

GNC HOLDINGS, INC.  
Form 10-Q  
November 09, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2018

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

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

Commission File Number: 001-35113

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of October 31, 2018, there were 83,884,711 outstanding shares of Class A common stock, par value \$0.001 per share (the "common stock"), of GNC Holdings, Inc.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(unaudited)

(in thousands)

|  | September<br>30, 2018 | December<br>31, 2017 |
|--|-----------------------|----------------------|
| Current assets:                                |                       |                      |
| Cash and cash equivalents                      | \$ 33,348             | \$ 64,001            |
| Receivables, net                               | 131,951               | 126,650              |
| Inventory (Note 4)                             | 489,639               | 485,732              |
| Prepaid and other current assets               | 76,536                | 66,648               |
| Total current assets                           | 731,474               | 743,031              |
| Long-term assets:                              |                       |                      |
| Goodwill                                       | 140,844               | 141,029              |
| Brand name                                     | 324,400               | 324,400              |
| Other intangible assets, net                   | 94,461                | 99,715               |
| Property, plant and equipment, net (Note 5)    | 159,136               | 186,562              |
| Other long-term assets                         | 29,272                | 25,026               |
| Total long-term assets                         | 748,113               | 776,732              |
| Total assets                                   | \$ 1,479,587          | \$ 1,519,763         |
| Current liabilities:                           |                       |                      |
| Accounts payable                               | \$ 159,100            | \$ 153,018           |
| Current debt (Note 6)                          | 204,480               | —                    |
| Deferred revenue and other current liabilities | 121,475               | 114,081              |
| Total current liabilities                      | 485,055               | 267,099              |
| Long-term liabilities:                         |                       |                      |
| Long-term debt (Note 6)                        | 1,040,646             | 1,297,023            |
| Deferred income taxes                          | 43,090                | 56,060               |
| Other long-term liabilities                    | 81,479                | 85,502               |
| Total long-term liabilities                    | 1,165,215             | 1,438,585            |
| Total liabilities                              | 1,650,270             | 1,705,684            |
| Contingencies (Note 8)                         |                       |                      |
| Stockholders' deficit:                         |                       |                      |
| Common stock                                   | 130                   | 130                  |
| Additional paid-in capital                     | 1,006,121             | 1,001,315            |
| Retained earnings                              | 554,797               | 543,814              |
| Treasury stock, at cost                        | (1,725,349 )          | (1,725,349 )         |
| Accumulated other comprehensive loss           | (6,382 )              | (5,831 )             |
| Total stockholders' deficit                    | (170,683 )            | (185,921 )           |
| Total liabilities and stockholders' deficit    | \$ 1,479,587          | \$ 1,519,763         |

The accompanying notes are an integral part of the Consolidated Financial Statements.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(unaudited)

(in thousands, except per share amounts)

|  | Three months ended |           | Nine months ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2018               | 2017      | 2018              | 2017        |
| Revenue (Note 3)   | \$580,185          | \$612,953 | \$1,805,662       | \$1,918,139 |
| Cost of sales, including warehousing, distribution and occupancy | 395,483            | 411,661   | 1,206,351         | 1,277,202   |
| Gross profit   | 184,702            | 201,292   | 599,311           | 640,937     |
| Selling, general, and administrative                             | 149,903            | 156,051   | 469,164           | 481,618     |
| Long-lived asset impairments                                     | 14,556             | 3,861     | 14,556            | 23,217      |
| Other loss (income), net   | 282                | 1,579     | 357               | (40)        |
| Operating income   | 19,961             | 39,801    | 115,234           | 136,142     |
| Interest expense, net (Note 6)                                   | 35,732             | 16,339    | 90,448            | 48,300      |
| Loss on debt refinancing (Note 6)                                | —                  | —         | 16,740            | —           |
| (Loss) income before income taxes                                | (15,771)           | 23,462    | 8,046             | 87,842      |
| Income tax (benefit) expense (Note 11)                           | (7,181)            | 2,406     | (2,895)           | 25,398      |
| Net (loss) income  | \$(8,590)          | \$21,056  | \$10,941          | \$62,444    |
| (Loss) earnings per share (Note 9):                              |                    |           |                   |             |
| Basic  | \$(0.10)           | \$0.31    | \$0.13            | \$0.91      |
| Diluted  | \$(0.10)           | \$0.31    | \$0.13            | \$0.91      |
| Weighted average common shares outstanding (Note 9):             |                    |           |                   |             |
| Basic  | 83,412             | 68,354    | 83,326            | 68,296      |
| Diluted  | 83,412             | 68,569    | 83,431            | 68,411      |

The accompanying notes are an integral part of the Consolidated Financial Statements.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive (Loss) Income

(unaudited)

(in thousands)

|  | Three months<br>ended September<br>30,<br>2018 |            | Nine months<br>ended September<br>30,<br>2018 |           |
|--|--|------------|---|-----------|
|  | 2017   | 2018       | 2017  | 2018      |
| Net (loss) income  |  | \$ (8,590) | \$ 21,056                                     | \$ 10,941 |
| Other comprehensive income (loss):   |  |            |   |           |
| Net change in interest rate swaps:   |  |            |   |           |
| Periodic revaluation of interest rate swap, net of tax (expense) benefit of (\$0.4 million) and \$0.1 million                    | 963  | —          | (212)   | —         |
| Reclassification adjustment for interest recognized in Consolidated Statement of Operations, net of tax expense of \$0.3 million | 610  | —          | 623   | —         |
| Net change in unrecognized gain on interest rate swaps, net of tax   | 1,573  | —          | 411   | —         |
| Foreign currency translation gain (loss)   | 834  | 1,705      | (962)   | 3,305     |
| Other comprehensive income (loss)  | 2,407  | 1,705      | (551)   | 3,305     |
| Comprehensive (loss) income  |  | \$ (6,183) | \$ 22,761                                     | \$ 10,390 |
|  |  |            |   | \$ 65,749 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

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

|  | Common Stock<br>Class A |         | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Stockholders'<br>Deficit |
|--|-------------------------|---------|-------------------|----------------------------------|----------------------|---|-----------------------------------|
|  | Shares                  | Dollars |                   |                                  |                      |   |                                   |
| Balance at December 31, 2017             | 83,567                  | \$ 130  | \$(1,725,349)     | \$1,001,315                      | \$543,814            | \$ (5,831 )                                   | \$(185,921 )                      |
| Comprehensive income                     | —                       | —       | —                 | —                                | 10,941               | (551 )  | 10,390                            |
| Dividend forfeitures on restricted stock | —                       | —       | —                 | —                                | 42                   | —   | 42                                |
| Restricted stock awards                  | 397                     | —       | —                 | —                                | —                    | —   | —                                 |
| Minimum tax withholding requirements     | (79 )                   | —       | —                 | (296 )                           | —                    | —   | (296 )                            |
| Stock-based compensation                 | —                       | —       | —                 | 5,102                            | —                    | —   | 5,102                             |
| Balance at September 30, 2018            | 83,885                  | \$ 130  | \$(1,725,349)     | \$1,006,121                      | \$554,797            | \$ (6,382 )                                   | \$(170,683 )                      |
| Balance at December 31, 2016             | 68,399                  | \$ 114  | \$(1,725,349)     | \$922,687                        | \$693,682            | \$ (8,697 )                                   | \$(117,563 )                      |
| Comprehensive income                     | —                       | —       | —                 | —                                | 62,444               | 3,305   | 65,749                            |
| Dividend forfeitures on restricted stock | —                       | —       | —                 | —                                | 285                  | —   | 285                               |
| Restricted stock awards                  | 636                     | 1       | —                 | —                                | —                    | —   | 1                                 |
| Minimum tax withholding requirements     | (32 )                   | —       | —                 | (252 )                           | —                    | —   | (252 )                            |
| Stock-based compensation                 | —                       | —       | —                 | 6,025                            | —                    | —   | 6,025                             |
| Balance at September 30, 2017            | 69,003                  | \$ 115  | \$(1,725,349)     | \$928,460                        | \$756,411            | \$ (5,392 )                                   | \$(45,755 )                       |

The accompanying notes are an integral part of the Consolidated Financial Statements.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

|   | Nine months ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2018                               | 2017      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$ 10,941                          | \$ 62,444 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization expense   | 36,002                             | 43,688    |
| Amortization of debt costs  | 14,583                             | 9,893     |
| Stock-based compensation  | 5,102                              | 6,025     |
| Long-lived asset impairments  | 14,556                             | 23,217    |
| Gains on refranchising  | (276 )                             | (314 )    |
| Loss on debt refinancing  | 16,740                             | —         |
| Third-party fees associated with refinancing                                      | (16,322 )                          | —         |
| Changes in assets and liabilities:  |                                    |           |
| (Increase) decrease in receivables  | (6,080 )                           | 1,204     |
| (Increase) decrease in inventory  | (5,794 )                           | 45,753    |
| Increase in prepaid and other current assets                                      | (6,552 )                           | (5,205 )  |
| Increase (decrease) in accounts payable   | 6,860                              | (19,732 ) |
| Decrease in deferred revenue and accrued liabilities                              | (10,565 )                          | (19,891 ) |
| Other operating activities  | (3,506 )                           | 2,486     |
| Net cash provided by operating activities   | 55,689                             | 149,568   |
| Cash flows from investing activities:   |                                    |           |
| Capital expenditures  | (13,355 )                          | (26,210 ) |
| Refranchising proceeds  | 2,136                              | 3,410     |
| Store acquisition costs   | (220 )                             | (1,930 )  |
| Net cash used in investing activities   | (11,439 )                          | (24,730 ) |
| Cash flows from financing activities:   |                                    |           |
| Borrowings under revolving credit facility  | 261,500                            | 177,500   |
| Payments on revolving credit facility   | (261,500)                          | (256,500) |
| Payments on Tranche B-1 Term Loan   | (3,413 )                           | (40,853 ) |
| Payments on Tranche B-2 Term Loan   | (32,100 )                          | —         |
| Original Issuance Discount and revolving credit facility fees                     | (35,235 )                          | —         |
| Deferred fees associated with pending equity transaction                          | (3,443 )                           | —         |
| Minimum tax withholding requirements  | (296 )                             | (252 )    |
| Net cash used in financing activities   | (74,487 )                          | (120,105) |
| Effect of exchange rate changes on cash and cash equivalents                      | (416 )                             | 921       |
| Net (decrease) increase in cash and cash equivalents                              | (30,653 )                          | 5,654     |
| Beginning balance, cash and cash equivalents                                      | 64,001                             | 34,464    |
| Ending balance, cash and cash equivalents   | \$ 33,348                          | \$ 40,118 |

The accompanying notes are an integral part of the Consolidated Financial Statements.



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GNC HOLDINGS, INC. AND SUBSIDIARIES

Supplemental Cash Flow Information

(unaudited)

(in thousands)

|   | As of         |         |
|---|---------------|---------|
|   | September 30, |         |
|   | 2018          | 2017    |
| Non-cash investing activities:                  |               |         |
| Capital expenditures in current liabilities     | \$1,177       | \$2,141 |
| Receivable related to the sale of Lucky Vitamin | —             | 7,117   |
| Non-cash financing activities:                  |               |         |
| Original issuance discount (Note 6)             | \$13,231      | \$—     |

The accompanying notes are an integral part of the Consolidated Financial Statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Condensed Notes to the Unaudited Consolidated Financial Statements

NOTE 1. NATURE OF BUSINESS

GNC Holdings, Inc., a Delaware corporation (“Holdings,” and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the “Company”), is a global health and wellness brand with a diversified, multi-channel business. The Company's assortment of performance and nutritional supplements, vitamins, herbs and greens, health and beauty, food and drink and other general merchandise features innovative private-label products as well as nationally recognized third-party brands, many of which are exclusive to GNC.

The Company is vertically integrated as its operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three reportable segments, U.S. and Canada, International, and Manufacturing / Wholesale. Corporate retail store operations are located in the United States, Canada, Puerto Rico, China and Ireland. In addition, the Company offers products on the internet through GNC.com, third-party websites, and prior to the sale of its assets on September 30, 2017, LuckyVitamin.com. Franchise locations exist in the United States and approximately 50 other countries. The Company operates its primary manufacturing facility in South Carolina and distribution centers in Arizona, Indiana, Pennsylvania and South Carolina. The Company manufactures approximately half of its branded products and merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

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

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements, which have been prepared in accordance with the applicable rules of the Securities and Exchange Commission, include all adjustments (consisting of a normal and recurring nature) that management considers necessary to fairly state the Company's results of operations, financial position and cash flows. The December 31, 2017 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 Footnotes included in the Company's audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 10-K”). Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2018.

Recently Adopted Accounting Pronouncements

In December 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, which simplifies the application of certain hedge accounting guidance to better align hedge accounting with an organization's risk management activities in the financial statements. This standard eliminated the separate measurement and reporting of hedge ineffectiveness. Mismatches between changes in value of the hedged item and hedging instrument may still occur but they will no longer be separately reported. For cash flow and net investment hedges, all changes in value of the hedging instrument included in the assessment of effectiveness will be deferred in other comprehensive income and recognized in earnings at the same time that the hedged item affects earnings. The standard is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company adopted this standard during the second quarter of fiscal 2018, which was applied to the interest rate swaps entered into described below in Note 6 “Long-Term Debt / Interest Expense.” The adoption of this standard did not have a material effect on the Company's Consolidated Financial Statements.

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In May 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. This standard states that an entity should account for the effects of a modification unless all of the following are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified (if the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification); 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The standard is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted this standard during the first quarter of fiscal 2018 which did not have an impact to the Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, which addresses changes to the classification of certain cash receipts and cash payments within the statement of cash flows in order to address diversity in practice. In connection with the adoption of this ASU, the Company presented the third-party fees relating to the term loan refinancing as an operating cash flow on the Consolidated Statement of Cash Flows. In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of ASU 2016-18 did not have an impact to the Consolidated Statement of Cash Flows. Both standards were effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017.

#### Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which updates revenue recognition guidance relating to contracts with customers. This standard states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company adopted ASU 2014-09 and its related amendments (collectively known as "ASC 606") during the first quarter of fiscal 2018 using the full retrospective method.

The adoption of ASC 606 does not impact recognition of point-of-sale revenue in company-owned stores, most wholesale sales, royalties and sublease revenue, together which account for approximately 90% of the Company's revenue. The new standard has no impact on the timing or classification of the Company's cash flows as reported in the Consolidated Statement of Cash Flows and is not expected to have a significant impact on the Company's Consolidated Statement of Operations in future periods. The Company recorded a reduction to retained earnings, net of tax, at January 1, 2016 (opening balance) and December 31, 2016 of approximately \$23 million primarily relating to an increase in deferred franchise fees. Below is a description of the changes that resulted from the new standard. Franchise fees. The Company's previous accounting policy for franchise and license fees received for new store openings and renewals was to recognize these fees when earned per the contract terms, which is when a new store opened or at the start of a new term. In accordance with the new guidance, these fees are now deferred and recognized over the applicable license term as the Company satisfies the performance obligation of granting the customer access to the rights of the Company's intellectual property. This change impacted all of the Company's reportable segments. In addition, franchise fees received as part of a sale of a company-owned store to a franchisee are now recorded as described above as part of revenue and will no longer be presented as part of gains on franchising.

Cooperative advertising and other franchise support fees. The Company previously classified advertising and other franchise support fees received from domestic franchisees as a reduction to selling, general and administrative expense and cost of sales on the Consolidated Statement of Operations. In accordance with the new guidance, these fees are now required to be classified as revenue within the U.S. and Canada segment. The new standard does not impact the timing of recognition of this income or the Consolidated Balance Sheet.

