

GNC HOLDINGS, INC.  
Form 10-Q  
May 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark one)

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

For the quarterly period ended **March 31, 2014**

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 April 30, 2014, there were 91,039,093 outstanding shares of Class A common stock, par value \$0.001 per share (the 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>March 31,<br/>2014<br/>(unaudited)</b> | <b>December 31,<br/>2013</b> |
|---|---|------------------------------|
| Current assets:   |   |                              |
| Cash and cash equivalents   | \$ 172,654                                | \$ 226,217                   |
| Receivables, net  | 150,890                                   | 144,833                      |
| Inventories (Note 3)  | 560,273                                   | 547,916                      |
| Prepays and other current assets  | 41,007                                    | 47,081                       |
| Total current assets  | 924,824                                   | 966,047                      |
| Long-term assets:   |   |                              |
| Goodwill (Note 4)   | 667,158                                   | 666,346                      |
| Brands (Note 4)   | 720,000                                   | 720,000                      |
| Other intangible assets, net (Note 4)   | 140,433                                   | 142,774                      |
| Property, plant and equipment, net  | 208,589                                   | 206,754                      |
| Other long-term assets  | 35,597                                    | 38,426                       |
| Total long-term assets  | 1,771,777                                 | 1,774,300                    |
| Total assets  | \$ 2,696,601                              | \$ 2,740,347                 |
| Current liabilities:  |   |                              |
| Accounts payable  | \$ 157,168                                | \$ 135,164                   |
| Current portion, long-term debt (Note 5)  | 4,930                                     | 5,443                        |
| Deferred revenue and other current liabilities  | 134,981                                   | 106,459                      |
| Total current liabilities   | 297,079                                   | 247,066                      |
| Long-term liabilities:  |   |                              |
| Long-term debt (Note 5)   | 1,340,674                                 | 1,341,656                    |
| Deferred tax liabilities, net   | 282,664                                   | 282,377                      |
| Other long-term liabilities   | 51,639                                    | 53,669                       |
| Total long-term liabilities   | 1,674,977                                 | 1,677,702                    |
| Total liabilities   | 1,972,056                                 | 1,924,768                    |
| Commitments and Contingencies (Note 7)  |   |                              |
| Stockholders' equity:   |   |                              |
| Common stock, \$0.001 par value, 300,000 shares authorized:   |   |                              |
| Class A, 113,042 shares issued and 90,911 shares outstanding and 22,131 shares held in treasury at March 31, 2014 and 112,961 shares issued and 93,989 shares outstanding and 18,972 shares held in treasury at December 31, 2013 | 113                                       | 112                          |
| Paid-in-capital   | 852,372                                   | 847,886                      |

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|  |              |              |
|--|--------------|--------------|
| Retained earnings                          | 755,368      | 700,108      |
| Treasury stock, at cost                    | (884,482)    | (734,482)    |
| Accumulated other comprehensive income     | 1,174        | 1,955        |
| Total stockholders' equity                 | 724,545      | 815,579      |
| Total liabilities and stockholders' equity | \$ 2,696,601 | \$ 2,740,347 |

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)**

|  | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2014</b>                         | <b>2013</b> |
| Revenue  | \$ 677,276                          | \$ 664,691  |
| Cost of sales, including cost of warehousing, distribution and occupancy | 421,284                             | 408,554     |
| Gross profit   | 255,992                             | 256,137     |
| Compensation and related benefits  | 82,405                              | 79,545      |
| Advertising and promotion  | 16,885                              | 20,440      |
| Other selling, general and administrative                                | 35,312                              | 31,665      |
| Foreign currency loss (gain)   | 135                                 | (33)        |
| Operating income   | 121,255                             | 124,520     |
| Interest expense, net (Note 5)   | 11,531                              | 11,015      |
| Income before income taxes   | 109,724                             | 113,505     |
| Income tax expense (Note 10)   | 39,821                              | 40,862      |
| Net income   | \$ 69,903                           | \$ 72,643   |
| <b>Income per share - Basic and Diluted:</b>                             |                                     |             |
| Earnings per share:  |                                     |             |
| Basic  | \$ 0.75                             | \$ 0.73     |
| Diluted  | \$ 0.75                             | \$ 0.73     |
| Weighted average common shares outstanding:                              |                                     |             |
| Basic  | 92,975                              | 98,997      |
| Diluted  | 93,684                              | 99,861      |
| Dividends declared per share:  | \$ 0.16                             | \$ 0.15     |

**Consolidated Statements of Comprehensive Income****(unaudited)****(in thousands)****Three months ended March 31,**

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|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Net income                               | \$ 69,903   | \$ 72,643   |
| <i>Other comprehensive loss:</i>         |             |             |
| Foreign currency translation adjustments | (781)       | (597)       |
| Other comprehensive loss                 | (781)       | (597)       |
| Comprehensive income                     | \$ 69,122   | \$ 72,046   |

