 million (the Incremental Term Loan ). In October 2012, the Credit Agreement was amended to adjust the per annum interest rate to the greater of LIBOR and 1.00%, plus an applicable margin of 2.75%.

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**NOTE 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The year-end 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 Holdings Annual Report on Form 10-K filed for the year ended December 31, 2012. There have been no material changes to the application of significant accounting policies and significant judgments and estimates since December 31, 2012.

The accompanying unaudited consolidated financial statements include all adjustments (consisting of a normal and recurring nature) that management considers necessary for a fair statement of financial information for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2013.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Holdings and all of its subsidiaries. All material intercompany transactions have been eliminated in consolidation.

The Company has no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purposes.

**Use of Estimates.** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Accordingly, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Some of the most significant estimates pertaining to the Company include the valuation of inventories, the allowance for doubtful accounts and income taxes. On a regular basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

**Transaction Related Costs.** The Company recognizes transaction related costs as expenses in the period incurred. For the three and nine months ended September 30, 2013, the Company incurred no transaction related costs. For the three and nine months ended September 30, 2012, the Company incurred \$0.9 million and \$1.6 million of expenses, respectively, related to the Offerings and the Incremental Term Loan.

**Recent Accounting Pronouncements**

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In February 2013, the Financial Accounting Standards Board (the FASB ) issued an accounting standard regarding the reclassification of amounts out of accumulated other comprehensive income ( AOCI ). This standard does not change the current requirements for reporting net income or other comprehensive income. However, the standard requires disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the footnotes to the financial statements. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This guidance is effective for fiscal years beginning after December 15, 2012. The Company adopted this guidance during the first quarter of 2013. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In July 2013, the FASB issued an accounting standard regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This standard requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ( NOL ) or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. This guidance is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. The Company will adopt this guidance during the first quarter of 2014, and is currently evaluating the impact of this guidance on the financial statements.

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The net carrying value of inventories consisted of the following:

	<b>September 30, 2013 (unaudited)</b>	<b>December 31, 2012</b>
	<b>(in thousands)</b>	
Finished product ready for sale	\$ 451,687	\$ 415,096
Work-in-process, bulk product and raw materials	84,764	70,022
Packaging supplies	7,432	6,481
Total	\$ 543,883	\$ 491,599

**NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET**

For the nine months ended September 30, 2013 and 2012, the Company acquired 13 and 23 franchise stores, respectively. These acquisitions were accounted for using the acquisition method of accounting and the Company recorded the acquired inventory, fixed assets, franchise rights and goodwill, with an applicable reduction to receivables and cash. For the nine months ended September 30, 2013 and 2012, the total purchase price associated with these acquisitions was \$2.1 million and \$3.6 million, respectively, of which \$1.3 million and \$1.8 million, respectively, was paid in cash.

The following table summarizes the Company's goodwill activity:

	<b>Retail</b>	<b>Franchising</b>	<b>Manufacturing/ Wholesale</b>	<b>Total</b>
	<b>(in thousands)</b>			
Balance at December 31, 2012	\$ 319,771	\$ 117,303	\$ 202,841	\$ 639,915
Acquired franchise stores	1,111	-	-	1,111
Balance at September 30, 2013 (unaudited)	\$ 320,882	\$ 117,303	\$ 202,841	\$ 641,026

Intangible assets other than goodwill consisted of the following:

<b>Retail Brand</b>	<b>Franchise Brand</b>	<b>Operating Agreements (in thousands)</b>	<b>Other Intangibles</b>	<b>Total</b>
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Balance at December 31, 2012	\$ 500,000	\$ 220,000	\$ 132,317	\$ 9,400	\$ 861,717
Acquired franchise stores	-	-	-	249	249
Amortization expense	-	-	(4,989)	(1,270)	(6,259)
Balance at September 30, 2013 (unaudited)	\$ 500,000	\$ 220,000	\$ 127,328	\$ 8,379	\$ 855,707



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The following table reflects the gross carrying amount and accumulated amortization for each major intangible asset:

	Weighted - Average Life	Cost	September 30, 2013 Accumulated Amortization (unaudited)	Carrying Amount	Cost	December 31, 2012 Accumulated Amortization	Carrying Amount
(in thousands)							
Brands - retail	-	\$ 500,000	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000
Brands - franchise	-	220,000	-	220,000	220,000	-	220,000
Retail agreements	30.2	31,000	(7,038)	23,962	31,000	(6,249)	24,751
Franchise agreements	25.0	70,000	(18,317)	51,683	70,000	(16,217)	53,783
Manufacturing agreements	25.0	70,000	(18,317)	51,683	70,000	(16,217)	53,783
Other intangibles	11.4	10,600	(3,061)	7,539	10,600	(2,151)	8,449
Franchise rights	3.7	5,383	(4,543)	840	5,134	(4,183)	951
Total	24.5	\$ 906,983	\$ (51,276)	\$ 855,707	\$ 906,734	\$ (45,017)	\$ 861,717

The following table represents future estimated amortization expense of intangible assets with finite lives at September 30, 2013:

Years ending December 31,	Estimated amortization expense (unaudited) (in thousands)
2013	\$ 2,078
2014	8,018
2015	7,880
2016	7,770
2017	7,718
Thereafter	102,243
Total	\$ 135,707

**NOTE 5. LONG-TERM DEBT / INTEREST EXPENSE**

Long-term debt consisted of the following:

	September 30, 2013 (unaudited)	December 31, 2012
(in thousands)		
Senior Credit Facility	\$ 1,094,993	\$ 1,096,112
Mortgage	1,097	2,444
Capital leases	2	6
Total debt	1,096,092	1,098,562

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Less: current maturities	(3,099)	(3,817)
Long-term debt	\$ 1,092,993	\$ 1,094,745

For the nine months ended September 30, 2013 and 2012, net interest expense was \$33.4 million and \$33.0 million, respectively, and consisted primarily of interest on outstanding borrowings under the Term Loan Facility. Interest under both the Term Loan Facility and the Revolving Credit Facility is based on variable rates. At both September 30, 2013 and December 31, 2012, the interest rate under the Term Loan Facility was 3.75%. The Revolving Credit Facility was undrawn and had outstanding letters of credit of \$1.1 million at both September 30, 2013 and December 31, 2012. At both September 30, 2013 and December 31, 2012, the commitment fee on the undrawn portion of the Revolving Credit Facility was 0.5%, and the outstanding letters of credit fee was 3.00%.

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As of September 30, 2013, the Company believes that it is in compliance with all covenants under the Senior Credit Facility.

**NOTE 6. FINANCIAL INSTRUMENTS**

At September 30, 2013 and December 31, 2012, the Company's financial instruments consisted of cash and cash equivalents, receivables, franchise notes receivable, accounts payable, certain accrued liabilities and long-term debt. The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates their respective fair values because of the short maturities of these instruments. Based on the interest rates currently available and their underlying risk, the carrying value of the franchise notes receivable approximates their respective fair values. These fair values are reflected net of reserves for uncollectible amounts. As considerable judgment is required to determine these estimates and assumptions, changes in the assumptions or methodologies may have an effect on these estimates. The Company determined the estimated fair values of its debt by using currently available market information. The fair value measurement for debt is classified as a Level 2 input on the fair value hierarchy, as defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The actual and estimated fair values of the Company's financial instruments are as follows:

	<b>September 30, 2013</b>		<b>December 31, 2012</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
	<b>(unaudited)</b>			
	<b>(in thousands)</b>			
Cash and cash equivalents	\$ 77,678	\$ 77,678	\$ 158,541	\$ 158,541
Receivables, net	152,452	152,452	129,641	129,641
Franchise notes receivable, net	8,276	8,276	7,589	7,589
Accounts payable	161,736	161,736	125,165	125,165
Long-term debt (including current portion)	1,096,092	1,098,832	1,098,562	1,101,309

**NOTE 7. COMMITMENTS AND CONTINGENCIES**

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, products 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

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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.

