

GNC HOLDINGS, INC.

Form 10-K

February 11, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

OR

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

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

Commission file number: 001-35113

GNC Holdings, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(state or other jurisdiction of  
Incorporation or organization)

300 Sixth Avenue

Pittsburgh, Pennsylvania

(Address of principal executive offices)

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

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a  
smaller reporting  
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The aggregate market value of all common stock (based upon the closing price of the New York Stock Exchange) of the registrant held by non-affiliates of the registrant as of June 30, 2015 was approximately \$3.77 billion.

As of February 4, 2016, the number of outstanding shares of Class A common stock, par value \$0.001 per share (the "common stock"), of GNC Holdings, Inc. was 74,241,609 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information in the Company's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year, is incorporated by reference in Part III of this Form 10-K.

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**FORWARD LOOKING STATEMENTS**

This Annual Report on Form 10-K (this "Annual Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business. 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. Discussions containing such forward-looking statements may be found in Items 1, 2, 3, 7 and 7A hereof, as well as within this report generally. Forward-looking statements can often be identified by the use of terminology such as "subject to," "believe," "anticipate," "plan," "expect," "intend," "estimate," "project," "may," "will," "should," "would," "could," "can," the negatives thereof, variations thereon and similar expressions, or by discussions of strategy.

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

- significant and growing competition in our industry;
- unfavorable publicity or consumer perception of our industry or products, as well as general changes in consumer behaviors and trends;
- increases in the cost of borrowings and limitations on availability of additional debt or equity capital;
- our debt levels and restrictions in our debt agreements;
- incurrence of material product liability and product recall costs;
- loss or retirement of key members of management;
- costs of compliance or any failure on our part to comply with new and existing governmental regulations governing our products, including, but not limited to, proposed dietary supplement legislation and regulations;
- changes in our tax obligations;
- costs of litigation or investigations involving our company and any failure to successfully defend lawsuits and other claims against us;
- failure of our franchisees to conduct their operations profitably and limitations on our ability to terminate or replace under-performing franchisees;
- economic, political and other risks associated with our international operations, including fluctuations in foreign exchange rates relative to the U.S. dollar;
- failure to keep pace with the demands of our customers for new products and services;
- limitations of or disruptions in our manufacturing system or losses of manufacturing certifications;
- limitations of or disruptions in our distribution network;
- lack of long-term experience with human consumption of ingredients in some of our products;
- increases in the frequency and severity of insurance claims, particularly claims for which we are self-insured;
- failure to adequately protect or enforce our intellectual property rights against competitors;
- changes in raw material costs and pricing of our products;
- failure to successfully execute our growth strategy, including any delays in our planned future growth, any inability to expand our franchise operations or attract new franchisees, any inability to expand our company-owned retail operations, any inability to grow our international footprint, or any inability to expand our e-commerce business;
- any failure by our current marketing initiatives to timely produce the results that we anticipate;

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- changes in applicable laws relating to our franchise operations;
- damage or interruption to our information systems;
- risks and costs associated with data loss, credit card fraud and identity theft;
- impact of current economic conditions on our business;
- unusually adverse weather conditions;
- natural disasters, pandemic outbreaks, boycotts, and geo-political events; and
- failure to maintain effective internal controls.

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

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PART I

Item 1. BUSINESS.

GNC Holdings, Inc. ("Holdings") is headquartered in Pittsburgh, Pennsylvania and our common stock trades on the New York Stock Exchange (the "NYSE") under the symbol "GNC." Our foundation is built on 80 years of superior product quality and innovation. Based on our worldwide network of more than 9,000 locations and our online channels, we believe that we are the leading global specialty retailer of health, wellness and performance products, including vitamins, minerals and herbal supplement products ("VMHS"), sports nutrition products and diet products. Our diversified, multi-channel business model derives revenue from product sales through company-owned retail stores, domestic and international franchise activities, third-party contract manufacturing, e-commerce and corporate partnerships. We believe that the strength of our GNC brand, which is distinctively associated with health and wellness, combined with our stores and online channels, gives us broad access to consumers and uniquely positions us to benefit from the favorable trends driving growth in the nutritional supplements industry and the broader health and wellness sector. Our broad and deep product mix, which is focused on premium, value-added nutritional products, is sold under our GNC proprietary brands, including Mega Men®, Ultra Mega®, Total Lean™, Pro Performance® and Pro Performance® AMP, Beyond Raw®, GNC Puredge®, GNC GenetixHD®, Herbal Plus®, and other nationally recognized third-party brands.

Our network of domestic retail locations is approximately nine times larger than the next largest United States specialty retailer of nutritional supplements and provides a leading platform for our vendors to distribute their products to their target consumers. Our close relationships with our vendor partners have enabled us to negotiate first-to-market opportunities. In addition, our in-house product development capabilities enable us to offer our customers high-quality proprietary merchandise that can only be purchased through our locations or through GNC.com. Because the nutritional supplement consumer often requires knowledgeable customer service, we also differentiate ourselves from mass and drug retailers with our well-trained sales associates who are aided by in-store technology. We believe that our expansive retail network, differentiated merchandise offering and quality, and engaged customer service result in a unique shopping experience that is distinct from that of our competitors. Our principal executive office is located at 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222, and our telephone number is (412) 288-4600. We maintain and make available on GNC.com, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practical after we electronically file or furnish them to the United States Securities and Exchange Commission (the "SEC"). In addition to GNC.com, our electronic SEC filings can be accessed from the SEC's internet site at [www.sec.gov](http://www.sec.gov) and are filed in the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 (1-800-732-0330) for further information on the public reference room.

In this Annual Report, unless the context requires otherwise, references to "we," "us," "our," "Company" or "GNC" refer collectively to Holdings and its subsidiaries.

Corporate History

Our business was founded in 1935 by David Shakarian who opened our first health food store in Pittsburgh, Pennsylvania. Since that time, the number of stores has continued to grow, and we began producing our own vitamin and mineral supplements as well as foods, beverages and cosmetics. Holdings is a holding company and all of its operations are conducted through its operating subsidiaries.

Our 2016 Strategy

We plan to execute several strategies in the future to promote growth in revenue and operating income and enhance shareholder value including:

Executing our refranchising strategy. We are increasing the proportion of our domestic stores that are franchise locations, targeting a balanced portfolio of domestic company-owned and franchise locations over the next three to four years, beginning in 2016. We expect to rebalance our portfolio both by increasing the proportion of new stores that are franchise locations and by transitioning company-owned stores to franchise locations. As part of this effort, we remain focused on creating and nurturing franchise partnerships that support our brand image. We believe that this strategy can result in significant value creation for our stockholders.

Creating an industry-wide coalition. We remain focused, together with other industry leaders and industry trade associations, on initiatives begun in 2015 to build an industry-led coalition aimed at raising the bar for quality and compliance throughout the dietary supplement industry. Coalition initiatives include: developing standardized raw material “good manufacturing practices” (“GMPs”), including “farm to factory” traceability standards; creating a product-registry database accessible to industry participants, consumers and the FDA; establishing minimum

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certification standards for manufacturing facilities, including an annual facility inspection process and product quality seals; and providing media support for a coordinated industry including positive messaging with accurate product information to help change the narrative around our industry. We believe that over time, these initiatives will prove beneficial for the industry, for the FDA and other regulators, and lead to substantial improvement in regulatory and consumer trust and confidence in our industry.

Implementing a revised pricing strategy. In early 2016, we launched an intensive effort to develop and implement an improved pricing strategy to be applied to all channels. Our intent is to appropriately identify and price our known value items ("KVIs"), create a clear definition of role and intent by product category, further improve the clarity of our price message and more closely align the customer's perception of our pricing with the quality and value of our products. We expect the results of this initiative to be evident beginning in late 2016 and beyond.

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

Growing our international footprint. We expect to continue capitalizing on international revenue growth opportunities through the addition of franchise stores in existing markets, expansion into new high growth markets and the growth of product distribution in both existing and new markets.

**Competitive Strengths**

We believe that we are well-positioned to capitalize on favorable industry trends as a result of the following competitive strengths:

Highly valued and well-recognized brand. We believe our broad portfolio of proprietary products, which are available in our locations or on GNC.com, advances GNC's brand presence and our general reputation as a leading retailer of health and wellness products. We continue to modernize the GNC brand in an effort to further advance its positioning.

Attractive, Loyal customer base. Our large customer base includes approximately 6.5 million active Gold Card members in the United States and Canada who accounted for 79% of company-owned retail sales in 2015 and spend approximately two times more than other GNC customers. Recent surveys, commissioned by us, reflect a high satisfaction rate among our shoppers with respect to selection, product innovation, quality and overall experience.

Commanding market position. Based on our broad global footprint of more than 9,000 locations in the United States and approximately 50 international countries (including distribution centers where retail sales are made), and on our e-commerce channels, we believe that we are the leading global specialty retailer of health and wellness products within a fragmented industry.

Unique product offerings and robust innovation capabilities. Product innovation is critical to our growth, brand image superiority and competitive advantage. We have internal product development teams located in our corporate headquarters in Pittsburgh, Pennsylvania and our manufacturing facility in Greenville, South Carolina, which collaborate on the development and formulation of proprietary nutritional supplements with a focus on high growth categories. We seek to maintain the pace of GNC's proprietary product innovation to stay ahead of our competitors and provide consumers with unique reasons to shop at our stores. Our in-house product development teams and vertically integrated infrastructure enable us to quickly take a concept for a new product from the idea stage, to product development, to testing and trials and ultimately to the shelf to be sold to our customers.

Diversified business model. Our omni-channel approach is unlike many other specialty retailers as we derive revenues across a number of distribution channels in multiple geographies, including retail sales from company-owned retail stores (including 157 stores on United States military bases), retail sales from our websites, GNC.com and LuckyVitamin.com, as well as from Drugstore.com, royalties, wholesale sales and fees from both domestic and international franchisees, revenue from third-party contract manufacturing and wholesale customers including Rite Aid (through our store-within-a-store locations), PetSmart and Sam's Club. Our business is further diversified by our broad merchandise assortment, providing our customers with access to the GNC-branded customer



experience wherever they desire. Our retail stores generally offer over 2,000 SKUs across multiple product categories. Vertically integrated operations that underpin our business strategy. To support our company-owned and franchise store bases, we have developed sophisticated manufacturing, warehousing and distribution facilities, including a

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manufacturing facility in Greenville, South Carolina and distribution facilities in: Leetsdale, Pennsylvania; Whitestown, Indiana; Anderson, South Carolina; and Phoenix, Arizona. Our vertically integrated business model allows us to control the production and timing of new product introductions, control costs, maintain high standards of product quality, monitor delivery times, manage inventory levels and enhance profitability.

Differentiated service model that fosters an exceptional customer experience. We believe we distinguish ourselves from mass and drug retailers with our well-trained sales associates, who offer educated service and trusted advice. We invest considerable capital and human resources in providing comprehensive associate training. We believe that our expansive retail network, differentiated merchandise offering and high-quality customer service result in a unique shopping experience.

Highly experienced management team. We continue to grow our highly experienced and talented management team. We believe that our management team has the expert knowledge, drive and experience across the retail industry necessary to successfully execute on our key initiatives, effectively address the challenges that we face and continue to grow our business in an increasingly competitive environment.

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## Business Overview

The following charts illustrate the percentage of our net revenue generated by our three segments and the percentage of our net United States retail nutritional supplements revenue generated by our product categories for the year ended December 31, 2015:

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\* Includes domestic retail and GNC.com; excludes LuckyVitamin.com

## Segments

We generate revenues from our three segments, which are Retail, Franchise and Manufacturing/Wholesale. The following chart outlines our segments, after intercompany eliminations. For a description of operating income by segment, our total assets by segment, total revenues by geographic area, and total assets by geographic area, see Note 16, "Segments," to our audited consolidated financial statements included in this Annual Report.

	Year ended December 31,								
	2015		2014		2013				
	(\$ in millions)								
Retail	\$1,945.2	73.7	%	\$1,939.2	74.2	%	\$1,926.8	73.4	%
Franchise	458.3	17.4	%	432.8	16.6	%	436.9	16.6	%
Manufacturing/Wholesale (Third Party)	235.7	8.9	%	241.2	9.2	%	263.1	10.0	%
Total revenue	\$2,639.2	100.0	%	\$2,613.2	100.0	%	\$2,626.8	100.0	%

Although we believe that none of our segment operations are seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter. We believe that the factors that influence this variability of quarterly results include general economic and weather conditions that affect consumer spending, changing customer demands, the introduction of new merchandise or promotions, and actions of competitors.

## Retail

Our Retail segment generates revenues primarily from sales of products to customers at our company-owned stores in the United States, Canada, Puerto Rico and Ireland and through our websites, GNC.com and LuckyVitamin.com. Beginning in October 2013 and through December 31, 2015, our Retail segment also included the results of an additional website, DiscountSupplements.co.uk. Effective December 31, 2015, we sold substantially all of the assets of our Discount Supplements subsidiary.

## Locations

As of December 31, 2015, we operated 3,594 company-owned stores across all 50 states and the District of Columbia in the United States and in Canada, Puerto Rico and Ireland. Most of our company-owned stores in the United States are between 1,000 and 2,000 square feet and are located primarily in shopping malls and strip shopping centers. Traditional shopping mall and strip shopping center locations generate a large percentage of our total retail sales. With the exception of our downtown stores, virtually all of our company-owned stores follow one of two consistent formats, including one for mall locations and one for strip shopping center locations.

We periodically redesign our store graphics to better identify with our GNC customers and provide product information to allow those customers to make educated decisions regarding product purchases and usage. Our product labeling is consistent within our product lines, and our stores are designed to present a unified approach to packaging with emphasis on added information for the customer.

## Websites

GNC.com and LuckyVitamin.com continue to represent a significant part of our business. The ability to purchase our products through the internet also offers a convenient method for repeat customers to evaluate and purchase new and existing products. This additional sales channel has enabled us to market and sell our products in regions where we have limited or no retail operations. We may offer products on our GNC.com website that are not available at our

retail locations, enabling us to broaden the assortment of products available to our customers, and our LuckyVitamin.com platform provides a wide range of nationally branded nutritional supplements with a diverse selection of wellness oriented products. Internet purchases are fulfilled and shipped directly from our distribution centers to our consumers using a third-party courier service.

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### Franchise

Our Franchise segment is comprised of our domestic and international franchise operations, and generates revenues primarily through product sales to franchisees, royalties on franchise retail sales and franchise fees.

As of December 31, 2015, there were 3,169 franchise stores, including 1,084 stores operating in the U.S. and 2,085 international franchise stores operating in approximately 50 international countries (including distribution centers where retail sales are made). Our franchise stores in the United States are typically between 1,000 and 2,000 square feet, and approximately 90% are located in strip shopping centers. The international franchise stores are typically smaller and, depending upon the country and cultural preferences, are located in mall, strip shopping center, street or store-within-a-store locations. In addition, some international franchisees sell on the internet and distribute to other retail outlets in their respective countries. Typically, our international stores have a store format and signage similar to our United States franchise stores. We believe that our franchise program enhances our brand awareness and market presence and will enable us to continue to expand our store base internationally with limited capital expenditures. We believe we have good relationships with our franchisees, as evidenced by our domestic franchisee renewal rate of approximately 96% between 2010 and 2015. Currently we have 529 franchisees operating stores in the United States. We do not rely heavily on any single franchise operator in the United States, where our largest franchisee owns and/or operates 21 store locations.

All of our franchise stores in the United States offer both our proprietary products and third-party products, with a product selection similar to that of our company-owned stores. Our international franchise stores offer a more limited product selection than our franchise stores in the United States, primarily due to regulatory constraints.

### Franchises in the United States

Revenues from our franchisees in the United States accounted for approximately 63% of our total franchise revenues for the year ended December 31, 2015. New franchisees in the United States are required to pay an initial fee of \$40,000 for a franchise license. Existing GNC franchise operators may purchase an additional franchise license for a \$30,000 fee. Once a store begins operations, franchisees are required to pay us a continuing royalty of 6% of sales and contribute 3% of sales to a national advertising fund. Our standard franchise agreements for the United States are effective for an initial ten-year period with unlimited five-year renewal options. At the end of the initial term and each of the renewal periods, the renewal fee is generally 33% of the franchisee fee that is then in effect. The franchisee renewal option is generally at our election. Franchisees must meet certain conditions to exercise the franchisee renewal option. Our franchisees in the United States receive limited geographical exclusivity and are required to utilize the standard GNC store format.

Generally, we negotiate lease terms to secure locations at cost-effective rates, which we typically sublease to our franchisees at cost. Franchisees must meet certain minimum standards and duties prescribed by our franchise operations manual, and we conduct periodic field visit reports to ensure our minimum standards are maintained. If a franchisee does not meet specified performance and appearance criteria, we are permitted to terminate the franchise agreement. In these situations, we may take possession of the location, inventory and equipment, and operate the store as a company-owned store or relicense the location.

### International Franchises

Revenues from our international franchisees accounted for approximately 37% of our total franchise revenues for the year ended December 31, 2015. In 2015, new international franchisees were required to pay an initial fee of approximately \$25,000 for a franchise license for each full size store and continuing royalty fees that vary depending on the country. Our international franchise program has enabled us to expand into international markets with limited investment. We expanded our international presence from 1,307 international franchise locations at the end of 2009 to 2,085 international locations (including distribution centers where retail sales are made) as of December 31, 2015. We enter into development agreements with international franchisees for either full-size stores or store-within-a-store locations. We enter into distribution agreements for wholesale distribution centers and, in some cases, limited internet distribution. The development agreement grants the franchisee the right to develop a specific number of stores in a territory, often the entire country. The franchisee then enters into a franchise agreement for each location. The full-size store franchise agreement has an initial ten-year term with two five-year renewal options. At the end of the initial term and renewal periods, the franchisee typically has the option to renew the agreement at 33% of the current initial

franchise fee that is then being charged to new franchisees. Franchise agreements for international store-within-a-store locations have an initial term of five years, with two five-year renewal options. At the end of the initial term and each of the renewal periods, the franchisee has the option to renew the agreement for up to a maximum of 50% of the franchise fee that is then in effect. Our international franchisees often receive exclusive franchising rights to the entire country, excluding United States military bases. Our international franchisees must meet minimum standards and duties similar to our United States franchisees.