Specialty manufacturing. The Company previously recognized revenue for products manufactured and sold to customers at a point in time when risk of loss, title and insurable risks have transferred to the customer, net of estimated returns and allowances. Under the new standard, revenue is required to be recognized over time as manufacturing occurs if the customized goods have no alternative use to the manufacturer, and the manufacturer has an enforceable right to payment for performance completed to date. This change impacts contract manufacturing sales

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to third-parties recorded in the Manufacturing / Wholesale segment. The Company is now recording a reduction to inventory as applicable custom manufacturing services are completed with a corresponding contract asset including the applicable markup, recorded within prepaid and other current assets on the Consolidated Balance Sheet.

E-commerce revenues. The Company previously recorded revenue to its e-commerce customers upon delivery. Under the new guidance, the Company is now recognizing revenue upon shipment based on meeting the transfer of control criteria. The Company has made a policy election to treat shipping and handling as costs to fulfill the contract, and as a result, any fees received from customers are included in the transaction price allocated to the performance obligation of providing goods with a corresponding amount accrued within cost of sales for amounts paid to applicable carriers. The Company has not revised prior period balances for e-commerce revenues because the changes are not material.

Loyalty. Effective with the launch of the One New GNC on December 29, 2016, the Company introduced a free points-based myGNC Rewards loyalty program system-wide in the U.S. The Company utilized the new revenue recognition standard to account for this program in 2017, the difference of which was immaterial relative to the standard in effect at that time.

Refer to Note 3 "Revenue" for additional information relating to the impact of adopting ASC 606.

## Revisions to Prior Periods

As a result of adopting ASC 606 on January 1, 2018, the Company has revised its comparative financial statements for the years ended December 31, 2016 and 2017, and applicable interim periods within those years, as if ASC 606 had been effective for those periods. Additionally, the cumulative effect of applying the new guidance to all contracts with customers that were not completed was recorded as an adjustment to retained earnings as of January 1, 2016.

The impact of the adoption of ASC 606 on the Company's Consolidated Balance Sheet as of December 31, 2017 was as follows:

|  | As<br>Previously<br>Reported<br>(in thousands) | Franchise<br>Fees | Specialty<br>Manufacturing | Total<br>Adjustments | As Revised  |
|--|--|-------------------|----------------------------|----------------------|-------------|
| Inventory                                      | \$506,858                                      | \$ —              | \$ (21,126 )               | \$ (21,126 )         | \$485,732   |
| Prepaid and other current assets               | 42,320   | —                 | 24,328                     | 24,328               | 66,648      |
| Total current assets                           | 739,829  | —                 | 3,202                      | 3,202                | 743,031     |
| Total assets                                   | \$1,516,561                                    | \$ —              | \$ 3,202                   | \$ 3,202             | \$1,519,763 |
| Deferred revenue and other current liabilities | \$108,672                                      | \$ 5,409          | \$ —                       | \$ 5,409             | \$114,081   |
| Total current liabilities                      | 261,690  | 5,409             | —                          | 5,409                | 267,099     |
| Deferred income taxes                          | 64,121   | (8,868 )          | 807                        | (8,061 )             | 56,060      |
| Other long-term liabilities                    | 55,721   | 29,781            | —                          | 29,781               | 85,502      |
| Total long-term liabilities                    | 1,416,865                                      | 20,913            | 807                        | 21,720               | 1,438,585   |
| Total liabilities                              | 1,678,555                                      | 26,322            | 807                        | 27,129               | 1,705,684   |
| Retained earnings                              | 567,741  | (26,322 )         | 2,395                      | (23,927 )            | 543,814     |
| Total stockholders' deficit                    | (161,994 )                                     | (26,322 )         | 2,395                      | (23,927 )            | (185,921 )  |
| Total liabilities and stockholders' deficit    | \$1,516,561                                    | \$ —              | \$ 3,202                   | \$ 3,202             | \$1,519,763 |





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The impact of the adoption of ASC 606 on the Consolidated Statements of Operations for the three and nine months ended September 30, 2017 was as follows:

Three months ended September 30, 2017

|  | As<br>Previously<br>Reported | Franchise<br>Fees | Specialty<br>Manufacturing | Cooperative<br>Advertising<br>and Other<br>Franchise<br>Support<br>Fees | Total<br>Adjustments | As<br>Revised |
|--|------------------------------|-------------------|----------------------------|---|----------------------|---------------|
| (in thousands, except per share amounts) |                              |                   |                            |   |                      |               |
| Revenue                                  | \$609,469                    | \$ (360 )         | \$ (1,925 )                | \$ 5,769  | \$ 3,484             | \$612,953     |
| Cost of sales <sup>(1)</sup>             | 412,663                      | —                 | (1,681 )                   | 679   | (1,002 )             | 411,661       |
| Gross profit                             | 196,806                      | (360 )            | (244 )                     | 5,090   | 4,486                | 201,292       |
| SG&A <sup>(2)</sup>                      | 150,961                      | —                 | —                          | 5,090   | 5,090                | 156,051       |
| Long-lived asset impairments             | 3,861                        | —                 | —                          | —   | —                    | 3,861         |
| Other income, net                        | 1,539                        | 40                | —                          | —   | 40                   | 1,579         |
| Operating income                         | 40,445                       | (400 )            | (244 )                     | —   | (644 )               | 39,801        |
| Interest expense, net                    | 16,339                       | —                 | —                          | —   | —                    | 16,339        |
| Income before income taxes               | 24,106                       | (400 )            | (244 )                     | —   | (644 )               | 23,462        |
| Income tax expense                       | 2,643                        | (146 )            | (91 )                      | —   | (237 )               | 2,406         |
| Net income                               | \$21,463                     | \$ (254 )         | \$ (153 )                  | \$ —  | \$ (407 )            | \$21,056      |
| Earnings per share:                      |                              |                   |                            |   |                      |               |
| Basic                                    | \$0.31                       | \$ —              | \$ —                       | \$ —  | \$ —                 | \$0.31        |
| Diluted                                  | \$0.31                       | \$ —              | \$ —                       | \$ —  | \$ —                 | \$0.31        |

Nine months ended September 30, 2017

|  | As<br>Previously<br>Reported | Franchise<br>Fees | Specialty<br>Manufacturing | Cooperative<br>Advertising<br>and Other<br>Franchise<br>Support<br>Fees | Total<br>Adjustments | As<br>Revised |
|--|------------------------------|-------------------|----------------------------|---|----------------------|---------------|
| (in thousands, except per share amounts) |                              |                   |                            |   |                      |               |
| Revenue                                  | \$1,895,301                  | \$ 1,976          | \$ 2,703                   | \$ 18,159   | \$ 22,838            | \$1,918,139   |
| Cost of sales <sup>(1)</sup>             | 1,272,801                    | —                 | 2,285                      | 2,116   | 4,401                | 1,277,202     |
| Gross profit                             | 622,500                      | 1,976             | 418                        | 16,043  | 18,437               | 640,937       |
| SG&A <sup>(2)</sup>                      | 465,575                      | —                 | —                          | 16,043  | 16,043               | 481,618       |
| Long-lived asset impairments             | 23,217                       | —                 | —                          | —   | —                    | 23,217        |
| Other income, net                        | (110 )                       | 70                | —                          | —   | 70                   | (40 )         |
| Operating income                         | 133,818                      | 1,906             | 418                        | —   | 2,324                | 136,142       |
| Interest expense, net                    | 48,300                       | —                 | —                          | —   | —                    | 48,300        |
| Income before income taxes               | 85,518                       | 1,906             | 418                        | —   | 2,324                | 87,842        |
| Income tax expense                       | 24,544                       | 701               | 153                        | —   | 854                  | 25,398        |
| Net income                               | \$60,974                     | \$ 1,205          | \$ 265                     | \$ —  | \$ 1,470             | \$62,444      |
| Earnings per share:                      |                              |                   |                            |   |                      |               |
| Basic                                    | \$0.89                       | \$ 0.02           | \$ —                       | \$ —  | \$ 0.02              | \$0.91        |
| Diluted                                  | \$0.89                       | \$ 0.02           | \$ —                       | \$ —  | \$ 0.02              | \$0.91        |

(1) Includes warehousing, distribution and occupancy.

(2) Defined as selling, general and administrative expense.



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The impact of adoption of ASC 606 on the Company's reportable segments for the three and nine months ended September 30, 2017 was as follows:

|   | Three months ended September 30, 2017 |                |                         |  |                   |             |
|---|---------------------------------------|----------------|-------------------------|--|-------------------|-------------|
|   | As Previously Reported                | Franchise Fees | Specialty Manufacturing | Cooperative Advertising and Other Franchise Support Fees | Total Adjustments | As Revised  |
| (in thousands)                            |                                       |                |                         |  |                   |             |
| Revenue:                                  |                                       |                |                         |  |                   |             |
| U.S. and Canada                           | \$486,282                             | \$ 332         | \$ —                    | \$ 5,769   | \$ 6,101          | \$492,383   |
| International                             | 49,057                                | (599 )         | —                       | —  | (599 )            | 48,458      |
| Manufacturing / Wholesale:                |                                       |                |                         |  |                   |             |
| Intersegment revenues                     | 58,037                                | —              | —                       | —  | —                 | 58,037      |
| Third party                               | 53,304                                | (93 )          | (1,925 )                | —  | (2,018 )          | 51,286      |
| Subtotal Manufacturing / Wholesale        | 111,341                               | (93 )          | (1,925 )                | —  | (2,018 )          | 109,323     |
| Total reportable segment revenues         | 646,680                               | (360 )         | (1,925 )                | 5,769  | 3,484             | 650,164     |
| Other                                     | 20,826                                | —              | —                       | —  | —                 | 20,826      |
| Elimination of intersegment revenues      | (58,037 )                             | —              | —                       | —  | —                 | (58,037 )   |
| Total revenue                             | \$609,469                             | \$ (360 )      | \$ (1,925 )             | \$ 5,769   | \$ 3,484          | \$612,953   |
| Operating income:                         |                                       |                |                         |  |                   |             |
| U.S. and Canada                           | \$31,572                              | \$ 292         | \$ —                    | \$ —   | \$ 292            | \$31,864    |
| International                             | 16,768                                | (599 )         | —                       | —  | (599 )            | 16,169      |
| Manufacturing / Wholesale                 | 19,505                                | (93 )          | (244 )                  | —  | (337 )            | 19,168      |
| Total reportable segment operating income | 67,845                                | (400 )         | (244 )                  | —  | (644 )            | 67,201      |
| Corporate costs                           | (25,558 )                             | —              | —                       | —  | —                 | (25,558 )   |
| Other                                     | (1,842 )                              | —              | —                       | —  | —                 | (1,842 )    |
| Unallocated corporate and other           | (27,400 )                             | —              | —                       | —  | —                 | (27,400 )   |
| Total operating income                    | \$40,445                              | \$ (400 )      | \$ (244 )               | \$ —   | \$ (644 )         | \$39,801    |
| Nine months ended September 30, 2017      |                                       |                |                         |  |                   |             |
|   | As Previously Reported                | Franchise Fees | Specialty Manufacturing | Cooperative Advertising and Other Franchise Support Fees | Total Adjustments | As Revised  |
| (in thousands)                            |                                       |                |                         |  |                   |             |
| Revenue:                                  |                                       |                |                         |  |                   |             |
| U.S. and Canada                           | \$1,537,265                           | \$ 1,394       | \$ —                    | \$ 18,159  | \$ 19,553         | \$1,556,818 |
| International                             | 132,105                               | (83 )          | —                       | —  | (83 )             | 132,022     |
| Manufacturing / Wholesale:                |                                       |                |                         |  |                   |             |
| Intersegment revenues                     | 175,335                               | —              | —                       | —  | —                 | 175,335     |
| Third party                               | 159,749                               | 665            | 2,703                   | —  | 3,368             | 163,117     |
| Subtotal Manufacturing / Wholesale        | 335,084                               | 665            | 2,703                   | —  | 3,368             | 338,452     |
| Total reportable segment revenues         | 2,004,454                             | 1,976          | 2,703                   | 18,159   | 22,838            | 2,027,292   |
| Other                                     | 66,182                                | —              | —                       | —  | —                 | 66,182      |
| Elimination of intersegment revenues      | (175,335 )                            | —              | —                       | —  | —                 | (175,335 )  |
| Total revenue                             | \$1,895,301                           | \$ 1,976       | \$ 2,703                | \$ 18,159  | \$ 22,838         | \$1,918,139 |

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|   |            |          |        |      |          |            |
|---|------------|----------|--------|------|----------|------------|
| Operating income:                         |            |          |        |      |          |            |
| U.S. and Canada                           | \$133,520  | \$ 1,324 | \$ —   | \$ — | \$ 1,324 | \$134,844  |
| International                             | 46,908     | (83 )    | —      | —    | (83 )    | 46,825     |
| Manufacturing / Wholesale                 | 53,989     | 665      | 418    | —    | 1,083    | 55,072     |
| Total reportable segment operating income | 234,417    | 1,906    | 418    | —    | 2,324    | 236,741    |
| Corporate costs                           | (79,839 )  | —        | —      | —    | —        | (79,839 )  |
| Other                                     | (20,760 )  | —        | —      | —    | —        | (20,760 )  |
| Unallocated corporate and other           | (100,599 ) | —        | —      | —    | —        | (100,599 ) |
| Total operating income                    | \$133,818  | \$ 1,906 | \$ 418 | \$ — | \$ 2,324 | \$136,142  |

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Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-used software. This standard is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of the new standard to have a material impact to the Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments for all leases with a term greater than 12 months. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018 and is required to be applied using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, which provides companies with the option to apply the new lease standard either at the beginning of the earliest comparative period presented or in the period of adoption. The Company will elect this optional transition relief amendment that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. The Company has completed scoping of its lease portfolio, identified its significant leases and made progress in developing accounting policies and policy elections upon adoption of the new standard. In addition, the Company is currently implementing a new lease management and accounting software to comply with the new standard and is evaluating its processes and internal controls to identify any resulting changes upon adoption. The Company has a significant number of leases, and as a result, expects this guidance to have a material impact on its Consolidated Balance Sheet, the impact of which is currently being evaluated.

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## NOTE 3. REVENUE

Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of products or services. The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing services. Applicable sales tax collected concurrent with revenue-producing activities are excluded from revenue.

## U.S. and Canada Revenue

The following is a summary of revenue disaggregated by major source in the U.S. and Canada segment:

|  | Three months ended |           | Nine months ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2018               | 2017      | 2018              | 2017        |
| U.S. company-owned product sales: <sup>(1)</sup>         | (in thousands)     |           |                   |             |
| Protein  | \$76,738           | \$83,652  | \$251,480         | \$266,621   |
| Performance supplements                                  | 68,809             | 69,770    | 217,525           | 217,787     |
| Weight management  | 29,575             | 32,622    | 108,048           | 112,897     |
| Vitamins   | 48,322             | 51,015    | 148,188           | 154,363     |
| Herbs / Greens   | 15,872             | 16,817    | 48,975            | 49,552      |
| Wellness   | 46,245             | 47,888    | 143,626           | 147,484     |
| Health / Beauty  | 43,332             | 48,027    | 138,911           | 145,624     |
| Food / Drink   | 28,325             | 23,248    | 82,394            | 72,818      |
| General merchandise                                      | 5,637              | 6,732     | 18,577            | 21,941      |
| Total U.S. company-owned product sales                   | \$362,855          | \$379,771 | \$1,157,724       | \$1,189,087 |
| Wholesale sales to franchisees                           | 58,199             | 59,413    | 176,034           | 189,776     |
| Royalties and franchise fees                             | 7,939              | 8,649     | 25,219            | 27,472      |
| Sublease income  | 11,087             | 12,170    | 34,485            | 37,128      |
| Cooperative advertising and other franchise support fees | 4,739              | 5,769     | 16,245            | 18,159      |
| Gold Card revenue recognized in U.S. <sup>(2)</sup>      | —                  | —         | —                 | 24,399      |
| Other <sup>(3)</sup>                                     | 31,700             | 26,611    | 96,543            | 70,797      |
| Total U.S. and Canada revenue                            | \$476,519          | \$492,383 | \$1,506,250       | \$1,556,818 |

(1) Includes GNC.com sales.