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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 impact 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.

**Litigation**

*Hydroxycut Claims.* In 2009, the FDA issued a warning on several Hydroxycut-branded products manufactured by Iovate Health Sciences U.S.A., Inc. ( Iovate ) based on 23 reports of liver injuries from consumers who claimed to have used the products between 2002 and 2009. As a result, Iovate voluntarily recalled 14 Hydroxycut-branded products.

Following the recall, the Company was named, among other defendants, in approximately 93 lawsuits, including a number of putative class action cases, related to Hydroxycut-branded products in 14 states. Iovate accepted the Company's tender request for defense and indemnification under its purchasing agreement in these matters.

As of September 30, 2013, there were 73 pending lawsuits related to Hydroxycut in which the Company has been named, including 67 individual, largely personal injury claims and six putative class action cases, generally inclusive of claims of consumer fraud, misrepresentation, strict liability and breach of warranty. The United States Judicial Panel on Multidistrict Litigation consolidated pretrial proceedings of many of the pending actions in the Southern District of California (In re: Hydroxycut Marketing and Sales Practices Litigation, MDL No. 2087).

The parties in the consolidated class actions reached a settlement, which remains subject to final approval by the Court. There is one remaining objector to the settlement, and the Court has scheduled a related evidentiary hearing for November 15, 2013. The Company is not required to make any payments under the settlement agreement.

In May 2013, the parties to the individual personal injury cases signed a Master Settlement Agreement, under which the Company is not required to make any payments. After the Master Settlement Agreement was signed, a new case was filed against Iovate and several other defendants, including the Company, in Alabama state court. Iovate is working to include this case into the master settlement. Assuming that this most recently filed case is included in the Master Settlement Agreement, and following final court approval of the Master Settlement Agreement pertaining to the individual personal injury cases and the settlement of the consolidated class action suits, all of the Hydroxycut claims currently pending against the Company will be resolved without any payment by the Company.

**Commitments**

In addition to operating leases obtained in the normal course of business, the Company maintains certain purchase commitments with various vendors to ensure its operational needs are fulfilled. As of September 30, 2013, such future purchase commitments consisted of \$2.6 million. Other commitments related to the Company's business operations cover varying periods of time and are not significant. All of these commitments are expected to be fulfilled with no adverse consequences to the Company's operations or financial condition.

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**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 that contract, the Company is working under the DHEC 's supervision to complete additional investigations to characterize the contamination. After the Company completes the investigations to understand the extent of the chlorinated solvent impacts, the Company will develop appropriate remedial measures for DHEC 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.

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 these 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 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. STOCK-BASED COMPENSATION PLANS**

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

- the GNC Holdings, Inc. 2011 Stock and Incentive Plan (the 2011 Stock Plan ) adopted in March 2011; and

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- the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan adopted in March 2007 (as amended, the 2007 Stock Plan ).

Both plans have provisions that allow for the granting of stock options, restricted stock and other stock based awards and are available to certain eligible employees, directors, consultants or advisors as determined by the Compensation Committee. Stock options under the plans were granted with exercise prices at or above fair market value on the date of grant, typically vest over a four- or five-year period, and expire seven or ten years from the date of grant.



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Up to 8.5 million shares of Class A common stock may be issued under the 2011 Stock Plan (subject to adjustment to reflect certain transactions and events specified in the 2011 Stock Plan for any award grant). If any award granted under the 2011 Stock Plan expires, terminates or is cancelled without having been exercised in full, the number of shares underlying such unexercised award will again become available for awards under the 2011 Stock Plan. The total number of shares of Class A common stock available for awards under the 2011 Stock Plan will be reduced by (i) the total number of stock options or stock appreciation rights exercised, regardless of whether any of the shares of Class A common stock underlying such awards are not actually issued to the participant as the result of a net settlement, and (ii) any shares of Class A common stock used to pay any exercise price or tax withholding obligation. In addition, the number of shares of Class A common stock that are subject to restricted stock, performance shares or other stock-based awards that are not subject to the appreciation of the value of a share of Class A common stock ( Full Share Awards ) that may be granted under the 2011 Stock Plan is limited by counting shares granted pursuant to such awards against the aggregate share reserve as 1.8 shares for every share granted. If any stock option, stock appreciation right or other stock-based award that is not a Full Share Award is cancelled, expires or terminates unexercised for any reason, the shares covered by such awards will again be available for the grant of awards under the 2011 Stock Plan. If any shares of Class A common stock that are subject to restricted stock, performance shares or other stock-based awards that are Full Share Awards are forfeited for any reason, 1.8 shares of Class A common stock for each Full Share Award forfeited will again be available for the grant of awards under the 2011 Stock Plan.

The Company will not grant any additional awards under the 2007 Stock Plan. No stock appreciation rights, restricted stock, deferred stock or performance shares were granted under the 2007 Stock Plan.

The Company utilizes the Black Scholes model to calculate the fair value of options under both the 2011 Stock Plan and the 2007 Stock Plan. The grant-date fair value of the Company's restricted stock awards and restricted stock units is based on the closing price of a share of the Company's common stock on the New York Stock Exchange on the date of the grant. The resulting compensation cost is recognized in the Company's financial statements over the vesting period. The Company recognized \$5.9 million and \$3.6 million of total non-cash stock-based compensation expense for the nine months ended September 30, 2013 and 2012, respectively. At September 30, 2013, there was approximately \$17.4 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. All expense for the stock-based compensation plans is recorded to paid-in-capital.

During the nine months ended September 30, 2013, the total intrinsic value of awards exercised was \$32.6 million and the total amount received by Holdings from the exercise of options was \$10.3 million. The total tax impact associated with the exercise of awards for the nine months ended September 30, 2013 was a benefit of \$12.2 million, of which \$11.0 million was recorded to paid-in-capital.

During the nine months ended September 30, 2012, the total intrinsic value of awards exercised was \$96.8 million, and the total amount received by Holdings from the exercise of options was \$23.8 million. The total tax impact associated with the exercise of awards for the nine months ended September 30, 2012 was a benefit of \$35.6 million, of which \$33.4 million was recorded to paid-in-capital.

**Stock Options**

The following table sets forth a summary of stock options under all plans for the nine months ended September 30, 2013:

	<b>Total Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Outstanding at December 31, 2012	3,159,542	\$ 18.96		
Granted	22,302	44.29		
Exercised	(945,882)	10.74		
Forfeited	(70,193)	26.55		
Outstanding at September 30, 2013	2,165,769	\$ 22.57	5.7	\$ 69,433
Exercisable at September 30, 2013	589,404	\$ 18.11	5.5	\$ 21,522

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The weighted average fair value per share of options granted during the nine months ended September 30, 2013 and 2012 was \$14.20 and \$11.09, respectively. Fair value of options vested during the nine months ended September 30, 2013 and 2012 was \$2.2 million and \$3.1 million, respectively.

The Black Scholes model utilizes the following assumptions in determining a fair value: price of underlying stock, award exercise price, expected term, risk-free interest rate, expected dividend yield and expected stock price volatility over the award's expected term. Due to the utilization of these assumptions, the existing models do not necessarily represent the definitive fair value of awards for future periods. As the IPO occurred during the second quarter of 2011, the option term has been estimated by considering both the vesting period, which typically for both plans has been four or five years, and the contractual term, which historically has been either seven or ten years. Prior to the IPO, the fair value of the Class A common stock was estimated based upon the net enterprise value of the Company, discounted to reflect the lack of liquidity and control associated with the stock. Since the consummation of the IPO, the fair value of the Class A common stock has been based upon the closing price of the Class A common stock as reported on the New York Stock Exchange. Volatility is estimated based upon the current peer group average utilized by the Company.