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### Manufacturing/Wholesale

Our Manufacturing/Wholesale segment is comprised of our manufacturing operations in South Carolina and our wholesale sales business. This segment supplies our Retail and Franchise segments as well as various third parties with finished products. Our Manufacturing/Wholesale segment generates revenues through sales of manufactured products to third parties, and the sale of our proprietary and third-party brand products to our wholesale customers. Our wholesale operations are supported primarily by our Anderson, South Carolina distribution center.

Our sophisticated manufacturing and warehousing facilities provide finished products to our Retail and Franchise segments and enable us to control the production and distribution of our proprietary products, better control costs, protect product quality, monitor delivery times and maintain appropriate inventory levels. Our combination of in-house development of products, vertically integrated infrastructure and innovation capabilities support our business strategy and enable the rapid development of proprietary products.

We operate two main manufacturing facilities in the United States, which are located in Greenville, South Carolina and Anderson, South Carolina. We utilize our plants primarily for the production of proprietary products. Our manufacturing operations are designed to ensure low-cost production of a variety of products of different quantities, sizes and packaging configurations while maintaining strict levels of quality control. Our manufacturing procedures are designed to promote consistency and quality in our finished goods. We conduct sample testing on raw materials and finished products, including weight, purity and micro bacterial testing. Our manufacturing facilities also service our wholesale operations, including the manufacture and supply of our proprietary and third-party brand products to Rite Aid, Sam's Club, PetSmart and Drugstore.com. Additionally, we use a portion of our capacity at these facilities to produce products for sale to third-party customers.

To increase brand awareness and promote access to customers who may not frequent specialty nutrition stores, we entered into a strategic alliance with Rite Aid in December 1998 to open GNC franchise "store-within-a-store" locations. As of December 31, 2015, we had 2,327 Rite Aid store-within-a-store locations. Through this strategic alliance, we generate revenues from sales to Rite Aid of our products at wholesale prices, the manufacture of Rite Aid private label products, retail sales of certain consigned inventory and license fees. We are Rite Aid's sole supplier for a number of Rite Aid private label supplements, pursuant to a supply agreement with Rite Aid that extends through 2017, renewing automatically for one year, unless otherwise elected by either party no later than June 1, 2017. The operating license and consignment agreement that comprise our store-within-a store alliance with Rite Aid each extend through 2019. Rite Aid has committed to open 50 new stores each year from 2016 through 2019.

The principal raw materials used in the manufacturing process are natural and synthetic vitamins, herbs, minerals and gelatin. We maintain multiple sources for the majority of our raw materials, although certain materials are single-sourced due to the unique nature of the material. In 2015, our largest vendor supplied approximately 10% of our raw materials.

We rely primarily on a third-party transportation network to deliver raw materials and components to our manufacturing facilities and also to deliver our finished goods and third-party products to our distribution centers in lieu of maintaining our own transportation fleet.

### Products

We offer a wide range of high-quality nutritional supplements sold under our GNC proprietary brand names, including Mega Men®, Ultra Mega®, Total Lean™, Pro Performance® and Pro Performance® AMP, Beyond Raw®, GNC PureEdge®, GNC GenetixHD®, Herbal Plus®, and under nationally recognized third-party brand names. We report our sales in four major nutritional supplement categories: VMHS; sports nutrition; diet; and other wellness. In addition, our retail sales offer an extensive mix of brands, including over 2,000 SKUs across multiple categories and products. Through our online channels, GNC.com and LuckyVitamin.com, we offer additional SKUs to online customers. This variety is designed to provide our customers with a wide selection of products to fit their specific needs and to generate a high number of transactions with purchases from multiple product categories. Sales of our proprietary brands at our company-owned stores represented approximately 50% of our net retail product revenues in each of the years ended 2015, 2014, and 2013. We have arrangements with our vendors to provide third-party products on an as-needed basis. Our largest vendor supplies approximately 20% of our third-party products. In 2015, we did not have a material concentration of sales from any single product or product line.

Consumers may purchase a GNC Gold Card in any United States GNC store or at GNC.com for a \$15.00 annual fee. During 2013, we expanded our Gold Card Member Pricing model to be nationwide, evolving Gold Card from a fixed 20% discount during the first week of each month to an everyday variable discount Member Pricing model. Gold Card members also receive personalized mailings and e-mails with product news, nutritional information and exclusive offers.



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Based on data collected from our point-of-sales systems in our company-owned domestic stores and from GNC.com, the following table presents our company-owned domestic retail product sales by major product category:

U.S Retail Product Categories:	Year ended December 31,								
	2015		2014		2013				
	(\$ in millions)								
VMHS	\$626.6	36.5	%	\$649.1	37.9	%	\$663.6	38.6	%
Sports Nutrition Products	778.8	45.4	%	759.8	44.3	%	764.9	44.5	%
Diet Products	201.4	11.8	%	193.9	11.3	%	198.8	11.6	%
Other Wellness Products	108.5	6.3	%	110.6	6.5	%	92.1	5.3	%
Total U.S. Retail revenues	\$1,715.3	100.0	%	\$1,713.4	100.0	%	\$1,719.4	100.0	%

The foregoing table excludes revenue from our Retail segment primarily related to Canada, Lucky Vitamin, Discount Supplements and The Health Store, whose sales categories are not consistent with our domestic point-of-sales system, and deferred Gold Card revenue, which altogether represented \$229.9 million, \$225.8 million and \$207.3 million in 2015, 2014 and 2013 respectively.

**VMHS**

We sell vitamins and minerals in single vitamin and multi vitamin form and in various potency levels. Our vitamin and mineral products are available in liquid, tablets, soft gelatin, hard-shell capsules, chewables and powder forms, and are available in traditional bottle packaging form or in customized daily packet form ("Vitapak®"). Many of our special vitamin and mineral formulations, such as Mega Men®, Ultra Mega® and Triple Strength Fish Oil are available at our locations, select wholesale customer locations, and on GNC.com. In addition to our selection of VMHS products with unique formulations, we also offer the full range of standard "alphabet" vitamins. We offer our proprietary herbal supplements under a single umbrella brand, Herbal Plus®. In addition to the Herbal Plus® line, we offer a full line of whole-food-based supplements and herb and natural remedy products.

We also offer a variety of specialty products in our GNC and Preventive Nutrition® product lines. These products emphasize third-party research and literature regarding the positive benefits from certain ingredients and include products designed to provide nutritional support to specific areas of the body, such as joints, the heart and blood vessels and the digestive system. Overall, GNC-branded proprietary products constituted approximately 80% of our VMHS sales in 2015.

**Sports Nutrition Products**

Sports nutrition products are designed to generally be taken in conjunction with an exercise and fitness regimen. We typically offer a broad selection of sports nutrition products, such as protein and weight gain powders, sports drinks, sports bars and high potency vitamin formulations, including GNC brands such as Pro Performance®, Pro Performance® AMP and Beyond Raw®, and popular third-party products. Our GNC-branded proprietary products, including Pro Performance® branded products, represented approximately 27% of our sports nutrition product sales in 2015, and are available at our locations, select wholesale customer locations, and on GNC.com. With a broad array of products and our global retail footprint, we believe we are recognized as one of the leading retailers of sports nutrition products.

**Diet Products**

Our wide variety of diet products consist of various formulas designed to supplement the diet and exercise plans of weight conscious consumers. We typically offer a variety of diet products, including pills, meal replacements, shakes, diet bars, energy tablets and cleansing products. Our retail stores offer our proprietary and third-party brand products suitable for different diet and weight management approaches, including products designed to increase thermogenesis (a change in the body's metabolic rate measured in terms of calories) and metabolism. The diet category is cyclical, with new products generating short-term sales growth before generally declining over time, making sales trends within this category less predictable than in our other product categories. We have reduced the unpredictability of the diet category with our GNC proprietary line, Total Lean™, which is more focused on meal replacement and represents a

more stable line of business. In 2015, company-owned domestic retail sales from diet products accounted for approximately 12% of sales, down significantly from 27% of sales in 2001. Overall, we estimate that GNC-branded proprietary products constituted approximately 50% of our diet product sales in 2015.

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### Other Wellness Products

Our other wellness products category consists of sales of our Gold Card preferred membership and sales of other non-supplement products, including cosmetics, food items, health management products, books, DVDs and equipment.

### Product Development

We believe that the introduction of innovative, high quality, clinically proven, superior performing products is a key driver of our business. Customers widely credit us as being a leader in offering premium health products and rate the availability of a wide variety of products as one of our biggest strengths. We work to identify shifting consumer trends through market research and through interactions with our customers and leading industry vendors to assist in the development, manufacturing and marketing of our new products. Our dedicated innovation team is the primary facilitator of the development of proprietary products by collaborating with vendors to provide raw materials, clinical research and product development for proprietary GNC-branded products. Average development time for products is four to seven months, but we may require six to 18 months (or longer) when development involves clinical trials. We also work with our vendors to ensure a steady flow of third-party products for which we have preferred distribution rights. In 2015, we targeted the development of specialty wellness supplements, weight management solutions and sports nutrition products. These efforts resulted in the introduction of new and improved highly purified fish oil supplements, goal-specific probiotic formulas and GNC SuperFoods Ultra Mega® Green, a brand consisting of vegetarian, gluten free wellness products featuring clinically proven whole food based ingredients. In addition, we expanded our protein offerings with tailor-made solutions for women and vegans, among others.

In 2015, we estimate that GNC-branded products generated more than \$1.1 billion of retail sales across company-owned domestic retail locations, domestic franchise locations, GNC.com and Rite Aid store-within-a-store locations.

### Product Distribution

Products are delivered to our retail stores through our distribution centers located in: Leetsdale, Pennsylvania; Whitestown, Indiana; Anderson, South Carolina, and Phoenix, Arizona. Our distribution centers support our company-owned stores as well as franchise stores and Rite Aid locations. Each of our distribution centers has a quality control department that monitors products received from our vendors to ensure they meet our quality standards. Lucky Vitamin is supported by a separate distribution center in Leetsdale, Pennsylvania. In 2013, GNC transitioned from the use of a company-owned fleet to a third-party transportation network in most cases.

### Research and Development

We have an internal research and development group that performs scientific research on potential new products and enhancements to existing products, in part to assist our product development team in creating new products, and in part to support claims that may be made as to the purpose and function of the product.

### Employees

As of December 31, 2015, we had approximately 16,900 employees, including approximately 6,400 full-time and 10,500 part-time employees. None of our employees belongs to a union or is a party to any collective bargaining or similar agreement. We consider our relationship with our employees to be good.

### Competition

The United States nutritional supplements retail industry is a large, highly fragmented and growing industry, with no single industry participant accounting for a majority of total industry retail sales. Competition is based on price, quality and assortment of products, customer service, convenience of store locations and websites, marketing support and availability of new products. In addition, the market is highly sensitive to the introduction of new products. We compete with both publicly and privately owned companies, which are highly fragmented in terms of geographical market coverage and product categories. We also compete with other specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, mail-order companies, other internet sites and a variety of other smaller participants. In the United States, many of our competitors have national brands that are heavily advertised and are manufactured by large pharmaceutical and food companies and other retailers. Most supermarkets, drugstores and mass merchants have narrow product offerings limited primarily to simple vitamins, herbs and popular third-party sports and diet products. Our international competitors also include large international

pharmacy chains and major international supermarket chains, as well as other large U.S.-based companies with international operations. Our wholesale and manufacturing operations compete with other wholesalers and manufacturers of third-party nutritional supplements.

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### Trademarks and Other Intellectual Property

We believe trademark protection is particularly important to the maintenance of the recognized brand names under which we market our products. We own or have rights to material trademarks or trade names that we use in conjunction with the sale of our products, including the GNC brand name. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. We protect our intellectual property rights through a variety of methods, including trademark, patent and trade secret laws, as well as confidentiality agreements and proprietary information agreements with vendors, employees, consultants and others who have access to our proprietary information. Protection of our intellectual property often affords us the opportunity to enhance our position in the marketplace by precluding our competitors from using or otherwise exploiting our technology and brands. We are also a party to several intellectual property license agreements relating to certain of our products. The duration of our trademark registrations is generally 10, 15 or 20 years, depending on the country in which the marks are registered, and we can renew the registrations. The scope and duration of our intellectual property protection varies throughout the world by jurisdiction and by individual product.

### Insurance and Risk Management

We purchase insurance to cover standard risks in the nutritional supplements industry, including policies to cover general and product liability, workers' compensation, auto liability, network security and privacy liability and other casualty and property risks. Our insurance rates are dependent upon our safety record and trends in the insurance industry. We also maintain workers' compensation insurance and auto insurance policies that are retrospective in that the cost per year will vary depending on the frequency and severity of claims in the policy year.

We face an inherent risk of exposure to product liability claims in the event that, among other things, the use of products sold by us results in injury. We carry product liability insurance coverage typical of our industry and product lines. Our coverage involves self-insured retentions with primary and excess liability coverage above the retention amount. We have the ability to refer claims to most of our vendors and their insurers to pay the costs associated with any claims arising from such vendors' products. In most cases, our insurance covers such claims that are not adequately covered by a vendor's insurance and provides for excess secondary coverage above the limits provided by our product vendors.

We self-insure certain property and casualty risks due to our analysis of the risk, the frequency and severity of a loss and the cost of insurance for the risk. We believe that the amount of self-insurance is not significant and will not have an adverse impact on our performance. In addition, we may from time to time self-insure liability with respect to specific ingredients in products that we may sell.

### Government Regulation

#### Product Regulation

##### Domestic

The processing, formulation, safety, manufacturing, packaging, labeling, advertising and distribution of our products are subject to regulation by one or more federal agencies, including the U.S. Food and Drug Administration (the "FDA"), the Federal Trade Commission (the "FTC"), the Consumer Product Safety Commission (the "CPSC"), the United States Department of Agriculture (the "USDA") and the Environmental Protection Agency (the "EPA"), and by various agencies of the states and localities in which our products are sold.

The Dietary Supplement Health and Education Act of 1994 ("DSHEA") amended the Federal Food, Drug, and Cosmetic Act (the "FDC Act") to establish a new framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements. Generally, under the FDC Act, dietary ingredients that were marketed in the United States prior to October 15, 1994 may be used in dietary supplements without notifying the FDA. "New" dietary ingredients (i.e., dietary ingredients that were "not marketed in the United States before October 15, 1994") must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been "present in the food supply as an article used for food" without being "chemically altered." A new dietary ingredient notification must provide the FDA evidence of a "history of use or other evidence of safety" establishing that use of the dietary ingredient "will reasonably be expected to be safe." A new dietary ingredient notification must be submitted to the FDA at least 75 days before the initial marketing of the new dietary ingredient.

The FDA may determine that a new dietary ingredient notification does not provide an adequate basis to conclude that a dietary ingredient is reasonably expected to be safe. Such a determination could prevent the marketing of such dietary ingredient. In 2011, the FDA issued draft guidance governing the notification of new dietary ingredients. Although FDA guidance is not mandatory, and companies are free to use an alternative approach if the approach satisfies the requirements of applicable laws and regulations, FDA guidance is a strong indication of the FDA's "current thinking" on the topic discussed in the guidance, including its position on enforcement. At this time, it is difficult to determine whether the draft guidance, if finalized, would have a material impact on our operations. However, if the FDA were to enforce the applicable statutes and regulations in accordance with the draft guidance as written, such enforcement

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could require us to incur additional expenses, which could be significant, and negatively impact our business in several ways, including, but not limited to, enjoining the manufacturing of our products until the FDA determines that we are in compliance and can resume manufacturing, increasing our liability and reducing our growth prospects. The FDA or other agencies could take actions against products or product ingredients that in its determination present an unreasonable health risk to consumers that would make it illegal for us to sell such products. In addition, the FDA could issue consumer warnings with respect to the products or ingredients in such products that are sold in our stores. Such actions or warnings could be based on information received through FDC Act-mandated reporting of serious adverse events. For example, the FDC Act requires that reports of serious adverse events be submitted to the FDA, and based in part on such reports, in May 2009, the FDA warned consumers to stop using Hydroxycut diet products, which are produced by Iovate Health Sciences, Inc. ("Iovate") and were sold in our stores. Through December 31, 2015, we estimate that we have refunded approximately \$3.5 million to our retail customers and approximately \$1.6 million to our wholesale customers for Hydroxycut product returns.

As is common in our industry, we rely on our third-party vendors to ensure that the products they manufacture and sell to us comply with all applicable regulatory and legislative requirements. In general, we seek representations and warranties, indemnification and/or insurance from our vendors. However, even with adequate insurance and indemnification, any claims of non-compliance could significantly damage our reputation and consumer confidence in our products. In addition, the failure of such products to comply with applicable regulatory and legislative requirements could prevent us from marketing the products or require us to recall or remove such products from the market, which in certain cases could materially and adversely affect our business, financial condition and results of operations. In the past, we have attempted to offset any losses related to recalls and removals with reformulated or alternative products; however, there can be no assurance that we would be able to offset all or any portion of losses related to any future removal or recall.

The FDC Act permits "statements of nutritional support" to be included in labeling for dietary supplements without FDA pre-market approval. Such statements must be submitted to the FDA within 30 days of marketing. Such statements may describe how a particular dietary ingredient affects the structure, function or general well-being of the body, or the mechanism of action by which a dietary ingredient may affect body structure, function or well-being, but may not expressly or implicitly represent that a dietary supplement will diagnose, cure, mitigate, treat or prevent a disease. A company that uses a statement of nutritional support in labeling must possess scientific evidence substantiating that the statement is truthful and not misleading. If the FDA determines that a particular statement of nutritional support is an unacceptable drug claim, conventional food claim or an unauthorized version of a "health claim," or, if the FDA determines that a particular claim is not adequately supported by existing scientific data or is false or misleading, we would be prevented from using the claim.