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)**

|  | <b>Common Stock<br/>Shares</b> | <b>Class A<br/>Dollars</b> | <b>Treasury<br/>Stock</b> | <b>Paid-in-<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income/(Loss)</b> | <b>Total<br/>Stockholders<br/>Equity</b> |
|--|--------------------------------|----------------------------|---------------------------|-----------------------------|------------------------------|--|--|
| <b>Balance at<br/>December 31, 2013</b>          | <b>93,989</b>                  | <b>\$ 112</b>              | <b>\$ (734,482)</b>       | <b>\$ 847,886</b>           | <b>\$ 700,108</b>            | <b>\$ 1,955</b>  | <b>\$ 815,579</b>                        |
| Comprehensive income<br>(loss)                   | -                              | -                          | -                         | -                           | 69,903                       | (781)  | 69,122                                   |
| Repurchase of treasury<br>stock                  | (3,159)                        | -                          | (150,000)                 | -                           | -                            | -  | (150,000)                                |
| Common stock<br>dividends                        | -                              | -                          | -                         | -                           | (14,643)                     | -  | (14,643)                                 |
| Conversions to common<br>stock                   | 81                             | 1                          | -                         | 2,409                       | -                            | -  | 2,410                                    |
| Non-cash stock-based<br>compensation             | -                              | -                          | -                         | 2,077                       | -                            | -  | 2,077                                    |
| <b>Balance at March 31,<br/>2014 (unaudited)</b> | <b>90,911</b>                  | <b>\$ 113</b>              | <b>\$ (884,482)</b>       | <b>\$ 852,372</b>           | <b>\$ 755,368</b>            | <b>\$ 1,174</b>  | <b>\$ 724,545</b>                        |
| <b>Balance at<br/>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<br>(loss)                   | -                              | -                          | -                         | -                           | 72,643                       | (597)  | 72,046                                   |
| Repurchase of treasury<br>stock                  | (1,504)                        | -                          | (61,310)                  | -                           | -                            | -  | (61,310)                                 |
| Common stock<br>dividends                        | -                              | -                          | -                         | -                           | (14,760)                     | -  | (14,760)                                 |
| Conversions to common<br>stock                   | 450                            | -                          | -                         | 9,055                       | -                            | -  | 9,055                                    |
| Non-cash stock-based<br>compensation             | -                              | -                          | -                         | 1,815                       | -                            | -  | 1,815                                    |
| <b>Balance at March 31,<br/>2013 (unaudited)</b> | <b>98,190</b>                  | <b>\$ 111</b>              | <b>\$ (485,210)</b>       | <b>\$ 820,964</b>           | <b>\$ 550,570</b>            | <b>\$ 2,450</b>  | <b>\$ 888,885</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>Three months ended March 31,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2014</b>                         | <b>2013</b>     |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>                               |                                     |                 |
| Net income  | \$ 69,903                           | \$ 72,643       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                 |
| Depreciation and amortization expense   | 13,428                              | 12,549          |
| Amortization of debt costs  | 448                                 | 629             |
| Increase in provision for inventory losses  | 4,303                               | 3,993           |
| Increase in receivables   | (7,185)                             | (9,418)         |
| Increase in inventory   | (17,033)                            | (23,058)        |
| Decrease (increase) in prepaids and other current assets                          | 5,989                               | (5,049)         |
| Increase in accounts payable  | 21,925                              | 13,256          |
| Increase in deferred revenue and other current liabilities                        | 28,789                              | 27,599          |
| Other operating activities  | 2,564                               | 2,383           |
| <b>Net cash provided by operating activities</b>                                  | <b>123,131</b>                      | <b>95,527</b>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>                               |                                     |                 |
| Capital expenditures  | (12,849)                            | (9,917)         |
| Other investing activities  | (623)                               | (682)           |
| <b>Net cash used in investing activities</b>                                      | <b>(13,472)</b>                     | <b>(10,599)</b> |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>                               |                                     |                 |
| Dividends paid to shareholders  | (14,555)                            | (14,728)        |
| Payments on long-term debt  | (1,676)                             | (943)           |
| Proceeds from exercised stock options   | 1,499                               | 4,342           |
| Tax benefit from exercise of stock options  | 1,047                               | 5,086           |
| Repurchase of treasury stock  | (150,000)                           | (61,310)        |
| <b>Net cash used in financing activities</b>                                      | <b>(163,685)</b>                    | <b>(67,553)</b> |
| Effect of exchange rate on cash and cash equivalents                              | 463                                 | 248             |
| Net (decrease) increase in cash and cash equivalents                              | (53,563)                            | 17,623          |
| Beginning balance, cash and cash equivalents                                      | 226,217                             | 158,541         |
| Ending balance, cash and cash equivalents   | \$ 172,654                          | \$ 176,164      |

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, and beginning in 2013, the United Kingdom with the acquisition of Discount Supplements, Ltd. ( DiscountSupplements.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 various 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 November 2013, the board of directors approved a \$500.0 million multi-year share repurchase program of common stock. As of March 31, 2014, the Company had completed \$209.3 million of the program.

On October 2, 2013, the Company acquired DiscountSupplements.com, an online retailer of multi-brand sports nutrition products in the United Kingdom. The aggregate purchase price of DiscountSupplements.com was \$33.3 million.

**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, 2013. There have been no material changes to the application of significant accounting policies and significant judgments and estimates since December 31, 2013.

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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, 2014.

**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.

Table of Contents**Recent Accounting Pronouncements**

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 adopted this guidance during the first quarter of 2014. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

**NOTE 3. INVENTORIES**

The net carrying value of inventories consisted of the following:

|   | <b>March 31,<br/>2014<br/>(unaudited)</b> | <b>December 31,<br/>2013</b> |
|---|---|------------------------------|
|   | <b>(in thousands)</b>                     |                              |
| Finished product ready for sale                 | \$ 470,532                                | \$ 458,366                   |
| Work-in-process, bulk product and raw materials | 81,452                                    | 81,575                       |
| Packaging supplies                              | 8,289                                     | 7,975                        |
| Total   | \$ 560,273                                | \$ 547,916                   |

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

For the three months ended March 31, 2014 and 2013, the Company acquired nine and seven 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. The total purchase price associated with these acquisitions was \$1.4 million and \$1.7 million, respectively, of which \$0.9 million and \$1.2 million, respectively, was paid in cash.

The following table summarizes the Company's goodwill activity:

| <b>Retail</b>         | <b>Franchising</b> | <b>Manufacturing/<br/>Wholesale</b> | <b>Total</b> |
|-----------------------|--------------------|-------------------------------------|--------------|
| <b>(in thousands)</b> |                    |                                     |              |

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|                                       |    |         |    |         |    |         |    |         |
|---------------------------------------|----|---------|----|---------|----|---------|----|---------|
| Balance at December 31, 2013          | \$ | 346,202 | \$ | 117,303 | \$ | 202,841 | \$ | 666,346 |
| Acquired franchise stores             |    | 584     |    | -       |    | -       |    | 584     |
| Translation effect of exchange rates  |    | 228     |    | -       |    | -       |    | 228     |
| Balance at March 31, 2014 (unaudited) | \$ | 347,014 | \$ | 117,303 | \$ | 202,841 | \$ | 667,158 |

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Intangible assets other than goodwill consisted of the following:

|                                       | <b>Retail<br/>Brand</b> | <b>Franchise<br/>Brand</b> | <b>Operating<br/>Agreements<br/>(in thousands)</b> | <b>Other<br/>Intangibles</b> | <b>Total</b> |
|---------------------------------------|-------------------------|----------------------------|--|------------------------------|--------------|
| Balance at December 31, 2013          | \$ 500,000              | \$ 220,000                 | \$ 125,665   | \$ 17,109                    | \$ 862,774   |
| Acquired franchise stores             | -                       | -                          | -  | 288                          | 288          |
| Amortization expense                  | -                       | -                          | (1,664)  | (1,055)                      | (2,719)      |
| Translation effect of exchange rates  | -                       | -                          | -  | 90                           | 90           |
| Balance at March 31, 2014 (unaudited) | \$ 500,000              | \$ 220,000                 | \$ 124,001   | \$ 16,432                    | \$ 860,433   |