The assumptions used in the Company's Black Scholes valuation related to stock option grants made during the nine months ended September 30, 2013 were as follows:

Dividend yield	1.1% - 1.4%
Expected option life	4.8 years
Volatility factor percentage of market price	39.7% - 40.5%
Discount rate	0.7% - 1.4%

**Restricted Stock Awards**

The following table sets forth a summary of restricted stock awards granted under the 2011 Stock Plan and related information for the nine months ended September 30, 2013:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012	123,941	\$ 24.24
Granted	18,497	44.15
Vested	(12,736)	39.74
Forfeited	(10,435)	27.51
Outstanding at September 30, 2013	119,267	\$ 25.39

**Restricted Stock Units Time Vesting and Performance Vesting**

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Under the 2011 Stock Plan, the Company granted time vesting and performance vesting restricted stock units. Time vesting restricted stock units vest over a period of three years. Performance vesting restricted stock units vest based on the passage of time and the achievement of certain criteria; based on the extent to which the targets are achieved, vested shares may range from 0% to 200% of the original share amount. The unrecognized compensation cost related to the performance vesting restricted stock units is adjusted as necessary to reflect changes in the probability that the vesting criteria will be achieved.

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The following table sets forth a summary of restricted stock units and performance stock units granted under the 2011 Stock Plan and related information for the nine months ended September 30, 2013:

	<b>Time Vesting Restricted Stock Units</b>	<b>Weighted Average Grant-Date Fair Value</b>	<b>Performance Vesting Restricted Stock Units</b>	<b>Weighted Average Grant-Date Fair Value</b>
Outstanding at December 31, 2012	171,937	\$ 36.16	-	\$ -
Granted	13,224	43.49	46,285	42.40
Forfeited	(8,290)	37.87	(1,379)	42.19
Outstanding at September 30, 2013	176,871	\$ 36.63	44,906	\$ 42.41

No time vesting or performance vesting shares vested during the nine months ended September 30, 2013.

**NOTE 9. SEGMENTS**

The Company has three reportable segments, each of which represents an identifiable component of the Company for which separate financial information is available. This information is utilized by management to assess performance and allocate assets accordingly. The Company's management evaluates segment operating results based on several indicators. The primary key performance indicators are sales and operating income or loss for each segment. Operating income or loss, as evaluated by management, excludes certain items that are managed at the consolidated level, such as distribution and warehousing, impairments and other corporate costs. The Retail reportable segment includes the Company's corporate store operations in the United States, Canada and Puerto Rico and its GNC.com and LuckyVitamin.com businesses. The Franchise reportable segment represents the Company's franchise operations, both domestically and internationally. The Manufacturing/Wholesale reportable segment represents the Company's manufacturing operations in South Carolina and the Wholesale sales business. This segment supplies the Retail and Franchise segments, along with various third parties, with finished products for sale. The Warehousing and Distribution and Corporate costs represent the Company's administrative expenses. The accounting policies of the segments are the same as those described in the Basis of Presentation and Summary of Significant Accounting Policies.

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The following table represents key financial information of the Company's segments:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(unaudited)			
	(in thousands)			
<b>Revenue:</b>				
Retail	\$ 487,271	\$ 445,008	\$ 1,483,228	\$ 1,373,460
Franchise	118,873	108,785	337,320	313,809
Manufacturing/Wholesale:				
Intersegment revenues	66,231	65,813	199,248	202,931
Third Party	69,450	67,814	196,013	177,692
Subtotal Manufacturing/Wholesale	135,681	133,627	395,261	380,623
Subtotal segment revenues	741,825	687,420	2,215,809	2,067,892
Elimination of intersegment revenues	(66,231)	(65,813)	(199,248)	(202,931)
<b>Total revenue</b>	<b>\$ 675,594</b>	<b>\$ 621,607</b>	<b>\$ 2,016,561</b>	<b>\$ 1,864,961</b>
<b>Operating income:</b>				
Retail	\$ 92,580	\$ 86,257	\$ 291,507	\$ 277,050
Franchise	41,612	36,319	116,687	103,038
Manufacturing/Wholesale	28,436	26,455	76,869	73,150
Unallocated corporate and other costs:				
Warehousing and distribution costs	(17,513)	(16,181)	(50,737)	(47,601)
Corporate costs	(19,141)	(20,749)	(60,161)	(63,720)
Transaction related costs		(924)		(1,610)
Subtotal unallocated corporate and other costs	(36,654)	(37,854)	(110,898)	(112,931)
<b>Total operating income</b>	<b>125,974</b>	<b>111,177</b>	<b>374,165</b>	<b>340,307</b>
Interest expense, net	11,237	12,080	33,353	32,958
<b>Income before income taxes</b>	<b>\$ 114,737</b>	<b>\$ 99,097</b>	<b>\$ 340,812</b>	<b>\$ 307,349</b>

**NOTE 10. INCOME TAXES**

The Company recognized \$123.4 million of income tax expense (or 36.2% of pre-tax income) during the nine months ended September 30, 2013 compared to \$114.6 million (or 37.3% of pre-tax income) for the same period in 2012. The income tax rate was lower for the nine months ended September 30, 2013 compared to the same period in 2012 as a result of changes to valuation allowances recorded against certain state deferred tax assets.

The Company files a consolidated U.S. 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 operates. The Company's 2010 and 2011 federal income tax returns have been examined by the Internal Revenue Service. The Company has various state and local jurisdiction tax years open to examination (the earliest open period is 2005), and the Company also has certain state and local jurisdictions currently under audit. As of September 30, 2013, the Company believes that it has appropriately reserved for potential federal and state income tax exposures.

At September 30, 2013 and December 31, 2012, the Company had \$12.6 million and \$12.9 million of unrecognized tax benefits, respectively. As of September 30, 2013, the Company is not aware of any tax positions for which it is reasonably possible that the amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately \$12.6 million. The Company

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recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued approximately \$5.2 million and \$5.7 million at September 30, 2013 and December 31, 2012, 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 reduced and reflected as a reduction of the overall income tax provision.

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**NOTE 11. RELATED PARTY TRANSACTIONS**

**Sponsors.** Prior to the IPO, Holdings' outstanding common stock was principally owned by the Sponsors. In March 2012, OTPP converted all of its shares of Class B common stock into an equal number of shares of Class A common stock. As of December 31, 2012 Ares did not own any shares of the Company's capital stock and OTPP owned less than 10,000 shares of the Company's Class A common stock, and therefore the Sponsors are no longer considered related parties.

**Lease Agreements.** General Nutrition Centres Company, the Company's wholly owned subsidiary, is a party, as lessee, to 16 lease agreements with Cadillac Fairview Corporation ( Cadillac Fairview ), as lessor, and 1 lease agreement with Ontrea, Inc. ( Ontrea ), as lessor, with respect to properties located in Canada. Cadillac Fairview and Ontrea are direct wholly owned subsidiaries of OTPP. For the nine months ended September 30, 2012, the Company paid \$1.9 million under the lease agreements with Cadillac Fairview, and an immaterial amount for the nine months ended September 30, 2012 under the lease agreement with Ontrea. Each lease was negotiated in the ordinary course of business on an arm's length basis.

**Share Repurchase** On August 9, 2012, in conjunction with the August 2012 Offering, the Company entered into an agreement to repurchase six million shares of common stock directly from Ares at a price of \$38.42 per share. The Company funded this repurchase from borrowings under the Incremental Term Loan, together with cash on hand.