In addition, DSHEA provides that so-called "third-party literature," e.g., a reprint of a peer-reviewed scientific publication linking a particular dietary ingredient with health benefits, may be used "in connection with the sale of a dietary supplement to consumers" without the literature being subject to regulation as labeling. The literature: (1) must not be false or misleading; (2) may not "promote" a particular manufacturer or brand of dietary supplement; (3) must present a balanced view of the available scientific information on the subject matter; (4) if displayed in an establishment, must be physically separate from the dietary supplements; and (5) should not have appended to it any information by sticker or any other method. If the literature fails to satisfy each of these requirements, we may be prevented from disseminating such literature with our products, and any dissemination could subject our product to regulatory action as an illegal drug.

In June 2007, pursuant to the authority granted by the FDC Act as amended by DSHEA, the FDA published detailed current Good Manufacturing Practice ("cGMP") regulations that govern the manufacturing, packaging, labeling and holding operations of dietary supplement manufacturers. The cGMP regulations, among other things, impose significant recordkeeping requirements on manufacturers. The cGMP requirements are in effect for all dietary supplement manufacturers, and the FDA is conducting inspections of dietary supplement manufacturers pursuant to these requirements. There remains considerable uncertainty with respect to the FDA's interpretation of the regulations and their actual implementation in manufacturing facilities.

In addition, the FDA's interpretation of the regulations will likely change over time as the agency becomes more familiar with the industry and the regulations. The failure of a manufacturing facility to comply with the cGMP regulations renders products manufactured in such facility "adulterated," and subjects such products and the manufacturer to a variety of potential FDA enforcement actions. In addition, under the Food Safety Modernization Act ("FSMA"), which was enacted in January 2011, the manufacturing of dietary ingredients contained in dietary supplements will be subject to similar or even more burdensome manufacturing requirements, which will likely increase the costs of dietary ingredients and will subject suppliers of such ingredients to more rigorous inspections and enforcement. The FSMA will also require importers of food, including dietary supplements and dietary ingredients, to conduct verification activities to ensure that the food they might import meets applicable domestic requirements. The FDA has broad authority to enforce the provisions of federal law applicable to dietary supplements, including powers to issue a public warning or notice of violation letter to a company, publicize information about illegal products, detain products



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intended for import, require the reporting of serious adverse events, require a recall of illegal or unsafe products from the market, and request the Department of Justice to initiate a seizure action, an injunction action or a criminal prosecution in the United States courts.

The FSMA expands the reach and regulatory powers of the FDA with respect to the production and importation of food, including dietary supplements. The expanded reach and regulatory powers include the FDA's ability to order mandatory recalls, administratively detain domestic products, and require certification of compliance with domestic requirements for imported foods associated with safety issues. FSMA also gave FDA the authority to administratively revoke manufacturing facility registrations, effectively enjoining manufacturing of dietary ingredients and dietary supplements without judicial process. The regulation of dietary supplements may increase or become more restrictive in the future.

The FTC exercises jurisdiction over the advertising of dietary supplements and over-the-counter drugs and has instituted numerous enforcement actions against dietary supplement companies for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. We continue to be subject to a consent order issued by the FTC. In 1984, the FTC instituted an investigation of General Nutrition, Incorporated ("GNI"), one of our then existing subsidiaries, alleging deceptive acts and practices in connection with the advertising and marketing of certain of its products. GNI accepted a proposed consent order, under which it agreed to refrain from, among other things, making certain claims with respect to certain of its products unless the claims are based on and substantiated by competent and reliable scientific evidence. We also entered into a consent order in 1970 with the FTC, which generally addressed "iron deficiency anemia" type products. As a result of routine monitoring by the FTC, disputes arose concerning our compliance with these orders and with regard to advertising for certain hair care products. While we believe that GNI, at all times, operated in material compliance with the orders, it entered into a settlement in 1994 with the FTC to avoid protracted litigation. As a part of this settlement, GNI entered into a consent decree and paid, without admitting liability, a civil penalty in the amount of \$2.4 million and agreed to adhere to the terms of the 1970 and 1989 consent orders and to abide by the provisions of the settlement document concerning hair care products.

The FTC continues to monitor our advertising and, from time to time, requests substantiation with respect to such advertising to assess compliance with the outstanding consent decree and with the Federal Trade Commission Act. Our policy is to use advertising that complies with the consent decree and applicable regulations. Nevertheless, there can be no assurance that inadvertent failures to comply with the consent decree and applicable regulations will not occur.

Some of the products sold by franchise stores are purchased by franchisees directly from other vendors and these products do not flow through our distribution centers. Although franchise contracts contain strict requirements for store operations, including compliance with federal, state and local laws and regulations, we cannot exercise the same degree of control over franchisees as we do over our company-owned stores.

As a result of our efforts to comply with applicable statutes and regulations, we have from time to time reformulated, eliminated or relabeled certain of our products and revised certain provisions of our sales and marketing program.

### Foreign

Our products sold in foreign countries are also subject to regulation under various national, local and international laws that include provisions governing, among other things, the formulation, manufacturing, packaging, labeling, advertising and distribution of dietary supplements and over-the-counter drugs. Government regulations in foreign countries may prevent or delay the introduction, or require the reformulation, of certain of our products.

### New Legislation or Regulation

Legislation may be introduced which, if passed, would impose substantial new regulatory requirements on dietary supplements. For example, although not yet reintroduced in this session of Congress, bills have been repeatedly proposed in past sessions of Congress which would subject the dietary ingredient dehydroepiandrosterone ("DHEA") to the requirements of the Controlled Substances Act, which would prevent the sale of products containing DHEA. In March 2009, the General Accounting Office (the "GAO") issued a report that made four recommendations to enhance the FDA's oversight of dietary supplements. The GAO recommended that the Secretary of the Department of Health and Human Services direct the Commissioner of the FDA to: (1) request authority to require dietary supplement

companies to identify themselves as a dietary supplement company and update this information annually, provide a list of all dietary supplement products they sell and a copy of the labels and update this information annually, and report all adverse events related to dietary supplements, not just serious adverse events; (2) issue guidance to clarify when an ingredient is considered a new dietary ingredient, the evidence needed to document the safety of new dietary ingredients, and appropriate methods for establishing ingredient identity; (3) provide guidance to the industry to clarify when products should be marketed as either dietary supplements or conventional foods formulated with added dietary ingredients; and (4) coordinate with stakeholder groups involved in consumer outreach to identify additional mechanisms for educating consumers about the safety, efficacy, and labeling of dietary supplements, implement these mechanisms, and assess their effectiveness. These recommendations could lead to increased regulation by the FDA or future legislation concerning dietary supplements.

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We cannot determine what effect additional domestic or international governmental legislation, regulations, or administrative orders, when and if promulgated, would have on our business in the future. New legislation or regulations may require the reformulation of certain products to meet new standards, require the recall or discontinuance of certain products not capable of reformulation, impose additional record keeping or require expanded documentation of the properties of certain products, expanded or different labeling or scientific substantiation.

### Franchise Regulation

We must comply with regulations adopted by the FTC and with the laws of several states that regulate the offer and sale of franchises. The FTC's Trade Regulation Rule on Franchising and certain state laws require that we furnish prospective franchisees with a franchise offering circular containing information prescribed by the Trade Regulation Rule on Franchising and applicable state laws and regulations.

We also must comply with a number of state laws that regulate some substantive aspects of the franchisor-franchisee relationship. These laws may limit a franchisor's business practices in a number of ways, including limiting the ability to:

- terminate or not renew a franchise without good cause;
- interfere with the right of free association among franchisees;
- disapprove the transfer of a franchise;
- discriminate among franchisees with regard to franchise terms and charges, royalties and other fees; and
- place new stores near existing franchises.

To date, these laws have not precluded us from seeking franchisees in any given area and have not had a material adverse effect on our operations. Bills concerning the regulation of certain aspects of franchise relationships have been introduced into Congress on several occasions during the last decade, but none have been enacted. Revisions to the FTC rule have also been proposed by the FTC and currently are in the comment stage of the rulemaking process.

Our international franchise agreements and franchise operations are regulated by various foreign laws, rules and regulations. These laws may limit a franchisor's business practices in a number of ways. To date, these laws have not precluded us from seeking franchisees in any given area and have not had a material adverse effect on our operations.

### Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the "DHEC") requested that we investigate contamination associated with historical activities at our South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from our facility. We entered into a Voluntary Cleanup Contract with the DHEC regarding the matter on September 24, 2012. Pursuant to such contract, we have completed additional investigations with the DHEC's approval and the DHEC is currently reviewing the results. We will consult with the DHEC on the next steps in the work after their review of the results of the investigation is complete. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of our potential liability. Therefore, no liability has been recorded in the Company's consolidated financial statements.

In addition to the foregoing, we are 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 our 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 us to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. We are 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 our ability to sell or lease our properties, or to use them as collateral for financing. From time to time, we have incurred costs and obligations for correcting environmental and health and

safety noncompliance matters and for remediation at or relating to certain of our properties or properties at which our 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 our capital expenditures, earnings, financial position, liquidity or competitive position. We believe we have complied with, and are currently complying with, our environmental obligations pursuant to environmental and health and safety laws and regulations and that any

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liabilities for noncompliance will not have a material adverse effect on our business, financial performance or cash flows. However, it is difficult to predict future liabilities and obligations, which could be material.

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Item 1A. RISK FACTORS.

The following risk factors could cause our financial performance to differ significantly from the goals, plans, objectives, intentions and expectations expressed in this Annual Report. If any of the following risks and uncertainties actually occur, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

**Risks Relating to Our Business and Industry**

We may not effectively manage our growth, which could materially harm our business.

We expect that our business will continue to grow, which may place a significant strain on our management, personnel, systems and resources. We must continue to improve our operational and financial systems and managerial controls and procedures, and we will need to continue to expand, train and manage our technology and workforce. We must also maintain close coordination among our technology, compliance, accounting, finance, marketing and sales organizations. We cannot assure you that we will manage our growth effectively. If we fail to do so, our business could be materially harmed.

Our continued growth will require an increased investment by us in technology, facilities, personnel and financial and management systems and controls. It also will require expansion of our procedures for monitoring and assuring our compliance with applicable regulations, and we will need to integrate, train and manage a growing employee base.

The expansion of our existing businesses, any expansion into new businesses and the resulting growth of our employee base will increase our need for internal audit and monitoring processes that are more extensive and broader in scope than those we have historically required. We may not be successful in identifying or implementing all of the processes that are necessary. Further, unless our growth results in an increase in our revenues that is proportionate to the increase in our costs associated with this growth, our operating margins and profitability will be adversely affected.

We operate in a highly competitive industry. Our failure to compete effectively could adversely affect our market share, revenues and growth prospects.

The United States nutritional supplements retail industry is large and highly fragmented. Participants include specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, on-line merchants, mail-order companies and a variety of other smaller participants. We believe that the market is also highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. In the United States, we compete for sales with heavily advertised national brands manufactured by large pharmaceutical and food companies, as well as other retailers. In addition, as some products become more mainstream, we experience increased price competition for those products as more participants enter the market. Our international competitors include large international pharmacy chains, major international supermarket chains and other large U.S.-based companies with international operations. Our wholesale and manufacturing operations compete with other wholesalers and manufacturers of third-party nutritional supplements. We may not be able to compete effectively and our attempts to do so may require us to reduce our prices, which may result in lower margins. Failure to effectively compete could adversely affect our market share, revenues and growth prospects.

Unfavorable publicity or consumer perception of our products, the ingredients they contain and any similar products distributed by other companies could cause fluctuations in our operating results and could have a material adverse effect on our reputation, the demand for our products and our ability to generate revenues and the market price of our common stock.

We are highly dependent upon consumer perception of the safety and quality of our products and the ingredients they contain, as well as that of similar products distributed by other companies. Consumer perception of products and the ingredients they contain can be significantly influenced by scientific research or findings, national media attention and other publicity about product use. A product may be received favorably, resulting in high sales associated with that product that may not be sustainable as consumer preferences change. Future scientific research or publicity could be unfavorable to our industry or any of our particular products or the ingredients they contain and may not be consistent with earlier favorable research or publicity. A future research report or publicity that is perceived by our consumers as less favorable or that questions earlier research or publicity could have a material adverse effect on our ability to generate revenues. As such, period-to-period comparisons of our results should not be relied upon as a measure of our

future performance. Adverse publicity in the form of published scientific research or otherwise, whether or not accurate, that associates consumption of our products or the ingredients they contain or any other similar products distributed by other companies with illness or other adverse effects, that questions the benefits of our or similar products, or that claims that such products are ineffective could have a material adverse effect on our reputation, the demand for our products, our ability to generate revenues and the market price of our common stock.

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Our failure to appropriately respond to changing consumer preferences and demand for new products could significantly harm our customer relationships and product sales.

Our business is particularly subject to changing consumer trends and preferences. Our continued success depends in part on our ability to anticipate and respond to these changes, and we may not be able to respond in a timely or commercially appropriate manner to these changes. If we are unable to do so, our customer relationships and product sales could be harmed significantly.

Furthermore, the nutritional supplements industry is characterized by rapid and frequent changes in demand for products and new product introductions. Our failure to accurately predict these trends could negatively impact consumer opinion of our stores as a source for the latest products. This could harm our customer relationships and cause losses to our market share. The success of our new product offerings depends upon a number of factors, including our ability to: accurately anticipate customer needs; innovate and develop new products; successfully commercialize new products in a timely manner; price our products competitively; manufacture and deliver our products in sufficient volumes and in a timely manner; and differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our customers in a timely manner, some of our products could become obsolete, which could have a material adverse effect on our revenues and operating results.

Our substantial debt could adversely affect our results of operations and financial condition and otherwise adversely impact our operating income and growth prospects.

As of December 31, 2015, our total consolidated long-term debt (including current portion) was \$1,452.5 million, including the \$235.1 million related to the \$287.5 million principal amount of 1.5% convertible senior notes due 2020 that the Company issued in a private offering in August 2015 (the "Notes") (net of \$52.4 million related to the conversion feature and discount), and we had an additional \$85.9 million available under our \$130.0 million revolving credit facility (the "Revolving Credit Facility") after giving effect to \$43.0 million of borrowings outstanding and \$1.1 million utilized to secure letters of credit. The Notes bear interest at a rate of 1.50% per year, payable semiannually in arrears on February 15 and August 15 each year prior to their maturity in August 2020, unless earlier converted. Our term loan facility (the "Term Loan Facility" and, together with the Revolving Credit Facility, our "Senior Credit Facility") requires amortization payments in a principal amount equal to \$1.1 million quarterly. All of the debt under our Senior Credit Facility bears interest at variable rates. Our unhedged debt is subject to additional interest expense if these rates increase significantly, which could also reduce our ability to borrow additional funds.

Our substantial debt could materially affect our financial condition. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to use all or a large portion of our cash flow from operations to pay principal and interest on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other business activities;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from making strategic acquisitions or capitalizing on business opportunities;
- place us at a competitive disadvantage compared with our competitors that have less debt; and
- limit our ability to borrow additional funds or pay cash dividends.

For additional information regarding the interest rates and maturity dates of our existing debt, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

We may be able to incur additional debt in the future, including collateralized debt. Although the Senior Credit Facility contains restrictions on the incurrence of additional debt, these restrictions are subject to a number of qualifications and exceptions. If we add to our current level of debt, the risks described above would be greater.

We may not have the ability to raise the funds necessary to settle conversions of the Notes or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our or the subsidiary guarantors' ability to pay cash upon conversion or repurchase of the Notes.



Holders of the Notes will have the right to require us to repurchase their notes upon the occurrence of certain “fundamental changes,” as defined in the Indenture governing the Notes, at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough

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available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or pay cash upon conversions of notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our existing or future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the Indenture or to pay any cash payable on future conversions of the Notes as required by the Indenture would constitute a default under the Indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

Future sales of our common stock in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.

In the future, we may sell additional shares of our common stock to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options and upon conversion of the Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

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Our ability to continue to access credit on the terms previously obtained for the funding of our operations and capital projects may be limited due to changes in credit markets.

In the past, the credit markets and the financial services industry have experienced disruption characterized by the bankruptcy, failure, collapse or sale of various financial institutions, increased volatility in securities prices, diminished liquidity and credit availability and intervention from the United States and other governments. Continued concerns about the systemic impact of potential long-term or widespread downturn, energy costs, geopolitical issues, the availability and cost of credit, the global commercial and residential real estate markets and related mortgage markets and reduced consumer confidence have contributed to increased market volatility. The cost and availability of credit has been and may continue to be adversely affected by these conditions. We cannot be certain that funding for our capital needs will be available from our existing financial institutions and the credit markets if needed, and if available, to the extent required and on acceptable terms. The Revolving Credit Facility matures in March 2017. If we cannot renew or refinance this facility upon its maturity or, more generally, obtain funding when needed, in each case on acceptable terms, we may be unable to continue our current rate of growth and store expansion, which may have an adverse effect on our revenues and results of operations.

We require a significant amount of cash to service our debt. Our ability to generate cash depends on many factors, some of which are beyond our control, and, as a result, we may not be able to make payments on our debt obligations. We may be unable to generate sufficient cash flow from operations or to obtain future borrowings under our credit facilities or otherwise in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs. In addition, because we conduct our operations through our operating subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations, including payments on our debt. Under certain circumstances, legal and contractual restrictions, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. If we do not have sufficient liquidity, we may need to refinance or restructure all or a portion of our debt on or before maturity, sell assets or borrow more money, which we may not be able to do on terms satisfactory to us or at all. In addition, any refinancing could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations.

A default on any of our debt obligations could trigger certain acceleration clauses and cause those and our other obligations to become immediately due and payable. Upon an acceleration of any of our debt, we may not be able to make payments under our other outstanding debt.

Restrictions in the agreements governing our existing and future indebtedness may prevent us from taking actions that we believe would be in the best interest of our business.

The agreements governing our existing indebtedness contain, and the agreements governing our future indebtedness will likely contain, customary restrictions on us or our subsidiaries, including covenants that restrict us or our subsidiaries, as the case may be, from:

- incurring additional indebtedness and issuing preferred stock;
- granting liens on our assets;
- making investments;
- consolidating or merging with, or acquiring, another business;
- selling or otherwise disposing of our assets;
- paying dividends and making other distributions to our stockholders;
- entering into transactions with our affiliates; and
- incurring capital expenditures in excess of limitations set within the agreement.