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

|                          | <b>Weighted -<br/>Average<br/>Life</b> | <b>Cost</b> | <b>March 31, 2014<br/>Accumulated<br/>Amortization<br/>(unaudited)</b> | <b>Carrying<br/>Amount</b> | <b>Cost</b> | <b>December 31, 2013<br/>Accumulated<br/>Amortization</b> | <b>Carrying<br/>Amount</b> |
|--------------------------|--|-------------|--|----------------------------|-------------|---|----------------------------|
| (in thousands)           |  |             |  |                            |             |   |                            |
| Brands - retail          | -                                      | \$ 500,000  | \$ -   | \$ 500,000                 | \$ 500,000  | \$ -  | \$ 500,000                 |
| Brands - franchise       | -                                      | 220,000     | -  | 220,000                    | 220,000     | -   | 220,000                    |
| Retail agreements        | 30.3                                   | 31,000      | (7,565)  | 23,435                     | 31,000      | (7,301)   | 23,699                     |
| Franchise agreements     | 25.0                                   | 70,000      | (19,717)   | 50,283                     | 70,000      | (19,017)  | 50,983                     |
| Manufacturing agreements | 25.0                                   | 70,000      | (19,717)   | 50,283                     | 70,000      | (19,017)  | 50,983                     |
| Other intangibles        | 8.2                                    | 20,417      | (4,940)  | 15,477                     | 20,327      | (3,995)   | 16,332                     |
| Franchise rights         | 3.1                                    | 5,751       | (4,796)  | 955                        | 5,463       | (4,686)   | 777                        |
| Total                    | 23.5                                   | \$ 917,168  | \$ (56,735)  | \$ 860,433                 | \$ 916,790  | \$ (54,016)   | \$ 862,774                 |

The following table represents future estimated amortization expense of intangible assets with finite lives at March 31, 2014:

| <b>Years ending December 31,</b> | <b>Estimated<br/>amortization<br/>expense<br/>(unaudited)<br/>(in thousands)</b> |
|----------------------------------|--|
| 2014                             | \$ 7,958   |
| 2015                             | 10,520   |
| 2016                             | 9,672  |
| 2017                             | 7,636  |
| 2018                             | 7,568  |
| Thereafter                       | 97,079   |
| Total                            | \$ 140,433   |



Table of Contents**NOTE 5. LONG-TERM DEBT / INTEREST EXPENSE**

Long-term debt consisted of the following:

|                          | <b>March 31,<br/>2014<br/>(unaudited)</b> | <b>December 31,<br/>2013</b> |
|--------------------------|---|------------------------------|
|                          | <b>(in thousands)</b>                     |                              |
| Senior Credit Facility   | \$ 1,345,028                              | \$ 1,345,987                 |
| Other                    | 576                                       | 1,112                        |
| Total debt               | 1,345,604                                 | 1,347,099                    |
| Less: current maturities | (4,930)                                   | (5,443)                      |
| Long-term debt           | \$ 1,340,674                              | \$ 1,341,656                 |

In 2013, the Company amended and restated the existing \$1.4 billion term loan facility (the Term Loan Facility) to, among other amendments, increase borrowings by \$252.5 million and extend the maturity date of the Term Loan Facility to March 2019. The Company also increased the amount available for borrowing under the \$80.0 million revolving credit facility (the Revolving Credit Facility) and, together with the Term Loan Facility, the Senior Credit Facility) to \$130.0 million, extended the maturity date of the Revolving Credit Facility to March 2017, and effected changes in the interest rates applicable to amounts outstanding under the Revolving Credit Facility.

For the three months ended March 31, 2014 and 2013, net interest expense was \$11.5 million and \$11.0 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 March 31, 2014 and December 31, 2013, the interest rate under the Term Loan Facility was 3.25%. The Revolving Credit Facility was undrawn and had outstanding letters of credit of \$1.1 million at both March 31, 2014 and December 31, 2013. At both March 31, 2014 and December 31, 2013, the commitment fee on the undrawn portion of the Revolving Credit Facility was 0.5%, and the outstanding letters of credit fee was 2.50%.

As of March 31, 2014, the Company believes that it is in compliance with all covenants under the Senior Credit Facility.

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At March 31, 2014 and December 31, 2013, 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, 2013. The actual and estimated fair values of the Company's financial instruments are as follows:

|  | <b>March 31, 2014</b>      |                       | <b>December 31, 2013</b>   |                       |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
|  | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
|  | (unaudited)                |                       |                            |                       |
|  | (in thousands)             |                       |                            |                       |
| Cash and cash equivalents                  | \$ 172,654                 | \$ 172,654            | \$ 226,217                 | \$ 226,217            |
| Receivables, net                           | 150,890                    | 150,890               | 144,833                    | 144,833               |
| Franchise notes receivable, net            | 12,217                     | 12,217                | 10,163                     | 10,163                |
| Accounts payable                           | 157,168                    | 157,168               | 135,164                    | 135,164               |
| Long-term debt (including current portion) | 1,345,604                  | 1,335,512             | 1,347,099                  | 1,343,732             |

**NOTE 7. COMMITMENTS AND CONTINGENCIES****Litigation**

The Company is engaged in various legal actions, claims and proceedings arising in the normal course of business, including claims related to breach of contracts, 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 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 effect on its business or financial condition, results of operations or cash flows. The Company currently maintains product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. The Company typically seeks and has obtained contractual indemnification from most parties that supply raw materials for its products or that manufacture or market products it sells. The Company also typically seeks to be added, and has been added, as an additional insured under most of such parties' insurance policies. The Company is also entitled to indemnification by Numico for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. Consequently, the Company may incur material products liability claims, which could increase its costs and adversely affect its reputation, revenue and operating income.

**Hydroxycut Claims.** On May 1, 2009, the FDA issued a warning on several Hydroxycut-branded products manufactured by Lovate Health Sciences U.S.A., Inc. ( Lovate ) based on 23 reports of liver injuries from consumers who claimed to have used the products between 2002 and 2009. As a result, Lovate voluntarily recalled 14 Hydroxycut-branded products.

Following the recall, the Company was named, among other defendants, in multiple lawsuits related to Hydroxycut-branded products in several states. Lovate previously accepted the Company's tender request for defense and indemnification under its purchasing agreement with the Company in these matters. The Company's ability to obtain full recovery in respect of any claims against the Company in connection with products manufactured by Lovate under the indemnity is dependent on Lovate's insurance coverage, the creditworthiness of its insurer, and the absence of significant defenses by such insurer. To the extent the Company is not fully compensated by Lovate's insurer, it can seek recovery directly from Lovate. The Company's ability to fully recover such amounts may be limited by the creditworthiness of Lovate.

As of March 31, 2014, there were 76 pending lawsuits related to Hydroxycut in which the Company had been named: 70 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).

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. Settlement payments will be made exclusively by Lovate and dismissals are expected to be entered in these actions on or before June 1, 2014.

The parties in the consolidated class actions reached a settlement, but the Court denied final approval of that settlement in December 2013. The parties have since reached a revised settlement, which remains subject to Court approval. The Company is not required to make any payments under the current settlement agreement. Following the resolution of 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.

**DMAA Claims.** Prior to December 2013, the Company sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/ dimethylamylamine/1,3-dimethylamylamine, or DMAA, which were recalled from its stores in November 2013. As of March 31, 2014, the Company was named in 18 lawsuits involving products containing DMAA, including 15 personal injury cases and three putative class action cases. The proceedings associated with these cases, which generally seek indeterminate money damages, are in the early stages, and any liabilities that may arise from these matters are not probable or reasonably estimable at this time. The Company is contractually entitled to indemnification by its third-party vendor with regard to these matters, although the Company's ability to obtain full recovery in respect of any such claims against it is dependent upon the creditworthiness of the vendor and/or its insurance coverage and the absence of any significant defenses available to its insurer.