The Gold Card Member Pricing program in the U.S. was discontinued in December 2016 in connection with the (2) launch of the One New GNC which resulted in \$24.4 million of deferred Gold Card revenue being recognized in the first quarter of 2017, net of \$1.4 million in applicable coupon redemptions.

(3) Includes revenue primarily related to Canada operations and loyalty programs, myGNC Rewards and PRO Access. The increase compared to the prior year period primarily relates to the Company's loyalty programs.

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## International Revenue

The following is a summary of the revenue disaggregated by major source in the International reportable segment:

|                                | Three months ended September 30, |          | Nine months ended September 30, |           |
|--------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                | 2018                             | 2017     | 2018                            | 2017      |
|                                | (in thousands)                   |          |                                 |           |
| Wholesale sales to franchisees | \$32,321                         | \$28,941 | \$81,266                        | \$80,747  |
| Royalties and franchise fees   | 7,150                            | 6,509    | 20,347                          | 19,360    |
| Other (*)                      | 11,936                           | 13,008   | 38,494                          | 31,915    |
| Total International revenue    | \$51,407                         | \$48,458 | \$140,107                       | \$132,022 |

(\*) Includes revenue primarily related to China operations and company-owned stores located in Ireland.

## Manufacturing / Wholesale Revenue

The following is a summary of the revenue disaggregated by major source in the Manufacturing / Wholesale reportable segment:

|   | Three months ended September 30, |           | Nine months ended September 30, |           |
|---|----------------------------------|-----------|---------------------------------|-----------|
|   | 2018                             | 2017      | 2018                            | 2017      |
|   | (in thousands)                   |           |                                 |           |
| Third-party contract manufacturing      | \$31,212                         | \$29,260  | \$94,514                        | \$97,222  |
| Intersegment sales                      | 63,695                           | 58,037    | 193,596                         | 175,335   |
| Wholesale partner sales                 | 21,047                           | 22,026    | 64,791                          | 65,895    |
| Total Manufacturing / Wholesale revenue | \$115,954                        | \$109,323 | \$352,901                       | \$338,452 |

## Revenue by Geography

The following is a summary of the revenue by geography.

|                                     | Three months ended September 30, |           | Nine months ended September 30, |             |
|-------------------------------------|----------------------------------|-----------|---------------------------------|-------------|
|                                     | 2018                             | 2017      | 2018                            | 2017        |
|                                     | (in thousands)                   |           |                                 |             |
| Total revenues by geographic areas: |                                  |           |                                 |             |
| United States                       | \$545,332                        | \$574,053 | \$1,696,887                     | \$1,808,745 |
| Foreign                             | 34,853                           | 38,900    | 108,775                         | 109,394     |
| Total revenues (*)                  | \$580,185                        | \$612,953 | \$1,805,662                     | \$1,918,139 |

(\*) Prior year revenue includes revenue from Lucky Vitamin, which was sold on September 30, 2017.

## Revenue Recognition Policies

Within the U.S. and Canada segment, retail sales in company-owned stores are recognized at the point of sale.

Revenue related to e-commerce sales is recognized upon shipment based on meeting the transfer of control criteria.

The Company has made a policy election to treat shipping and handling as costs to fulfill the contract, and as a result, any fees received from customers are included in the transaction price allocated to the performance obligation of providing goods with a corresponding amount accrued within cost of sales for amounts paid to applicable carriers.

Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenue. A provision for anticipated returns is recorded through a reduction of sales and cost of sales (for product that can be resold or returned to vendors) in the period that the related sales are recorded.

Effective with the launch of the One New GNC on December 29, 2016, the Company introduced myGNC Rewards, a free points-based loyalty program while discontinuing its Gold Card Member Pricing program system-

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wide in the U.S. The loyalty program enables customers to earn points based on their purchases. Points earned by members are valid for one year and may be redeemed for cash discounts on any product the Company sells at both company-owned or franchise locations. The Company defers the estimated standalone selling price of points related to this program as a reduction to revenue as points are earned by allocating a portion of the transaction price the customer pays to a loyalty program liability within deferred revenue and other current liabilities on the Consolidated Balance Sheet. The estimated selling price of each point is based on the estimated value of product for which the point is expected to be redeemed, net of points not expected to be redeemed, based on historical redemption rates. When a customer redeems earned points, revenue is recognized with a corresponding reduction to the program liability. Also effective with the launch of the One New GNC, the Company began offering a paid membership program, PRO Access, for \$39.99 per year, which provides members with the delivery of sample boxes throughout the membership year, as well as the offering of certain other benefits including the opportunity to earn triple points on a periodic basis. The boxes include sample merchandise and other materials. The Company allocates the transaction price of the membership to the sample boxes and other benefits based on estimated relative stand-alone prices. The membership price paid is recorded within deferred revenue and other current liabilities on the Consolidated Balance Sheet and recognized as revenue as the underlying performance obligations are satisfied.

Revenue from gift cards is recognized when the gift card is redeemed. Gift cards do not have expiration dates and are not required to be escheated to government authorities. Utilizing historical redemption rates, the Company recognizes revenue for amounts not expected to be redeemed proportionately as other gift card balances are redeemed.

Revenues from domestic and international franchisees include wholesale product sales, franchise fees and royalties, as well as cooperative advertising and other franchise support fees specific to domestic franchisees. Revenues are recorded within the U.S. and Canada segment for domestic franchisees and the International segment for international franchisees. The Company's franchisees purchase a significant amount of the products they sell in their retail stores from the Company at wholesale prices. Revenue on product sales to franchisees and other franchise support fees (including construction, equipment and other administrative fees) are recognized upon transfer of control to the franchisee, net of estimated returns and allowances. Franchise license fees, royalties and continuing services, such as cooperative advertising, are not separate and distinct performance obligations as they are highly dependent on each other in supporting the overall brand. Franchise fees for the license are paid in advance, and are deferred and recognized over the applicable license term as the Company satisfies the performance obligation of granting the customer access to the rights of its intellectual property. Franchise royalties and cooperative advertising contributions are variable consideration based on a percentage of the franchisees' retail sales, which are recognized in the period the franchisees' underlying sales occur, and are not included in the upfront transaction price for the overall performance obligation relating to providing access to the Company's intellectual property.

The Manufacturing / Wholesale segment sells product to the Company's other segments, which is eliminated in consolidation, and third-party customers. Revenue is recognized over time, net of estimated returns and allowances, as manufacturing occurs if the customized goods have no alternative use (specially made for the end customer) and the Company has an enforceable right to payment for performance completed to date (even if such right is not enforced in practice). The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company uses the cost-to-cost measure of progress for its contracts because it best depicts the transfer of control to the customer which occurs as the Company incurs costs on its contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation.

Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials, other direct costs and an allocation of indirect costs, which are recognized as cost of sales as revenue is recognized. Services for specialty manufacturing contracts typically have an expected duration of less than one year. Balances from Contracts with Customers

Contract assets relating to specialty manufacturing include amounts related to the Company's contractual right to consideration for completed performance obligations not yet invoiced, and were \$27.9 million and \$24.3 million at September 30, 2018 and December 31, 2017, respectively, recorded within prepaid and other current assets on the accompanying Consolidated Balance Sheets (with a corresponding reduction to inventory at cost). Contract liabilities



include payments received in advance of performance under the contract.

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The following table presents changes in the Company's contract liabilities:

|                                       | Nine months ended September 30, 2018 |             |            |          |
|---------------------------------------|--------------------------------------|-------------|------------|----------|
|                                       | Balance                              | Recognition | Contract   | Balance  |
|                                       | at                                   | of revenue  | liability, | at end   |
|                                       | beginning                            | included in | net of     | of       |
|                                       | of                                   | beginning   | revenue    | period   |
|                                       | period                               | balance     | recognized |          |
|                                       |                                      |             | during the |          |
|                                       |                                      |             | period     |          |
|                                       | (in thousands)                       |             |            |          |
| Deferred franchise and license fees   | \$38,011                             | \$ (7,739 ) | \$ 4,128   | \$34,400 |
| PRO Access and loyalty program points | 24,464                               | (22,942 )   | 24,512     | 26,034   |
| Gift card liability (*)               | 4,172                                | (2,430 )    | 159        | 1,901    |

(\*) Net of estimated breakage

The Company's PRO Access and loyalty program points are recorded within deferred revenue and other current liabilities on the Consolidated Balance Sheets. Deferred franchise and license fees are recorded within deferred revenue and other current liabilities and other long-term liabilities on the Consolidated Balance Sheets. As of September 30, 2018, the Company had deferred franchise and license fees with unsatisfied performance obligations extending throughout 2028 of \$34.4 million, of which \$7.2 million is expected to be recognized over the next 12 months. The Company has elected to use the practical expedient allowed under the rules of adoption to not disclose the duration of the remaining unsatisfied performance obligations for contracts with an original expected length of one year or less.

**NOTE 4. INVENTORY**

The net realizable value of inventory consisted of the following:

|   | September      | December  |
|---|----------------|-----------|
|   | 30, 2018       | 31, 2017  |
|   |                | (*)       |
|   | (in thousands) |           |
| Finished product ready for sale                 | \$423,963      | \$432,092 |
| Work-in-process, bulk product and raw materials | 59,542         | 51,225    |
| Packaging supplies                              | 6,134          | 2,415     |
| Inventory                                       | \$489,639      | \$485,732 |

(\*) The balances as of December 31, 2017 have been revised in connection with the adoption of ASC 606 to include a reduction to inventory as applicable custom manufacturing services are completed. Refer to Note 2, "Basis of Presentation" for more information.

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT, NET**

During the quarter ended September 30, 2018, the Company performed a detailed review of its store portfolio and identified stores in the U.S. and Canada that will be closed within the next three years at the end of their lease terms. This review also identified other stores in which the Company is considering alternatives such as seeking lower rent or a shorter term. In connection with the review of the store portfolio, the Company recorded \$14.6 million of impairment charges in the quarter ended September 30, 2018 within the U.S. and Canada segment, of which \$9.5 million related to its property, plant and equipment for certain underperforming stores and \$5.1 million related to other store closing costs, presented as long-lived asset impairments in the accompanying Consolidated Statement of Operations. During the quarter ended September 30, 2017, the Company recorded \$3.9 million in long-lived asset impairment charges related to certain underperforming stores and the impact of Hurricane Maria on the Company's stores located in Puerto Rico. Underperforming stores were generally defined as those with historical and expected future losses or stores that management intends on closing in the near term.

The impairment test was performed at the individual store level as this is the lowest level which identifiable cash flows are largely independent of other groups of assets and liabilities. If the undiscounted estimated cash flows were less than the carrying value of the asset group, an impairment charge was calculated by subtracting the estimated fair value of property and equipment from its carrying value. Fair value was estimated using a discounted cash flow method (income approach) utilizing the undiscounted cash flows computed in the first step of the test.

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## NOTE 6. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt consisted of the following:

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
|   | (in thousands)        |                      |
| Tranche B-1 Term Loan (net of \$0.1 million and \$0.9 million discount) | \$ 148,402            | \$ 1,130,320         |
| Tranche B-2 Term Loan (net of \$24.9 million discount)                  | 647,366               | —                    |
| FILO Term Loan (net of \$11.6 million discount)                         | 263,403               | —                    |
| Unpaid original issuance discount                                       | 13,231                | —                    |
| Notes   | 173,591               | 167,988              |
| Debt issuance costs   | (867 )                | (1,285 )             |
| Total debt  | 1,245,126             | 1,297,023            |
| Less: current debt  | (204,480 )            | —                    |
| Long-term debt  | \$ 1,040,646          | \$ 1,297,023         |

## Refinancing of Senior Credit Facility

On February 28, 2018, the Company amended and restated its Senior Credit Facility (the "Amendment", and the Senior Credit Facility as so amended, the "Term Loan Agreement") formerly consisting of a \$1,131.2 million term loan facility due in March 2019 and a \$225.0 million revolving credit facility that was scheduled to mature in September 2018. The Amendment included an extension of the maturity date for \$704.3 million of the \$1,131.2 million term loan facility from March 2019 to March 2021 (the "Tranche B-2 Term Loan"). However, if more than \$50.0 million of the Company's Notes have not been repaid, converted or effectively discharged prior to such date ("Existing Indenture Discharge"), the maturity date becomes May 2020, subject to certain adjustments. The Amendment also terminated the existing \$225.0 million revolving credit facility.

After the effectiveness of the Amendment, the remaining term loan of \$151.9 million as of February 28, 2018 continues to have a maturity date of March 2019 (the "Tranche B-1 Term Loan"). The Tranche B-2 Term Loan requires annual aggregate principal payments of at least \$43 million and bears interest at a rate of LIBOR plus a margin of 9.25% per annum subject to change under certain circumstances (with a minimum and maximum possible interest rate of LIBOR plus a margin of 8.25% and 9.25%, respectively, per annum). Payments and interest associated with the Tranche B-1 Term Loan are consistent with past terms. The Term Loan Agreement is secured by a (i) first lien on certain assets of the Company primarily consisting of capital stock issued by General Nutrition Centers, Inc. ("Centers") and its subsidiaries, intellectual property and equipment ("Term Priority Collateral") and (ii) second lien on certain assets of the Company primarily consisting of inventory and accounts receivable ("ABL Priority Collateral"). The Term Loan Agreement is guaranteed by all material, wholly-owned domestic subsidiaries of the Company (the "U.S. Guarantors") and by General Nutrition Centres Company, an unlimited liability company organized under the laws of Nova Scotia (together with the U.S. Guarantors, the "Guarantors").

On February 28 2018, the Company also entered into a new asset-based credit agreement (the "ABL Credit Agreement"), consisting of:

- a new \$100 million asset-based Revolving Credit Facility (the "Revolving Credit Facility") with a maturity date of August 2022 (which maturity date will become May 2020, subject to certain adjustments, if the Existing Indenture Discharge has not occurred); and
- a \$275.0 million asset-based Term Loan Facility advanced on a "first-in, last-out" basis (the "FILO Term Loan") with a maturity date of December 2022 (which maturity date will become May 2020, subject to certain adjustments, if the Existing Indenture Discharge has not occurred).

There are no scheduled amortization payments associated with the FILO Term Loan, which bears interest at a rate of LIBOR plus a margin of 7.00% per annum subject to decrease under certain circumstances (with a minimum possible interest rate of LIBOR plus a margin of 6.50% per annum). Outstanding borrowings under the Revolving Credit Facility bear interest at a rate of LIBOR plus 1.50% or prime plus 0.50% (both subject to an increase of 0.25% to 0.50% based on the amount available to be drawn under the Revolving Credit Facility). The Company is also



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required to pay an annual fee to revolving lenders equal to a maximum of 2.0% (subject to adjustment based on the amount available to be drawn under the Revolving Credit Facility) on outstanding letters of credit and an annual commitment fee of 0.375% on the undrawn portion of the Revolving Credit Facility subject to an increase to 0.5% based on the amount available to draw under the Revolving Credit Facility. The FILO Term Loan and Revolving Credit Facility are secured by a (i) first lien on ABL Priority Collateral and (ii) second lien on Term Priority Collateral. The FILO Term Loan and Revolving Credit Facility are guaranteed by the Guarantors.