The \$130 million Revolving Credit Facility also requires that, to the extent borrowings thereunder (excluding outstanding letters of credit) exceed \$25 million, we meet a senior secured debt ratio of consolidated senior secured debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA. If we fail to satisfy such ratio, then we will be restricted from drawing the remaining \$105 million of available borrowings under the Revolving Credit Facility, which may impair our liquidity. We had \$43 million of borrowings outstanding under the Revolving Credit Facility and satisfied the aforementioned ratio at December 31, 2015.

Our ability to comply with these covenants and other provisions of the Senior Credit Facility may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments

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or other events beyond our control. The breach of any of these covenants could result in a default under our debt, which could cause those and other obligations to become immediately due and payable. In addition, these restrictions may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted.

Our use of derivative instruments for hedging purposes may result in financial losses.

We may from time to time utilize derivative instruments to manage our exposure to fluctuations in fuel and certain other commodity prices, interest rates and foreign currency exchange rates. We could recognize losses on these contracts as a result of volatility in the market values of the underlying commodities or to the extent that a counterparty fails to perform. In the absence of actively-quoted market prices and pricing information from external sources, the valuation of these instruments involves judgment or use of estimates. Furthermore, changes in the value of derivatives designated under hedge accounting to the extent not fully offset by changes in the value of the hedged transaction can result in ineffectiveness losses that may have an adverse effect on our results of operations.

The price of our common stock historically has been volatile.

The market price for our common stock has varied during the twelve-month period ended December 31, 2015 between a high of \$51.69 on August 5, 2015 and a low of \$22.64 on November 17, 2015. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including those factors discussed under the heading "Risk Factors" in this Annual Report, as well as: variations in our quarterly operating results from our expectations or those of securities analysts or other investors; revisions in analyst estimates or announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or the sale of substantial amounts of our common stock.

We depend on the services of key executives and any failure to attract or retain key executives or other skilled professionals could affect our business strategy and adversely impact our performance and results of operations.

Our senior executives are instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business. Furthermore, to the extent that we must replace one or more executives or hire additional senior executives or other professionals to support our growing business, we may be unable to identify candidates of sufficient experience and capabilities in a timely fashion, which could negatively impact our business and operations.

If our risk management methods are not effective, our business, reputation and financial results may be adversely affected.

We have methods to identify, monitor and manage our risks; however, these methods may not be fully effective. Some of our risk management methods may depend upon evaluation of information regarding markets, customers or other matters that are publicly available or otherwise accessible by us. That information may not in all cases be accurate, complete, up-to-date or properly evaluated. If our methods are not fully effective or we are not successful in monitoring or evaluating the risks to which we are or may be exposed, our business, reputation, financial condition and operating results could be materially and adversely affected. In addition, our insurance policies may not provide adequate coverage.

Compliance with new and existing governmental regulations could increase our costs significantly and adversely affect our results of operations.

The processing, formulation, safety, manufacturing, packaging, labeling, advertising and distribution of our products are subject to federal laws and regulation by one or more federal agencies, including the FDA, the FTC, the CPSC, the USDA, and the EPA. These activities are also regulated by various state, local and international laws and agencies of the states and localities in which our products are sold. Government regulations may prevent or delay the introduction, or require the reformulation, of our products, which could result in lost revenues and increased costs to us. For instance, the FDA regulates, among other things, the composition, safety, manufacture, labeling and marketing of dietary supplements (including vitamins, minerals, herbs, and other dietary ingredients for human use). The FDA may not accept the evidence of safety for any new dietary ingredient that we may wish to market, may determine that a particular dietary supplement or ingredient presents an unacceptable health risk based on the required submission of

serious adverse events or other information, and may determine that a particular claim or statement of nutritional value that we use to support the marketing of a dietary supplement is an impermissible drug claim, is not substantiated, or is an unauthorized version of a "health claim." See Item 1, "Business—Government Regulation—Product Regulation" for additional information. Any of these actions could prevent us from marketing particular dietary supplement products or making certain claims or statements with respect to those products. The FDA could also require us to remove a particular product from the market. Any future recall or removal would result in additional costs to us, including lost revenues from any products that we are required to remove from the market, any of which could be material. Any product recalls or removals could also lead to an increased risk of litigation and liability, substantial costs, and reduced growth prospects.

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Additional or more stringent laws and regulations of dietary supplements and other products have been considered from time to time. These developments could require reformulation of some products to meet new standards, recalls or discontinuance of some products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some products, additional or different labeling, additional scientific substantiation, or other new requirements. Any of these developments could increase our costs significantly. In addition, regulators' evolving interpretation of existing laws could have similar effects.

Our failure to comply with FTC regulations and the consent decree imposed on us by the FTC could result in substantial monetary penalties and could adversely affect our operating results.

The FTC exercises jurisdiction over the advertising of dietary supplements and has instituted numerous enforcement actions against dietary supplement companies, including us, for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. As a result of these enforcement actions, we are currently subject to a consent decree that limits our ability to make certain claims with respect to our products and that, together with two other consent decrees that are no longer in force, required us in the past to pay civil penalties and other amounts in the aggregate amount of \$3.0 million. See Item 1, "Business—Government Regulation—Product Regulation" for more information. Failure by us or our franchisees to comply with the consent decree and applicable regulations could result in substantial monetary penalties, which could have a material adverse effect on our financial condition or results of operations.

We may incur material product liability claims, which could increase our costs and adversely affect our reputation, revenues and operating income.

As a retailer, distributor and manufacturer of products designed for human consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in injury. Our products consist of vitamins, minerals, herbs and other ingredients that are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the United States. Our products could contain contaminated substances, and some of our products contain ingredients that do not have long histories of human consumption. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur.

In addition, third-party manufacturers produce many of the products we sell. We rely on these manufacturers to ensure the integrity of their ingredients and formulations. As a distributor of products manufactured by third parties, we may also be liable for various product liability claims for products we do not manufacture. Although our purchase agreements with our third-party vendors typically require the vendor to indemnify us to the extent of any such claims, any such indemnification is limited by its terms. Moreover, as a practical matter, any such indemnification is dependent on the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. We may be unable to obtain full recovery from the insurer or any indemnifying third-party in respect of any claims against us in connection with products manufactured by such third-party.

We have been and may be subject to various product liability claims, including, among others, that our products include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. See Item 3, "Legal Proceedings."

Even with adequate insurance and indemnification, product liability claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a material adverse effect on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

We may experience product recalls, which could reduce our sales and margin and adversely affect our results of operations.

We may be subject to product recalls, withdrawals or seizures if any of the products we formulate, manufacture or sell are believed to cause injury or illness or if we are alleged to have violated governmental regulations in the manufacturing, labeling, promotion, sale or distribution of such products. For example, in May 2009, the FDA warned consumers to stop using Hydroxycut diet products, which are produced by Iovate and were sold in our stores. Iovate issued a voluntary recall, with which we fully complied. Sales of the recalled Hydroxycut products amounted to approximately \$57.8 million, or 4.7% of our retail sales in 2008, and \$18.8 million, or 4.2% of our retail sales in the first four months of 2009. We provided refunds or gift cards to consumers who returned these products to our stores.



In the second quarter of 2009, we experienced a reduction in sales and margin due to this recall as a result of accepting returns of products from customers and a loss of sales as a replacement product was not available. Through December 31, 2015, we estimate that we have refunded approximately \$3.5 million to our retail customers and approximately \$1.6 million to our wholesale customers for Hydroxycut product returns. Any additional recall, withdrawal or seizure of any of the products we formulate, manufacture or sell would require significant management attention, could result in substantial and unexpected expenditures and could materially and adversely affect our business, financial condition or results of operations. Furthermore, a recall, withdrawal or seizure of any of our products could materially and adversely affect consumer confidence in our brands and decrease demand for our products and the market price of our common stock.

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As is common in our industry, we rely on our third-party vendors to ensure that the products they manufacture and sell to us comply with all applicable regulatory and legislative requirements as well as the integrity of ingredients and proper formulation. In general, we seek representations and warranties, indemnification and/or insurance from our vendors. However, even with adequate insurance and indemnification, any claims of non-compliance could significantly damage our reputation and consumer confidence in our products, and could materially and adversely affect the market price of our common stock. In addition, the failure of such products to comply with the representations and warranties regarding such products that we receive from our third-party vendors, including compliance with applicable regulatory and legislative requirements, could prevent us from marketing the products or require us to recall or remove such products from the market, which in certain cases could materially and adversely affect our business, financial condition and results of operation. In the past, due to frequently changing consumer preferences in the dietary supplement space, we have offset losses related to recalls and removals with reformulated or alternative products; however, there can be no assurance that we would be able to offset all or any portion of losses related to any future removal or recall. As a result of the indeterminable level of product substitution and reformulated product sales, we cannot reliably determine the potential impact of any such recall or removal on our business, financial condition or results of operation.

Our operations are subject to environmental and health and safety laws and regulations that may increase our cost of operations or expose us to environmental liabilities.

Our operations are subject to environmental and health and safety laws and regulations, and some of our operations require environmental permits and controls to prevent and limit pollution of the environment. We could incur significant costs as a result of violations of, or liabilities under, environmental laws and regulations, or to maintain compliance with such environmental laws, regulations or permit requirements. For example, in March 2008, the South Carolina Department of Health and Environmental Control (the "DHEC") requested that we investigate contamination associated with historical activities at our South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from our facility. We entered into a Voluntary Cleanup Contract with the DHEC regarding the matter on September 24, 2012. Pursuant to such contract, we have completed additional investigations with the DHEC's approval and the DHEC is currently reviewing the results. We will consult with the DHEC on the next steps in the work after their review of the results of the investigation is complete. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of our potential liability.

In addition to the foregoing, we are subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing our operations, including the handling, transportation and disposal of our 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 us to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. We also are 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 our ability to sell or lease our properties, or to use them as collateral for financing.

We are not insured for a significant portion of our claims exposure, which could materially and adversely affect our operating income and profitability.

We have procured insurance independently for the following areas: (1) general liability; (2) product liability; (3) directors and officers liability; (4) network security and privacy liability; (5) property losses; (6) workers' compensation; and (7) various other areas. In addition, although we believe that we will continue to be able to obtain insurance in these areas in the future, because of increased selectivity by insurance providers, we may only be able to

obtain such insurance at increased rates and/or with reduced coverage levels. Furthermore, we are self-insured for other areas, including: (1) medical benefits; (2) physical damage to our vehicles for field personnel use; and (3) physical damages that may occur at company-owned stores. We are not insured for some property and casualty risks due to the frequency and severity of a loss, the cost of insurance and the overall risk analysis. In addition, we carry product liability insurance coverage that requires us to pay deductibles/retentions with primary and excess liability coverage above the retention amount. Because of our deductibles and self-insured retention amounts, we have significant exposure to fluctuations in the number and severity of claims. We currently maintain product liability insurance with a retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. We could raise our deductibles/retentions, which would increase our already significant exposure to expense from claims. If any claim exceeds our coverage, we would bear the excess expense, in addition to our other self-insured amounts. If the frequency or severity of claims or our expenses increase, our operating income and profitability could be materially and adversely affected.

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Because we rely on our manufacturing operations to produce a significant amount of the products we sell, disruptions in our manufacturing system or losses of manufacturing certifications could adversely affect our sales and customer relationships.

Our manufacturing operations produced approximately 30% of the products we sold in each of the years ended December 31, 2015 and 2014. Other than powders, chewables and liquids, nearly all of our proprietary products are produced in our manufacturing facility located in Greenville, South Carolina. In 2015, our largest vendor supplied approximately 10% of our raw materials. However, in the event any of our third-party suppliers or vendors becomes unable or unwilling to continue to provide raw materials in the required volumes and quality levels or in a timely manner, we would be required to identify and obtain acceptable replacement supply sources. If we are unable to identify and obtain alternative supply sources in a timely manner or at all, our business could be adversely affected. Any significant disruption in our operations at our Greenville, South Carolina facility for any reason, including regulatory requirements, an FDA determination that the facility is not in compliance with the cGMP regulations, the loss of certifications, power interruptions, fires, hurricanes, war or other force of nature, could disrupt our supply of products, adversely affecting our sales and customer relationships.

An increase in the price and shortage of supply of key raw materials could adversely affect our business.

Our products are composed of certain key raw materials. If the prices of these raw materials were to increase significantly, the prices our contract manufacturers and third-party manufacturers charge us for our GNC-branded products and third-party products could increase significantly and we may not be able to pass on such increases to our customers. A significant increase in the price of raw materials that cannot be passed on to customers could have a material adverse effect on our results of operations and financial condition. In addition, if we no longer are able to obtain products from one or more of our suppliers on terms reasonable to us or at all, our revenues could suffer. Events such as the threat of political or social unrest, or the perceived threat thereof, may also have a significant impact on raw material prices and transportation costs for our products. In addition, the interruption in supply of certain key raw materials essential to the manufacturing of our products may have an adverse impact on our suppliers' ability to provide us with the necessary products needed to maintain our customer relationships and an adequate level of sales.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

We rely on our ability to replenish depleted inventory in our stores through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea and truck. Unexpected delays in those deliveries or increases in transportation costs (including through increased fuel costs) could significantly decrease our ability to make sales and earn profits. In addition, labor shortages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business. If we fail to protect our brand name, competitors may adopt trade names that dilute the value of our brand name, and prosecuting or defending infringement claims could cause us to incur significant expenses or prevent us from manufacturing, selling or using some aspect of our products, which could adversely affect our revenues and market share.

We have invested significant resources to promote our GNC brand name in order to obtain the public recognition that we have today. Because of the differences in foreign trademark laws concerning proprietary rights, our trademarks may not receive the same degree of protection in foreign countries as they do in the United States. Also, we may not always be able to successfully enforce our trademarks against competitors or against challenges by others. For example, we are currently engaged in trademark disputes in foreign jurisdictions over "GNC", "LIVE WELL" and other similar trademarks and trademark applications. Our failure to successfully protect our trademarks could diminish the value and effectiveness of our past and future marketing efforts and could cause customer confusion. This could in turn adversely affect our revenues, profitability and the market price of our common stock.

We are currently and may in the future be subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from manufacturing, selling or using some aspect of our products. Claims of intellectual property infringement also may require us to enter into costly royalty or license

agreements. However, we may be unable to obtain royalty or license agreements on terms acceptable to us or at all. Claims that our technology or products infringe on intellectual property rights could be costly and would divert the attention of management and key personnel, which in turn could adversely affect our revenues and profitability.

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A substantial amount of our revenue is generated from our franchisees, and our revenues could decrease significantly if our franchisees do not conduct their operations profitably or if we fail to attract new franchisees.

As of December 31, 2015 and 2014, approximately 35% of our store locations were operated by franchisees. Our franchise operations generated approximately 17% of our revenues for each of the years ended December 31, 2015 and 2014. Moreover, we are increasing the proportion of our domestic stores that are franchise locations, targeting a balanced portfolio of domestic company-owned and franchise locations over the next three to four years, beginning in 2016. Our revenues from franchise stores depend on the franchisees' ability to operate their stores profitably and adhere to our franchise standards. The closing of franchise stores or the failure of franchisees to comply with our policies could adversely affect our reputation and could reduce the amount of our franchise revenues. These factors could have a material adverse effect on our revenues and operating income.

If we are unable to attract new franchisees or to convince existing franchisees to open additional stores, any growth in royalties from franchise stores will depend solely upon increases in revenues at existing franchise stores. In addition, our ability to open additional franchise locations is limited by the territorial restrictions in our existing franchise agreements as well as our ability to identify additional markets in the United States and other countries. If we are unable to open additional franchise locations, we will have to sustain additional growth internally by attracting new and repeat customers to our existing locations.

Franchisee support of our marketing and advertising programs is critical to our success.

The support of our franchisees is critical for the success of our marketing programs and other strategic initiatives we seek to undertake, and the successful execution of these initiatives will depend on our ability to maintain alignment with our franchisees. While we can mandate certain strategic initiatives through enforcement of our franchise agreements, we need the active support of our franchisees if the implementation of these initiatives is to be successful. In addition, our efforts to build alignment with franchisees may result in a delay in the implementation of our marketing and advertising programs and other key initiatives. Although we believe that our current relationships with our franchisees are generally good, there can be no assurance that our franchisees will continue to support our marketing programs and strategic initiatives. The failure of our franchisees to support our marketing programs and strategic initiatives could adversely affect our ability to implement our business strategy and could materially harm our business, results of operations and financial condition.

Our franchisees are independent operators and we have limited influence over their operations.

Our revenues substantially depend upon our franchisees' sales volumes, profitability and financial viability. However, our franchisees are independent operators and we cannot control many factors that impact the profitability of their stores. Pursuant to the franchise agreements, we can, among other things, mandate signage, equipment and hours of operation, establish operating procedures and approve suppliers, distributors and products. However, the quality of franchise store operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements or standards set by federal, state and local governmental laws and regulations. In addition, franchisees may not hire and train qualified managers and other personnel. While we ultimately can take action to terminate franchisees that do not comply with the standards contained in our franchise agreements, any delay in identifying and addressing problems could harm our image and reputation, and our franchise revenues and results of operations could decline.

Franchise regulations could limit our ability to terminate or replace underperforming franchises, which could adversely impact franchise revenues.

Our franchise activities are subject to federal, state and international laws regulating the offer and sale of franchises and the governance of our franchise relationships. These laws impose registration, extensive disclosure requirements and bonding requirements on the offer and sale of franchises. In some jurisdictions, the laws relating to the governance of our franchise relationship impose fair dealing standards during the term of the franchise relationship and limitations on our ability to terminate or refuse to renew a franchise. We may, therefore, be required to retain an under-performing franchise and may be unable to replace the franchisee, which could adversely impact franchise revenues. In addition, we cannot predict the nature and effect of any future legislation or regulation on our franchise operations.

We have limited influence over the decision of franchisees to invest in other businesses or incur excessive indebtedness.