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**California Wage and Break Claims.** On November 4, 2008, 98 plaintiffs filed individual claims against the Company in the Superior Court of the State of California for the County of Orange, which was removed to the U.S. District Court, Central District of California on February 17, 2009. Each of the plaintiffs had previously been a member of a purported class in a lawsuit filed against the Company in 2007 and resolved in September 2009. The plaintiffs allege that they were not provided all of the rest and meal periods to which they were entitled under California law, and further allege that the Company failed to pay them split shift and overtime compensation to which they were entitled under California law. The plaintiffs also allege derivative claims for inaccurate wage statements, failure to pay wages due at termination, and penalty claims under the California Labor Code. In June 2013, a trial was conducted with respect to the claims of seven of the plaintiffs. The jury returned a verdict in favor of the Company on all claims submitted to the jury, and the Court entered an order in favor of the Company on the one claim submitted to the Court. The claims of five other plaintiffs have been resolved and the claims of eighty-six plaintiffs remain, with respect to which discovery is ongoing. As any liabilities that may arise from these matters are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

On July 21, 2011, Charles Brewer, on behalf of himself and all others similarly situated, sued General Nutrition Corporation in federal court, alleging state and federal wage and hour claims (U.S. District Court, Northern District of California, Case No. 11CV3587). On October 7, 2011, plaintiff filed an eight-count amended complaint alleging, inter alia, meal, rest break and overtime violations. On October 21, 2011, the Company filed a motion to dismiss the complaint and on December 14, 2011 the court dismissed count six (the federal overtime claim) giving plaintiffs an opportunity to amend the complaint within thirty days. On January 13, 2012, plaintiff filed a Second Amended complaint. On September 18, 2012, Plaintiff filed a Motion for Conditional Certification and on January 7, 2013, the Court conditionally certified a Fair Labor Standards Act class with respect to one of Plaintiff s claims. As any liabilities that may arise from these matters are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

On February 29, 2012, former Senior Store Manager, Elizabeth Naranjo, individually and on behalf of all others similarly situated sued General Nutrition Corporation in the Superior Court of the State of California for the County of Alameda (Case No. RG 12619626). The complaint contains eight causes of action, alleging, inter alia, meal, rest break, and overtime violations. As any liabilities that may arise from these matters are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

**FLSA Matters.** On June 29, 2010, Dominic Vargas and Anne Hickok, on behalf of themselves and all others similarly situated, sued General Nutrition Corporation and the Company in federal court (U.S. District Court, Western District of Pennsylvania, Case No. 2:05-mc-02025). The two-count complaint alleges, generally, that plaintiffs were required to perform work on an uncompensated basis and that the Company failed to pay overtime for such work. The second count of the complaint alleges the Company retaliated against plaintiffs when they complained about the overtime policy. The Company filed a motion to dismiss count II of the Complaint and on January 6, 2011 the court granted the motion. In fall, 2011, plaintiffs filed their Motion for Class Certification. On August 16, 2012, the Court ruled on the motion, granting in part and denying in part, the motion. Class notice was mailed to putative class members in November 2012 and discovery regarding opt-in plaintiffs is ongoing. As of March 31, 2014, an immaterial liability has been accrued in the accompanying financial statements.

**Jason Olive v. General Nutrition Corp.,** On April 11, 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles (Case No. BC482686), for misappropriation of likeness in which the Plaintiff alleges that the Company continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Plaintiff is seeking compensatory, punitive and statutory damages and attorneys fees and costs. A previously set trial date of April 2, 2014 was vacated and no trial date has been set. As of March 31, 2014, an immaterial liability has been accrued in the accompanying financial statements.

**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 March 31, 2014, such future purchase commitments consisted of \$5.6 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 such contract, the Company will submit a plan for additional investigations to the DHEC and will implement the plan upon DHEC 's approval. 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, therefore no liability is recorded.

In addition to the foregoing, the Company is subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation and disposal of the Company 's non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its operations into the environment, including discharges to air, surface water and groundwater. Failure to comply with such laws and regulations could result in costs for remedial actions, penalties or the imposition of other liabilities. New laws, changes in existing laws or the interpretation thereof, or the development of new facts or changes in their processes could also cause the Company to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. The Company is also subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or for properties to which substances or wastes 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
- the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan adopted in March 2007 (as amended, the 2007 Stock Plan ).

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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 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 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 common stock underlying such awards are not actually issued to the participant as the result of a net settlement, and (ii) any shares of common stock used to pay any exercise price or tax withholding obligation. In addition, the number of shares of 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 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 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 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 \$2.1 million and \$1.8 million of total non-cash stock-based compensation expense for the three months ended March 31, 2014 and 2013, respectively. At March 31, 2014, there was approximately \$26.0 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 1.7 years. All expense for the stock-based compensation plans is recorded to paid-in-capital.

During the three months ended March 31, 2014, the total intrinsic value of awards exercised was \$2.8 million and the total amount received by Holdings from the exercise of options was \$1.4 million. The total tax impact associated with the exercise of awards for the three months ended March 31, 2014 was a benefit of \$1.0 million, of which \$0.9 million was recorded to paid-in-capital.

During the three months ended March 31, 2013, the total intrinsic value of awards exercised was \$13.8 million, and the total amount received by Holdings from the exercise of options was \$4.3 million. The total tax impact associated with the exercise of awards for the three months ended March 31, 2013 was a benefit of \$5.1 million, of which \$4.7 million was recorded to paid-in-capital.

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The following table sets forth a summary of stock options under all plans for the three months ended March 31, 2014:

|                                  | <b>Total Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value (in<br/>thousands)</b> |
|----------------------------------|----------------------|--|---|---|
| Outstanding at December 31, 2013 | 1,887,154            | \$ 24.14   |   |   |
| Exercised                        | (80,846)             | 17.50  |   |   |
| Forfeited.                       | (35,344)             | 33.34  |   |   |
| Outstanding at March 31, 2014    | 1,770,964            | \$ 24.26   | 5.4   | \$ 35,605   |
| Exercisable at March 31, 2014    | 661,183              | \$ 21.46   | 5.7   | \$ 14,914   |

There were no options granted during the three months ended March 31, 2014. The weighted average fair value per share of options granted during the three months ended March 31, 2013 was \$12.97. Fair value of options vested during the three months ended March 31, 2014 and 2013 was \$0.8 million and \$1.0 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 initial public offering (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 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 common stock has been based upon the closing price of the common stock as reported on the New York Stock Exchange. Volatility is estimated based upon the current peer group average utilized by the Company.