**NOTE 12. SUBSEQUENT EVENTS**

On October 2, 2013, the Company acquired A1 Sports Limited d/b/a Discount Supplements, an online retailer of multi-brand sports nutrition products in the United Kingdom. The Company expects the acquisition of Discount Supplements to have an immaterial impact on operating income during 2013.

On October 17, 2013, the board of directors authorized and declared a cash dividend for the fourth quarter of 2013 of \$0.15 per share of Class A common stock, payable on or about December 27, 2013 to stockholders of record as of the close of business on December 13, 2013.

On October 4, 2013, the Company announced the transition to a third party pooled carrier product transportation network and move away from its existing private fleet. The transition will result in a one-time pre-tax expense in the fourth quarter of 2013 of approximately \$8.5 million associated with employee severance and early lease termination on transportation equipment.



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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 in Part I of this Quarterly Report on Form 10-Q.

**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, could, can, think, the negatives thereof, 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 our Annual Report on Form 10-K for the year ended December 31, 2012), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- significant competition in our industry;
- unfavorable publicity or consumer perception of our products;
- 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;

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- loss or retirement of key members of management;
- costs of compliance and our failure 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 and the 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;
- 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;
- 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;



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- 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;
- 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;
- natural disasters, unusually adverse weather conditions, 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 and wellness products. We derive our revenues principally from product sales through our company-owned stores and online through 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 8,400 locations operating under the GNC brand name.

In April 2011, we consummated an initial public offering (the IPO) of 25.9 million shares of Holdings Class A common stock, par value \$0.001 per share (the Class A common stock), at an IPO price of \$16.00 per share. Subsequent to the IPO, certain of

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Holdings stockholders completed the following registered offerings of Class A common stock:

- in October 2011, 23.0 million shares at \$24.75 per share;
- in March 2012, 19.6 million shares at \$33.50 per share;
- in August 2012, 10.0 million shares at \$38.42 per share; and
- In November 2012, 11.7 million shares at \$35.20 per share.

In conjunction with the August 2012 offering, we repurchased an additional six million shares of Class A common stock from one of our stockholders as part of a share repurchase program.

As of September 30, 2013, we have completed \$238.4 million of the February 2013 approved \$250.0 million share repurchase program of Class A common stock. The IPO, the offerings, and the repurchase of the six million shares of Class A common stock are collectively herein referred to as the Offerings.

In March 2011, GNC Corporate and General Nutrition Centers, Inc., each a wholly owned subsidiary of Holdings, entered into a Credit Agreement (the Credit Agreement ), that provided for a \$1.2 billion term loan (the Term Loan Facility ) and an \$80.0 million revolving credit facility (the Revolving Credit Facility and together with the Term Loan Facility, the Senior Credit Facility ). In August 2012, the Credit Agreement was amended to increase the outstanding borrowings by \$200.0 million (the Incremental Term Loan ). In October 2012, the Credit Agreement was amended to adjust the per annum interest rate to the greater of LIBOR and 1.00%, plus an applicable margin of 2.75% (the Repricing ).

On October 2, 2013, we acquired A1 Sports Limited (d/b/a Discount Supplements), the leading multi-brand sports nutrition e-commerce retailer in the United Kingdom. We expect the acquisition of Discount Supplements to have an immaterial impact on operating income during 2013.

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**Executive Overview**

In 2013, we have continued to focus on achieving our five principal corporate goals: growing company-owned domestic retail earnings, growing company-owned domestic retail square footage, growing our international footprint, expanding our e-commerce business and further leveraging the GNC brand. These goals are designed to drive both short-term and long-term financial results. Our efforts led to the following results for the three months ended September 30, 2013 compared to the same period in 2012:

- Our company-owned domestic same store sales increased by 6.7%, which includes a 31.7% increase from our GNC.com business.
- We increased our company-owned domestic store count by 32 net new stores during the third quarter of 2013.
- Our retail segment sales increased by 9.5%, and operating income increased 7.3%.
- Total franchising revenue grew 9.3%, and operating income increased 14.6%.
- Domestic franchising revenue grew 10.1%, and we added 15 net new domestic franchise stores during the third quarter of 2013.
- International franchise revenue grew 8.2%, and we added 29 net new international franchise stores during the third quarter of 2013.
- We increased our sales in our wholesale/manufacturing segment by 2.4% through our wholesale distribution channels and increased third-party sales, and operating income increased 7.5%.
- We generated 8.7% of total revenue growth which drove a 13.3% increase in total operating income.
- For the nine months ended September 30, 2013, we generated net cash from operating activities of \$215.4 million, repurchased \$238.4 million in common stock, and paid \$43.3 million in common stock dividends.

***Revenues and Operating Performance from our Segments***

We measure our operating performance primarily through revenues and operating income from our three segments, Retail, Franchise and Manufacturing/Wholesale, and through the management of unallocated costs from our warehousing, distribution and corporate segments, as follows:

- *Retail:* Retail revenues are generated by sales to consumers at our company-owned stores and online through our websites, GNC.com and LuckyVitamin.com. Although we believe that our retail and franchise businesses are not seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter. Our industry is expected to grow at an annual average rate of approximately 7% through 2020. As a leader in our industry, we expect our organic retail revenue to grow faster than the projected industry growth as a result of our disproportionate market share, scale economies in purchasing and advertising, strong brand awareness and vertical integration.
  
- *Franchise:* Franchise revenues are generated primarily by:
  - (1) product sales to our franchisees;
  - (2) royalties on franchise retail sales; and
  - (3) franchise fees, which we charge for initial franchise awards, renewals and transfers of franchises.

Although we do not anticipate the number of our domestic franchise stores to grow substantially, we expect to achieve domestic franchise store revenue growth consistent with projected industry growth, which we expect to generate from royalties on franchise retail sales and product sales to our existing franchisees. As a result of our efforts to expand our international presence and provisions in our international franchising agreements requiring franchisees to open additional stores, we have increased our international store base in recent periods and expect to continue to increase the number of our international franchise stores over the next five years. We believe this will result in additional franchise fees associated with new store openings and increased revenues from product sales to, and royalties from, new franchisee stores. Since our international franchisees pay royalties to us in U.S. dollars, any strengthening of the U.S. dollar relative to our franchisees' local currency may offset some of the growth in royalty revenue.

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- *Manufacturing/Wholesale:* Manufacturing/Wholesale revenues are generated by: sales of manufactured products to third parties, generally for third-party private label brands; the sale of our proprietary and third-party products to and through Rite Aid and www.drugstore.com; and the sale of our proprietary products to PetSmart and Sam's Club. We also record license fee revenue from the opening of franchise store-within-a-store locations within Rite Aid stores. Our revenues generated by our manufacturing and wholesale operations are subject to our available manufacturing capacity.

A significant portion of our business infrastructure is comprised of fixed operating costs. Our vertically integrated distribution network, manufacturing capacity, and our ability to outsource production can support higher sales volume. With the continued growth in each of our operating segments, the Company has announced that it will be adding a fourth domestic distribution center. This distribution center will be located near Indianapolis, Indiana and will provide distribution capacity for the foreseeable future.

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 associated with complying with new and existing governmental regulation may negatively affect our operating performance; and
- a decline in disposable income available to consumers may lead to a reduction in consumer spending and negatively affect our operating performance.

**Results of Operations**



The following information presented for the three and nine months ended September 30, 2013 and 2012 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.

As discussed in Note 9, Segments, to our unaudited consolidated financial statements, we evaluate segment operating results based on several indicators. The primary key performance indicators are revenues and operating income or loss for each segment. Revenues and operating income or loss, as evaluated by management, exclude certain items that are managed at the consolidated level, such as warehousing and transportation costs, impairments and other corporate costs. The following discussion compares the revenues and the operating income or loss by segment, as well as those items excluded from the segment totals.