Our franchisees are independent operators and, therefore, we have limited influence over their ability to invest in other businesses or incur excessive indebtedness. In some cases, these franchisees have used the cash generated by their stores to expand their other businesses or to subsidize losses incurred by such businesses. Additionally, as independent operators, franchisees do not require our consent to incur indebtedness. Consequently, our franchisees have in the past, and may in the future, experience financial distress as a result of over leveraging. To the extent that our franchisees use the cash from their stores to subsidize their other businesses or experience financial distress, due to over-leverage or otherwise, it could negatively affect (1) our operating results as a result of delayed or reduced payments of royalties, advertising fund contributions and rents for properties we lease to them, (2) our future revenue, earnings and cash flow growth and (3) our financial condition. In addition, lenders that are adversely

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affected by franchisees who default on their indebtedness may be less likely to provide current or prospective franchisees necessary financing on favorable terms or at all.

If we cannot open new company-owned stores on schedule and profitably, our planned future growth will be impeded, which would adversely affect sales and profitability.

Our growth is dependent on both increases in sales in existing stores and the ability to open profitable new stores. Increases in sales in existing stores are dependent on factors such as competition, store operations and other factors discussed in these Risk Factors. Our ability to timely open new stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the absence of occupancy delays; the ability to negotiate acceptable lease terms; the ability to identify customer demand in different geographic areas; the hiring, training and retention of competent sales personnel; the effective management of inventory to meet the needs of new and existing stores on a timely basis; general economic conditions; and the availability of sufficient funds for expansion. Many of these factors are beyond our control. Delays or failures in opening new stores, achieving lower than expected sales in new stores or drawing a greater than expected proportion of sales in new stores from our existing stores, could materially adversely affect our growth and profitability. In addition, we may not anticipate all of the challenges imposed by the expansion of our operations and, as a result, may not meet our targets for opening new stores, remodeling or relocating stores or expanding profitably.

Some of our new stores may be located in areas where we have little or no meaningful experience or brand recognition. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in our existing markets. Alternatively, many of our new stores will be located in areas where we have existing stores. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Economic, political and other risks associated with our international operations could adversely affect our revenues and international growth prospects.

As of December 31, 2015, we had 212 company-owned Canadian stores, 10 company-owned The Health Store stores located in Ireland and 2,085 international franchise stores in approximately 50 international countries (including distribution centers where retail sales are made). We derived approximately 12% of our revenues in each of the years ended December 31, 2015 and 2014 from our international operations. As part of our business strategy, we intend to expand our international franchise presence. Our international operations are subject to a number of risks inherent to operating in foreign countries, and any expansion of our international operations will increase the effects of these risks. These risks include, among others:

- political and economic instability of foreign markets;
  - foreign governments' restrictive trade policies;
  - inconsistent product regulation or sudden policy changes by foreign agencies or governments;
  - the imposition of, or increase in, duties, taxes, government royalties or non-tariff trade barriers;
  - difficulty in collecting international accounts receivable and potentially longer payment cycles;
  - difficulty of enforcing contractual obligations of foreign franchisees;
  - increased costs in maintaining international franchise and marketing efforts;
  - problems entering international markets with different cultural bases and consumer preferences;
  - compliance with laws and regulations applicable to international operations, such as the Foreign Corrupt Practices Act and regulations promulgated by the Office of Foreign Asset Control;
  - fluctuations in foreign currency exchange rates; and
  - operating in new, developing or other markets in which there are significant uncertainties regarding the interpretation, application and enforceability of laws and regulations relating to contract and intellectual property rights.
- Any of these risks could have a material adverse effect on our international operations and our growth strategy.





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We may be unable to successfully expand our operations into new international markets.

If the opportunity arises, we may expand our operations into new and high-growth international markets. However, there is no assurance that we will expand our operations in such markets in our desired time frame. To expand our operations into new international markets, we may enter into business combination transactions, make acquisitions or enter into strategic partnerships, joint ventures or alliances, any of which may be material. We may enter into these transactions to acquire other businesses or products to expand our products or take advantage of new developments and potential changes in the industry. Our lack of experience operating in new international markets and our lack of familiarity with local economic, political and regulatory systems could prevent us from achieving the results that we expect on our anticipated time frame or at all. If we are unsuccessful in expanding into new or high-growth international markets, it could adversely affect our operating results and financial condition.

Our network and communications systems are dependent on third-party providers and are vulnerable to system interruption and damage, which could limit our ability to operate our business and could have a material adverse effect on our business, financial condition or results of operations.

Our systems and operations and those of our third-party internet service providers are vulnerable to damage or interruption from fire, flood, earthquakes, power loss, server failure, telecommunications and Internet service failure, acts of war or terrorism, computer viruses and denial-of-service attacks, physical or electronic breaches, sabotage, human error and similar events. Any of these events could lead to system interruptions, processing and order fulfillment delays and loss of critical data for us, our suppliers or our Internet service providers, and could prevent us from processing customer purchases. Any significant interruption in the availability or functionality of our website or our customer processing, distribution or communications systems, for any reason, could seriously harm our business, financial condition and operating results. The occurrence of any of these factors could have a material adverse effect on our business, financial condition or results of operations.

Because we are dependent on third-party service providers for the implementation and maintenance of certain aspects of our systems and operations and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner, if at all. As we rely on our third-party service providers, computer and communications systems and the Internet to conduct our business, any system disruptions could have a material adverse effect on our business, financial condition or results of operations.

We must successfully maintain and/or upgrade our information technology systems, and our failure to do so could have a material adverse effect on our business, financial condition or results of operations.

We rely on various information technology systems to manage our operations. Over the last several years, we have implemented, and we continue to implement, modifications and upgrades to such systems, including changes to legacy systems, replacing legacy systems with successor systems with new functionality, and acquiring new systems with new functionality. These types of activities subject us to inherent costs and risks associated with replacing and changing these systems, including impairment of our ability to fulfill customer orders, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, demands on management time and other risks and costs of delays or difficulties in transitioning to or integrating new systems into our current systems. These implementations, modifications and upgrades may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. In addition, the difficulties with implementing new technology systems may cause disruptions in our business operations and have a material adverse effect on our business, financial condition or results of operations.

Privacy protection is increasingly demanding, and we may be exposed to risks and costs associated with security breaches, data loss, credit card fraud and identity theft that could cause us to incur unexpected expenses and loss of revenue as well as other risks.

The protection of customer, employee, vendor, franchisee and other business data is critical to us. Federal, state, provincial and international laws and regulations govern the collection, retention, sharing and security of data that we receive from and about our employees, customers, vendors and franchisees. The regulatory environment surrounding information security and privacy has been increasingly demanding in recent years, and may see the imposition of new and additional requirements by states and the federal government as well as foreign jurisdictions in which we do

business. Compliance with these requirements may result in cost increases due to necessary systems changes and the development of new processes to meet these requirements by us and our franchisees. In addition, customers and franchisees have a high expectation that we will adequately protect their personal information. If we or our service provider fail to comply with these laws and regulations or experience a significant breach of customer, employee, vendor, franchisee or other company data, our reputation could be damaged and result in an increase in service charges, suspension of service, lost sales, fines or lawsuits.

The use of credit payment systems makes us more susceptible to a risk of loss in connection with these issues, particularly with respect to an external security breach of customer information that we or third parties (including those with whom we have

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strategic alliances) under arrangements with us control. A significant portion of our sales require the collection of certain customer data, such as credit card information. In order for our sales channel to function, we and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. In the event of a security breach, theft, leakage, accidental release or other illegal activity with respect to employee, customer, vendor, franchisee third-party, with whom we have strategic alliances or other company data, we could become subject to various claims, including those arising out of thefts and fraudulent transactions, and may also result in the suspension of credit card services. This could cause consumers to lose confidence in our security measures, harm our reputation as well as divert management attention and expose us to potentially unreserved claims and litigation. Any loss in connection with these types of claims could be substantial. In addition, if our electronic payment systems are damaged or cease to function properly, we may have to make significant investments to fix or replace them, and we may suffer interruptions in our operations in the interim. In addition, we are reliant on these systems, not only to protect the security of the information stored, but also to appropriately track and record data. Any failures or inadequacies in these systems could expose us to significant unreserved losses, which could materially and adversely affect our earnings and the market price of our common stock. Our brand reputation would likely be damaged as well.

Complying with recently enacted healthcare reform legislation could increase our costs and have a material adverse effect on our business, financial condition or results of operations.

Recently enacted healthcare reform legislation could significantly increase our costs and have a material adverse effect on our business, financial condition and results of operations by requiring us either to provide health insurance coverage to our employees or to pay certain penalties for electing not to provide such coverage. Because these new requirements are broad, complex, subject to certain phase-in rules and may be challenged by legal actions in the coming months and years, it is difficult to predict the ultimate impact that this legislation will have on our business and operating costs. We cannot assure you that this legislation or any alternative version that may ultimately be implemented will not materially increase our operating costs. This legislation could also adversely affect our employee relations and ability to compete for new employees if our response to this legislation is considered less favorable than the responses or health benefits offered by employers with whom we compete for talent.

General economic conditions, including a prolonged weakness in the economy, may affect consumer purchases, which could adversely affect our sales and the sales of our business partners.

Our results, and those of our business partners to whom we sell, are dependent on a number of factors impacting consumer spending, including general economic and business conditions; consumer confidence; wages and employment levels; the housing market; consumer debt levels; availability of consumer credit; credit and interest rates; fuel and energy costs; energy shortages; taxes; general political conditions, both domestic and abroad; and the level of customer traffic within department stores, malls and other shopping and selling environments. Consumer product purchases, including purchases of our products, may decline during recessionary periods. A prolonged downturn or an uncertain outlook in the economy may materially adversely affect our business, revenues and profits and the market price of our common stock.

Natural disasters (whether or not caused by climate change), unusually adverse weather conditions, pandemic outbreaks, terrorist acts and global political events could cause permanent or temporary distribution center or store closures, impair our ability to purchase, receive or replenish inventory or cause customer traffic to decline, all of which could result in lost sales and otherwise adversely affect our financial performance.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods and earthquakes (whether or not caused by climate change), unusually adverse weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events result in the closure of one or more of our distribution centers, a significant number of stores, a manufacturing facility or our corporate headquarters, or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some

local and overseas suppliers, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption to our information systems. These events also could have indirect consequences, such as increases in the cost of insurance, if they were to result in significant loss of property or other insurable damage.

Our holding company structure makes us dependent on our subsidiaries for our cash flow and subordinates the rights of our stockholders to the rights of creditors of our subsidiaries in the event of an insolvency or liquidation of any of our subsidiaries.

Holdings is a holding company and, accordingly, substantially all of our operations are conducted through its subsidiaries. Holdings' subsidiaries are separate and distinct legal entities. As a result, Holdings' cash flow depends upon the earnings of its subsidiaries. In addition, Holdings depends on the distribution of earnings, loans or other payments by its subsidiaries. Holdings'

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subsidiaries have no obligation to provide it with funds for its payment obligations. If there is an insolvency, liquidation or other reorganization of any of Holdings' subsidiaries, Holdings' stockholders will have no right to proceed against their assets. Creditors of those subsidiaries will be entitled to payment in full from the sale or other disposal of the assets of those subsidiaries before Holdings, as a stockholder, would be entitled to receive any distribution from that sale or disposal.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

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## Item 2. PROPERTIES.

As of December 31, 2015, there were 9,090 GNC store locations globally (including distribution centers where retail sales are made). In our Retail segment, all but one of our company-owned stores are located on leased premises that typically range in size from 1,000 to 2,000 square feet. In our Franchise segment, primarily all of our franchise stores in the United States are located on premises we lease and then sublease to our respective franchisees. All of our franchise stores in the international markets are owned or leased directly by our franchisees. No single store is material to our operations.

As of December 31, 2015, our company-owned and franchise stores in the United States, Canada, Puerto Rico and Ireland (excluding store-within-a-store locations) and our other international franchise stores consisted of:

Location	Company-Owned Retail	Domestic Franchise	International Franchise*
Alabama	36	14	Aruba 1
Alaska	15	2	Australia 18
Arizona	74	4	Bahrain 4
Arkansas	24	3	Bangladesh 1
California	298	139	Bolivia 25
Colorado	79	10	Brunei 3
Connecticut	44	5	Bulgaria 9
Delaware	17	3	Cayman Islands 2
District of Columbia	7	1	Chile 188
Florida	286	110	China 5
Georgia	116	41	Costa Rica 36
Hawaii	27	—	El Salvador 12
Idaho	12	3	Finland 1
Illinois	119	64	Guam 3
Indiana	69	20	Guatemala 56
Iowa	29	4	Honduras 7
Kansas	32	7	Hong Kong 81
Kentucky	42	8	India 93
Louisiana	47	16	Indonesia 53
Maine	11	—	Latvia 1
Maryland	63	25	Lebanon 11
Massachusetts	77	4	Lithuania 1
Michigan	87	38	Malaysia 90
Minnesota	63	23	Mexico 651
Mississippi	25	17	Mongolia 7
Missouri	65	15	Myanmar 1
Montana	7	4	Nigeria 9
Nebraska	9	14	Oman 6
Nevada	24	16	Pakistan 7
New Hampshire	19	6	Panama 17
New Jersey	99	48	Paraguay 3
New Mexico	22	2	Peru 112
New York	216	53	Philippines 45
North Carolina	126	26	Qatar 7
North Dakota	10	—	Romania 4
Ohio	128	43	Russia 15
Oklahoma	28	16	Saudi Arabia 59
Oregon	40	5	Singapore 61

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Pennsylvania	171	37	South Africa	7
Rhode Island	15	—	South Korea	162
South Carolina	44	23	Taiwan	50
South Dakota	8	2	Thailand	36
Tennessee	53	26	Trinidad & Tobago	8
Texas	221	133	Turkey	88
Utah	42	5	Turks & Caicos	2
Vermont	5	—	United Arab Emirates	15
Virginia	104	26	Ukraine	1
Washington	69	16	Vietnam	11
West Virginia	24	4		
Wisconsin	72	3		
Wyoming	9	—		
Puerto Rico	36	—		
Military bases in other U.S. territories	7	—		
Canada	212	—		
Ireland	10	—		
Total	3,594	1,084	Total	2,085

\* Includes distribution centers where retail sales are made and retail stores in China.



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In our Manufacturing/Wholesale segment, there are 2,327 GNC franchise "store-within-a-store" locations under our strategic alliance with Rite Aid. Also, in our Manufacturing/Wholesale segment, we lease facilities for manufacturing, packaging, warehousing and distribution operations. We manufacture a majority of our proprietary products at an approximately 280,000 square foot facility in Greenville, South Carolina. We also lease an approximately 642,000 square foot complex located in Anderson, South Carolina, for packaging, materials receipt, lab testing, warehousing and distribution. Both the Greenville and Anderson facilities are leased on a long-term basis pursuant to "fee-in-lieu-of-taxes" arrangements with the counties in which the facilities are located, but we retain the right to purchase each of the facilities at any time during the lease for \$1.00, subject to a loss of tax benefits. We lease an approximately 217,000 square foot distribution center in Leetsdale, Pennsylvania and a 112,000 square foot distribution center in Phoenix, Arizona. We lease an approximately 343,000 square foot distribution center near Indianapolis, Indiana, which began operations in October 2014. We also lease space at a distribution center in Canada. We lease an approximately 62,000 square foot distribution center near our current distribution center in Leetsdale, Pennsylvania where the distribution of Lucky Vitamin products is fulfilled.

In conjunction with the acquisition of Discount Supplements, we lease an approximately 21,000 square foot facility in Braintree, Essex, U.K where Discount Supplements maintains its corporate headquarters and fulfills the distribution of its products. Effective December 31, 2015, we sold substantially all of the assets of our Discount Supplements subsidiary and subleased this property to the buyer.

We own our 253,000 square foot corporate headquarters located in Pittsburgh, Pennsylvania. We lease four small regional sales offices in: Fort Lauderdale, Florida; Tustin, California; Mississauga, Ontario; and Shanghai, China. None of the regional sales offices is larger than 6,500 square feet.

Item 3. LEGAL PROCEEDINGS.

We are engaged in various legal actions, claims and proceedings arising in the normal course of business, including claims related to breach of contracts, products liabilities, intellectual property matters and employment-related matters resulting from our business activities.

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

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

As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, we have been and are currently subjected to various product liability claims. Although the effects of these claims to date have not been material to us, it is possible that current and future product liability claims could have a material adverse effect on our business or financial condition, results of operations or cash flows. We currently maintain product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. We typically seek and have obtained contractual indemnification from most parties that supply raw materials for our products or that manufacture or market products we sell. We also typically seek to be added, and have been added, as an additional insured under most of such parties' insurance

policies. We are also entitled to indemnification by Numico for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. Consequently, we may incur material products liability claims, which could increase our costs and adversely affect our reputation, revenue and operating income.

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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 December 31, 2014 we were named in the following 28 personal injury lawsuits involving products containing DMAA and/or Aegeline:

- Susan Straub and the Estate of Shane Staub v. General Nutrition Centers, Inc., USP Labs, LLC, Common Pleas Court of Philadelphia County, Pennsylvania (Case No. 140502403), filed May 20, 2014

- Justin Carolyne, et al. v. USP Labs, GNC Corporation, et al. Superior Court of California, County of Los Angeles (Case No. BC508212), filed May 22, 2013

- Jeremy Reed, Timothy Anderson, Dan Anderson, Nadia Black, et al. v. USPLabs, LLC, et al., GNC, Superior Court for California, County of San Diego (Case No. 37-2013-00074052-CU-PL-CTL), filed November 1, 2013

- Kenneth Waikiki v. USP Labs, Doyle, Geissler, USP Labs OxyElite, LLC, et al. and GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. 3-00639 DMK), filed November 21, 2013

- Nicholas Akau v. USP Labs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00029), filed January 23, 2014

- Malissa Igafo v. USP Labs, 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. USP Labs, 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. USP Labs, 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., USP Labs, 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, USP Labs, 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.