**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 three months ended March 31, 2014:

|                                  | <b>Restricted<br/>Stock</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|-----------------------------|---|
| Outstanding at December 31, 2013 | 114,981                     | \$ 25.16  |
| Forfeited                        | (4,169)                     | 29.92   |
| Outstanding at March 31, 2014    | 110,812                     | \$ 24.98  |

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

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 three months ended March 31, 2014:

|                                  | <b>Time<br/>Vesting<br/>Restricted<br/>Stock Units</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> | <b>Performance<br/>Vesting<br/>Restricted<br/>Stock Units</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|--|---|---|---|
| Outstanding at December 31, 2013 | 141,298  | \$ 40.81  | 55,366  | \$ 45.94  |
| Granted                          | 134,968  | 44.76   | 127,045   | 44.76   |
| Vested                           | (547)  | 45.65   | -   | -   |
| Forfeited                        | (3,225)  | 35.72   | (2,074)   | 42.19   |
| Outstanding at March 31, 2014    | 272,494  | \$ 42.82  | 180,337   | \$ 45.15  |

**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 websites GNC.com, LuckyVitamin.com, and DiscountSupplements.com. 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.

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

|                 | <b>Three months ended March 31,</b> |             |
|-----------------|-------------------------------------|-------------|
|                 | <b>2014</b>                         | <b>2013</b> |
|                 | <b>(unaudited)</b>                  |             |
|                 | <b>(in thousands)</b>               |             |
| <b>Revenue:</b> |                                     |             |
| Retail          | \$ 508,998                          | \$ 493,467  |

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|   |                   |                   |
|---|-------------------|-------------------|
| Franchise   | 106,334           | 107,887           |
| Manufacturing/Wholesale:                          |                   |                   |
| Intersegment revenues                             | 68,758            | 65,470            |
| Third Party                                       | 61,944            | 63,337            |
| Subtotal Manufacturing/Wholesale                  | 130,702           | 128,807           |
| Subtotal segment revenues                         | 746,034           | 730,161           |
| Elimination of intersegment revenues              | (68,758)          | (65,470)          |
| <b>Total revenue</b>                              | <b>\$ 677,276</b> | <b>\$ 664,691</b> |
| <b>Operating income:</b>                          |                   |                   |
| Retail  | \$ 94,120         | \$ 98,583         |
| Franchise   | 40,197            | 38,425            |
| Manufacturing/Wholesale                           | 23,511            | 22,926            |
| Unallocated corporate and other costs:            |                   |                   |
| Warehousing and distribution costs                | (15,934)          | (16,355)          |
| Corporate costs                                   | (20,639)          | (19,059)          |
| Subtotal unallocated corporate and<br>other costs | (36,573)          | (35,414)          |
| <b>Total operating income</b>                     | <b>121,255</b>    | <b>124,520</b>    |
| Interest expense, net                             | 11,531            | 11,015            |
| <b>Income before income taxes</b>                 | <b>\$ 109,724</b> | <b>\$ 113,505</b> |

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**NOTE 10. INCOME TAXES**

The Company recognized \$39.8 million of income tax expense (or 36.3% of pre-tax income) during the three months ended March 31, 2014 compared to \$40.9 million (or 36.0% of pre-tax income) for the same period in 2013.

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 March 31, 2014, the Company believes that it has appropriately reserved for potential federal and state income tax exposures.

At March 31, 2014 and December 31, 2013, the Company had \$11.1 million and \$10.8 million of unrecognized tax benefits, respectively. As of March 31, 2014, 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 \$11.1 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued approximately \$4.2 million and \$4.2 million at March 31, 2014 and December 31, 2013, 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.

**NOTE 11. SUBSEQUENT EVENTS**

On April 17, 2014, the Company acquired THSD d/b/a The Health Store ( The Health Store ), a nine store chain based in Dublin, Ireland for \$7.5 million. The Company expects the acquisition of The Health Store to have an immaterial impact on operating income during 2014.

On April 29, 2014, the board of directors authorized and declared a cash dividend for the second quarter of 2014 of \$0.16 per share of common stock, payable on or about June 27, 2014 to stockholders of record as of the close of business on June 13, 2014.

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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, 2013), 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 industry or 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, including fluctuations in foreign currency exchange rates relative to the U.S. dollar;
- failure to keep pace with the demands of our customers for new products and services;
- limitations of or disruptions in our manufacturing system or losses of manufacturing certifications;
- limitations of or disruptions in our distribution network;
- 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;
  
- unusually adverse weather conditions;
  
- natural disasters, pandemic outbreaks, boycotts, and geo-political events; and
  
- failure to maintain effective internal controls.

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

**Business Overview**

We are a global specialty retailer of health and wellness products. We derive our revenues principally from product sales through our company-owned stores and online through GNC.com, LuckyVitamin.com, and DiscountSupplements.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 8,600 locations operating under the GNC brand name.

On October 2, 2013, we acquired DiscountSupplements.com, the leading multi-brand sports nutrition e-commerce retailer in the United Kingdom.

In November 2013, our board of directors approved a \$500.0 million multi-year share repurchase program of Class A common stock (the common stock). As of March 31, 2014, we had completed \$209.3 million of the program.

## Executive Overview

In 2014, 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 results for the three months ended March 31, 2014 were affected by severe weather, which delayed the start of the workout season, and negative media coverage, which impacted the vitamin category, as well as by the current absence of any particular third party product growth catalyst in the Diet category. The following results are for the three months ended March 31, 2014 compared to the same period in 2013:

- Our company-owned domestic same store sales decreased by 0.7%, which includes a 21.6% increase from our GNC.com business.
- We increased our company-owned domestic store count by 33 net new stores during the first quarter of 2014.
- Our retail segment sales increased by 3.1%, and operating income decreased 4.5%.
- Total franchising revenue decreased 1.4%, and operating income increased 4.6%.
- Domestic franchising revenue decreased 2.2%, and we added 14 net new domestic franchise stores during the first quarter of 2014.
- International franchise revenue decreased 0.3%, and we added 27 net new international franchise stores during the first quarter of 2014.

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- Sales decreased in our wholesale/manufacturing segment by 2.2% due to timing of purchases from our large wholesale customers, and operating income increased 2.5%.
  
- We generated 1.9% of total revenue growth, and had a 2.6% decrease in total operating income.
  
- For the three months ended March 31, 2014, we generated net cash from operating activities of \$123.1 million, repurchased \$150.0 million in common stock, and paid \$14.5 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, LuckyVitamin.com, and DiscountSupplements.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.
  
- *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.