In connection with the debt refinancing, the Company recognized a loss of \$16.7 million in the first quarter of 2018, which primarily includes third-party fees relating to the Tranche B-2 Term Loan and the FILO Term Loan, and is presented as an operating outflow on the accompanying Consolidated Statement of Cash Flows. In addition, the Company incurred \$43.4 million consisting of an original issuance discount ("OID") to the Tranche B-2 Term Loan and the FILO Term Loan lenders, of which \$30.2 million has been paid. The remaining \$13.2 million is due to the Tranche B-2 Term Loan lenders at 2% of the outstanding balance the earlier of March 2019 or after a qualifying event in which the Company receives net cash proceeds as defined in the credit agreement, the amount of which is subject to change based on the timing and amount of such cash proceeds. The OID together with \$5.1 million in fees incurred relating to the Revolving Credit Facility (included within other long-term assets on the Consolidated Balance Sheet) will be amortized through the applicable maturity dates as an increase to interest expense. The \$30.2 million portion of OID paid together with the Revolving Credit Facility fees resulted in \$35.2 million presented as a financing outflow on the accompanying Consolidated Statement of Cash Flows. Included within the current debt above is the Tranche B-1 Term Loan balance, scheduled amortization payments on the Tranche B-2 Term Loan over the next 12 months and the 2% OID that is due to the Tranche B-2 Term Loan lenders by March 2019.

Under the Company's Term Loan Agreement and ABL Credit Agreement (collectively, the "Credit Facilities"), the Company is required to make certain mandatory prepayments, including a requirement to prepay first the Tranche B-2 Term Loan (until repaid in full), second the FILO Term Loan (until repaid in full, but only if such prepayment is permitted under the ABL Credit Agreement), and third the Tranche B-1 Term Loan, in each case annually with amounts based on excess cash flow, as defined in the Company's Credit Facilities, based on the results of the Company for the prior fiscal year. The first such payment will be due with respect to the year ending December 31, 2018. The payment will be either 75% or 50% of excess cash flow for each such fiscal year, as determined by the Consolidated Net First Lien Leverage Ratio, and will be reduced by scheduled debt amortization payments and debt maturity payments that occur during the fiscal year and in the subsequent year up to the date the excess cash flow payment is required to be paid. The Company estimates the amount of excess cash flow payment to be between \$0 and \$25 million. The proceeds from the Harbin transaction, if received and used to pay down the debt prior to December 31, 2018, is expected to result in the Company's excess cash flow payment being at 50%.

At September 30, 2018, the contractual interest rates under the Tranche B-1 Term Loan, Tranche B-2 Term Loan, and the FILO Term Loan were 4.8%, 11.5% and 9.3%, respectively, which consist of LIBOR plus the applicable margin rate. At December 31, 2017, the contractual interest rate under the Tranche B-1 Term Loan was 4.1%. At September 30, 2018, the Company had \$94.2 million available under the Revolving Credit Facility, after giving effect to \$5.8 million utilized to secure letters of credit. See below under "Interest Rate Swaps" for discussion of the interest rate swaps.

The Company's Credit Facilities contain customary covenants, including limitations on the ability of GNC Corporation, Centers, and Centers' subsidiaries to, among other things, incur debt, grant liens on their assets, enter into mergers or liquidations, sell assets, make investments or acquisitions, make optional payments in respect of, or modify, certain other debt instruments, pay dividends or other payments on capital stock, or enter into arrangements that restrict their ability to pay dividends or grant liens. In addition, the Term Loan Agreement requires compliance, as of the end of each fiscal quarter of the Company, with a maximum Consolidated Net First Lien Leverage Ratio initially set at 5.50 to 1.00 through December 31, 2018 and decreasing to 5.00 to 1.00 from March 31, 2019 to December 31, 2019 and 4.25 to 1.00 thereafter. Depending on the amount available to be drawn under the Revolving Credit Facility, the ABL Credit Agreement requires compliance as of the end of each fiscal quarter of the Company with a minimum Fixed Charge Coverage Ratio of 1.00 to 1.00. The Company is currently in compliance, and expects to remain in compliance over the next twelve months, with the terms of its Credit Facilities.

On November 7, 2018, The Company entered into an Amendment to the Securities Purchase Agreement with Harbin Pharmaceutical Group Holdings Co., Ltd. ("Harbin") for the purchase of 299,950 shares of Convertible Preferred Stock described in Note 12, "Subsequent Events". Harbin's \$300 million investment will be funded in three separate tranches. On November 8, 2018, the Company received the initial \$100 million investment for the purchase of 100,000 shares of Convertible Preferred Stock. The Company utilized the \$100 million to pay a portion of the Tranche B-2 Term Loan due in March 2021 pursuant to the Amendment to its Senior Credit Facility and elected to use the payment to

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satisfy the scheduled amortization payments on the Term Loan Facility through December 2020. The remaining net proceeds, after deducting legal and advisory fees, will be available to satisfy the amount due under the Tranche B-1 Term Loan in March 2019. There is no assurance that the remaining applicable closing conditions will be satisfied or waived prior to March 2019 when the obligation is due.

Management believes that the Company will have sufficient liquidity to meet its obligations, as they become due, for the next twelve months. In the event that the remaining payments anticipated from the Securities Purchase Agreement, are either delayed or not made at all, management believes that the Company will have adequate cash on hand, cash generated from operations and amounts available under the Revolving Credit Facility to satisfy the Tranche B-1 Term Loan repayment of \$147.3 million due in March 2019, net of a \$1.1 million principal payment expected in December 2018. To the extent that actual available cash differs materially from the current cash flow forecast, management has the ability to consider certain discretionary payments or asset sales to increase the amount of available cash.

**Convertible Debt**

The Company maintains a \$188.6 million principal amount of 1.5% convertible senior notes due in 2020 (the "Notes"). The Notes consist of the following components:

|   | September<br>30, 2018 | December<br>31, 2017 |
|---|-----------------------|----------------------|
|   | (in thousands)        |                      |
| Liability component                     |                       |                      |
| Principal                               | \$ 188,565            | \$ 188,565           |
| Conversion feature                      | (13,167 )             | (18,065 )            |
| Discount related to debt issuance costs | (1,807 )              | (2,512 )             |
| Net carrying amount                     | \$ 173,591            | \$ 167,988           |

**Interest Rate Swaps**

On June 13, 2018, the Company entered into two interest rate swaps with notional amounts of \$275 million and \$225 million to limit the exposure to its variable interest rate debt by effectively converting it to a fixed interest rate. The Company receives payments based on the one-month LIBOR and makes payments based on a fixed rate. The Company receives payments with a floor of 0.00% and 0.75%, respectively, on the \$275 million and \$225 million interest rate swaps, which aligns with the related debt instruments. The interest rate swap agreements had an effective date of June 29, 2018. The \$225 million interest rate swap expires on February 28, 2021, and the \$275 million interest rate swap expires on June 30, 2021. The notional amount of the \$225 million interest rate swap is scheduled to decrease to \$175 million on June 30, 2019, \$125 million on June 30, 2020 and \$75 million on December 31, 2020. The Company designated these instruments as cash flow hedges and deemed effective upon initiation. The interest rate swaps are recognized on the balance sheet at fair value. Changes in fair value are recorded within other comprehensive gain (loss) on the Consolidated Balance Sheet and reclassified into the Consolidated Statement of Operations as interest expense in the period in which the underlying transaction affects earnings.

At September 30, 2018, the fair value of the interest rate swaps was an asset of \$0.6 million included within other long-term assets in the Company's accompanying Consolidated Balance Sheet with a corresponding cumulative unrealized gain of \$0.4 million, net of tax, included in accumulated other comprehensive gain (loss). This gain would be immediately recognized in the Consolidated Statement of Operations if these instruments fail to meet certain cash flow hedge requirements. As of September 30, 2018, the amount included in accumulated other comprehensive gain related to the interest rate swaps to be reclassified into earnings during the next 12 months is not material. Refer to Note 7, "Fair Value Measurements of Financial Instruments" for more information on how the interest rate swaps are valued.



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## Interest Expense

Interest expense consisted of the following:

|  | Three months<br>ended September<br>30,<br>2018 |          | Nine months<br>ended September<br>30,<br>2017 |          |
|--|--|----------|---|----------|
|  | 2018   | 2017     | 2018  | 2017     |
|  | (in thousands)                                 |          |   |          |
| Tranche B-1 Term Loan coupon                     | \$1,755  | \$10,803 | \$11,496                                      | \$30,509 |
| Tranche B-2 Term Loan coupon                     | 20,447   | —        | 45,976  | —        |
| FILO Term Loan coupon                            | 6,901  | —        | 15,241  | —        |
| Revolving Credit Facility                        | 285  | —        | 655   | —        |
| Terminated revolving credit facility             | —  | 1,188    | 316   | 3,982    |
| Amortization of discount and debt issuance costs | 3,659  | 550      | 8,954   | 1,800    |
| Subtotal   | 33,047   | 12,541   | 82,638  | 36,291   |
| Notes:   |  |          |   |          |
| Coupon   | 707  | 1,078    | 2,121   | 3,210    |
| Amortization of conversion feature               | 1,655  | 2,422    | 4,898   | 7,156    |
| Amortization of discount and debt issuance costs | 244  | 321      | 731   | 938      |
| Total Notes                                      | 2,606  | 3,821    | 7,750   | 11,304   |
| Other  | 79   | (23 )    | 60  | 705      |
| Interest expense, net                            | \$35,732                                       | \$16,339 | \$90,448                                      | \$48,300 |

Table of Contents**NOTE 7. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS**

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

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

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

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

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

The carrying values and estimated fair values of the interest rate swap assets and the term loans, net of discount, and Notes (net of the equity component classified in stockholders' equity and discount) were as follows:

|                       | September 30, 2018 |            | December 31, 2017 |            |
|-----------------------|--------------------|------------|-------------------|------------|
|                       | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
|                       | (in thousands)     |            |                   |            |
| <b>Assets:</b>        |                    |            |                   |            |
| Interest rate swaps   | \$596              | \$596      | \$—               | \$—        |
| <b>Liabilities:</b>   |                    |            |                   |            |
| Tranche B-1 Term Loan | \$148,402          | \$146,176  | \$1,130,320       | \$930,592  |
| Tranche B-2 Term Loan | 647,366            | 642,511    | —                 | —          |
| FILO Term Loan        | 263,403            | 269,330    | —                 | —          |
| Notes                 | 173,591            | 135,184    | 167,988           | 85,044     |

The fair values of the term loans were determined using the instrument's trading value in markets that are not active, which are considered Level 2 inputs. The fair value of the Notes was determined based on quoted market prices and bond terms and conditions, which are considered Level 2 inputs. The Company's interest rate swaps are carried at fair value, which is based primarily on Level 2 inputs utilizing readily observable market data, such as LIBOR forward rates, for all substantial terms of the interest rate swap contracts and the assessment of nonperformance risk.

**NOTE 8. CONTINGENCIES**

The Company is engaged in various legal actions, claims and proceedings arising in the normal course of business, including claims related to breach of contracts, product liability matters, 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.

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;



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(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. If the Company ultimately is required to make any payments 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.

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 per policy year. 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. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. Consequently, the Company may incur material product liability claims, which could increase its costs and adversely affect its reputation, revenue and operating income.

Litigation

**DMAA / Aegeline Claims.** Prior to December 2013, the Company sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/ dimethylamylamine/ 1,3-dimethylamylamine, or "DMAA," which were recalled from the Company's stores in November 2013, and/or Aegeline, a compound extracted from bael trees. As of September 30, 2018, the Company was named in 27 personal injury lawsuits involving products containing DMAA and/or Aegeline.

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

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

**California Wage and Break Claims.** On February 29, 2012, former Senior Store Manager, Elizabeth Naranjo, individually and on behalf of all others similarly situated, sued General Nutrition Corporation in the Superior Court of the State of California for the County of Alameda. The class action complaint contains eight causes of action, alleging, among other matters, meal, rest break and overtime violations for which indeterminate money damages for wages, penalties, interest, and legal fees are sought. In June 2018, the Court granted in part and denied in part the Company's Motion for Decertification. In August 2018, the plaintiff voluntarily dismissed the class action claims alleging overtime violations. As of September 30, 2018, an immaterial liability has been accrued in the accompanying financial statements. The Company intends to vigorously defend against the remaining class action claims asserted in this action, and to seek decertification as to some or all of the claims following additional discovery. It is expected that the trial will occur in 2019.

**Pennsylvania Fluctuating Workweek.** On September 18, 2013, Tawny Chevalier and Andrew Hiller commenced a class action in the Court of Common Pleas of Allegheny County, Pennsylvania. Plaintiff asserted a claim against the Company for a purported violation of the Pennsylvania Minimum Wage Act ("PMWA"), challenging the Company's utilization of the "fluctuating workweek" method to calculate overtime compensation, on behalf of all employees who worked for the Company in Pennsylvania and who were paid according to the fluctuating workweek method. In October 2014, the Court entered an order holding that the use of the fluctuating workweek method violated the

PMWA. In September 2016, the Court entered judgment in favor of Plaintiffs and the class in an immaterial amount, which has been recorded as a charge in the accompanying Consolidated Financial Statements. Plaintiffs subsequently filed a petition for an award of attorney's fees, costs and incentive payment. The court awarded an immaterial amount in legal fees. The Company appealed from the adverse judgment and the award of attorney's fees. On December 22, 2017, the Pennsylvania Superior Court held that the Company correctly determined the "regular rate" by dividing

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weekly compensation by all hours worked (rather than 40), but held that the regular rate must be multiplied by 1.5 (rather than 0.5) to determine the amount of overtime owed. Taking accumulated interest into account, the net result of the Superior Court's decision was to reduce the Company's liability by an immaterial amount, which has been reflected in the accompanying Consolidated Financial Statements. The Company filed a petition for appeal to the Pennsylvania Supreme Court on January 22, 2018. The Pennsylvania Supreme Court accepted the Company's petition for appeal and the Company filed its appellant's brief on August 27, 2018. The appellees filed their brief on September 26, 2018. It is anticipated that oral argument will occur in early to mid-2019.

**Jason Olive v. General Nutrition Corp.** In April 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles, for misappropriation of likeness in which he alleges that the Company continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Mr. Olive is seeking compensatory, punitive and statutory damages and attorneys' fees and costs. The trial in this matter began on July 20, 2016 and concluded on August 8, 2016. The jury awarded plaintiff immaterial amounts for actual damages and emotional distress damages, which are accrued in the accompanying Consolidated Financial Statements. The jury refused to award plaintiff any of the profits he sought to disgorge, or punitive damages. The court entered judgment in the case on October 14, 2016. In addition to the verdict, the Company and Mr. Olive sought attorneys' fees and other costs from the Court. The Court refused to award attorney's fees to either side but awarded plaintiff an immaterial amount for costs. Plaintiff has appealed the judgment, and separately, the order denying attorney's fees. The Company has cross-appealed the judgment and the Court's denial of attorney fees. Argument occurred in October 2018. On November 2, 2018, the Court affirmed the trial court's decision in part and reversed in part, reversing the denial of Mr. Olive's motion for attorneys' fees and remanding the matter to the trial court for further proceedings regarding his attorneys' fees and costs.

**Oregon Attorney General.** On October 22, 2015, the Attorney General for the State of Oregon sued GNC in Multnomah County Circuit Court for alleged violations of Oregon's Unlawful Trade Practices Act, in connection with its sale in Oregon of certain third-party products. The Company is vigorously defending itself against these allegations. Along with its Amended Answer and Affirmative Defenses, the Company filed a counterclaim for declaratory relief, asking the court to make certain rulings in favor of the Company, and adding USPlabs, LLC and SK Laboratories as counterclaim defendants. In March 2018, the Oregon Attorney General filed a motion for summary judgment relating to its first claim for relief, which the Company contested. The Company filed a cross motion for summary judgment on the first claim for relief, which the Oregon Attorney General contested. Following oral argument in August 2018, the Court denied the State's motion for summary judgment and granted in part and denied in part the Company's motion for summary judgment. The parties are in the process of exchanging discovery. Trial is currently scheduled to begin in September 2019.

As any losses that may arise from this matter are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying Consolidated Financial Statements. Moreover, the Company does not anticipate that any such losses are likely to have a material impact on the Company, its business or results of operations. The Company is contractually entitled to indemnification and defense by its third-party vendors. Ultimately, however, the Company's ability to obtain full recovery in respect of any such claims against it is dependent upon the creditworthiness of its vendors and/or their insurance coverage and the absence of any significant defenses available to their insurers.