Same store sales growth reflects the percentage change in same store sales in the period presented compared to 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 also include internet sales, as generated only through GNC.com and www.drugstore.com, in our domestic retail company-owned domestic same store sales calculation. 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 sales as long as the store was open during the same period of the prior year. We exclude from the calculation 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.

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(Dollars in millions and percentages expressed as a percentage of total net revenue)

	Three Months Ended September 30,				Nine Months Ended September 30,							
	2013		2012		2013		2012					
	(unaudited)											
<b>Revenues:</b>												
Retail	\$	487.3	72.1%	\$	445.0	71.6%	\$	1,483.3	73.6%	\$	1,373.5	73.7%
Franchise		118.9	17.6%		108.8	17.5%		337.3	16.7%		313.8	16.8%
Manufacturing / Wholesale		69.4	10.3%		67.8	10.9%		196.0	9.7%		177.7	9.5%
<b>Total net revenues</b>		<b>675.6</b>	<b>100.0%</b>		<b>621.6</b>	<b>100.0%</b>		<b>2,016.6</b>	<b>100.0%</b>		<b>1,865.0</b>	<b>100.0%</b>
<b>Operating expenses:</b>												
Cost of sales, including warehousing, distribution and occupancy costs		421.6	62.4%		386.4	62.2%		1,250.6	62.0%		1,149.6	61.6%
Compensation and related benefits		79.3	11.7%		78.7	12.7%		239.9	11.9%		237.1	12.7%
Advertising and promotion		16.7	2.5%		15.7	2.5%		53.5	2.6%		45.3	2.4%
Other selling, general and administrative expenses		29.9	4.4%		26.6	4.3%		92.2	4.6%		84.8	4.6%
Transaction related costs		-	0.0%		0.9	0.1%		-	0.0%		1.6	0.1%
Amortization expense		2.1	0.3%		2.1	0.3%		6.3	0.3%		6.4	0.3%
Foreign currency gain		-	0.0%		-	0.0%		(0.1)	0.0%		(0.1)	0.0%
<b>Total operating expenses</b>		<b>549.6</b>	<b>81.3%</b>		<b>510.4</b>	<b>82.1%</b>		<b>1,642.4</b>	<b>81.4%</b>		<b>1,524.7</b>	<b>81.7%</b>
<b>Operating income:</b>												
Retail		92.6	13.7%		86.3	13.9%		291.5	14.5%		277.0	14.9%
Franchise		41.6	6.2%		36.3	5.8%		116.7	5.8%		103.0	5.5%
Manufacturing / Wholesale		28.4	4.2%		26.5	4.3%		76.9	3.8%		73.2	3.9%
Unallocated corporate and other costs:												
Warehousing and distribution costs		(17.5)	-2.6%		(16.2)	-2.7%		(50.7)	-2.5%		(47.6)	-2.5%
Corporate costs		(19.1)	-2.8%		(20.8)	-3.3%		(60.2)	-3.0%		(63.7)	-3.4%
Transaction related costs		-	0.0%		(0.9)	-0.1%		-	0.0%		(1.6)	-0.1%
Subtotal unallocated corporate and other costs, net		(36.6)	-5.4%		(37.9)	-6.1%		(110.9)	-5.5%		(112.9)	-6.0%
<b>Total operating income</b>		<b>126.0</b>	<b>18.7%</b>		<b>111.2</b>	<b>17.9%</b>		<b>374.2</b>	<b>18.6%</b>		<b>340.3</b>	<b>18.3%</b>
Interest expense, net		11.3			12.1			33.4			32.9	
<b>Income before income taxes</b>		<b>114.7</b>			<b>99.1</b>			<b>340.8</b>			<b>307.4</b>	
Income tax expense		41.7			36.9			123.4			114.6	
<b>Net income</b>	\$	<b>73.0</b>		\$	<b>62.2</b>		\$	<b>217.4</b>		\$	<b>192.8</b>	

**Note:** The numbers in the above table have been rounded to millions. All calculations related to the Results of Operations for the year-over-year comparisons were derived from unrounded data and could occasionally differ immaterially if you were to use the table above for these calculations.

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**Comparison of the Three Months Ended September 30, 2013 and 2012**

**Revenues**

Our consolidated net revenues increased \$54.0 million, or 8.7%, to \$675.6 million for the three months ended September 30, 2013 compared to \$621.6 million for the same period in 2012. The increase was the result of increased sales in each of our segments.

*Retail.* Revenue in our Retail segment increased \$42.3 million, or 9.5%, to \$487.3 million for the three months ended September 30, 2013 compared to \$445.0 million for the same period in 2012. Domestic retail revenue increased \$38.3 million due to the opening of new stores, which accounted for approximately \$10.8 million of the increase, and a 6.7% increase in our same store sales, which includes an increase in sales from GNC.com of \$7.7 million, or 31.7%, to \$31.9 million for the three months ended September 30, 2013, compared to \$24.2 million for the same period in 2012. The nationwide rollout of Member Pricing included the giveaway of free Gold Cards, which negatively impacted same store sales. In addition, sales from LuckyVitamin.com contributed \$2.0 million to the increase in revenue. Canadian sales increased by \$2.0 million in U.S. dollars for the three months ended September 30, 2013 compared to the same period in 2012. Our company-owned store base increased by 143 domestic stores to 3,129 at September 30, 2013 compared to 2,986 at September 30, 2012, due to new store openings and franchise store acquisitions. Our Canadian store base increased by five stores to 170 at September 30, 2013 compared to 165 at September 30, 2012.

*Franchise.* Revenues in our Franchise segment increased \$10.1 million, or 9.3%, to \$118.9 million for the three months ended September 30, 2013 compared to \$108.8 million for the same period in 2012. Domestic franchise revenues increased \$6.2 million primarily due to higher product sales. Our domestic franchise same store sales increased by 5.9% for the three months ended September 30, 2013 compared to the same period in 2012. There were 984 domestic franchise stores at September 30, 2013 compared to 935 stores at September 30, 2012. International revenue increased by \$3.9 million, or 8.2%, for the three months ended September 30, 2013, compared to the same period in 2012, primarily as a result of higher product sales. Our franchisees have reported an 11.6% same store sales increase this year, on a local currency basis. Our international franchise store base increased by 244 stores to 1,955 at September 30, 2013 compared to 1,711 at September 30, 2012.

*Manufacturing/Wholesale.* Revenues in our Manufacturing/Wholesale segment, which includes third-party sales from our manufacturing facilities in South Carolina, as well as wholesale sales to Rite Aid, PetSmart, Sam's Club and www.drugstore.com, increased \$1.6 million, or 2.4%, to \$69.4 million for the three months ended September 30, 2013 compared to \$67.8 million for the same period in 2012. For the three months ended September 30, 2013, third party contract manufacturing sales from our South Carolina manufacturing plant increased by \$3.2 million, or 9.2%, compared to the same period in 2012. Wholesale revenue decreased \$1.5 million, or 4.6%, due to timing of purchase orders and shipments with key wholesale customers.

**Cost of Sales**

Cost of sales, which includes product costs, costs of warehousing and distribution and occupancy costs, increased \$35.2 million, or 9.1%, to \$421.6 million for the three months ended September 30, 2013 compared to \$386.4 million for the same period in 2012. Cost of sales, as a percentage of net revenue, was 62.4% and 62.2% for the three months ended September 30, 2013 and 2012,

respectively. The higher cost of sales percentage for the three months ended September 30, 2013 was due to planned pricing investments with the rollout of Member Pricing.