- Karina Lujon v. General Nutrition Centers, Inc., USP Labs LLC, District Court of Dallas County, 298th Judicial District (Case No. DC-13-05677-M), filed March 25, 2014

- Nichole Davidson, William Dunlao, Gina martin, Lee Ann Miranda, Yuka Colescott, Sherine Cortinas, and Shawna Nishimoto v. GNC Corporation and USP Labs 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 USP Labs LLC, United States District Court for the District of Hawaii (Case No. CV14-00365) filed October 24, 2014

- Palani Pantoham, Deborah Cordiero, J. Royal Kanamu, Brent Pascuala, Christie Shiroma, Justan Chun, Kasey Grace and Adam Miyasoto v. USPLabs, LLC. et al., United States District Court for the District of Hawaii (Case No. CV14-00366) filed August 15, 2014

- Keahi Paveo v. GNC Corporation, USP Labs, LLC, 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, USP Labs, Superior Court of California, County of Los Angeles (Case No. BC559542), filed October 6, 2014

- Dennis Balila, Melinda Jean Collins, Janice Samson, Mia Fagley, Clayton Goo, Joliana Kurtz and Mae Kwan v. USPLabs, LLC et al., California Superior Court, San Diego County (Case No. 37-2015-00008455), filed March 13, 2015

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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

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 Noveda, Demetrio Moreno, Mee Yang, Tiffone Parker, Christopher Tortal, David Patton and Raymon 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

Natasiri Tali, Tram Dobbs, Mauela Reyna-Perez, Kimberly Turvey, Meagan Van Dyke, Hang Nga Tran, Shea Steard, and Jimmy Tran v. USPLabs, LLC et al., California Superior Court, Los Angeles County (Case No. BC575263), 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 Joshua Jones and ob/o The Estate of James Jones v. USPLabs, LLC et al., California Superior Court, Monterey County (Case No. M131322), filed March 13, 2015

Ronsonette P.C. Smith-Marras v. USP Labs, LLC et al., United States District Court for the District of Hawaii (Case No. 15-1-0762-04), filed April 23, 2015

Kuulei Hirota v. SP Labs, LLC et al., United States District Court for the District of Hawaii (Case No. 15-1-0847-05), filed May 1, 2015

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. The case captioned Leanne Sparling and Michael Sparling on behalf of Michael Sparling, deceased v. USPLabs, GNC Corporation, et al., Superior Court of California, County of San Diego (Case No. 2013-00034663-CU-PL-CTL), which previously was scheduled for trial in February 2016, was dismissed with prejudice.

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.

**California Wage and Break Claim.** In July 2011, Charles Brewer, on behalf of himself and all others similarly situated, sued General Nutrition Corporation in federal court, alleging state and federal wage and hour claims (U.S. District Court, Northern District of California, Case No. 11CV3587). In October 2011, Mr. Brewer filed an amended complaint alleging, among other matters, meal, rest break and overtime violations on behalf of sales associates and store managers. In January 2013, the Court conditionally certified a Fair Labor Standards Act ("FLSA") class with respect to one of Plaintiff's claims, and in November 2014, the Court granted in part and denied in part the plaintiff's motion to certify a California class and granted our motion for decertification of the FLSA class. In May 2015, plaintiffs filed a motion for partial summary judgment as to the alleged liability for non-compliant wage statements, which was granted in part and denied in part in September 2015. On February 5, 2016, we and attorneys representing the putative class agreed to class-wide settlements of the Brewer case and an additional, immaterial case raising similar claims, pursuant to which we agreed to pay up to \$9.5 million in the aggregate, including attorneys' fees and costs. The settlement agreement remains subject to Court approval, and the Court has scheduled a preliminary hearing in April 2016. As a result of this settlement, we recorded a charge of \$6.3 million in the fourth quarter of 2015, in addition to \$3.2 million previously accrued in the first quarter of 2015.

In February 2012, former Senior Store Manager, Elizabeth Naranjo, individually and on behalf of all others similarly situated sued General Nutrition Corporation in the Superior Court of the State of California for the County of Alameda (Case No. RG 12619626), alleging, among other matters, meal, rest break, and overtime violations. On October 22, 2014, the Court granted the

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plaintiff's motion to certify a class of approximately 900 current and former managers. As of December 31, 2015, an immaterial liability has been accrued in the accompanying financial statements.

Jason Olive v. General Nutrition Corp. In April 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles (Case No. BC482686), for misappropriation of likeness in which he alleges that we continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Mr. Olive is seeking compensatory, punitive and statutory damages and attorneys' fees and costs. The trial in this matter previously scheduled for December 2014 was postponed and no new trial date has been set. As of December 31, 2015, an immaterial liability has been accrued in the accompanying financial statements.

Oregon Attorney General. On October 22, 2015, the Attorney General for the State of Oregon sued General Nutrition Corporation in Multnomah County Circuit Court (Case No. 15CV28591) for alleged violations of Oregon's Unlawful Trade Practices Act, in connection with its sale in Oregon of certain third-party products. We intend to vigorously defend against these allegations. As any losses that may arise from this matter are not probably or reasonably estimable at this time, no liability has been accrued in the accompanying interim consolidated financial statements. Moreover, we do not anticipate that any such losses are likely to have a material impact on our business or results of operations. We are contractually entitled to indemnification and defense by our third-party vendors, which have accepted our tender request for defense and indemnification. Ultimately, however, our ability to obtain full recovery in respect of any such claims against us is dependent upon the creditworthiness of our vendors and/or their insurance coverage and the absence of any significant defenses available to their insurers.

Item 4. MINE SAFETY DISCLOSURES

This Item 4 is not applicable.

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## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES.

## Market Information

Since March 31, 2011, our common stock has been traded on the NYSE under the symbol "GNC." As of February 4, 2016, there were 74,241,609 shares of common stock outstanding, the closing price of our common stock was \$27.83 per share, and we had approximately 61 stockholders of record (including 52 holders of restricted stock).

The following table presents the high and low sales prices and dividend declared by quarter for the common stock, as reported by the NYSE:

2015 quarter ended	High	Low	Dividend per Share
March 31	\$49.66	\$41.43	\$0.18
June 30	\$49.06	\$40.93	\$0.18
September 30	\$51.69	\$39.65	\$0.18
December 31	\$43.09	\$22.64	\$0.18
2014 quarter ended	High	Low	Dividend per Share
March 31	\$58.55	\$42.54	\$0.16
June 30	\$47.35	\$33.70	\$0.16
September 30	\$42.01	\$30.84	\$0.16
December 31	\$47.40	\$35.44	\$0.16
2013 quarter ended	High	Low	Dividend per Share
March 31	\$42.83	\$30.92	\$0.15
June 30	\$48.12	\$38.59	\$0.15
September 30	\$55.16	\$44.66	\$0.15
December 31	\$60.98	\$51.82	\$0.15

## Dividends

On January 28, 2016, our Board of Directors authorized and declared a cash dividend for the first quarter of 2016 of \$0.20 per share of common stock, payable on or about March 25, 2016 to stockholders of record as of the close of business on March 11, 2016. We currently intend to continue to pay regular quarterly dividends; however, the declaration of such future dividends and the establishment of the per share amount, record dates and payment dates for such future dividends are subject to the final determination and approval of our Board of Directors and will depend on many factors, including, without limitation, our financial condition, future earnings and cash flows, legal requirements, taxes and any other factors that the Board of Directors deems relevant.

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## Issuer Purchases of Equity Securities

Period <sup>(1)</sup>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Dollar Value of Shares That May Yet be Purchased Under the Plan or Program
October 1 to October 31, 2015—		\$—	—	\$626,963,742
November 1 to November 30, 2015	6,401,653	\$31.24	6,401,653	\$426,963,615
December 1 to December 31, 2015	—	\$—	—	\$426,963,615
Total	6,401,653	\$31.24	6,401,653	

(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 December 31, 2015.

(2) In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of Holdings' common stock. Holdings repurchased \$479.8 million of common stock during the twelve months ended December 31, 2015 and has utilized \$573.0 million of the current share repurchase program. As of December 31, 2015, \$427.0 million remains available for purchase under the program.



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Stock Performance Graph

The graph below matches the cumulative 57-month total return of holders of GNC Holdings, Inc.'s common stock with the cumulative total returns of the S&P 500 index and the S&P 500 Retail index. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was \$100 on April 1, 2011 and tracks it through December 31, 2015.

\*\$100 invested on 4/1/11 in stock or 3/31/11 in index, including reinvestment of dividends.

Fiscal year ending December 31.

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## Item 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data presented below as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements and footnotes included in this Annual Report. The selected consolidated financial data presented below as of December 31, 2013, 2012 and 2011 and for the years ended December 31, 2012 and 2011 are derived from our audited consolidated financial statements and footnotes not included in this Annual Report.

You should read the following financial information together with the information under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes in Item 8, "Financial Statements and Supplementary Data."

	As of and for the Year ended December 31,				
(in millions, except per share data)	2015	2014	2013	2012	2011
Statement of Operations Data:					
Revenue	\$2,639.2	\$2,613.2	\$2,626.8	\$2,428.2	\$2,072.2
Cost of sales, including warehousing, distribution and occupancy	1,654.6	1,632.9	1,636.3	1,499.2	1,318.4
Gross profit	984.6	980.3	990.5	929.0	753.8
Selling, general and administrative	567.3	554.9	533.7	502.0	471.2
Long-lived asset impairments	28.3	—	—	—	—
Other (income) expense, net <sup>(1)</sup>	(4.1	) (14.1	) (3.7	) (0.9	) 0.1
Operating income	393.1	439.5	460.5	427.9	282.5
Interest expense, net	50.9	46.7	53.0	47.6	74.9
Income before income taxes	342.2	392.8	407.5	380.3	207.6
Income tax expense	122.9	136.9	142.5	140.1	75.3
Net income	\$219.3	\$255.9	\$265.0	\$240.2	\$132.3
Weighted average shares outstanding (in thousands):					
Basic	83.9	90.5	96.5	103.5	100.3
Diluted	84.2	90.9	97.4	104.9	103.0
Earnings per share:					
Basic	\$2.61	\$2.83	\$2.75	\$2.32	\$1.27
Diluted	\$2.60	\$2.81	\$2.72	\$2.29	\$1.24
Dividends declared per share	\$0.72	\$0.64	\$0.60	\$0.44	\$—
Balance Sheet Data:					
Cash and cash equivalents	\$56.5	\$133.8	\$226.2	\$158.5	\$128.4
Working capital <sup>(2)</sup>	515.2	636.0	719.0	573.5	474.5
Total assets	2,552.0	2,677.8	2,740.3	2,552.0	2,429.6
Total current and non-current long-term debt	1,452.5	1,342.3	1,347.1	1,098.6	901.5
Stockholders' equity	468.6	756.0	815.6	882.0	978.5
Statement of Cash Flows:					
Net cash provided by operating activities	\$354.5	\$303.8	\$239.4	\$223.0	\$174.7
Net cash used in investing activities	(45.6	) (75.5	) (78.3	) (43.2	) (65.5
Net cash used in financing activities	(384.5	) (321.0	) (94.3	) (149.3	) (173.6
Capital expenditures	45.8	70.5	50.2	41.9	43.8

Note: The presentation of certain immaterial amounts in our consolidated financial statements of prior periods have been revised to conform to the current periods presented.

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In 2015, other income principally related to \$7.6 million of gains from the sale of company-owned stores to (1) franchisees partially offset by a \$2.7 million loss on sale of Discount Supplements and a \$0.8 million foreign currency loss.

In 2014, other income principally related to \$9.9 million of gains from the sale of company-owned stores to franchisees and \$4.4 million of income related to the reversal of a contingent purchase price liability partially offset by \$0.2 million foreign currency loss.

In 2013, other income principally related to \$2.7 million of gains from the sale of company-owned stores to franchisees and \$1.0 million of income related to the reversal of a contingent purchase price liability.

In 2012, other income principally related to gains of \$0.8 million to from the sale of company-owned stores to franchisees and \$0.1 million from foreign currency gains.

In 2011, other expense principally related to a \$0.1 million foreign currency loss.

(2) Defined as current assets less current liabilities.

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The following table summarizes our stores for the periods indicated:

	Year Ended December 31,					
	2015	2014	2013	2012	2011	
Company-owned stores <sup>(a)</sup> :						
Beginning of period balance	3,497	3,342	3,188	3,046	2,917	
Store openings	115	183	170	147	145	
Store closings	(29	) (28	) (23	) (25	) (30	)
Acquired franchise stores <sup>(b)</sup>	44	25	16	29	30	
Franchise conversions <sup>(c)</sup>	(33	) (25	) (9	) (9	) (16	)
End of period balance	3,594	3,497	3,342	3,188	3,046	
Franchised stores:						
Domestic						
Beginning of period balance	1,070	1,012	949	924	903	
Store openings	32	70	74	56	47	
Store closings	(7	) (12	) (4	) (11	) (12	)
Acquired franchise stores <sup>(b)</sup>	(44	) (25	) (16	) (29	) (30	)
Franchise conversions <sup>(c)</sup>	33	25	9	9	16	
End of period balance	1,084	1,070	1,012	949	924	
International <sup>(d)</sup>						
Beginning of period balance	2,140	2,024	1,830	1,590	1,437	
Store openings	144	208	325	300	195	
Store closings	(199	) (92	) (131	) (60	) (42	)
End of period balance	2,085	2,140	2,024	1,830	1,590	
Store-within-a-store (Rite Aid):						
Beginning of period balance	2,269	2,215	2,181	2,125	2,003	
Store openings	59	60	41	63	127	
Store closings	(1	) (6	) (7	) (7	) (5	)
End of period balance	2,327	2,269	2,215	2,181	2,125	
Total Stores	9,090	8,976	8,593	8,148	7,685	

(a) Includes Canada and The Health Store.

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

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

(d) Includes distribution centers where sales are made.

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Item 7. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

You should read the following discussion in conjunction with Item 6, "Selected Financial Data" and our audited consolidated financial statements and the related notes included in Item 8, "Financial Statements and Supplementary Data." The discussion in this section contains forward-looking statements that involve risks and uncertainties. See Part I, Item 1A, "Risk Factors" in this Annual Report for a discussion of important factors that could cause actual results to differ materially from those described or implied by the forward-looking statements contained herein. We urge you to review the information set forth in "Forward Looking Statements" and Item 1A, "Risk Factors" included elsewhere in this Annual Report.

**Overview**

We are a global specialty retailer of health, wellness and performance products, sports nutrition products, diet products and other wellness products. We derive our revenues principally from: product sales through our company-owned stores; the Internet through our websites, GNC.com and LuckyVitamin.com, as well as Drugstore.com; domestic and international franchise activities; and sales of products manufactured in our facilities to third parties. We sell products through a worldwide network of more than 9,000 locations operating under the GNC brand name.

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

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

See Part I, Item 1, "Business - Competitive Strengths" for more information. During the second half of 2014, we underwent a management realignment including the appointment of a new chief executive officer and other key executive changes, which extended through 2015 in tandem with our new management team's efforts to address the challenges facing our business. Those efforts included a number of key, cross-functional initiatives to support our long-term strategy. Foundationally, we remain focused on a customer-focused evolution of our brand and culture defined by core principles that we believe enable GNC to foster one-to-one customer engagement and, ultimately, to connect our customers to their best. These principles include development of:

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

To further our strategic evolution, we implemented a rigorous, customer-focused testing process in our merchandising, marketing, store operations and other key decision-making focal points relevant to our business. We re-set our stores with an enhanced focus on plant and nature based proteins, women's beauty products and functional foods, while also significantly expanding the assortment of products available to customers in many of our stores simplifying our pricing communications. We undertook a transition toward more brand-relevant and product-focused marketing and to improve the overall effectiveness of our marketing efforts. Additionally, we made a series of operational changes to optimize our inventory processes, which helped our associates dedicate additional time to developing product knowledge and servicing our customers. Our pursuit of these and other initiatives during 2015 and into 2016 has resulted in the following positive outcomes:

- the completion, during early 2016, of our senior management team;
- a return of our marketing activity to more normalized levels with more efficient and effective direct marketing;



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significantly positive returns on our investment in expanding our product assortment;  
 positive returns on our investment in natural and plant-based proteins and functional foods;  
 a significant reduction in store customer service complaints;  
 an increase in our mix of female customers and in sales from critical customer segments, such as the wellness customer and the natural-living customer;  
 improvements in our Retail segment product margin rate in 2015 compared with 2014 achieved by reducing our dependence upon unprofitable promotional activity;  
 the opening of 111 net new domestic retail (including both company-owned and franchised stores) and retail segment locations;  
 growth in our e-commerce business, excluding Discount Supplements, of which substantially all of the assets were sold effective December 31, 2015;  
 a \$26.0 million increase in our consolidated net revenues in 2015, including improvements in both our retail and franchise segment revenues; and  
 generation during 2015 of net cash flow from operating activities of \$354.5 million compared with \$303.8 million in the prior year.

However, while our business remains profitable and we continue to recognize strong cash flow, with approximately 95% of our company-owned stores' cash flow exceeding our weighted average cost of capital, we also faced significant challenges to our strategy and our business during 2015, including increased competition, intensified regulatory and other governmental scrutiny, including inquiries from state attorneys general, and negative media coverage of our industry, year-over-year declines in same store sales and, consequently, heightened volatility in the trading price of our common stock. With respect to our results for the year ended December 31, 2015 as compared with the year ended December 31, 2014:

company-owned domestic same store sales (including sales by GNC.com) decreased by 1.7%;  
 our consolidated gross profit improved only slightly, while operating income decreased by 10.6% (which includes the impact of the \$28.3 million long-lived asset impairment charges for Discount Supplements), consolidated net income declined by 14.3% and our diluted earnings per share was lower by 7.5%;  
 retail segment operating income decreased by 11.6%, which includes the impact of the aforementioned Discount Supplements long-lived asset impairments;  
 international franchise revenue increased by 3.2% with a decrease of 55 in net new international franchise stores; and  
 sales decreased in our wholesale/manufacturing segment, excluding intersegment sales, by 2.3%

Hence, our key initiatives for 2016 aimed at addressing these current challenges include the following:

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

Executing our refranchising strategy. We have undertaken an accelerated drive to increase the proportion of our domestic stores that are franchise locations, which we expect to accomplish both by increasing the proportion of new stores that are franchise locations and by transitioning company-owned stores to franchise locations. We are currently targeting a balanced portfolio of domestic company-owned and franchise locations over the next three to four years, beginning in 2016. As part of this effort, we remain focused on creating and nurturing franchise partnerships that support our brand image. We believe that this strategy can result in significant value creation for our stockholders.