**Holland and Barrett License Litigation.** On September 18, 2014, the Company's wholly-owned affiliate General Nutrition Investment Company ("GNIC") commenced proceedings in the U.K. High Court to determine if the license agreement from March 2003 between GNIC and Holland & Barrett International Ltd and Health and Diet Centers Ltd. ("Defendants") was validly terminated. GNIC alleged that termination of the entire agreement was warranted due to several material breaches by Defendants, and that the agreement should be terminated related to five licensed GNC trademarks for lack of use for more than five years. On April 7, 2017, the Court issued its judgment that found that GNIC's notice of termination was invalid and while there were several breaches of the agreement, none were sufficiently material to justify termination. Under U.K. procedural rules, GNIC is required to pay some portion of Defendant's legal costs. As a result, the Company recorded a charge of \$2.1 million in the first quarter of 2017 and subsequently reached an agreement with the Defendants in relation to costs. The Defendants appealed part of the

Court's judgment concerning findings in relation to the licensed GNIC trademarks, and that appeal was heard at the U.K.'s Court of Appeal in June 2018. In July 2018, the Court found in favor of the Defendants and GNIC was ordered to pay an immaterial amount for Defendants' costs related to the appeal.

E-Commerce Pricing Matters. In April 2016, Jenna Kaskorkis, et al. filed a complaint against General Nutrition Centers, Inc. followed by similar cases brought forth by Ashley Gennock in May 2016 and Kenneth Harrison in December 2016. Plaintiffs allege that the Company's promotional pricing on its website was misleading and did not fairly represent promotions based on average retail prices over a trended period of time being consistent with prices advertised as

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promotional. The Company attended a mediation with counsel for all plaintiffs and reached a tentative agreement in the third quarter of 2017 on many of the key terms of a settlement. The matters have been effectively stayed while the parties remain in discussions. The Company currently expects any settlement to be in a form that does not require the recording of a contingent liability, except an immaterial amount the Company has accrued in the accompanying Consolidated Financial Statements.

### Government Regulation

In November 2013, the Company received a subpoena from the U.S. Department of Justice ("DOJ") for information related to its investigation of a third party product vendor, USPlabs, LLC. The Company fully cooperated with the investigation of the vendor and the related products, all of which were discontinued in 2013. In December 2016, the Company reached agreement with the DOJ in connection with the Company's cooperation, which agreement acknowledges the Company relied on the representations and written guarantees of USPlabs and the Company's representation that it did not knowingly sell products not in compliance with the FDCA. Under the agreement, which includes an immaterial payment to the federal government, the Company will take a number of actions to broaden industry-wide knowledge of prohibited ingredients and improve compliance by vendors of third party products. These actions are in keeping with the leadership role the Company has taken in setting industry quality and compliance standards, and the Company's commitment over the course of the agreement (60 months) to support a combination of its and the industry's initiatives. Some of these actions include maintaining and continuously updating a list of restricted ingredients that will be prohibited from inclusion in any products that are sold by the Company. Vendors selling products to the Company for the sale of such products by the Company will be required to warrant that the products sold do not contain any of these restricted ingredients. In addition, the Company will develop and maintain a list of ingredients that the Company believes comply with the applicable provisions of the FDCA.

### 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 has completed additional investigations with the DHEC's approval. The Company installed and began operating a pilot vapor extraction system under a portion of the facility in the second half of 2016, which was an immaterial cost to the Company, with DHEC's approval to assess the effectiveness of such a remedial system. After an initial period of monitoring, in October of 2017, the DHEC approved a work plan for extended monitoring of such system and the contamination into 2021. The Company will continue to consult with the DHEC on the next steps in the work after their review of the results of the extended monitoring is complete. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any additional remedial action that may be required, the ultimate cost of remediation, or the amount of the Company's potential liability. Therefore, no liability has been recorded in the Company's Consolidated Financial Statements.

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

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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 9. EARNINGS PER SHARE

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

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
|  | (in thousands)     |                    |                    |                    |
| Basic weighted average shares                      | 83,412             | 68,354             | 83,326             | 68,296             |
| Effect of dilutive stock-based compensation awards | —                  | 215                | 105                | 115                |
| Diluted weighted average shares                    | 83,412             | 68,569             | 83,431             | 68,411             |

For the three months and nine months ended September 30, 2018 and 2017, the following awards were not included in the computation of diluted EPS because the effect of doing so would be anti-dilutive or because certain conditions have not been met with respect to the Company's performance awards.

|   | Three months ended     |                    | Nine months ended  |                    |
|---|------------------------|--------------------|--------------------|--------------------|
|   | September 30, 2018 (*) | September 30, 2017 | September 30, 2018 | September 30, 2017 |
|   | (in thousands)         |                    |                    |                    |
| Anti-dilutive:  |                        |                    |                    |                    |
| Time-based options and restricted stock awards                    | 3,076                  | 2,381              | 3,022              | 2,179              |
| Performance-based restricted stock awards                         | 1,241                  | —                  | 1,013              | —                  |
| Performance-based restricted stock awards with a market condition | 294                    | —                  | —                  | —                  |
| Contingently issuable:  |                        |                    |                    |                    |
| Performance-based restricted stock awards                         | —                      | 62                 | —                  | 67                 |
| Performance-based restricted stock awards with a market condition | —                      | 387                | 308                | 416                |
| Total stock-based awards excluded from diluted EPS                | 4,611                  | 2,830              | 4,343              | 2,662              |

(\*) For the quarter ended September 30, 2018, all 4.6 million outstanding stock-based awards were excluded from the computation of diluted EPS because the Company was in a net loss position and as a result, inclusion of the awards would have been anti-dilutive.

The Company has applied the if-converted method to calculate dilution on the Notes in the nine months ended September 30, 2018, which has resulted in all 2.9 million underlying convertible shares being anti-dilutive. The treasury stock method was used in the prior year periods, which also resulted in the underlying shares being anti-dilutive.

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## NOTE 10. SEGMENTS

The Company aggregates its operating segments into three reportable segments, U.S. and Canada, International and Manufacturing / Wholesale. The Company fully allocates warehousing and distribution costs to its reportable segments. The Company's chief operating decision maker evaluates segment operating results based primarily on performance indicators, including revenue and operating income. Operating income of each reportable segment excludes certain items that are managed at the consolidated level, such as corporate costs. The Manufacturing / Wholesale segment manufactures and sells product to the U.S. and Canada and International segments at cost with a markup, which is eliminated at consolidation. In connection with the asset sale of Lucky Vitamin on September 30, 2017, their results are included within Other for applicable prior periods to ensure comparability.

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

|   | Three months ended |           | Nine months ended |             |
|---|--------------------|-----------|-------------------|-------------|
|   | September 30,      |           | September 30,     |             |
|   | 2018               | 2017      | 2018              | 2017        |
|   | (in thousands)     |           |                   |             |
| Revenue:                                  |                    |           |                   |             |
| U.S. and Canada                           | \$476,519          | \$492,383 | \$1,506,250       | \$1,556,818 |
| International                             | 51,407             | 48,458    | 140,107           | 132,022     |
| Manufacturing / Wholesale:                |                    |           |                   |             |
| Intersegment revenues                     | 63,695             | 58,037    | 193,596           | 175,335     |
| Third party                               | 52,259             | 51,286    | 159,305           | 163,117     |
| Subtotal Manufacturing / Wholesale        | 115,954            | 109,323   | 352,901           | 338,452     |
| Total reportable segment revenues         | 643,880            | 650,164   | 1,999,258         | 2,027,292   |
| Other                                     | —                  | 20,826    | —                 | 66,182      |
| Elimination of intersegment revenues      | (63,695 )          | (58,037 ) | (193,596 )        | (175,335 )  |
| Total revenue                             | \$580,185          | \$612,953 | \$1,805,662       | \$1,918,139 |
| Operating income:                         |                    |           |                   |             |
| U.S. and Canada                           | \$11,466           | \$31,864  | \$100,559         | \$134,844   |
| International                             | 16,468             | 16,169    | 46,624            | 46,825      |
| Manufacturing / Wholesale                 | 16,869             | 19,168    | 47,722            | 55,072      |
| Total reportable segment operating income | 44,803             | 67,201    | 194,905           | 236,741     |
| Corporate costs                           | (24,732 )          | (25,558 ) | (79,511 )         | (79,839 )   |
| Other                                     | (110 )             | (1,842 )  | (160 )            | (20,760 )   |
| Unallocated corporate costs and other     | (24,842 )          | (27,400 ) | (79,671 )         | (100,599 )  |
| Total operating income                    | 19,961             | 39,801    | 115,234           | 136,142     |
| Interest expense, net                     | 35,732             | 16,339    | 90,448            | 48,300      |
| Loss on debt refinancing                  | —                  | —         | 16,740            | —           |
| (Loss) income before income taxes         | \$(15,771 )        | \$23,462  | \$8,046           | \$87,842    |

Refer to Note 3, "Revenue," for more information on the Company's reportable segments.

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## NOTE 11. INCOME TAXES

The Company recognized \$7.2 million of income tax benefit during the three months ended September 30, 2018 compared with \$2.4 million of income tax expense in the prior year quarter. The Company recognized \$2.9 million of income tax benefit during the nine months ended September 30, 2018 compared with \$25.4 million of income tax expense in the same period in 2017. The effective tax rate for the quarter ended September 30, 2018 was significantly impacted by \$3.6 million in discrete tax benefits associated with finalization of the Company's 2017 federal income tax return.

At September 30, 2018 and December 31, 2017, the Company had \$6.4 million and \$5.8 million of unrecognized tax benefits, respectively, excluding interest and penalties, which if recognized, would affect the effective tax rate. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company accrued \$1.9 million at September 30, 2018 and December 31, 2017, for potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to the ultimate settlement of uncertain tax positions, amounts previously accrued will be reversed as a reduction to income tax expense.

On December 22, 2017, Staff Accounting Bulletin No. 118 was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. The Consolidated Financial Statements for the year ended December 31, 2017 included an immaterial provisional tax impact related to deemed repatriated earnings. The ultimate impact may differ from these provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made and additional regulatory guidance that may be issued. Any subsequent adjustment will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

GNC Holdings, Inc. files a consolidated federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it and its subsidiaries operate. The statutes of limitation for the Company's U.S. federal income tax returns are closed for years through 2013. The Company has various state and local jurisdiction tax years open to examination (the earliest open period is generally 2011).

## NOTE 12. SUBSEQUENT EVENTS

As previously disclosed in the Company's 2017 10-K, on February 13, 2018, the Company entered into a Securities Purchase Agreement (as amended from time to time, the "Securities Purchase Agreement") by and between the Company and Harbin Pharmaceutical Group Holdings Co., Ltd. (the "Investor"), pursuant to which the Company agreed to issue and sell to the Investor, 299,950 shares of a newly created series of convertible perpetual preferred stock of the Company, designated as "Series A Convertible Preferred Stock" (the "Convertible Preferred Stock"), for a purchase price of \$1,000 per share, or an aggregate of approximately \$300 million. The Convertible Preferred Stock is convertible into shares of the common stock of the Company (the "Common Stock") at an initial conversion price of \$5.35 per share, subject to customary antidilution adjustments. Pursuant to the terms of the Securities Purchase Agreement, the Investor assigned its interest in the Securities Purchase Agreement to Harbin Pharmaceutical Group Co., Ltd., a company incorporated in the People's Republic of China. In addition, the Securities Purchase Agreement provides for the parties to use their respective reasonable best efforts to negotiate in good faith definitive documentation with respect to a commercial joint venture in China which would be controlled 65% by the Investor and 35% by the Company.

On November 7, 2018, the Company and Harbin entered into an Amendment to the Securities Purchase Agreement (the "SPA Amendment") for the funding of the Convertible Preferred Stock purchase and entered into definitive documentation (the "JV Framework Agreement") with respect to joint ventures in Hong Kong and China (collectively, the "China JV").

Pursuant to the SPA Amendment, the Company and Harbin agreed to complete the securities purchase as follows: (i) 100,000 shares of Preferred Stock issued by November 9, 2018 for a total purchase price of \$100 million (the "Initial Issuance"), (ii) 50,000 shares of Preferred Stock issued by December 28, 2018 for a total purchase price of \$50 million (the "First Subsequent Issuance") and (iii) 149,950 shares of Preferred Stock issued by February 13, 2019 for a total

purchase price of approximately \$150 million (the “Second Subsequent Issuance” and together with the Initial Issuance and the First Subsequent Issuance, the “Issuances”). The SPA Amendment also provides that Harbin will be entitled to designate two directors to the Company's board following the closing of the Initial Issuance,

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and an additional three directors (including at least two independent directors) upon completion of the Second Subsequent Issuance.

The execution of the JV Framework Agreement satisfies the closing condition related to the definitive documentation of the China JV. In addition, Harbin has advised the Company that the required foreign exchange registration with the State Administration of Foreign Exchange (SAFE) for the People's Republic of China has been completed. The companies completed the Initial Issuance on November 8, 2018. Each of the First Subsequent Issuance and the Second Subsequent Issuance are subject to customary closing conditions. The formation and completion of the China JV is conditioned upon completion of the Second Subsequent Issuance. There can be no assurance that the remaining applicable closing conditions will be satisfied or waived within the timeframes described above.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q. The following information presented for the three and nine months ended September 30, 2018 and 2017 was prepared by management, is unaudited, and was derived from our unaudited Consolidated Financial Statements and accompanying notes. In the opinion of management, all adjustments necessary for a fair statement of our financial position and operating results for such periods and as of such dates have been included.

#### Forward-Looking Statements

This Quarterly Report on Form 10-Q and any documents incorporated by reference herein or therein include forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Forward-looking statements can be identified by the use of terminology such as "subject to," "believes," "anticipates," "plans," "expects," "intends," "estimates," "projects," "may," "will," "should," "can," the negatives thereof, variations thereon and similar expressions, or by discussions regarding dividend, share repurchase plan, strategy and outlook.

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. Many factors could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements, including but not limited to unfavorable publicity or consumer perception of the our products; costs of compliance and any failure on our part to comply with new and existing governmental regulations governing our products; limitations of or disruptions in the manufacturing system or losses of manufacturing certifications; disruptions in the distribution network; conditions to the subsequent closings of the Harbin transaction may not be satisfied; the occurrence of any event, change or other circumstances that could give rise to the termination of the Securities Purchase Agreement with Harbin; other risks to consummation of the Harbin transaction, including the risk that the Harbin transaction, the first subsequent closing and/or the second subsequent closing will not be consummated within the expected time period or at all; or failure to successfully execute the our growth strategy, including any inability to expand franchise operations or attract new franchisees, any inability to expand company-owned retail operations, any inability to grow the international footprint, any inability to expand the e-commerce businesses, or any inability to successfully integrate businesses that are acquired. A detailed discussion of risk and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" in our 2017 10-K.

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. The forward-looking statements included in this Quarterly Report on Form 10-Q are made as of the date of this filing. 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

GNC is a global health and wellness brand with a diversified, multi-channel business. Our assortment of performance and nutritional supplements, vitamins, herbs and greens, health and beauty, food and drink and other general merchandise features innovative private-label products as well as nationally recognized third-party brands,

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many of which are exclusive to GNC. We derive our revenues principally from company-owned retail locations, domestic and international franchise activities, e-commerce, third-party contract manufacturing, and corporate partnerships. We have approximately 8,500 locations in 50 countries.

We believe the competitive strengths that position us as a leader in the specialty nutritional supplement space include our: well-recognized brand; stable base of long-term customers; geographically diverse store base; vertically integrated operations and differentiated service model designed to enhance the customer experience.

### Our Current Strategy

In the first quarter of 2018, we extended our debt maturity and announced a partnership with Harbin Pharmaceutical Group Co., Ltd., which includes the issuance of convertible preferred stock and a commercial joint venture.