***Selling, General and Administrative ( SG&A ) Expenses***

SG&A expenses, including compensation and related benefits, advertising and promotion expense, other SG&A expenses including amortization expense and transaction related costs, increased \$4.0 million, or 3.2%, to \$128.0 million for the three months ended September 30, 2013 compared to \$124.0 million for the same period in 2012. These expenses, as a percentage of net revenue, were 18.9% for the three months ended September 30, 2013 compared to 20.0% for the three months ended September 30, 2012.

*Compensation and related benefits.* Compensation and related benefits increased \$0.6 million, or 0.7%, to \$79.3 million for the three months ended September 30, 2013 compared to \$78.7 million for the same period in 2012. The increase in compensation and related benefits was primarily due to support for our increased store base and sales volume.

*Advertising and promotion.* Advertising and promotion expenses increased \$1.0 million, or 6.7%, to \$16.7 million for the three months ended September 30, 2013 compared to \$15.7 million for the same period in 2012. Advertising expense, as a percentage of net revenue, was 2.5% for both the three months ended September 30, 2013 and 2012.

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*Other SG&A.* Other SG&A expenses, including amortization expense, increased \$3.3 million, or 11.3%, to \$32.0 million for the three months ended September 30, 2013 compared to \$28.7 million for the same period in 2012. This increase was to support increased sales in each of our segments.

*Transaction related costs.* We did not incur any transaction related costs for the three months ended September 30, 2013. For the three months ended September 30, 2012, we incurred \$0.9 million related to the August 2012 offering and the Incremental Term Loan.

***Operating Income***

As a result of the foregoing, consolidated operating income increased \$14.8 million, or 13.3%, to \$126.0 million for the three months ended September 30, 2013 compared to \$111.2 million for the same period in 2012. Operating income, as a percentage of net revenue, was 18.6% and 17.9% for the three months ended September 30, 2013 and 2012, respectively.

*Retail.* Operating income increased \$6.3 million, or 7.3%, to \$92.6 million for the three months ended September 30, 2013 compared to \$86.3 million for the same period in 2012. The increase in operating income was driven by the same store sales increase offset by planned investments in marketing and pricing with the nationwide rollout of Member Pricing.

*Franchise.* Operating income increased \$5.3 million, or 14.6%, to \$41.6 million for the three months ended September 30, 2013 compared to \$36.3 million for the same period in 2012. The increase was due to increased wholesale product sales and royalty income.

*Manufacturing/Wholesale.* Operating income increased \$1.9 million, or 7.5%, to \$28.4 million for the three months ended September 30, 2013 compared to \$26.5 million for the same period in 2012. Operating income grew faster than sales due to a higher mix of proprietary product sales.

*Warehousing and distribution costs.* Unallocated warehousing and distribution costs increased \$1.3 million, or 8.2%, to \$17.5 million for the three months ended September 30, 2013 compared to \$16.2 million for the same period in 2012. The increase was primarily due to increased shipping expense and wages to support higher sales volume.

*Corporate costs.* Corporate overhead costs decreased \$1.7 million, or 7.8%, to \$19.1 million for the three months ended September 30, 2013 compared to \$20.8 million for the same period in 2012. This decrease was due to decreases in incentives and compensation expenses.

*Transaction related costs.* We did not incur any transaction related costs for the three months ended September 30, 2013. For the three months ended September 30, 2012, we incurred \$0.9 million related to the August 2012 offering and the Incremental Term Loan.

***Interest Expense***

Interest expense decreased \$0.8 million, or 7.0%, to \$11.3 million for the three months ended September 30, 2013 compared to \$12.1 million for the same period in 2012. This decrease was primarily due to by the effects of the Repricing combined with the payments on long-term debt.

***Income Tax Expense***

We recognized \$41.7 million of income tax expense (or 36.3% of pre-tax income) during the three months ended September 30, 2013 compared to \$36.9 million (or 37.2% of pre-tax income) for the same period in 2012. The income tax rate was lower for the three months ended September 30, 2013 compared to the same period in 2012 as a result of changes to valuation allowances recorded against certain state deferred tax assets.

***Net Income***

As a result of the foregoing, consolidated net income increased \$10.8 million to \$73.0 million for the three months ended September 30, 2013 compared to \$62.2 million for the same period in 2012.

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**Comparison of the Nine Months Ended September 30, 2013 and 2012**

**Revenues**

Our consolidated net revenues increased \$151.6 million, or 8.1%, to \$2,016.6 million for the nine months ended September 30, 2013 compared to \$1,865.0 million for the same period in 2012. The increase was the result of increased sales in each of our segments.

*Retail.* Revenue in our Retail segment increased \$109.8 million, or 8.0%, to \$1,483.3 million for the nine months ended September 30, 2013 compared to \$1,373.5 million for the same period in 2012. Domestic retail revenue increased \$94.6 million due to the opening of new stores, which accounted for approximately \$30.3 million of the increase, and a 4.2% increase in our same store sales, which includes an increase in sales from GNC.com of \$19.2 million, or 25.2%, to \$95.3 million for the nine months ended September 30, 2013, compared to \$76.1 million for the same period in 2012. The nationwide rollout of Member Pricing included the giveaway of free Gold Cards, which negatively impacted same store sales. In addition, sales from LuckyVitamin.com contributed \$4.5 million to the increase in revenue. Canadian sales increased by \$10.7 million in U.S. dollars for the nine months ended September 30, 2013 compared to the same period in 2012. Our company-owned store base increased by 143 domestic stores to 3,129 at September 30, 2013 compared to 2,986 at September 30, 2012, due to new store openings and franchise store acquisitions. Our Canadian store base increased by five stores to 170 at September 30, 2013 compared to 165 at September 30, 2012.

*Franchise.* Revenues in our Franchise segment increased \$23.5 million, or 7.5%, to \$337.3 million for the nine months ended September 30, 2013 compared to \$313.8 million for the same period in 2012. Domestic franchise revenues increased \$12.2 million primarily due to higher product sales. Our domestic franchise same store sales increased by 4.4% for the nine months ended September 30, 2013 compared to the same period in 2012. There were 984 domestic franchise stores at September 30, 2013 compared to 935 stores at September 30, 2012. International revenue increased by \$11.3 million, or 9.0%, for the nine months ended September 30, 2013, compared to the same period in 2012, primarily as a result of higher product sales. Our franchisees have reported a 10.8% same store sales increase for the nine months ended September 30, 2013, on a local currency basis. Our international franchise store base increased by 244 stores to 1,955 at September 30, 2013 compared to 1,711 at September 30, 2012.

*Manufacturing/Wholesale.* Revenues in our Manufacturing/Wholesale segment, which includes third-party sales from our manufacturing facilities in South Carolina, as well as wholesale sales to Rite Aid, PetSmart, Sam's Club and www.drugstore.com, increased \$18.3 million, or 10.3%, to \$196.0 million for the nine months ended September 30, 2013 compared to \$177.7 million for the same period in 2012. For the nine months ended September 30, 2013, third-party contract manufacturing sales from our South Carolina manufacturing plant increased by \$6.5 million, or 6.7%, compared to the same period in 2012. In addition, wholesale revenue increased \$11.8 million or 14.6% due to timing of purchase orders and shipments with key wholesale customers.

**Cost of Sales**

Cost of sales, which includes product costs, costs of warehousing and distribution and occupancy costs, increased \$101.0 million, or 8.8%, to \$1,250.6 million for the nine months ended September 30, 2013 compared to \$1,149.6 million for the same period in 2012. Cost of sales, as a percentage of net revenue, was 62.0% and 61.6% for the nine months ended September 30, 2013 and 2012, respectively. The higher cost of sales percentage for the nine months ended September 30, 2013 was due to planned pricing investments with the rollout of Member Pricing, which evolved the Gold Card from a fixed 20% discount the first week of each month to an everyday variable discount Member Pricing model.