- *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;

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- 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 months ended March 31, 2014 and 2013 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)

|  | <b>Three Months Ended March 31,</b> |               |              |               |
|--|-------------------------------------|---------------|--------------|---------------|
|  | <b>2014</b>                         |               | <b>2013</b>  |               |
|  | <b>(unaudited)</b>                  |               |              |               |
| <b>Revenues:</b>   |                                     |               |              |               |
| Retail   | \$ 509.0                            | 75.1%         | \$ 493.5     | 74.3%         |
| Franchise  | 106.3                               | 15.7%         | 107.9        | 16.2%         |
| Manufacturing / Wholesale  | 62.0                                | 9.2%          | 63.3         | 9.5%          |
| <b>Total net revenues</b>  | <b>677.3</b>                        | <b>100.0%</b> | <b>664.7</b> | <b>100.0%</b> |
| <b>Operating expenses:</b>   |                                     |               |              |               |
| Cost of sales, including<br>warehousing,<br>distribution and occupancy costs | 421.3                               | 62.2%         | 408.6        | 61.5%         |
| Compensation and related benefits  | 82.4                                | 12.2%         | 79.5         | 12.0%         |
| Advertising and promotion  | 16.9                                | 2.5%          | 20.4         | 3.1%          |
| Other selling, general and<br>administrative expenses                        | 32.6                                | 4.8%          | 29.6         | 4.4%          |
| Amortization expense   | 2.7                                 | 0.4%          | 2.1          | 0.3%          |
| Foreign currency gain  | 0.1                                 | 0.0%          | -            | 0.0%          |
| <b>Total operating expenses</b>  | <b>556.0</b>                        | <b>82.1%</b>  | <b>540.2</b> | <b>81.3%</b>  |
| <b>Operating income:</b>   |                                     |               |              |               |
| Retail   | 94.1                                | 13.9%         | 98.6         | 14.8%         |
| Franchise  | 40.2                                | 5.9%          | 38.4         | 5.8%          |
| Manufacturing / Wholesale  | 23.5                                | 3.5%          | 22.9         | 3.4%          |
| Unallocated corporate and other<br>costs:                                    |                                     |               |              |               |
| Warehousing and distribution costs   | (15.9)                              | -2.4%         | (16.4)       | -2.5%         |
| Corporate costs  | (20.6)                              | -3.0%         | (19.0)       | -2.8%         |
| Subtotal unallocated corporate and<br>other costs, net                       | (36.5)                              | -5.4%         | (35.4)       | -5.3%         |

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|                                   |                |              |                |              |
|-----------------------------------|----------------|--------------|----------------|--------------|
| <b>Total operating income</b>     | <b>121.3</b>   | <b>17.9%</b> | <b>124.5</b>   | <b>18.7%</b> |
| Interest expense, net             | 11.6           |              | 11.0           |              |
| <b>Income before income taxes</b> | <b>109.7</b>   |              | <b>113.5</b>   |              |
| Income tax expense                | 39.8           |              | 40.9           |              |
| <b>Net income</b>                 | <b>\$ 69.9</b> |              | <b>\$ 72.6</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 March 31, 2014 and 2013**

**Revenues**

Our consolidated net revenues increased \$12.6 million, or 1.9%, to \$677.3 million for the three months ended March 31, 2014 compared to \$664.7 million for the same period in 2013. The increase was the result of increased sales in our retail segment.

*Retail.* Revenue in our Retail segment increased \$15.5 million, or 3.1%, to \$509.0 million for the three months ended March 31, 2014 compared to \$493.5 million for the same period in 2013. Domestic retail revenue including GNC.com increased \$6.0 million due to the opening of new stores, which accounted for approximately \$12.2 million of the increase, partially offset by a 0.7% decrease in our same store sales which was negatively affected by the vitamin category. Offsetting the same store sales decrease was an increase in sales from GNC.com of \$6.9 million, or 21.6%, to \$38.6 million for the three months ended March 31, 2014, compared to \$31.7 million for the same period in 2013. Also, revenue recognized for deferred Gold Card sales in domestic retail during the three months ended March 31, 2014 was negatively affected by the Gold Card giveaway associated with the Member Pricing launch in 2013. In addition, the Retail segment revenue increased due to sales from LuckyVitamin.com and DiscountSupplements.com which contributed \$2.2 million and \$8.6 million, respectively. Canadian sales decreased by \$1.3 million in U.S. dollars for the three months ended March 31, 2014 compared to the same period in 2013 primarily due to unfavorable currency rate fluctuations. Revenue in Canadian dollars increased \$1.7 million, or 5.5%, compared to the same period last year. Our company-owned store base increased by 150 domestic stores to 3,203 at March 31, 2014 compared to 3,053 at March 31, 2013, due to new store openings and franchise store acquisitions. Our Canadian store base increased by eight stores to 175 at March 31, 2014 compared to 167 at March 31, 2013.

*Franchise.* Revenues in our Franchise segment decreased \$1.6 million, or 1.4%, to \$106.3 million for the three months ended March 31, 2014 compared to \$107.9 million for the same period in 2013. Domestic franchise revenues decreased \$1.4 million primarily due to lower product sales of \$3.6 million, offset partially by other franchise revenue and fees. Our domestic franchise same store sales decreased by 3.2% for the three months ended March 31, 2014 compared to the same period in 2013. There were 1,026 domestic franchise stores at March 31, 2014 compared to 958 stores at March 31, 2013. International revenue decreased by \$0.1 million, or 0.3%, for the three months ended March 31, 2014, compared to the same period in 2013. Our international franchisees have reported a 6.0% same store sales increase this year, on a local currency basis. Our international franchise store base increased by 190 stores to 2,051 at March 31, 2014 compared to 1,861 at March 31, 2013.

*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, decreased \$1.4 million, or 2.2%, to \$61.9 million for the three months ended March 31, 2014 compared to \$63.3 million for the same period in 2013. Third-party contract manufacturing sales from our South Carolina manufacturing plant were \$34.4 million for both the three months ended March 31, 2014 and 2013. Wholesale revenue decreased \$1.4 million, or 5.0%, due to timing of purchase orders and shipments with key wholesale customers.

**Cost of Sales**

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Cost of sales, which includes product costs, costs of warehousing and distribution and occupancy costs, increased \$12.7 million, or 3.1%, to \$421.3 million for the three months ended March 31, 2014 compared to \$408.6 million for the same period in 2013. Cost of sales, as a percentage of net revenue, was 62.2% and 61.5% for the three months ended March 31, 2014 and 2013, respectively. The higher cost of sales percentage for the three months ended March 31, 2014 was due principally to operating 158 new stores in our retail segment, which includes fixed costs such as rent, utilities, taxes, and common area maintenance costs, and the overall deleveraging of rent costs on the comparable sales decrease.

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

SG&A expenses, including compensation and related benefits, advertising and promotion expense, and other SG&A expenses including amortization expense, increased \$3.0 million, or 2.2%, to \$134.6 million for the three months ended March 31, 2014 compared to \$131.6 million for the same period in 2013. These expenses, as a percentage of net revenue, were 19.9% and 19.8% for the three months ended March 31, 2014 and 2013, respectively.

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*Compensation and related benefits.* Compensation and related benefits increased \$2.9 million, or 3.6%, to \$82.4 million for the three months ended March 31, 2014 compared to \$79.5 million for the same period in 2013. 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 decreased \$3.5 million, or 17.4%, to \$16.9 million for the three months ended March 31, 2014 compared to \$20.4 million for the same period in 2013. Advertising expense, as a percentage of net revenue, was 2.5% and 3.1% for the three months ended March 31, 2014 and 2013, respectively. The decrease in our advertising expense as a percentage of net revenue is due to the Beat Average™ marketing campaign launching in the second quarter of 2014, as compared to the Respect Yourself marketing campaign, which launched in the first quarter of 2013.