In November 2018, we also announced the completion of the funding of a \$100 million investment by Harbin Pharmaceutical Group Co., Ltd. ("Harbin") in GNC. We have issued 100,000 shares of convertible preferred stock to Harbin in connection with the funding of the first tranche of the previously announced \$300 million strategic investment by Harbin. Harbin has agreed to fund an additional \$50 million investment by December 28, 2018 and the final tranche of approximately \$150 million by February 13, 2019. GNC and Harbin will complete the formation of the previously announced joint ventures in Hong Kong and China upon the funding of the final tranche of Harbin's investment in GNC.

Proprietary products and innovation capabilities. We believe that product innovation is critical to our growth, brand image superiority and competitive advantage. Through market research, interactions with customers and partnerships with leading industry vendors, we work to identify shifting consumer trends that can inform our product development process. We believe that our brand portfolio of proprietary products, which are available in our stores, on GNC.com, on our market place on Amazon.com and other third-party websites, advances GNC's brand presence and our general reputation as a leading retailer of health and wellness products. GNC brand mix for domestic system-wide sales increased to 52% in the third quarter of 2018 compared with 45% in the third quarter of 2017.

During the third quarter, we launched the nature-inspired Earth Genius product line that spans multiple categories and TamaFlex, an exclusive blend of botanicals proven effective for joint health.

Loyalty programs. As of September 30, 2018, our loyalty membership increased 10.7% to 16.2 million members compared with June 30, 2018. Included in our loyalty membership at September 30, 2018 are approximately 1.0 million members enrolled in PRO Access.

Customer experience. Our goal is to create a consistent and satisfying experience for all of our customers, whether they find us in a retail store, online, or on a mobile device, and we are investing in omnichannel capabilities and the in-store experience. Our store base is a competitive advantage over online-only competitors especially as we continue to develop our associates to deliver thoughtful assistance and advice.

International. Our international business is a growth opportunity and we are focused on developing partnerships that can grow our reach in attractive global markets. The partnership with Harbin will continue to strengthen our balance sheet and position us to fully leverage the opportunity in China through Harbin's extensive distribution, marketing and sales infrastructure.

Store Optimization. As we focus on optimizing profitability, we performed a detailed review of our store portfolio and identified approximately 700-900 stores in the U.S. and Canada that will be closed within the next three years at the end of their lease terms. This review also identified other stores in which we are considering alternatives such as seeking lower rent or a shorter term.

### Key Performance Indicators

The primary key performance indicators that senior management focus on include revenue and operating income for each segment, which are discussed in detail within "Results of Operations", as well as same store sales growth.



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The table below presents the key components of U.S Company-owned same store sales:

|  | 2018   |        |        | 2017   |        |        |
|--|--------|--------|--------|--------|--------|--------|
|  | Q1     | Q2     | Q3     | Q1     | Q2     | Q3     |
|  | 3/31   | 6/30   | 9/30   | 3/31   | 6/30   | 9/30   |
| Contribution to same store sales         |        |        |        |        |        |        |
| Domestic Retail same store sales         | (1.2)% | (4.2)% | (3.4)% | (3.6)% | (0.5)% | (1.2)% |
| GNC.com contribution to same store sales | 1.7 %  | 3.8 %  | 1.3 %  | (0.3)% | (0.4)% | 2.5 %  |
| Total Same Store Sales                   | 0.5 %  | (0.4)% | (2.1)% | (3.9)% | (0.9)% | 1.3 %  |

Same store sales for company-owned stores include point-of-sale retail sales from all domestic stores which have been operating for twelve full months following the opening period. We are an omnichannel retailer with capabilities that allow a customer to use more than one channel when making a purchase, including in-store and through e-commerce channels, which include our wholly-owned website GNC.com and third-party websites, including Amazon (the sales from which are included in the GNC.com business unit) where product assortment and price are controlled by us, and the purchases from which are fulfilled by direct shipment to the customer from one of our distribution facilities as well as third-party e-commerce vendors. In-store sales are reduced by sales originally consummated online or through mobile devices and subsequently returned in-store. Sales of membership programs, including the new PRO Access loyalty program and former Gold Card program, which is no longer offered in the U.S., as well as the net change in the deferred points liability associated with the myGNC Rewards program, are excluded from same store sales.

Excluding the impact of higher loyalty points redemption in the current year periods compared with the prior year periods as our program matures, same store sales decreased 1.3% in the three months ended September 30, 2018 and increased 0.8% in the nine months ended September 30, 2018 for U.S. company-owned stores including GNC.com.

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. 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. Corporate stores are included in same store sales after the thirteenth month following a relocation or conversion to a company-owned store.

We also provide retail comparable same store sales of our franchisees as well as our Canada business if meaningful to current results. While retail sales of franchisees are not included in the Consolidated Financial Statements, the metric serves as a key performance indicator of our franchisees, which ultimately impacts wholesale sales and royalties and fees received from franchisees. We compute same store sales for our franchisees and Canada business consistent with the description of corporate same store sales above. Same store sales for international franchisees and Canada exclude the impact of foreign exchange rate changes relative to the U.S. dollar.

#### Non-GAAP Measures

We have included the year-over-year change in segment operating income as a percentage of revenue for our U.S. and Canada and International segments below under "Results of Operations" adjusted to exclude certain items because we believe it represents an effective supplemental means by which to measure our segment's operating performance. We believe that this metric is useful to investors as it enables our management and our investors to evaluate and compare our segment's results from operations in a more meaningful and consistent manner by excluding specific items that are not reflective of ongoing operating results. However, this metric is not a measurement of our segment's performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP, or as an alternative to GAAP cash flow from operating activities, or as a measure of our profitability or liquidity. Further, management believes that the presentation of adjusted SG&A, corporate costs, and other non-GAAP measures, presented herein are helpful to investors as they provide for greater comparability of the financial statements between periods.



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## Results of Operations

(Calculated as a percentage of consolidated revenue unless indicated otherwise)

|  | Three months<br>ended September<br>30,<br>2018 |         | Nine months<br>ended September<br>30,<br>2017 |         |
|--|--|---------|---|---------|
| Revenues:  |  |         |   |         |
| U.S. and Canada  | 82.1   | % 80.3  | % 83.4  | % 81.2  |
| International  | 8.9  | % 7.9   | % 7.8   | % 6.9   |
| Manufacturing / Wholesale:                                       |  |         |   |         |
| Intersegment revenues  | 11.0   | % 9.5   | % 10.7  | % 9.1   |
| Third party  | 9.0  | % 8.4   | % 8.8   | % 8.5   |
| Subtotal Manufacturing / Wholesale                               | 20.0   | % 17.9  | % 19.5  | % 17.6  |
| Other  | —  | % 3.4   | % —   | % 3.4   |
| Elimination of intersegment revenue                              | (11.0)   | % (9.5) | % (10.7)                                      | % (9.1) |
| Total net revenues   | 100.0  | % 100.0 | % 100.0                                       | % 100.0 |
| Operating expenses:  |  |         |   |         |
| Cost of sales, including warehousing, distribution and occupancy | 68.2   | % 67.2  | % 66.8  | % 66.6  |
| Gross profit   | 31.8   | % 32.8  | % 33.2  | % 33.4  |
| Selling, general and administrative                              | 25.8   | % 25.5  | % 26.0  | % 25.1  |
| Long-lived asset impairments                                     | 2.5  | % 0.6   | % 0.8   | % 1.2   |
| Other loss (income), net   | —  | % 0.3   | % —   | % —     |
| Total operating expenses   | 96.5   | % 93.6  | % 93.6  | % 92.9  |
| Operating income:  |  |         |   |         |
| U.S. and Canada (*)  | 2.4  | % 6.5   | % 6.7   | % 8.7   |
| International (*)  | 32.0   | % 33.4  | % 33.3  | % 35.5  |
| Manufacturing / Wholesale (*)                                    | 14.5   | % 17.5  | % 13.5  | % 16.3  |
| Unallocated corporate costs and other                            |  |         |   |         |
| Corporate costs  | (4.3)  | % (4.2) | % (4.4)                                       | % (4.2) |
| Other  | —  | % (0.3) | % —   | % (1.1) |
| Subtotal unallocated corporate and other costs                   | (4.3)  | % (4.5) | % (4.4)                                       | % (5.3) |
| Total operating income   | 3.4  | % 6.5   | % 6.4   | % 7.1   |
| Interest expense, net  | 6.2  | % 2.7   | % 5.0   | % 2.5   |
| Loss on debt refinancing   | —  | % —     | % 0.9   | % —     |
| (Loss) income before income taxes                                | (2.7)  | % 3.8   | % 0.4   | % 4.6   |
| Income tax (benefit) expense                                     | (1.2)  | % 0.4   | % (0.2)                                       | % 1.3   |
| Net (loss) income  | (1.5)  | % 3.4   | % 0.6   | % 3.3   |

(\*) Calculated as a percentage of segment revenue.

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The following table summarizes the number of our stores for the periods indicated:

|  | Nine months<br>ended<br>September 30,<br>2018 2017 |        |
|--|--|--------|
| U.S. & Canada                            |  |        |
| Company-owned <sup>(a)</sup> :           |  |        |
| Beginning of period balance              | 3,423  | 3,513  |
| Store openings                           | 18   | 47     |
| Acquired franchise stores <sup>(b)</sup> | 20   | 46     |
| Franchise conversions <sup>(c)</sup>     | (4 )   | (2 )   |
| Store closings                           | (174 )   | (136 ) |
| End of period balance                    | 3,283  | 3,468  |
| Domestic Franchise:                      |  |        |
| Beginning of period balance              | 1,099  | 1,178  |
| Store openings                           | 10   | 22     |
| Acquired franchise stores <sup>(b)</sup> | (20 )  | (46 )  |
| Franchise conversions <sup>(c)</sup>     | 4  | 2      |
| Store closings                           | (45 )  | (30 )  |
| End of period balance                    | 1,048  | 1,126  |
| International <sup>(d)</sup> :           |  |        |
| Beginning of period balance              | 2,015  | 1,973  |
| Store openings                           | 42   | 207    |
| Store closings                           | (89 )  | (105 ) |
| End of period balance                    | 1,968  | 2,075  |
| Store-within-a-store (Rite Aid):         |  |        |
| Beginning of period balance              | 2,418  | 2,358  |
| Store openings                           | 42   | 62     |
| Store closings <sup>(e)</sup>            | (218 )   | (6 )   |
| End of period balance                    | 2,242  | 2,414  |
| Total Stores                             | 8,541  | 9,083  |

(a) Includes Canada.

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

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

(d) Includes franchise locations in approximately 50 countries (including distribution centers where sales are made) and company-owned stores located in Ireland and China.

(e) In 2018, store closings primarily related to Walgreens acquisition of certain Rite Aid locations.

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Comparison of the Three Months Ended September 30, 2018 (current quarter) and 2017 (prior year quarter)

## Revenues

Our consolidated net revenues decreased \$32.8 million, or 5.3%, to \$580.2 million for the three months ended September 30, 2018 compared with \$613.0 million for the same period in 2017. The decrease was primarily attributable to the sale of Lucky Vitamin on September 30, 2017, which resulted in a \$20.8 million reduction to revenue, and lower sales associated with store closures at the end of their lease term, which is a component of our store portfolio optimization strategy.

U.S. and Canada. Revenues in our U.S. and Canada segment decreased \$15.9 million, or 3.2%, to \$476.5 million for the three months ended September 30, 2018 compared with \$492.4 million in the prior year quarter. The decrease in the current quarter as compared with the prior year quarter was primarily due to the following:

- The net decrease in the number of U.S. corporate stores from September 30, 2017 to September 30, 2018 contributed an approximate \$9 million decrease to revenue;

- A decrease in U.S. company-owned same store sales of 2.1%, which includes GNC.com sales, resulted in a \$7.7 million decrease to revenue (excluding the impact of higher loyalty points redemption in the current quarter compared with the prior year quarter as the program matures, same store sales decreased 1.3%). E-commerce sales were 7.2% of U.S. and Canada revenue in the current quarter compared with 6.2% in the prior year quarter;

- A decrease in domestic franchise revenue of \$3.6 million to \$79.7 million in the current quarter compared with \$76.1 million in prior year quarter due to the impact of a decrease in retail same store sales of 4.1% and a decrease in the number of franchise stores from 1,126 at September 30, 2017 to 1,048 at September 30, 2018;

- A decrease in Canada company-owned stores of \$2.7 million from \$24.1 million in the prior year period to \$21.4 million in the current year period primarily due to negative same store sales of 5.6%; and

- Partially offsetting the above decreases in revenue was an increase of \$7.5 million related to our loyalty programs, PRO Access paid membership fees and the myGNC Rewards change in deferred points liability.

International. Revenues in our International segment increased \$2.9 million, or 6.1%, to \$51.4 million in the current quarter compared with \$48.5 million in the prior year quarter. Revenue from our international franchisees increased \$3.9 million in the current quarter compared with the prior year quarter with an increase in retail same store sales of 1.5%. Revenues from our China business decreased by \$0.8 million in the current quarter compared with the prior year quarter due to lower wholesale sales.

Manufacturing / Wholesale. Revenues in our Manufacturing / Wholesale segment, excluding intersegment sales, increased \$1.0 million, or 1.9%, to \$52.3 million for the three months ended September 30, 2018 compared with \$51.3 million in the prior year quarter. Third-party contract manufacturing sales increased \$1.9 million, or 6.7%, to \$31.2 million for the three months ended September 30, 2018 compared with \$29.3 million in the prior year quarter. Sales to our wholesale partners decreased \$1.0 million, or 4.4%, from \$22.0 million in the prior year quarter to \$21.0 million in the current quarter. Intersegment sales increased \$5.7 million from \$58.0 million in the prior year quarter to \$63.7 million in the current quarter reflecting our increasing focus on proprietary products.

## Cost of Sales and Gross Profit

Cost of sales, which includes product costs, warehousing, distribution and occupancy costs, decreased \$16.2 million to \$395.5 million for the three months ended September 30, 2018 compared with \$411.7 million in the prior year quarter. Gross profit decreased \$16.6 million from \$201.3 million for the quarter ended September 30, 2017 to \$184.7 million in the current quarter, and as a percentage of revenue, decreased from 32.8% in the prior year quarter to 31.8% in the current quarter. The decrease in gross profit rate was primarily due to lower domestic retail product margin rate as a result of adjustments to promotional pricing in response to the competitive environment in the early portion of the quarter, lower vendor funding and impacts from the new loyalty program, partially offset by a higher sales mix of proprietary product which contribute higher margins relative to third-party sales.

Table of Contents**Selling, General and Administrative (“SG&A”) Expense**

SG&A expense, including compensation and related benefits, advertising and other expenses, decreased \$6.2 million, or 3.9%, from \$156.1 million in the prior year quarter to \$149.9 million in the current quarter. SG&A expense, as a percentage of revenue, was 25.8% and 25.5% for the three months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2018, we recognized \$2.1 million in expense related to a retention program adopted in the first quarter of 2018 to retain senior executives and certain other key personnel below the executive level who are critical to the execution and success of our strategy. The total amount awarded was approximately \$10 million, which vests in four installments of 25% each over the next two years on the earlier of February 2019 or the closing of the Harbin transaction, February 2019, August 2019 and February 2020. We also incurred \$0.3 million related to China joint venture start-up costs in the current quarter. During the prior year quarter, we recorded \$2.8 million of stock-based compensation and other executive placement costs associated with the hiring of our new Chief Executive Officer. In addition, we incurred \$1.3 million in legal-related charges in both the current quarter and the prior year quarter.

Excluding the impact of these items, SG&A expense decreased \$5.8 million in the current quarter compared with the prior year quarter and, as a percentage of revenue, was 25.2% and 24.8% for the three months ended September 30, 2018 and 2017, respectively. The \$5.8 million decrease in SG&A expense was primarily due to the sale of the Lucky Vitamin e-commerce business effective September 30, 2017 and lower marketing expense, partially offset by an increase in store commissions related to incremental associate commissions and higher sales mix of proprietary product.