Implementing a revised pricing strategy. Early in 2016, we began to launch an intensive effort to develop and implement an improved pricing strategy to be applied to all channels. Our intent is to appropriately identify and price



KVIs, to create a clear definition of role and intent by product category, further improve the clarity of our price message and more closely

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align the customer's perception of our pricing with the quality and value of our products. We expect the results of this initiative to be evident beginning in late 2016 and beyond.

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

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

Revenues and Operating Performance from our Segments

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

**Retail:** Retail revenues are generated by sales to consumers at our company-owned stores and online through our websites GNC.com and LuckyVitamin.com, as well as sales through Drugstore.com. Our retail segment previously included the results of our Discount Supplements subsidiary, substantially all of the assets of which we sold effective as of December 31, 2015. Although we believe that our retail and franchise businesses are not seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter.

**Franchise:** We generate franchise revenues primarily by:

- (1) product sales to our franchisees;
- (2) royalties on franchise retail sales; and
- (3) franchise fees, which we charge for initial franchise agreements, renewals and transfers of franchises.

In connection with our refranchising strategy described above, we expect the number of our domestic franchise stores to grow in 2016 and beyond.

**Manufacturing/Wholesale:** Manufacturing/wholesale revenues are generated by sales of manufactured products to third parties including Rite Aid, PetSmart and Sam's Club. Our revenues generated by our manufacturing and wholesale operations are subject to our available manufacturing capacity. This segment also recognizes intercompany sales for manufactured product sold to our other segments, which are eliminated in consolidation.

A significant portion of our business infrastructure is comprised of fixed operating costs. Our vertically integrated distribution network, manufacturing capacity, and ability to outsource production can support higher sales volume. We opened a fourth distribution center in October 2014. This distribution center is located in Whitestown, Indiana, and we believe that it provides the incremental distribution capacity necessary for the foreseeable future.

Key Indicators

As discussed in Note 16, "Segments," to our audited consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," we evaluate segment operating results based on several indicators. The primary key performance indicators are revenue and operating income for each segment. Segment revenue and operating income, as evaluated by our chief operating decision maker (our chief executive officer), exclude certain items that are managed at the consolidated level, such as warehousing, distribution and other corporate costs.

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

sales during the period presented that occurred on or after the date of relocation to a different mall or shopping center or the date of a conversion.

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Trends and Uncertainties in Our Business

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

- broader consumer awareness of health and wellness issues and rising healthcare costs may increase the use of the products we offer and positively affect our operating performance;
- interest in, and demand for, condition-specific products based on scientific research may positively affect our operating performance if we can timely develop and offer such condition-specific products;
- the effects of favorable and unfavorable publicity on consumer demand with respect to the products we offer may have similarly favorable or unfavorable effects on our operating performance;
- a lack of long-term experience with human consumption of ingredients in some of our products could create uncertainties with respect to the health risks, if any, related to the consumption of such ingredients and negatively affect our operating performance;
- increased costs and other demands associated with heightened regulatory scrutiny, including but not limited to complying with new and existing governmental regulation, and/or legal challenges associated with products that we sell may negatively affect our operating performance;
- consolidation within our industry and increasing participation in our market by mass market retailers and consumer product manufacturers could continue to intensify competition within our industry and could continue to negatively affect our market performance;
- a decline in disposable income available to consumers may lead to a reduction in consumer spending and negatively affect our operating performance; and
- an aging population in the United States may positively impact sales of some of the products that we offer.

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## Results of Operations

The following information presented was derived from our audited consolidated financial statements and accompanying notes included in Item 8, "Financial Statements and Supplementary Data."

(Expressed as a percentage of total consolidated revenue)

	Year ended December 31,			
	2015	2014	2013	
Revenues:				
Retail	73.7	% 74.2	% 73.4	%
Franchise	17.4	% 16.6	% 16.6	%
Manufacturing / Wholesale:				
Intersegment revenues	10.1	% 11.1	% 12.1	%
Third Party	8.9	% 9.2	% 10.0	%
Subtotal Manufacturing / Wholesale	19.0	% 20.3	% 22.1	%
Elimination of intersegment revenue	(10.1)	)% (11.1)	)% (12.1)	)%
Total revenues	100.0	% 100.0	% 100.0	%
Operating expenses:				
Cost of sales, including warehousing, distribution and occupancy costs	62.7	% 62.5	% 62.3	%
Gross Profit	37.3	% 37.5	% 37.7	%
Selling, general and administrative expenses	21.5	% 21.2	% 20.3	%
Long-lived asset impairments	1.1	% 0.0	% 0.0	%
Other income, net	(0.2)	)% (0.5)	)% (0.1)	)%
Total operating expenses	85.1	% 83.2	% 82.5	%
Operating income:				
Retail	11.7	% 13.4	% 13.8	%
Franchise	6.2	% 6.0	% 5.8	%
Manufacturing / Wholesale	3.4	% 3.4	% 4.0	%
Warehousing and distribution costs	(2.7)	)% (2.6)	)% (2.9)	)%
Corporate costs	(3.7)	)% (3.4)	)% (3.2)	)%
Total operating income	14.9	% 16.8	% 17.5	%
Interest expense, net	1.9	% 1.8	% 2.0	%
Income before income taxes	13.0	% 15.0	% 15.5	%
Income tax expense	4.7	% 5.2	% 5.4	%
Net income	8.3	% 9.8	% 10.1	%

Note: The columns may not add due to rounding.

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Comparison of the Years Ended December 31, 2015 (current year) and 2014 (prior year)

## Revenues

Our consolidated net revenues increased \$26.0 million, or 1.0%, to \$2,639.2 million for the year ended December 31, 2015 compared with \$2,613.2 million in 2014. Revenue increased in our Retail and Franchise segments and decreased in our Manufacturing/Wholesale segment.

**Retail.** Revenues in our Retail segment increased \$6.0 million, or 0.3%, to \$1,945.2 million for the year ended December 31, 2015 compared with \$1,939.2 million in 2014, which was primarily due to an increase in revenue of approximately \$34 million from the addition of 97 net new company-owned stores, including 24 net new stores in Canada. Our company-owned store base increased from 3,497 stores at December 31, 2014 to 3,594 stores at December 31, 2015. In addition, revenue increased due to: growth in our e-commerce businesses, excluding Discount Supplements, of \$5.6 million; an increase in revenue from The Health Store of \$5.1 million (excluding the impact of foreign exchange rate changes), our chain of 10 retail stores located in Ireland whose acquisition was completed in April 2014; and an increase of \$9.0 million in Gold Card revenue largely due to the comparative effect of 2014 Gold Card revenue which was negatively affected by the Member Pricing launch in 2013, including a Gold Card give away promotion.

Partially offsetting the increases in segment revenue above was a decrease of approximately \$22 million to product revenue due to the impact of negative domestic retail same store sales. In addition, the impact of foreign exchange rate changes primarily related to the Canadian dollar resulted in a decrease of approximately \$21 million to segment revenue. Discount Supplements, the assets of which we sold on December 31, 2015, yielded a \$5.5 million decrease in revenue (excluding the impact of foreign exchange rate changes).

**Franchise.** Revenues in our Franchise segment increased \$25.5 million, or 5.9%, to \$458.3 million for the year ended December 31, 2015 compared with \$432.8 million in 2014. Despite a decrease in domestic franchise same store retail sales of 2.1% year-over-year, domestic franchise revenue increased \$20.3 million to \$287.8 million for the year ended December 31, 2015 compared with \$267.5 million in 2014, primarily due to increased third-party wholesale product sales.

International revenue within the franchise segment increased by \$5.2 million, to \$170.5 million for the year ended December 31, 2015 compared with \$165.3 million in 2014, primarily due to higher third-party product sales.

Excluding the impact of our franchise stores located in Venezuela, which is currently experiencing political unrest, our international franchisees reported negative same store retail sales of 1.3% in the current year, which excludes the impact of foreign exchange rate changes relative to the U.S. dollar. Effective December 31, 2015, we terminated the agreement with the franchisee who operated stores in Venezuela, Columbia and Spain.

**Manufacturing/Wholesale.** Revenues in our Manufacturing/Wholesale segment, excluding intersegment revenues, decreased by \$5.5 million, or 2.3%, to \$235.7 million for the year ended December 31, 2015 compared with \$241.2 million in 2014. Third-party contract manufacturing sales from our South Carolina manufacturing plant decreased by \$6.2 million, or 5.0%, to \$118.9 million for the year ended December 31, 2015 compared with \$125.1 million in 2014. Wholesale revenue was relatively flat increasing by \$0.8 million, or 0.7% in the current year.

## Cost of Sales and Gross Profit

Cost of sales, which includes product costs, warehousing, distribution and occupancy costs, increased \$21.7 million, or 1.3%, to \$1,654.6 million for the year ended December 31, 2015 compared with \$1,632.9 million in 2014. Gross profit, as a percentage of revenue, decreased slightly from 37.5% in the prior year to 37.3% in the current year.

Product margin rate improvement in the Retail segment due to the elimination of unprofitable promotions in the prior year was more than offset by deleverage in occupancy costs associated with negative same store sales and higher distribution costs primarily due to our new distribution center in Indiana, which opened in October 2014.

## Selling, General and Administrative ("SG&amp;A") Expense

SG&A expense, including compensation and related benefits, advertising and other expenses, increased \$12.4 million, or 2.2%, to \$567.3 million for the year ended December 31, 2015 compared with \$554.9 million in 2014. As a percentage of revenue, SG&A expense was 21.5% for the year ended December 31, 2015 compared with 21.2% in 2014. The increase in SG&A expense was due to an increase in compensation and related benefits of \$8.2 million and other SG&A expenses of \$10.4 million, partially offset by a decrease in advertising expense of \$6.2 million.

The increase in compensation and related benefits was principally due to an increase in store salaries and benefits to support our increased store base. In addition, compensation expense of \$2.8 million was recorded in the current year relating to the correction of an immaterial error in the first quarter of 2015 as explained in Item 8, "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies." These expenses were partially offset by

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the management realignment charge recorded in the prior year, in which we incurred \$7.8 million of severance-related expenses associated with the changes among our executive leadership team.

The increase in other SG&A expense was primarily due to an increase in costs related to a legal settlement as described in Item 8, "Financial Statements and Supplementary Data," Note 11 "Commitments and Contingencies," partially offset by a decrease in bad debt reserves established in 2014 associated with certain of our international franchisees.

The decrease in advertising expense was due to our evaluation to refine the optimal media mix to maximize our return as well as higher spend associated with the Beat Average™ campaign launched in the prior year as compared with the "80 Years Quality Life / Quality Products" campaign launched in the current year.

**Long-Lived Asset Impairments**

We recorded a \$28.3 million impairment charge in the third quarter of 2015 for Discount Supplements, which consisted of \$23.3 million related to goodwill, \$4.4 million related to trade name and website intangible assets and \$0.6 million related to fixed assets. Refer to Item 8, "Financial Statements and Supplementary Data," Note 5, "Goodwill and Intangible Assets, Net" for more information.

**Other Income, Net**

Other income, net, which typically includes gains on the sale of company-owned stores to franchisees and foreign currency gains and losses, decreased \$10.1 million in the current year. Contributing to the decrease was a loss of \$2.7 million attributable to the sale of substantially all of the assets of our Discount Supplements business, the reversal of a \$4.4 million contingent purchase price liability in the prior year associated with Discount Supplements, and a decrease in conversion gains from the sale of company-owned stores to franchisees. During 2015 we sold 33 corporate stores for a gain of \$7.6 million compared with 25 stores in the prior year resulting in a gain of \$9.9 million.

**Operating Income**

As a result of the foregoing, consolidated operating income decreased \$46.4 million, or 10.6%, to \$393.1 million for the year ended December 31, 2015 compared with \$439.5 million in 2014. Operating income, as a percentage of net revenue, was 14.9% and 16.8% for the years ended December 31, 2015 and 2014, respectively.

**Retail.** Operating income decreased \$40.7 million, or 11.6%, to \$308.3 million for the year ended December 31, 2015 compared with \$349.0 million in 2014 and as a percentage of segment revenue was 15.8% and 18.0%, respectively. Excluding the impact of the long-lived asset impairments and loss on sale in the current year and reversal of the contingent purchase price liability in the prior year, all of which were related to Discount Supplements, as well as the current year charge of \$2.8 million related to the correction of an immaterial error explained above, operating income decreased \$2.4 million and as a percentage of segment revenue decreased from 17.8% in the prior year to 17.6% in the current year. Improved product margin rate was more than offset by expense deleverage in occupancy and compensation and related benefits associated with negative same store sales.

**Franchise.** Operating income increased \$7.2 million, or 4.6%, to \$164.5 million for the year ended December 31, 2015 compared with \$157.3 million in 2014 and as a percentage of segment revenue was 35.9% and 36.4%, respectively. Excluding the impact of franchise conversion gains and the decrease to bad debt reserves established in 2014 associated with certain of our international franchisees, operating income increased by \$2.3 million and as a percentage of segment revenue decreased from 35.0% in the prior year to 33.6% in the current year. The percentage decline is primarily due to a decline in product margin rate due to additional third-party wholesale product sales, which have lower margin rates relative to proprietary sales.

**Manufacturing/Wholesale.** Operating income was \$90.3 million for the year ended December 31, 2015 compared with \$89.9 million in 2014. Excluding the impact of the \$3.5 million charge in cost of sales in the prior year associated with lower manufacturing volumes to align inventory levels to business trends, operating income decreased \$3.1 million and as a percentage of segment revenue increased from 17.5% to 17.9% in the current year primarily due to higher product margin rate for our wholesale customers partially offset by a lower rate for third-party contract manufacturing.

**Warehousing and distribution costs.** Warehousing and distribution costs increased \$3.4 million, or 5.0%, to \$71.7 million for the year ended December 31, 2015 compared with \$68.3 million in 2014 and increased 0.1% as a percentage of revenue year-over-year due in part to an increase in depreciation expense related to our new distribution



center located in Indiana.

Corporate costs. Corporate overhead costs increased by \$9.9 million, or 11.2%, to \$98.3 million for the year ended December 31, 2015 compared with \$88.4 million in 2014 primarily due to the aforementioned legal settlement and higher compensation and related benefits, partially offset by the \$7.8 million management realignment charge in the prior year.

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Interest Expense

Interest expense increased \$4.2 million, or 9.1%, to \$50.9 million for the year ended December 31, 2015 compared with \$46.7 million in 2014. The increase in interest expense was due to the convertible debt issuance in August 2015 as explained in Item 8, "Financial Statements and Supplementary Data," Note 7, "Long-Term Debt / Interest Expense."

Income Tax Expense

We recognized \$122.9 million (or 35.9% of pre-tax income) of income tax expense for the year ended December 31, 2015 compared with \$136.9 million (or 34.9% of pre-tax income) in 2014. The current year tax rate was impacted by a discrete tax benefit of \$11.8 million due to the effect of an anticipated worthless stock deduction resulting from excess tax basis in the common shares of Discount Supplements and a net decrease in the liability for uncertain tax positions of \$3.3 million due in part to the expiration of certain statutes of limitation with respect to the 2011 fiscal year. The current year tax rate was also impacted by an increase to the valuation allowance of \$1.8 million. The prior year tax rate was impacted by a reduction to a valuation allowance of \$1.6 million. The 2014 income tax rate also included the recognition of \$3.0 million of other net discrete tax benefits related primarily to state tax positions in 2014.

The valuation allowance in each period was adjusted based on a change in circumstances, including anticipated future earnings and a tax law change, which caused a change in judgment about the realizability of certain deferred tax assets related to net operating losses.

Net Income

As a result of the foregoing, consolidated net income decreased \$36.6 million, or 14.3%, to \$219.3 million for the year ended December 31, 2015 compared with \$255.9 million in 2014.

Diluted Earnings Per Share

Diluted earnings per share decreased 7.5% from \$2.81 in the prior year to \$2.60 in the current year due to the 14.3% decrease in net income partially offset by a 7.4% decrease in the weighted average diluted shares outstanding in the current year as a result of the share repurchase program.

Comparison of the Years Ended December 31, 2014 and 2013

Revenues

Our consolidated net revenues decreased \$13.6 million, or 0.5%, to \$2,613.2 million for the year ended December 31, 2014 compared with \$2,626.8 million in 2013. Revenue increased in our Retail segment and decreased in both our Franchise and Manufacturing/Wholesale segments.

**Retail.** Revenues in our Retail segment increased \$12.4 million, or 0.6%, to \$1,939.2 million for the year ended December 31, 2014 compared with \$1,926.8 million in 2013, which was driven primarily by an increase in sales from our e-commerce businesses (principally due to the acquisition Discount Supplements, which occurred in October 2013), and \$44.4 million from the addition of 145 net new company-owned stores and 10 The Health Store locations in Ireland, acquired in April 2014. These increases were partially offset by negative domestic retail same store sales, which includes GNC.com, of 2.8%, approximately \$8.7 million due the exchange rate trend of the Canadian dollar, and the negative effect due to the Gold Card giveaway associated with the Member Pricing launch in 2013. Our company-owned store base increased by 155 stores to 3,497 at December 31, 2014 compared with 3,342 at December 31, 2013, which includes 16 new Canadian stores and 10 new stores as a result of the acquisition of The Health Store.

**Franchise.** Revenues in our Franchise segment decreased \$4.1 million, or 0.9%, to \$432.8 million for the year ended December 31, 2014 compared with \$436.9 million in 2013. Domestic franchise revenues increased \$16.1 million to \$267.5 million for the year ended December 31, 2014 compared with \$251.4 million in 2013, primarily due to higher product sales of \$14.5 million. Our domestic franchise same store retail sales for the year ended December 31, 2014 decreased by 3.3% from 2013. There were 1,070 domestic franchise stores at December 31, 2014 compared with 1,012 stores at December 31, 2013.