***Selling, General and Administrative ( SG&A ) Expenses***

SG&A expenses, including compensation and related benefits, advertising and promotion expense, other SG&A expenses including amortization expense and transaction related costs, increased \$16.7 million, or 4.5%, to \$391.9 million for the nine months ended September 30, 2013 compared to \$375.2 million for the same period in 2012. These expenses, as a percentage of net revenue, were 19.4% for the nine months ended September 30, 2013 compared to 20.1% for the nine months ended September 30, 2012.

*Compensation and related benefits.* Compensation and related benefits increased \$2.8 million, or 1.2%, to \$239.9 million for the nine months ended September 30, 2013 compared to \$237.1 million for the same period in 2012. The increase in compensation and related benefits was primarily due to support for our increased store base and sales volume.



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*Advertising and promotion.* Advertising and promotion expenses increased \$8.2 million, or 18.0%, to \$53.5 million for the nine months ended September 30, 2013 compared to \$45.3 million for the same period in 2012. The increase in advertising expense resulted primarily from increases in media and print expense with the launch of the Respect Yourself campaign and our investment in the nationwide launch of Member Pricing.

*Other SG&A.* Other SG&A expenses, including amortization expense, increased \$7.3 million, or 8.2%, to \$98.5 million for the nine months ended September 30, 2013 compared to \$91.2 million for the same period in 2012. This increase was to support increased sales in each of our segments.

*Transaction related costs.* We did not incur any transaction related costs for the nine months ended September 30, 2013. For the nine months ended September 30, 2012, we incurred \$1.6 million related to the Offerings and the Incremental Term Loan.

**Operating Income**

As a result of the foregoing, consolidated operating income increased \$33.9 million, or 9.9%, to \$374.2 million for the nine months ended September 30, 2013 compared to \$340.3 million for the same period in 2012. Operating income, as a percentage of net revenue, was 18.6% and 18.3% for the nine months ended September 30, 2013 and 2012, respectively.

*Retail.* Operating income increased \$14.5 million, or 5.2%, to \$291.5 million for the nine months ended September 30, 2013 compared to \$277.0 million for the same period in 2012. The increase in operating income was driven by the same store sales increase offset by planned investments in marketing spend and pricing during the second quarter with the nationwide rollout of Member Pricing and in support of the Respect Yourself marketing campaign launch in the first quarter.

*Franchise.* Operating income increased \$13.7 million, or 13.2%, to \$116.7 million for the nine months ended September 30, 2013 compared to \$103.0 million for the same period in 2012. The increase was due to increased wholesale product sales and royalty income.

*Manufacturing/Wholesale.* Operating income increased \$3.7 million, or 5.1%, to \$76.9 million for the nine months ended September 30, 2013 compared to \$73.2 million for the same period in 2012. Operating income grew more slowly than sales due to a lower mix of proprietary product sales.

*Warehousing and distribution costs.* Unallocated warehousing and distribution costs increased \$3.1 million, or 6.6%, to \$50.7 million for the nine months ended September 30, 2013 compared to \$47.6 million for the same period in 2012. The increase was primarily due to increased shipping expense and wages to support higher sales volume.

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*Corporate costs.* Corporate overhead costs decreased \$3.5 million, or 5.6%, to \$60.2 million for the nine months ended September 30, 2013 compared to \$63.7 million for the same period in 2012. This decrease was due to decreases in incentives and compensation expenses and other SG&A costs.

*Transaction related costs.* We did not incur any transaction related costs for the nine months ended September 30, 2013. For the nine months ended September 30, 2012, we incurred \$1.6 million related to the Offerings and the Incremental Term Loan.

### ***Interest Expense***

Interest expense increased \$0.5 million, or 1.2%, to \$33.4 million for the nine months ended September 30, 2013 compared to \$32.9 million for the same period in 2012. This increase was primarily due to the borrowings under the Incremental Term Loan, partially offset by the effects of the Repricing.

### ***Income Tax Expense***

We recognized \$123.4 million of income tax expense (or 36.2% of pre-tax income) during the nine months ended September 30, 2013 compared to \$114.6 million (or 37.3% of pre-tax income) for the same period in 2012. The income tax rate was lower for the nine months ended September 30, 2013 compared to the same period in 2012 as a result of changes to valuation allowances recorded against certain state deferred tax assets.

### ***Net Income***

As a result of the foregoing, consolidated net income increased \$24.6 million to \$217.4 million for the nine months ended September 30, 2013 compared to \$192.8 million for the same period in 2012.

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**Liquidity and Capital Resources**

At September 30, 2013, we had \$77.7 million in cash and cash equivalents and \$542.1 million in working capital, compared with \$158.5 million in cash and cash equivalents and \$573.5 million in working capital at December 31, 2012. The \$31.4 million decrease in our working capital was primarily driven by a decrease in our cash due to the repurchase of common stock and an increase in accounts payable, partially offset by an increase in receivables and inventory levels to support increased sales in each of our segments.

We expect to fund our operations through internally generated cash and, if necessary, from borrowings under the Revolving Credit Facility. At September 30, 2013, we had \$78.9 million available under the Revolving Credit Facility, after giving effect to \$1.1 million utilized to secure letters of credit.

We expect our primary uses of cash in the near future will be for capital expenditures, working capital requirements, and funding any quarterly dividends to stockholders and share repurchases that are approved by the board of directors.

In February 2013, the board of directors authorized a program to repurchase up to an aggregate of \$250.0 million of our Class A common stock. We repurchased \$238.4 million of Class A common stock during the nine months ended September 30, 2013.

On October 17, 2013, the board of directors authorized and declared a cash dividend for the fourth quarter of 2013 of \$0.15 per share of Class A common stock, payable on or about December 27, 2013 to stockholders of record as of the close of business on December 13, 2013.

We currently anticipate that cash generated from operations, together with amounts available under the Revolving Credit Facility, will be sufficient for the term of the Revolving Credit Facility, which matures on March 15, 2016, to meet our operating expenses and fund capital expenditures. Under the Incremental Term Loan, we are required to make quarterly payments of \$0.5 million, payable every quarter beginning September 30, 2012 and ending on December 31, 2017. Our ability to make scheduled payments of principal on, to pay interest on or to refinance our debt and to satisfy our other debt obligations will depend on our future operating performance, which will be affected by general economic, financial and other factors beyond our control. We are currently in compliance with our debt covenant reporting and compliance obligations under the Senior Credit Facility and expect to remain in compliance throughout 2013.

***Cash Provided by Operating Activities***

Cash provided by operating activities was \$215.4 million and \$142.0 million for the nine months ended September 30, 2013 and 2012, respectively. The increase was due to an increase in net income of \$24.6 million and the timing of payments for inventory, accounts payable, and deferred revenue and other current liabilities for the nine months ended September 30, 2013 compared to the same period in 2012.

For the nine months ended September 30, 2013, inventory increased \$65.3 million as a result of increases in our finished goods to support our increased sales. Accounts receivables increased \$24.3 million as a result of increased sales to our franchisees. Accounts payable increased \$36.1 million due to the increase in inventory and timing of payments. Deferred revenue and other current liabilities decreased \$14.3 million due primarily to a decrease in accrued taxes, accrued payroll, and deferred revenue due to the giveaway of Gold Cards during the second quarter as a result of the nationwide Member Pricing launch.

***Cash Used in Investing Activities***

Cash used in investing activities was \$34.7 million and \$31.8 million for the nine months ended September 30, 2013 and 2012, respectively. Capital expenditures, which were primarily for new stores and improvements to our retail stores and our South Carolina manufacturing facility, were \$33.6 million and \$29.9 million for the nine months ended September 30, 2013 and 2012, respectively.