**Long-lived Asset Impairments**

We recorded long-lived asset impairment and other store closing charges totaling \$14.6 million for the three months ended September 30, 2018 associated with the store portfolio optimization. We recorded \$3.9 million in long-lived asset impairment charges for the three months ended September 30, 2017. The charges in the current quarter and prior year quarter primarily relate to certain of our corporate stores for which estimated future undiscounted cash flows could not support the carrying values of property and equipment. In addition, the prior year quarter charge includes the impact of Hurricane Maria on our stores located in Puerto Rico.

**Other Loss, net**

Other loss, net, of \$0.3 million in the current quarter includes a foreign currency loss partially offset by a refranchising gain. Other loss, net, of \$1.6 million in the prior year quarter primarily consists of a \$1.7 million loss as a result of the sale of substantially all of the assets of the Lucky Vitamin e-commerce business.

**Operating Income**

As a result of the foregoing, consolidated operating income decreased \$19.8 million, or 49.8%, to \$20.0 million for the three months ended September 30, 2018 compared with \$39.8 million in the prior year quarter. Operating income, as a percentage of revenue, was 3.4% and 6.5% for the three months ended September 30, 2018 and 2017, respectively. Operating income in the current quarter was significantly impacted by long-lived asset impairment and other store closing charges as noted above.

**U.S. and Canada.** Operating income decreased \$20.4 million to \$11.5 million for the three months ended September 30, 2018 compared with \$31.9 million for the same period in 2017. As we mentioned above, we recorded long-lived asset impairments and other store closing costs of \$14.6 million in the current quarter, and long-lived asset impairments of \$3.9 million in prior year quarter. Excluding these items and immaterial gains on refranchising, operating income was \$26.0 million or 5.5% of segment revenue in the current quarter, compared with \$35.6 million or 7.2% of segment revenue in the prior year quarter. The decrease compared with the prior year was primarily due to product margin rate as explained above under "Cost of Sales and Gross Profit" and an increase in store commissions related to incremental associate commissions and a higher sales mix of proprietary product, partially offset by comparative effect of lower marketing expense in the current quarter.

**International.** Operating income of \$16.5 million for the three months ended September 30, 2018 was relatively flat compared with prior year quarter, and as a percentage of segment revenue was 32.0% in the current quarter compared with 33.4% in the prior year quarter. The current quarter included \$1.0 million related to China joint venture start-up costs, of which \$0.6 million related to costs incurred in the first six months of 2018 within corporate costs and was

reclassified to International in the current quarter. Excluding the China joint venture start-up costs, operating

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income was \$17.4 million, or 33.9% of segment revenue, in the current quarter compared with \$16.2 million, or 33.4% of segment revenue, for the same period in 2017. The increase in operating income percentage was primarily due to a higher mix of franchise sales, which contribute higher margins relative to China sales.

**Manufacturing / Wholesale.** Operating income decreased \$2.3 million, or 12.0%, to \$16.9 million for the three months ended September 30, 2018 compared with \$19.2 million in the prior year quarter. Operating income as a percentage of segment revenue decreased from 17.5% in the prior year quarter to 14.5% in the current quarter primarily due to a lower margin rate from third-party contract manufacturing, partially offset by higher intersegment sales, which contribute higher margins.

**Corporate costs.** Corporate costs decreased \$0.9 million to \$24.7 million for the three months ended September 30, 2018 compared with \$25.6 million in the prior year quarter. The current quarter includes retention of \$2.1 million, as explained above, and a \$1.3 million legal-related charge. Additionally, \$0.6 million related to China joint venture start-up costs incurred in the first six month of 2018 was reclassified to International in the current quarter. The prior year quarter includes \$2.8 million of stock-based compensation and other executive placement costs associated with the hiring of our new Chief Executive Officer and a \$1.3 million legal-related charge. Excluding the above charges, corporate costs in the three months ended September 30, 2018 were relatively flat compared to the prior year quarter.

**Interest Expense, net**

Interest expense was \$35.7 million in the three months ended September 30, 2018 compared with \$16.3 million in the three months ended September 30, 2017 primarily due to a higher interest rate on the Tranche B-2 Term Loan and the FILO Term Loan in connection with the debt refinancing.

**Income Tax (Benefit) Expense**

We recognized \$7.2 million of income tax benefit during the three months ended September 30, 2018 compared with \$2.4 million of income tax expense for the same period in 2017. The effective tax rate in the current quarter was significantly impacted by \$3.6 million in discrete tax benefits associated with finalization of the Company's 2017 federal income tax return. The effective tax rate in the prior year quarter was significantly impacted by a reduction to a valuation allowance of \$6.0 million. The valuation allowance was adjusted based on a change in circumstances which caused a change in judgment about the realizability of a deferred tax asset related to net operating losses.

**Net (Loss) Income**

As a result of the foregoing, consolidated net loss was \$8.6 million for the three months ended September 30, 2018 compared with a consolidated net income of \$21.1 million for the same period in 2017.

**Diluted (Loss) Earnings Per Share**

Diluted loss per share was \$0.10 for the three months ended September 31, 2018 compared with diluted earnings per share of \$0.31 for the three months ended September 30, 2017.

Comparison of the Nine Months Ended September 30, 2018 (current year period) and 2017 (prior year period)

**Revenues**

Our consolidated net revenues were \$1,805.7 million for the nine months ended September 30, 2018, a decrease of \$112.4 million, or 5.9%, compared with \$1,918.1 million for the same period in 2017. The decrease was primarily the result of the sale of Lucky Vitamin on September 30, 2017, which resulted in a \$66.2 million reduction to revenue, the termination of the U.S. Gold Card Member Pricing program in the prior year, which resulted in a \$23.0 million decrease in revenue and lower sales associated with store closures at the end of their lease term, which is a component of our store portfolio optimization strategy.

**U.S. and Canada.** Revenues in our U.S. and Canada segment decreased \$50.5 million, or 3.2%, to \$1,506.3 million for the nine months ended September 30, 2018 compared with \$1,556.8 million in the prior year period. The \$50.5 million decrease in revenue in the current year period as compared with the prior year period was primarily due to the following:

- The net decrease in the number of U.S. company-owned stores from September 30, 2017 to September 30, 2018 contributed an approximate \$24 million decrease to revenue;



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A decrease in U.S. company-owned same store sales of 0.6%, which includes GNC.com sales, resulted in a \$7.3 million decrease to revenue (excluding the impact of higher loyalty points redemption in the current year period compared with the prior year period as the program matures, same store sales increased 0.8%). E-commerce sales were 7.5% of U.S. and Canada revenue in the current year period compared with 5.7% in the prior year period;

- A decrease in domestic franchise revenue of \$19.4 million from \$253.4 million in the prior year period to \$234.0 million in the current year period primarily due to the impact of a decrease in retail same store sales decrease of 3.3% and a decrease in the number of franchise stores from 1,126 at September 30, 2017 to 1,048 at September 30, 2018;

- A decrease in Canada company-owned stores of \$5.4 million from \$72.1 million in the prior year period to \$66.7 million in the current year period primarily due to negative same store sales of 7.9%;

A decrease of \$23.0 million relating to the termination of the U.S. Gold Card Member Pricing program in the prior year period, which resulted in the recognition of domestic Gold Card deferred revenue of \$24.4 million, net of \$1.4 million of applicable coupon redemptions; and

Partially offsetting the above decreases in revenue was an increase of \$30.3 million related to our loyalty programs, PRO Access paid membership fees and the myGNC Rewards change in deferred points liability.

International. Revenues in our International segment increased \$8.1 million, or 6.1%, to \$140.1 million in the current year period compared with \$132.0 million in the prior year period, primarily due to an increase in our China business of \$6.3 million due to higher e-commerce sales and an increase in sales from our international franchisees of \$1.2 million.

Manufacturing / Wholesale. Revenues in our Manufacturing / Wholesale segment, excluding intersegment sales, decreased \$3.8 million, or 2.3%, to \$159.3 million for the nine months ended September 30, 2018 compared with \$163.1 million in the prior year period. Third-party contract manufacturing sales decreased \$2.7 million, or 2.8%, from \$97.2 million in the prior year period to \$94.5 million in the current year period. Sales to our wholesale partners decreased \$1.1 million, or 1.7% from \$65.9 million in the prior year period to \$64.8 million in the current year period. Intersegment sales increased \$18.3 million from \$175.3 million in the prior year period to \$193.6 million in the current year period reflecting our increasing focus on proprietary products.

Cost of Sales and Gross Profit

Cost of sales decreased \$70.8 million to \$1,206.4 million for the nine months ended September 30, 2018 compared with \$1,277.2 million in the prior year period. Gross profit decreased \$41.6 million from \$640.9 million in the prior year period to \$599.3 million in the current year period. Gross profit, as a percentage of revenue, decreased slightly to 33.2% in the current year period compared with 33.4% in the prior year period. The gross profit rate change is primarily due to the comparative effect of the prior year period recognition of \$23.0 million in net deferred Gold Card revenue as explained above and the impact of the new loyalty program in the current year period, partially offset by a higher domestic retail product margin rate reflecting a higher mix of proprietary sales which contribute higher margins relative to third-party sales.

Selling, General and Administrative Expense

SG&A expense decreased \$12.4 million, or 2.6%, from \$481.6 million in the prior year period to \$469.2 million in the current year period, and as a percentage of revenue, was 26.0% and 25.1% for the nine months ended September 30, 2018 and 2017, respectively.

During the nine months ended September 30, 2018, we recognized \$5.2 million related to the aforementioned retention program, \$1.0 million related to China joint venture start-up costs and a legal-related charge of \$1.3 million. During the nine months ended September 31, 2017, we incurred legal-related charges of \$3.4 million as well as \$2.8 million executive placement costs as explained above.

Excluding the impact of these items, SG&A expense decreased \$13.7 million, or 2.9%, and was 25.6% and 24.8% as a percentage of revenue in the current year and prior year periods, respectively. The decrease in SG&A expense was primarily due to the sale of our Lucky Vitamin e-commerce business effective September 30, 2017 and lower marketing expense due to the comparative effect of the prior year period media campaign to support the One New GNC, partially offset by an increase in store commissions associated with a higher sales mix of proprietary product and higher commissions to support e-commerce sales.



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## Long-lived Asset Impairments

We recorded long-lived asset impairment and other store closing charges totaling \$14.6 million in the nine months ended September 30, 2018 associated with the store portfolio optimization strategy. We recorded \$23.2 million in long-lived asset impairment charges in the nine months ended September 30, 2017 of which \$19.4 million relates to the Lucky Vitamin e-commerce business, the assets of which were sold on September 30, 2017. The remaining amount relates to certain of our underperforming corporate stores and the impact of Hurricane Maria on our stores located in Puerto Rico.

## Other Loss (Income), net

Other loss, net, of \$0.4 million in the current year period includes a foreign currency loss partially offset by a refranchising gain. Other income, net, in the prior year period primarily consists of a \$1.7 million loss attributed to the sale of the assets of the Lucky Vitamin e-commerce business, fully offset by immaterial insurance and lease settlements, foreign currency gains and a refranchising gain.

## Operating Income

As a result of the foregoing, consolidated operating income decreased \$20.9 million, or 15.4%, to \$115.2 million for the nine months ended September 30, 2018 compared with \$136.1 million in the prior year period. Operating income, as a percentage of revenue, was 6.4% and 7.1% for the nine months ended September 30, 2018 and 2017, respectively. U.S. and Canada. Operating income decreased \$34.2 million to \$100.6 million for the nine months ended September 30, 2018 compared with \$134.8 million for the same period in 2017. Operating income, as a percentage of segment revenue, was 6.7% in the current year period compared with 8.7% in the prior year period. In the current year period we recorded long-lived asset impairments and other store closing costs totaling \$14.6 million and immaterial refranchising gains, and in the prior year period we recorded long-lived asset impairments of \$3.9 million and immaterial refranchising gains. Excluding these items and the comparative prior year impact of the recognition of deferred Gold Card revenue and marketing costs incurred in support of the One New GNC media campaign as described above, operating income was 7.6% as a percentage of segment revenue in the current year period compared with 7.9% in the prior year period.

International. Operating income decreased \$0.2 million, or 0.4%, to \$46.6 million for the nine months ended September 30, 2018 compared with \$46.8 million in the prior year period. Operating income was 33.3% of segment revenue in the current year period compared with 35.5% in the prior year period. Excluding joint venture start-up costs of \$1.0 million in the current year period, operating income was \$47.6 million, or 34.0% of segment revenue, compared with \$46.8 million, or 35.5% of segment revenue, for the same period in 2017. The decrease in operating income percentage was primarily due to a higher mix of China sales, which contribute lower margins relative to franchise sales. In addition, as we invest to grow the brand in China, marketing expense increased in our China business compared with the prior year period.

Manufacturing / Wholesale. Operating income decreased \$7.4 million, or 13.3%, to \$47.7 million for the nine months ended September 30, 2018 compared with \$55.1 million in the prior year period. Operating income as a percentage of segment revenue decreased from 16.3% in the prior year period to 13.5% in the current year period primarily due to a lower margin rate from third-party contract manufacturing, partially offset by higher intersegment sales, which contributed higher margins.

Corporate costs. Corporate costs decreased \$0.3 million to \$79.5 million for the nine months ended September 30, 2018 compared with \$79.8 million in the prior year period. Excluding the retention and a legal-related charge in the current year period and the executive placements costs and legal-related charges in the prior year period as explained above, corporate costs decreased \$0.6 million in the current year period compared with the prior year period.

## Interest Expense, net

Interest expense was \$90.4 million in the nine months ended September 30, 2018 compared with \$48.3 million in the nine months ended September 30, 2017 primarily due to a higher interest rate on the Tranche B-2 Term Loan and the FILO Term Loan in connection with the debt refinancing.

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Loss on Debt Refinancing

The refinancing of the Senior Credit Facility resulted in a loss of \$16.7 million in the current year period, which primarily includes third-party fees relating to the Tranche B-2 Term Loan and the FILO Term Loan. Refer to Item 1, "Financial Statements," Note 6, "Long-Term Debt / Interest Expense" for more information.

Income Tax (Benefit) Expense

We recognized \$2.9 million of income tax benefit during the nine months ended September 30, 2018 compared with \$25.4 million of income tax expense for the same period in 2017. The effective tax rate in the current year period was significantly impacted by \$3.6 million in discrete tax benefits associated with finalization of the Company's 2017 federal income tax return. The effective tax rate in the prior year period was significantly impacted by a reduction to a valuation allowance of \$6.0 million. The valuation allowance was adjusted based on a change in circumstances which caused a change in judgment about the realizability of a deferred tax asset related to net operating losses.

Net Income

As a result of the foregoing, consolidated net income decreased \$51.5 million to \$10.9 million for the nine months ended September 30, 2018 compared with \$62.4 million for the same period in 2017.

Diluted Earnings Per Share

Diluted earnings per share decreased from \$0.91 for the nine months ended September 30, 2017 to \$0.13 for the same period in 2018 due to a decrease in net income and an increase in the weighted average diluted shares outstanding resulting from the exchange of the Company's Notes on December 20, 2017 for an aggregate 14.6 million newly issued shares of Class A common stock.

Liquidity and Capital Resources

On February 28, 2018, we amended our Senior Credit Facility. Refer to Item 1, "Financial Statements," Note 6, "Long-Term Debt / Interest Expense" for a description of the Amendment to our Senior Credit Facility and our new Term Loan Agreement and ABL Credit Agreement.