*Other SG&A.* Other SG&A expenses, including amortization expense, increased \$3.6 million, or 11.5%, to \$35.3 million for the three months ended March 31, 2014 compared to \$31.7 million for the same period in 2013. This increase was to support the increased sales in our company-owned websites.

**Operating Income**

As a result of the foregoing, consolidated operating income decreased \$3.2 million, or 2.6%, to \$121.3 million for the three months ended March 31, 2014 compared to \$124.5 million for the same period in 2013. Operating income, as a percentage of net revenue, was 17.9% and 18.7% for the three months ended March 31, 2014 and 2013, respectively.

*Retail.* Operating income decreased \$4.5 million, or 4.5%, to \$94.1 million for the three months ended March 31, 2014 compared to \$98.6 million for the same period in 2013. The decrease in operating income was primarily related to a lower amount of revenue recognized from deferred Gold Card sales which resulted from the giveaway of cards for the Member Pricing launch in 2013. Additionally, there were higher occupancy expenses due to operating 158 more stores in the Retail segment and unfavorable exchange rate variances.

*Franchise.* Operating income increased \$1.8 million, or 4.6%, to \$40.2 million for the three months ended March 31, 2014 compared to \$38.4 million for the same period in 2013. The increase was due to higher gross profit margin.

*Manufacturing/Wholesale.* Operating income increased \$0.6 million, or 2.5%, to \$23.5 million for the three months ended March 31, 2014 compared to \$22.9 million for the same period in 2013. Operating income grew faster than sales due to a higher mix of proprietary product sales.

*Warehousing and distribution costs.* Unallocated warehousing and distribution costs decreased \$0.5 million, or 2.6%, to \$15.9 million for the three months ended March 31, 2014 compared to \$16.4 million for the same period in 2013. The decrease was primarily due to transportation savings related to the transition to a third-party pooled transportation network during the fourth quarter of 2013.

*Corporate costs.* Corporate overhead costs increased \$1.6 million, or 8.3%, to \$20.6 million for the three months ended March 31, 2014 compared to \$19.0 million for the same period in 2013. This increase was primarily due to increases in legal expense.

***Interest Expense***

Interest expense increased \$0.6 million, or 4.7%, to \$11.6 million for the three months ended March 31, 2014 compared to \$11.0 million for the same period in 2013. This increase was due to the effects of the additional borrowings of \$252.5 million under the Senior Credit Facility, partially offset by interest rate savings resulting from the repricing of the Senior Credit Facility, both of which occurred during the fourth quarter of 2013.

***Income Tax Expense***

We recognized \$39.8 million of income tax expense (or 36.3% of pre-tax income) during the three months ended March 31, 2014 compared to \$40.9 million (or 36.0% of pre-tax income) for the same period in 2013.

***Net Income***

As a result of the foregoing, consolidated net income decreased \$2.7 million to \$69.9 million for the three months ended March 31, 2014 compared to \$72.6 million for the same period in 2013.

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**Liquidity and Capital Resources**

At March 31, 2014, we had \$172.7 million in cash and cash equivalents and \$627.7 million in working capital, compared with \$226.2 million in cash and cash equivalents and \$719.0 million in working capital at December 31, 2013. The \$91.3 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 and accrued income taxes, partially offset by an increase in inventory levels.

We expect to fund our operations through internally generated cash and, if necessary, from borrowings under the Revolving Credit Facility. At March 31, 2014, we had \$128.9 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 November 2013, our board of directors authorized a multi-year program to repurchase up to an aggregate of \$500.0 million of our common stock. We repurchased \$150.0 million of common stock during the three months ended March 31, 2014 and have utilized \$209.3 million of the program.

On April 29, 2014, the board of directors authorized and declared a cash dividend for the second quarter of 2014 of \$0.16 per share of common stock, payable on or about June 27, 2014 to stockholders of record as of the close of business on June 13, 2014.

We currently anticipate that cash generated from operations, together with amounts available under the \$130.0 million revolving credit facility (the Revolving Credit Facility), will be sufficient for the term of the Revolving Credit Facility, which matures in March 2017, to meet our operating expenses and fund capital expenditures as they become due. We are required to make quarterly payments of \$1.1 million on the amount outstanding under our term loan facility (and, together with the Revolving Credit Facility, the Senior Credit Facility), payable every quarter beginning March 31, 2014 and ending on December 31, 2018. 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 during 2014.

***Cash Provided by Operating Activities***

Cash provided by operating activities was \$123.1 million and \$95.5 million for the three months ended March 31, 2014 and 2013, respectively. The increase was due to a smaller increase in inventory, the timing of payments for accounts payable, and a decrease in prepaids and other current assets for the three months ended March 31, 2014 compared to the same period in 2013.

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For the three months ended March 31, 2014, inventory increased \$17.0 million as a result of increases in our finished goods to support our increased sales. Accounts payable increased \$21.9 million due to the increase in inventory and timing of payments. Deferred revenue and other current liabilities increased \$28.8 million due to an increase in accrued taxes.

### ***Cash Used in Investing Activities***

Cash used in investing activities was \$13.5 million and \$10.6 million for the three months ended March 31, 2014 and 2013, respectively. Capital expenditures, which were primarily for new stores and improvements to our retail stores and our South Carolina manufacturing facility, were \$12.8 million and \$9.9 million for the three months ended March 31, 2014 and 2013, 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.

We expect capital expenditures to be approximately \$70.0 million in 2014, which includes costs associated with growing our domestic square footage and our new distribution center in Indianapolis, Indiana.

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We anticipate funding our 2014 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

***Cash Used in Financing Activities***

For the three months ended March 31, 2014, cash used in financing activities was \$163.7 million, primarily consisting of dividends paid to Holdings' stockholders of \$14.6 million and the repurchase of an aggregate of \$150.0 million in shares of common stock under the repurchase program, offset by \$2.5 million of proceeds from exercised stock options, including the associated tax benefit.

For the three months ended March 31, 2013, cash used in financing activities was \$67.6 million, primarily consisting of dividends paid to Holdings' stockholders of \$14.7 million and the repurchase of an aggregate of \$61.3 million shares of common stock under a repurchase program, offset partially by \$9.4 million of proceeds from exercised stock options, including the associated tax benefit.

**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, 2013.

**Off Balance Sheet Arrangements**

As of March 31, 2014, 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, 2013.

**Recent Accounting Pronouncements**

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 adopted this guidance during the first quarter of 2014. The adoption of this guidance did not have a material impact on our consolidated financial statements.

**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.

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Based on our variable rate debt balance as of March 31, 2014, an increase of 1% in the interest rates would cause our annual interest rate costs to increase by approximately \$5.4 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, the Chinese Renminbi, and the British Pound. 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 three months ended March 31, 2014 and 2013.