Our capital expenditures typically consist of new stores, certain periodic updates in our company-owned stores and ongoing upgrades and improvements to our manufacturing facilities and information technology systems.

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We expect capital expenditures to be approximately \$50.0 million in 2013, which includes costs associated with growing our domestic square footage. We anticipate funding our 2013 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

***Cash Used in Financing Activities***

For the nine months ended September 30, 2013, cash used in financing activities was \$262.1 million, primarily consisting of dividends paid to Holdings' stockholders of \$43.3 million and the repurchase of an aggregate of \$238.4 million shares of Class A common stock under the repurchase program, offset by \$22.5 million of proceeds from exercised stock options, including the associated tax benefit.

For the nine months ended September 30, 2012, cash used in financing activities was \$141.3 million, primarily due to dividends paid to Holdings' stockholders of \$34.3 million and the repurchase of an aggregate of \$360.0 million shares of Class A common stock under a repurchase program, offset partially by \$59.4 million of proceeds from exercised stock options, including the associated tax benefit, and \$199.0 million of proceeds from the issuance of long-term debt.

**Contractual Obligations**

There are no material changes in our contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Off Balance Sheet Arrangements**

As of September 30, 2013, we had no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements, or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

**Critical Accounting Estimates**

Our significant accounting policies are described in the notes to our unaudited consolidated financial statements under Note 2, Basis of Presentation and Summary of Significant Accounting Policies. There have been no material changes to the application of critical accounting policies and significant judgments and estimates since those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

## Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the FASB ) issued an accounting standard regarding the reclassification of amounts out of accumulated other comprehensive income ( AOCI ). This standard does not change the current requirements for reporting net income or other comprehensive income. However, the standard requires disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the footnotes to the financial statements. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This guidance is effective for fiscal years beginning after December 15, 2012. We adopted this guidance during the first quarter of 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In July 2013, the FASB issued an accounting standard regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This standard requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ( NOL ) or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. This guidance is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. We will adopt this guidance during the first quarter of 2014, and are currently evaluating the impact of this guidance on the financial statements.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. In the ordinary course of business, we are primarily exposed to foreign currency and interest rate risks. We do not use derivative financial instruments in connection with these commodity market risks.

***Interest Rate Market Risk***

All of our long-term debt is subject to changing interest rates. Although changes in interest rates do not impact our operating income, the changes could affect the fair value of such debt and related interest payments. Based on our variable rate debt balance as of September 30, 2013, an increase of 1% in the interest rates would cause our annual interest rate costs to increase by approximately \$1.9 million. A decrease in the current interest rates would have no impact on interest expense due to an interest rate floor that exists on the Senior Credit Facility.

***Foreign Currency Exchange Rate Market Risk***

We are subject to the risk of foreign currency exchange rate changes in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of our non-U.S. based subsidiaries. We are also subject to foreign currency exchange rate changes for purchases of goods and services that are denominated in currencies other than the U.S. dollar. The primary currencies to which we are exposed to fluctuations are the Canadian Dollar and the Chinese Renminbi. The fair value of our net foreign investments and our foreign denominated payables would not be materially affected by a 10% adverse change in foreign currency exchange rates for the nine months ended September 30, 2013 and 2012.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that, as of September 30, 2013, our disclosure controls and procedures are effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal controls over financial reporting that occurred during the last fiscal quarter, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are engaged in various legal actions, claims and proceedings arising in the normal course of business, including claims related to breach of contracts, products liabilities, intellectual property matters and employment-related matters resulting from our business activities. We record accruals for outstanding legal matters when we believe it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. We evaluate, 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, we do not establish an accrued liability. Currently, none of our accruals for outstanding legal matters are material individually or in the aggregate to our financial position. However, if we ultimately are 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 our business, financial condition, results of operations or cash flows.

Our 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, we cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and we are 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, we have been and are currently subjected to various product liability claims. Although the effects of these claims to date have not been material to us, it is possible that current and future product liability claims could have a material adverse effect on our business, financial condition, results of operations or cash flows. We currently maintain product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. We typically seek and have obtained contractual indemnification from most parties that supply raw materials for our products or that manufacture or market products we sell. We also typically seek to be added, and have been added, as an additional insured under most of such parties insurance policies. We are 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. We may incur material products liability claims, which could increase our costs and adversely affect our reputation, revenue and operating income.

*Hydroxycut Claims.* In 2009, the FDA issued a warning on several Hydroxycut-branded products manufactured by Iovate Health Sciences U.S.A., Inc. ( Iovate ) based on 23 reports of liver injuries from consumers who claimed to have used the products between 2002 and 2009. As a result, Iovate voluntarily recalled 14 Hydroxycut-branded products.

Following the recall, we were named, among other defendants, in approximately 93 lawsuits, including a number of putative class action cases, related to Hydroxycut-branded products in 14 states. Iovate accepted our tender request for defense and

indemnification under the purchasing agreement in these matters.

As of September 30, 2013, there were 73 pending lawsuits related to Hydroxycut in which we have been named, including 67 individual, largely personal injury claims and six putative class action cases, generally inclusive of claims of consumer fraud, misrepresentation, strict liability and breach of warranty. The United States Judicial Panel on Multidistrict Litigation consolidated pretrial proceedings of many of the pending actions in the Southern District of California (In re: Hydroxycut Marketing and Sales Practices Litigation, MDL No. 2087).

The parties in the consolidated class actions reached a settlement, which remains subject to final approval by the Court. There is one remaining objector to the settlement, and the Court has scheduled a related evidentiary hearing for November 15, 2013. The Company is not required to make any payments under the settlement agreement.

In May 2013, the parties to the individual personal injury cases signed a Master Settlement Agreement, under which we are not required to make any payments. After the Master Settlement Agreement was signed, a new case was filed against lovate and several other defendants, including us, in Alabama state court. lovate is working to include this case into the master settlement. Assuming that this most recently filed case is included in the Master Settlement Agreement, and following final court approval of the Master Settlement Agreement pertaining to the individual personal injury cases and the settlement of the consolidated class action suits, all of the Hydroxycut claims currently pending against us will be resolved without any payment.

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**Item 1A. Risk Factors**

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

The following table sets forth information regarding Holdings purchases of shares of Class A common stock during the quarter ended September 30, 2013:

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs</b>
July 1 to July 31, 2013	578,724	\$ 46.82	578,724	\$ 41,593,467
August 1 to August 31, 2013	569,437	\$ 52.68	569,437	\$ 11,593,494
September 1 to September 30, 2013	-	-	-	\$ 11,593,494
<b>Total</b>	<b>1,148,161</b>	<b>\$ 49.73</b>	<b>1,148,161</b>	

(1) In February 2013, we announced that our board of directors approved a share repurchase program pursuant to which we were authorized to purchase up to an aggregate of \$250.0 million shares of Class A common stock during the twelve month period ending February 28, 2014 (the Repurchase Program). Other than purchases in connection with the Repurchase Program as set forth in the table above, we made no purchases of shares of Class A common stock for the quarter ended September 30, 2013.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Item 4 is not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<u>Exhibit</u> <u>No.</u>	<u>Description</u>
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
*	Filed herewith.

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**SIGNATURES**

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

GNC HOLDINGS, INC.  
(Registrant)

Date: October 31, 2013

/s/ Joseph M. Fortunato  
Joseph M. Fortunato  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: October 31, 2013

/s/ Michael M. Nuzzo  
Michael M. Nuzzo  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 31, 2013

/s/ Andrew S. Drexler  
Andrew S. Drexler  
Corporate Controller  
(Principal Accounting Officer)