On November 7, 2018, we entered into an Amendment to the Securities Purchase Agreement with Harbin for the purchase of 299,950 shares of Convertible Preferred Stock described in Item 1, "Financial Statements," Note 12, "Subsequent Events". Harbin's \$300 million investment will be funded in three separate tranches. On November 8, 2018, we received the initial \$100 million investment for the purchase of 100,000 shares of Convertible Preferred Stock. We utilized the \$100 million to pay a portion of the Tranche B-2 Term Loan due in March 2021 pursuant to the Amendment to our Senior Credit Facility and elected to use the payment to satisfy the scheduled amortization payments on the Term Loan Facility through December 2020. The remaining net proceeds, after deducting legal and advisory fees, will be available to satisfy the amount due under the Tranche B-1 Term Loan in March 2019. There is no assurance that the remaining applicable closing conditions will be satisfied or waived prior to March 2019 when the obligation is due.

Management believes that we will have sufficient liquidity to meet our obligations, as they become due, for the next twelve months. In the event that the remaining payments anticipated from the Securities Purchase Agreement, are either delayed or not made at all, management believes that we will have adequate cash on hand, cash generated from operations and amounts available under the Revolving Credit Facility to satisfy the Tranche B-1 Term Loan repayment of \$147.3 million due in March 2019, net of a \$1.1 million principal payment expected to be made in December 2018. To the extent that actual available cash differs materially from the current cash flow forecast, management has the ability to consider certain discretionary payments or asset sales to increase the amount of available cash. We are currently in compliance with our debt covenant reporting and compliance obligations under our Credit Facilities and expect to remain in compliance during the next twelve months.

We are focused on all opportunities to best position the business for long-term growth and success. As such, we will continue to proactively explore opportunities to enhance our capital structure.

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### Cash Provided by Operating Activities

Cash provided by operating activities was \$55.7 million for the nine months ended September 30, 2018 compared with \$149.6 million for the nine months ended September 30, 2017. The decrease was primarily due to the comparative effect of a \$48.8 million inventory reduction in the prior year as part of the supply chain optimization which was launched at the end of 2016. The remaining decrease was primarily related to reduced operating performance, the refinancing of our long-term debt, which resulted in \$16.3 million in fees paid to third-parties and higher interest payments, partially offset by lower tax payments.

### Cash Used in Investing Activities

Cash used in investing activities was \$11.4 million and \$24.7 million for the nine months ended September 30, 2018 and 2017, respectively, and includes capital expenditures of \$13.4 million and \$26.2 million, respectively.

We expect capital expenditures to be approximately \$20 million in 2018, which includes investments for store development, IT infrastructure and maintenance. We anticipate funding our 2018 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

### Cash Used in Financing Activities

For the nine months ended September 30, 2018, cash used in financing activities was \$74.5 million, primarily consisting of \$35.2 million in an OID paid to lenders and fees associated with our new Revolving Credit Facility associated with the debt refinancing. In addition, we made \$35.5 million in amortization payments on our term loan balances. The OID on the Tranche B-2 Term Loan includes \$13.2 million, which will be paid the earlier of March 2019 or after a qualifying event in which we receive net cash proceeds as defined in the credit agreement, and has been included in Item 1, "Financial Statements," as a non-cash financing activity within the "Supplemental Cash Flow Information" of the Consolidated Statements of Cash Flows.

For the nine months ended September 30, 2017, cash used in financing activities was \$120.1 million, primarily consisting of our April 19, 2017 excess cash flow payment on the Tranche B-1 Term Loan and net payments under the old revolving credit facility, which was terminated in connection with the Amendment to the Senior Credit Facility in February 2018.

### Contractual Obligations

On February 28, 2018, we amended and restated our Senior Credit Facility formerly consisting of a \$1,131.2 million term loan facility due in March 2019 and a \$225.0 million revolving credit facility that matured in September 2018. The Amendment included an extension of the maturity date for \$704.3 million of the \$1,131.2 million term loan facility from March 2019 to March 2021 (the "Tranche B-2 Term Loan"). However, if more than \$50.0 million of the Company's Notes have not been repaid, converted or effectively discharged prior to such date ("Existing Indenture Discharge"), the maturity date becomes May 2020, subject to certain adjustments. The Amendment also terminated the existing \$225.0 million revolving credit facility.

After the effectiveness of the Amendment, the remaining term loan of \$151.9 million as of February 28, 2018 continues to have a maturity date of March 2019 (the "Tranche B-1 Term Loan"). The Amendment requires annual aggregate principal payments of at least \$43 million related to the Tranche B-2 Term Loan and bears interest at a rate of LIBOR plus a margin of 9.25% per annum subject to change under certain circumstances (with a minimum and maximum possible interest rate of LIBOR plus a margin of 8.25% and 9.25%, respectively, per annum). Payments and interest associated with the Tranche B-1 Term Loan are consistent with past terms.

On February 28, 2018, we also entered into a new asset-based credit agreement, consisting of:

- a new \$100 million asset-based Revolving Credit Facility with a maturity date of August 2022 (which maturity date will become May 2020, subject to certain adjustments, if the Existing Indenture Discharge has not occurred); and
- a \$275.0 million asset-based Term Loan Facility advanced on a "first-in, last-out" basis (the "FILO Term Loan") with a maturity date of December 2022 (which maturity date will become May 2020, subject to certain adjustments, if the Existing Indenture Discharge has not occurred).

There are no scheduled amortization payments associated with the FILO Term Loan, which bears interest at a rate of LIBOR plus a margin of 7.00% per annum subject to decrease under certain circumstances (with a minimum and possible interest rate of LIBOR plus a margin of 6.50%, per annum).



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On June 13, 2018, we entered into two interest rate swaps with notional amounts of \$275 million and \$225 million to limit our exposure to our variable interest rate debt. The interest rate swaps effectively converted a portion of the variable interest rate on the Tranche B-2 Term Loan and FILO Term Loan to a fixed rate. We receive payments based on the one-month LIBOR and make payments based on a fixed rate. We receive payments with a floor of 0.00% and 0.75%, respectively, on the \$275 million and \$225 million interest rate swaps, which aligns with the related debt instruments. The interest rate swap agreements had an effective date of June 29, 2018. The \$225 million interest rate swap expires on February 28, 2021, and the \$275 million interest rate swap expires on June 30, 2021. The notional amount of the \$225 million interest rate swap is scheduled to decrease to \$175 million on June 30, 2019, \$125 million on June 30, 2020 and \$75 million on December 31, 2020.

There have been no other material changes in our contractual obligations as disclosed in the 2017 10-K.

### Critical Accounting Estimates

We adopted ASU 2014-09, Revenue from Contracts with Customers, during the first quarter of fiscal 2018 using the full retrospective method. Refer to Item 1, "Financial Statements," Note 3, "Revenue" for more information.

In addition, we entered into two interest rate swaps in June 2018, which were designated as cash flow hedges. Because the interest rate swap agreements are deemed effective, changes in fair value will be recorded within other comprehensive income/loss on the Consolidated Balance Sheet. Refer to Item 1, "Financial Statements," Note 6, "Long-Term Debt / Interest Expense" and Note 7, "Fair Value Measurements and Financial Instruments" for more information.

There have been no other material changes to the application of critical accounting policies and significant judgments and estimates since those disclosed in our 2017 10-K.

### Recent Accounting Pronouncements

Refer to Item 1, "Financial Statements," Note 2, "Basis of Presentation."

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

In June 2018, we entered into two interest rate swaps with notional amounts of \$275 million and \$225 million to limit our exposure to our variable interest rate debt. The interest rate swaps effectively converted a portion of the variable-rate debt to a fixed interest rate. See Part I, Item 1 "Financial Statements," Note 6, "Long-Term Debt / Interest Expense" for additional information.

There have been no other significant changes to our market risk since those disclosed in our 2017 10-K. For a discussion of our exposure to market risk, refer to Part II, Item 7A "Quantitative and Qualitative Disclosures About Market Risk" of our 2017 10-K.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that, as of September 30, 2018, our disclosure controls and procedures are effective.

#### Changes in Internal Control over Financial Reporting

There have not been any changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) 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

DMAA / Aegeline 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, and/or Aegeline, a compound extracted from bael trees. As of September 30, 2018 we were named in the following 27 personal injury lawsuits involving products containing DMAA and/or Aegeline:

- Susan Straub individually and as Administratrix of the Estate of Shane Staub v. USPlabs, LLC and General Nutrition Holdings, Inc, Common Pleas Court of Philadelphia County, Pennsylvania (Case No. 140502403), filed May 20, 2014
- 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. USPlabs, LLC, Doyle, Geissler, USPlabs 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
- Nicholas Akau v. USPlabs, LLC, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00029), filed January 23, 2014
- Melissa Igafo v. USPlabs, LLC, 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, LLC, 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, LLC, GNC Corporation, et al., United States District for the District of Hawaii (Case No. CV 14-00032), filed January 23, 2014
- Thomas Park v. GNC Holdings, Inc., USPlabs, LLC, Superior Court of California, County of San Diego (Case No. 37-2014-110924), filed September 8, 2014
- Nicholas Olson, Adrian Chavez, Rebecca Fullerton, Robert Gunter, Davina Maes and Edwin Palm v. GNC Corporation, USPlabs, LLC, Superior Court of California, County of Orange (Case No. 2014-00740258) filed August 18, 2014
- Mereane Carlisle, Charles Paio, Chanelle Valdez, Janice Favella and Christine Mariano v. USPlabs, LLC et al., United states District Court for the District of Hawaii (Case No. CV14-00029), filed January 23, 2014
- Nichole Davidson, William Dunlao, Gina Martin, Lee Ann Miranda, Yuka Colescott, Sherine Cortinas, and Shawna Nishimoto v. GNC Corporation and USPlabs, LLC, United States District Court for the District of Hawaii (Case No. 14-cv-00364) filed October 24, 2014
- Rodney Ofisa, Christine Mosca, Margaret Kawamoto as guardian for Jane Kawamoto (a minor), Ginny Pia, Kimberlynne Tom, Faituitasi Tuioti, Ireneo Rabang, and Tihane Laupola v. GNC Corporation and USPlabs, LLC, United States District Court for the District of Hawaii (Case No. CV14-00365) filed October 24, 2014
- Palani Pantohan, Deborah Cordiero, J. Royal Kanamu, Brent Pascuala, Christie Shiroma, Justan Chun, Kasey Grace and Adam Miyasato v. USPlabs, LLC. et al., United States District Court for the District of Hawaii (Case No. CV14-00366) filed August 15, 2014
- Keahi Pavao, Derek Kamiya, as personal representative of the Estate of Sonnette Marras, Gary Powell, on behalf of and as conservator for M.P.C.F.S.M., a minor child, R.P.O.C.S.S.M., a minor child, M.P.C.I.H.S.M., a minor child, M.K.C.S.M., a minor child, Michael Soriano, and Lance Taniguchi v. USPlabs, LLC, et al. United States District Court for the District of Hawaii (Case No. 14-cv-00367) filed October 24, 2014
- Kai Wing Tsui and John McCutchen v. GNC Corporation, USPlabs, LLC, Superior Court of California, County of Los Angeles (Case No. BC559542), filed October 6, 2014
- Cuong Bahn, Ismael Flores, Chue Xiong, Leilani Groden, Trudy Jenkins, and Mary Hess v. USPlabs, LLC et al., California Superior Court, Orange County (Case No. 30-2015-00776749), filed March 12, 2015



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Alexis Billones, Austin Ashworth, Karen Litre, Nancy Murray, Wendy Ortiz, Edward Pullen, and Corazon Vu v. USPlabs, LLC et al., California Superior Court, Los Angeles County (Case No. BC575264), filed March 13, 2015

Asofia Morales, Richard Ownes, Lynn Campbell, Joseph Silzgy, Delphone Smith-Dean, Nicole Stroud, Barrett Mincey and Amanda Otten v. USPlabs, LLC et al., California Superior Court, Los Angeles County (Case No. BC575262), filed March 13, 2015

Laurie Nadura, Angela Abril-Guthmiller, Sarah Rogers, Jennifer Apes, Ellen Beedie, Edmundo Cruz, and Christopher Almanza v. USPlabs, LLC et al., California Superior Court, Monterey County (Case No. M131321), filed March 13, 2015

Cynthia Novida, Demetrio Moreno, Mee Yang, Tiffone Parker, Christopher Tortal, David Patton and Raymond Riley v. USPlabs, LLC et al., California Superior Court, San Diego County (Case No. 37-2015-00008404), filed March 13, 2015

Johanna Stussy, Lai Uyeno, Gwenda Tuika-Reyes, Zeng Vang, Kevin Williams, and Kristy Williams v. USPlabs, LLC, et al., California Superior Court, Santa Clara County (Case No. 115CV78045), filed March 13, 2015

Issam Tnaimou, Benita Rodriguez, Marcia Rouse, Marcel Macy, Joseph Worley, Joanne Zgrezepski, Crystal Franklin, Deanne Fry, and Caron Jones, in her own right, o/b/h Joshua Jones and o/b/o The Estate of James Jones v. USPlabs, LLC et al., California Superior Court, Monterey County (Case No. M131322), filed March 13, 2015

Kuulei Hirota v. USPlabs, LLC et al., First Circuit Court, State of Hawaii (Case No. 15-1-0847-05), filed May 1, 2015

Roel Vista v. USPlabs, LLC, GNC Corporation et al., California Superior Court, County of Santa Clara (Case No. CV-14-0037), filed January 24, 2014

Dominic Little, David Blake Allen, Jeff Ashworth, Naomi Book and Stanley Book as Conservators of the Estate of Justin Book, Martin Sanchez, John Bainter, Rich Wolnik, Brian Norris, Joseph Childs, Jimi Hernandez and Novallie Hill v. USPlabs, LLC, et al., California Superior Court, Los Angeles County (Case No. BC534065), filed January 23, 2014

David Ramirez, Michelle Sturgill, Joseph Iosefa, Yanira Bernal, Jacob Michels, Cynthia Gaona and Tamara Gandara v. USPlabs, LLC, et al., California Superior Court Orange County (Case No. 30-2015-00783256-CU-PL-CXC), filed April 16, 2015

Thad Estrada v. USPlabs, LLC, et al., United States District Court for the District of Hawaii (Case No. CV-15-00228), filed June 17, 2016

The proceedings associated with the majority of these personal injury 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.

Other Legal Proceedings. For additional information regarding certain other legal proceedings to which we are a party, see Item 1 "Financial Statements" Note 8, "Contingencies."

Item 1A. Risk Factors

There have been no material changes to the disclosures relating to this item from those set forth in the 2017 10-K.

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## 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 September 30, 2018:

| Period <sup>(1)</sup>             | Total Number of Shares Purchased <sup>(2)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(3)</sup> | Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs |
|-----------------------------------|---|------------------------------|---|--|
| July 1 to July 31, 2018           | —   | \$ —                         | —   | \$ 197,795,011   |
| August 1 to August 31, 2018       | —   | \$ —                         | —   | \$ 197,795,011   |
| September 1 to September 30, 2018 | 21,576  | \$ 2.90                      | —   | \$ 197,795,011   |
| Total                             | 21,576  | \$ 2.90                      | —   |  |

(1) Other than as set forth in the table above, we made no purchases of shares of Class A common stock for the quarter ended September 30, 2018.

(2) Includes 21,576 shares withheld from employees to satisfy minimum tax withholding obligations associated with the vesting of restricted stock during the period.

(3) In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of Holdings' common stock. Holdings has utilized \$802.2 million of the current repurchase program. As of September 30, 2018, \$197.8 million remains available for purchase under the program.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit

| No.     | Description  |
|---------|--|
| 3.1     | <u>Amended and Restated Certificate of Incorporation of GNC Holdings, Inc. (Incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 1, 2013 (File No. 001-35113)).</u> |
| 3.2     | <u>Sixth Amended and Restated Bylaws of GNC Holdings, Inc. (Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 7, 2018 (File No. 001-35113)).</u>                  |
| 31.1*   | <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>   |
| 31.2*   | <u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>   |
| 32.1*   | <u>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.</u>  |
| 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: November 9, 2018      /s/ Tricia K. Tolivar  
Tricia K. Tolivar  
Chief Financial Officer  
(Principal Financial  
Officer)