**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 March 31, 2014, 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 or 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. Consequently, 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 March 31, 2014, there were 76 pending lawsuits related to Hydroxycut in which we have been named, including 70 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).

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. Settlement payments will be made exclusively by lovate and dismissals are expected to be entered in these actions on or before June 1, 2014.

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The parties in the consolidated class actions reached a settlement, but the Court denied final approval of that settlement in December 2013. The parties have since reached a revised settlement, which remains subject to Court approval. The Company is not required to make any payments under the current settlement agreement. Following resolution of 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.

**DMAA Claims.** Prior to December 2013, we sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/ dimethylamylamine/13-dimethylamylamine, or DMAA, which were recalled from our stores in November 2013. As of March 31, 2014, we were named in the following 18 lawsuits involving products containing DMAA, including 15 personal injury cases and three putative class action cases:

*Personal Injury Claims:*

- Shirley Davila Trustee Ad Litem for the Estate of Jessica Davila v. General Nutrition Centers, Inc. and USPLabs, Court of the Common Pleas of Philadelphia County, PA (Case No.12-0602113), filed June 18, 2012
  
- Leanne Sparling and Michael Sparling on behalf of Michael Sparling, deceased v. USPLabs, GNC Corporation, et al. Superior Court of California, County of San Diego (Case No. 2013-00034663-CU-PL-CTL), filed February 13, 2013
  
- Justin Carolyne, et al. v. USPLabs, GNC Corporation, et al. Superior Court of California, County of Los Angeles (Case No. BC508212), filed May 22, 2013
  
- Walid Nassar v. Manar Hanna MD., et al, USP Labs, General Nutrition Corporation Superior Court of New Jersey, Monmouth Law Division (Case No. MONL319313), filed September 26, 2013
  
- Everine Van Huoten vs. USPLabs, LLC and GNC Holdings, United States District Court for the District of Hawaii (Case No. 13 CV 00635 LEK KSC), filed November 19, 2013
  
- Jeremy Reed, Timothy Anderson, Dan Anderson, Nadia Black, et al. v. USPLabs, LLC, et al., GNC, Superior Court for California, County of San Diego (Case No. 37-2013-00074052-CU-PL-CTL), filed November 1, 2013
  
- Kenneth Waikiki v. USP Labs, Doyle, Geissler, USP Labs OxyElite, LLC, et al. and GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. 3-00639 DMK), filed November 21, 2013

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- Nicholas Akau v. USPLabs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00029), filed January 23, 2014
- Malissa Igafo v. USPLabs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00030), filed January 23, 2013
- Calvin Ishihara v. USPLabs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00031), filed January 23, 2014
- Gaye Anne Mattson v. USPLabs, GNC Corporation, et al., United States District for the District of Hawaii (Case No. CV 14-00032), filed January 23, 2014
- Dominic Little vs. USPLabs, LLC, Jonathan Vincent Doyle (an individual), Jacob Geissler (an individual), USPLabs Jack3d, LLC, USPLabs OxyElite, LLC, GNC Corporation, the Vitamin Shoppe, Vitamin Shoppe Industries, Inc., Bally Total Fitness Corporation, Natural Alternatives International, Inc., S.K. Laboratories, Inc., Los Angeles Superior Court (Case No. BC534065), filed January 23, 2014
- Jamie Franco v. USPLabs, GNC Corporation, et al., United States District Court for the Central District of California (Case No. CV-14-00592), filed January 24, 2014
- Roel Vista v. USPLabs, GNC Corporation, et al. United States District Court for the Northern District of California (Case No. CV-14-0037), filed January 24, 2014

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- Karina Lujan, individually and as next friend of Kalysa Rosa, Michael Lujan, Jimmy Eddy Lujan and Gabriel Lujan v. USPLABS, LLC, GNC Holdings et al., District Court, 298th Judicial District, Dallas County, Texas (Case No. DC-13-05677-M), filed March 14, 2014

*Putative Class Action Claims:*

- Michael Campos, Jennifer Southwick, and others v. USPLabs, LLC and GNC Corp., United States District Court for the Southern District of California (Case No. 13CV2891 DMS BLM), filed December 5, 2013
- Christopher Lutkus v. USPLabs, LLC and GNC Corp., United States District Court for the Northern District of Florida (Case No. 4:13-cv-00627-RH-CAS), filed November 13, 2013
- Sandeep Barot v. USPLabs, LLC. and General Nutrition Center Holdings, Inc., United States District Court for the District of New Jersey (Case No. 14-cv-00562), filed February 3, 2014

The proceedings associated with these cases, which generally seek indeterminate money damages, are in the early stages, and any liabilities that may arise from these matters are not probable or reasonably estimable at this time. We are contractually entitled to indemnification by our third-party vendor with regard to these matters, although our ability to obtain full recovery in respect of any such claims against us is dependent upon the creditworthiness of our vendor and/or its insurance coverage and the absence of any significant defenses available to its insurer.

**Jason Olive v. General Nutrition Corp.**, On April 11, 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles (Case No. BC482686), for misappropriation of likeness in which the Plaintiff alleges that we continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Plaintiff is seeking compensatory, punitive and statutory damages and attorneys' fees and costs. A previously set trial date of April 2, 2014 was vacated and no trial date has been set. As of March 31, 2014, an immaterial liability has been accrued in the accompanying financial statements.

**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, 2013.

**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 common stock during the quarter ended March 31, 2014:

|                                 | <b>Total Number of<br/>Shares Purchased (1)</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans</b> | <b>Maximum Number (or<br/>Approximate Dollar<br/>Value) of Shares that<br/>May Yet Be Purchased<br/>under the Plans or<br/>Programs</b> |
|---------------------------------|---|---|---|---|
| January 1 to January 31, 2014   | -   | -   | -   | \$ 440,745,348  |
| February 1 to February 28, 2014 | 1,589,796                                       | 47.00                                       | 1,589,796   | \$ 366,020,646  |
| March 1 to March 31, 2014       | 1,569,532                                       | 47.96                                       | 1,569,532   | \$ 290,745,368  |
| <b>Total</b>                    | <b>3,159,328</b>                                | <b>\$ 47.48</b>                             | <b>3,159,328</b>  |   |

(1) In November 2013, we announced that our board of directors approved a multi-year share repurchase program pursuant to which we were authorized to purchase up to an aggregate of \$500.0 million shares of common stock during the twenty-four month period ending November 30, 2015 (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 common stock for the quarter ended March 31, 2014.

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**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>Description</u>  |
|----------------|---|
| <u>No.</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: May 8, 2014

/s/ Joseph M. Fortunato  
Joseph M. Fortunato  
President and Chief Executive Officer

Date: May 8, 2014

/s/ Michael M. Nuzzo  
Michael M. Nuzzo  
Chief Financial Officer

Date: May 8, 2014

/s/ Patrick A. Fortune  
Patrick A. Fortune  
Corporate Controller