International revenue decreased by \$20.2 million, to \$165.3 million for the year ended December 31, 2014 compared with \$185.5 million in 2013, primarily due to lower product sales of \$19.6 million, particularly due to regulatory and macroeconomic factors in several key franchise markets. Our international franchisees reported a 0.8% same store

retail sales increase during the year, on a local currency basis. Our international franchise store base increased by 116 stores to 2,140 at December 31, 2014 compared with 2,024 at December 31, 2013.

Manufacturing/Wholesale. Revenues in our Manufacturing/Wholesale segment, excluding intersegment revenues, decreased by \$21.9 million, or 8.3%, to \$241.2 million for the year ended December 31, 2014 compared with \$263.1 million in

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2013. Third-party contract manufacturing sales decreased by \$9.5 million, or 7.0%, to \$125.1 million for the year ended December 31, 2014 compared with \$134.6 million in 2013. Wholesale revenue decreased \$12.5 million, or 9.7%, due to lower shipments to our wholesale customers from softer market trends.

**Cost of Sales**

Cost of sales decreased \$3.4 million, or 0.2%, to \$1,632.9 million for the year ended December 31, 2014 compared with \$1,636.3 million in 2013. Cost of sales, as a percentage of net revenue, was 62.5% and 62.3% for the year ended December 31, 2014 and 2013, respectively. Improved product margin rate was more than offset by deleverage in occupancy expense associated with negative same store sales.

**SG&A Expense**

SG&A expense increased \$21.2 million, or 4.0%, to \$554.9 million, for the year ended December 31, 2014 compared with \$533.7 million in 2013. SG&A expense, as a percentage of net revenue, was 21.2% for the year ended December 31, 2014 compared with 20.3% in 2013.

Compensation and related benefits (excluding the impact of the management realignment and restructuring costs discussed below) increased \$7.2 million, or 2.2%, to \$329.1 million for the year ended December 31, 2014 compared with \$321.9 million in 2013. The increase was due primarily to our increased store base, partially offset by lower incentive and non-cash stock-based compensation expenses. For the year ended December 31, 2014, we incurred \$7.8 million associated with the changes among our executive leadership team primarily consisting of executive severance costs. For the year ended December 31, 2013, we incurred restructuring costs of \$12.2 million related to the transition of our company-owned transportation fleet to a third party transportation network during the fourth quarter of 2013. Advertising and promotion. Advertising and promotion expenses increased \$3.3 million, or 4.9%, to \$70.5 million for the year ended December 31, 2014 compared with \$67.2 million in 2013. These expenses, as a percentage of net revenue, were 2.7% and 2.6% for the years ended December 31, 2014 and 2013, respectively.

Other SG&A. Other SG&A expenses increased \$15.3 million, or 11.7%, to \$147.5 million for the year ended December 31, 2014 compared with \$132.2 million in 2013. This increase principally relates to expenses from our recently acquired retail businesses and higher legal related expenses. For the year ended December 31, 2014, we recorded a \$4.2 million reserve against receivables with our international franchisees, compared with \$0.4 million for the same period in 2013.

**Other income, Net**

Other income, net increased \$10.5 million primarily due to the reversal of a \$4.4 million contingent purchase price liability associated with Discount Supplements in 2014 and a gain from the sale of company-owned stores to franchisees of \$9.9 million in 2014 compared with \$2.7 million in 2013, partially offset by the reversal of a contingent purchase price liability of \$0.9 million in 2013 associated with Lucky Vitamin.

**Operating Income**

As a result of the foregoing, consolidated operating income decreased \$21.0 million, or 4.6%, to \$439.5 million for the year ended December 31, 2014 compared with \$460.5 million in 2013. Operating income, as a percentage of revenue, was 16.8% and 17.5% for the years ended December 31, 2014 and 2013, respectively.

Retail. Operating income decreased \$13.7 million, or 3.8%, to \$349.0 million for the year ended December 31, 2014 compared with \$362.7 million in 2013. The decrease in operating income was driven by expense deleverage associated with negative same store sales and higher media spend, partially offset by a higher product margin and the reversal of the contingent purchase price liability explained above.

Franchise. Operating income increased \$3.8 million, or 2.5%, to \$157.3 million for the year ended December 31, 2014 compared with \$153.5 million in 2013. The increase was primarily due to more sales of company-owned stores to franchisees, partially offset by lower product sales.

Manufacturing/Wholesale. Operating income decreased \$14.8 million, or 14.1%, to \$89.9 million for the year ended December 31, 2014 compared with \$104.7 million in 2013. The decrease in operating income was generally due to lower shipments to wholesale customers from softer market trends as well as lower proprietary sales.

Warehousing and distribution costs. Warehousing and distribution costs decreased \$8.8 million, or 11.4%, to \$68.3 million for the year ended December 31, 2014 compared with \$77.1 million in 2013. This decrease was primarily due to the comparative effect of 2013 restructuring costs and transportation savings both of which were related to the

transition to a third-party

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transportation network during the fourth quarter of 2013, partially offset by an increase in occupancy expense related to the new distribution center located in Whitestown, Indiana.

Corporate costs. Corporate overhead costs increased \$5.1 million, or 6.1%, to \$88.4 million for the year ended December 31, 2014 compared with \$83.3 million in 2013, primarily due to the management realignment described above and higher legal and other SG&A expenses, partially offset by a decrease in salaries and benefits of \$6.9 million, which was principally related to the reversal of incentive and non-cash stock-based compensation expense accruals.

Interest Expense

Interest expense decreased \$6.3 million, or 11.9%, to \$46.7 million for the year ended December 31, 2014 compared with \$53.0 million in 2013. This decrease was primarily related the 2013 amendment to the Senior Credit Facility, which resulted in a loss on debt refinancing of \$5.7 million consisting of the write-off of deferred financing fees and an original issuance discount and higher interest expense of \$2.4 million as a result of an increased debt balance outstanding.

Income Tax Expense

We recognized \$136.9 million (or 34.9% of pre-tax income) of income tax expense for the year ended December 31, 2014 compared with \$142.5 million (or 35.0% of pre-tax income) in 2013. Income tax expense for the years ended December 31, 2014 and 2013 was reduced by net valuation allowance adjustments of \$1.6 million and \$1.4 million, respectively. The valuation allowance was adjusted based on a change in circumstances, including anticipated future earnings and a tax law change, which caused a change in judgment about the realizability of certain deferred tax assets related to net operating losses. The income tax rates for the years ended December 31, 2014 and 2013 also included the recognition of \$3.0 million and \$4.9 million, respectively, of other net discrete tax benefits related primarily to state tax positions in 2014 and the reduction of certain deferred tax liabilities and reserves in 2013.

Net Income

As a result of the foregoing, consolidated net income decreased \$9.1 million, or 3.4%, to \$255.9 million for the year ended December 31, 2014 compared with \$265.0 million in 2013.

Diluted Earnings Per Share

Diluted earnings per share increased 3.3% from \$2.72 in 2013 to \$2.81 in 2014 due to a 6.6% decrease in the weighted average diluted shares outstanding in 2014 as a result of the share repurchase program, which was partially offset by a 3.4% decrease in net income.

Table of Contents**Liquidity and Capital Resources**

We expect to fund our operations through internally generated cash and, if necessary, from borrowings under the Revolving Credit Facility. At December 31, 2015, we had \$85.9 million available under the Revolving Credit Facility, after giving effect to \$43.0 million of borrowings outstanding and \$1.1 million utilized to secure letters of credit. We expect that our primary uses of cash in the near future will be for capital expenditures, working capital requirements and funding any quarterly dividends to stockholders and share repurchases that are approved by the Board of Directors.

We currently anticipate that cash generated from operations, together with amounts available under the Revolving Credit Facility, will be sufficient for the term of the Revolving Credit Facility, which matures in March 2017, to meet our operating expenses and fund capital expenditures as they become due. We are required to make quarterly payments of \$1.1 million on our Term Loan Facility, payable every quarter through December 31, 2018 with the remainder paid in March 2019. Our ability to make scheduled payments of principal and interest, refinance our debt and satisfy our other debt obligations will depend on our future operating performance, which may be affected by general economic, financial and other factors some of which are beyond our control. We are currently in compliance with our debt covenant reporting and compliance obligations under the Senior Credit Facility and expect to remain in compliance during 2016.

**Cash Provided by Operating Activities**

Cash provided by operating activities was \$354.5 million, \$303.8 million and \$239.4 million during the years ended December 31, 2015, 2014 and 2013 respectively. The increase in cash flow from operations in the current year compared with the prior year was primarily due to improved working capital. The increase in cash flow from operations in 2014 as compared with 2013 was primarily due to lower inventory purchases and the comparative effect of the giveaway of Gold Cards during the second quarter of 2013 as a result of the nationwide Member Pricing launch.

**Cash Used in Investing Activities**

We used cash from investing activities of \$45.6 million, \$75.5 million and \$78.3 million for the years ended December 31, 2015, 2014 and 2013 respectively. Capital expenditures typically relate to the opening of new stores, certain periodic updates and improvements to our company-owned retail stores and ongoing upgrades and improvements to our South Carolina manufacturing facilities and distribution centers. For the years ended December 31, 2015, 2014 and 2013 capital expenditures were \$45.8 million, \$70.5 million and \$50.2 million, respectively. The decrease in the current year as compared with 2014 primarily relates to the opening of our distribution center located in Whitestown, Indiana in October 2014. In 2014 and 2013, we spent \$6.4 million and \$27.6 million related to the acquisition of The Health Store and Discount Supplements, respectively, net of cash acquired. Effective December 31, 2015, we sold substantially all of the assets of our Discount Supplements subsidiary for \$1.3 million, which was received in the first quarter of 2016.

In 2016, we expect our capital expenditures to be approximately \$75 million, which includes investments for strategic initiatives, IT infrastructure, store development and maintenance. We anticipate funding our 2016 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

**Cash Used in Financing Activities**

For the year ended December 31, 2015, we used cash of \$384.5 million, primarily consisting of the repurchase of an aggregate of \$479.8 million in shares of common stock under share repurchase programs and dividends paid to our stockholders of \$59.6 million. In August 2015, we issued \$287.5 million principal amount of 1.5% convertible senior notes due 2020 (the "Notes") and in connection with this transaction, we paid down \$164.3 million of our outstanding Term Loan Facility and paid \$8.2 million of debt issuance costs. In November 2015, we borrowed \$43.0 million under our Revolving Credit Facility.

For the year ended December 31, 2014, we used cash of \$321.0 million, primarily consisting of the repurchase of an aggregate of \$283.2 million in shares of common stock under share repurchase programs and dividends paid to our stockholders of \$57.5 million partially offset by \$25.9 million of proceeds from exercised options, including the excess tax benefit from stock-based compensation.

For the year ended December 31, 2013, we used cash of \$94.3 million, primarily consisting of the repurchase of an aggregate of \$309.3 million in shares of common stock under a share repurchase program and dividends paid to our

stockholders of \$57.4 million, which was partially offset by \$249.6 million in net proceeds from long-term debt in connection with an amendment to the Senior Credit Facility in the fourth quarter of 2013.



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## Indebtedness

Senior Credit Facility. Centers is party to a Senior Credit Facility, consisting of the Term Loan Facility and the Revolving Credit Facility. The Senior Credit Facility permits us to prepay a portion or all of the outstanding balance without incurring penalties (except London Interbank Offering Rate ("LIBOR") breakage costs). GNC Corporation, our indirect wholly owned subsidiary ("GNC Corporation"), and Centers' existing and future domestic subsidiaries have guaranteed Centers' obligations under the Senior Credit Facility. In addition, the Senior Credit Facility is collateralized by first priority pledges (subject to permitted liens) of substantially all of the assets of Centers, including its equity interests and the equity interests of its domestic subsidiaries.

As of December 31, 2015 and 2014, the Company's interest rate on its Senior Credit Facility was 3.25%. At December 31, 2015, the Company had \$43.0 million of borrowings outstanding on its revolving credit facility at a weighted average interest rate of 2.6%. The Company is also required to pay an annual fee of 2.50% on outstanding letters of credit and an annual commitment fee of 0.5% on the undrawn portion of the Revolving Credit Facility.

The interest rate under the Senior Credit Facility is at a rate, at our option, per annum equal to (A) or (B) as defined below.

(A) The sum of (i) the applicable margin of 1.25% with respect to borrowings under the Revolving Credit Facility and 1.5% with respect to amounts outstanding under the Term Loan Facility plus the greater of (ii):

- the prime rate (as publicly announced by JPMorgan Chase Bank, N.A. as its prime rate in effect);
- the federal funds effective rate plus 0.50%;
- one month LIBOR plus 1.0%; or
- 1.75% applicable to the Term Loan Facility only.

(B) The sum of (i) the applicable margin of 2.25% with respect to borrowings under the Revolving Credit Facility and 2.5% with respect to amounts outstanding under the Term Loan Facility plus the greater of (ii):

- LIBOR; or
- 0.75% applicable to the Term Loan Facility only.

The Senior Credit Facility, including amendments, contains customary covenants, including incurrence covenants and certain other limitations on the ability of GNC Corporation, Centers, and Centers' subsidiaries to, among other things, make optional payments in respect of other debt instruments, pay dividends or other payments on capital stock, and enter into arrangements that restrict their ability to pay dividends or grant liens.

Convertible Senior Notes. On August 10, 2015, we issued \$287.5 million principal amount of Notes. The Notes will mature on August 15, 2020, unless earlier purchased by us or converted by the holders subject to restrictions through May 15, 2020. The Notes will bear interest at a rate of 1.5% per annum. In connection with this transaction, we paid down \$164.3 million of our outstanding Term Loan Facility.

Refer to Item 8, "Financial Statements and Supplementary Data," Note 7, "Long-Term Debt / Interest Expense" for more information on our outstanding indebtedness.

## Contractual Obligations

The following table summarizes our future minimum non-cancelable contractual obligations at December 31, 2015:

(in millions)	Payments due by period				
	Total	2016	2017 - 2018	2019 - 2020	After 2020
Long-term debt obligations <sup>(1)</sup>	\$1,507.2	\$4.6	\$52.1	\$1,450.5	\$—
Scheduled interest payments <sup>(2)</sup>	158.6	45.4	96.8	16.4	—
Operating lease obligations <sup>(3)</sup>	582.3	148.9	215.2	111.2	107.0
Purchase commitments <sup>(4)</sup>	40.8	15.8	23.0	1.6	0.4
Total	\$2,288.9	\$214.7	\$387.1	\$1,579.7	\$107.4

(1) These balances consist of the following debt obligations: (a) \$1,176.6 million of outstanding borrowings under the Senior Credit Facility including \$2.2 million of unamortized original issuance discount; (b) \$43.0 million of outstanding borrowings under the Revolver; and (c) \$287.5 million of outstanding borrowings under the Notes including the unamortized conversion feature of \$46.3 million and original issuance discount of \$6.1 million.

Repayment of long-term debt obligations does not take into account any unscheduled payments that may occur in the future.

The interest that will accrue on the long-term obligations includes variable rate payments, which are estimated (2) using the associated LIBOR index as of December 31, 2015. Interest under the Senior Credit Facility currently accrues based on a three-month LIBOR.

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Consists of the following contractual payments excluding optional renewals: (a) \$556.0 million for company-owned retail stores; (b) \$103.7 million for franchise stores; (c) \$103.7 million of sublease income from franchisees; and (d) \$26.3 million relating to various leases for warehouses, vehicles, and various equipment at our (3) facilities. Operating lease obligations exclude insurance, taxes, maintenance, percentage rent and other costs. These amounts are subject to fluctuation from year to year. For each of the years ended December 31, 2015, 2014 and 2013, these amounts collectively represented approximately 37% of the aggregate costs associated with our company-owned retail store operating leases.

These balances represent amounts owed under advertising and technology-related agreements. Excludes cash (4) settlements with taxing authorities for unrecognized tax benefits because we are unable to reliably estimate the timing of such payments.

In addition to the contractual obligations set forth in the table above, we have entered into employment agreements with certain of our executives that provide for compensation and certain other benefits. Under certain circumstances, including a change in control, some of these agreements provide for severance or other payments, if those circumstances occur during the term of the employment agreement.

### Off Balance Sheet Arrangements

As of December 31, 2015 and 2014, we had no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as variable interest entities, which would have been established for the purpose of facilitating off balance sheet arrangements, or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### Effect of Inflation

Inflation generally affects us by increasing costs of raw materials, labor, and equipment. We do not believe that inflation had any material effect on our results of operations in the periods presented in our audited consolidated financial statements.

### Critical Accounting Estimates

#### Use of Estimates

Certain amounts in our audited consolidated financial statements require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Our accounting policies are described in Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" to our audited consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data." Our critical accounting policies and estimates are described in this section. An accounting estimate is considered critical if:

- the estimate requires us to make assumptions about matters that were uncertain at the time the estimate was made;
- different estimates reasonably could have been used; or
- changes in the estimate that would have a material impact on our financial condition or our results of operations are likely to occur from period to period.

We believe that the accounting estimates used are appropriate and the resulting balances are reasonable. However, actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

#### Allowance for Doubtful Accounts

The majority of our retail revenues are received as cash at the point of sale. The majority of our franchise and wholesale revenues are billed with varying terms for payment. An allowance for doubtful accounts is established based on the financial condition of our franchisees and other third-party customers and historical write-off experience. Our allowance for doubtful accounts was \$4.1 million and \$6.2 million at December 31, 2015 and 2014, respectively.

#### Inventories

Inventory components consist of raw materials, work-in-process, finished product and packaging supplies. Inventories are stated at the lower of cost or market on a first in/first out basis ("FIFO"). Inventories include costs associated with distribution and transportation costs, as well as manufacturing overhead, which are capitalized and expensed as merchandise is sold. Inventories are recorded at net realizable value, net of shrinkage, obsolescence and vendor allowances. We regularly review our inventory levels in order to identify slow moving and short dated

products, using factors such as amount of inventory on hand, the remaining shelf life, current and expected market conditions, historical trends and the likelihood of recovering the inventory costs based on anticipated demand. Our inventory reduction for obsolescence, shrink and lower of cost or market was approximately \$12.0 million at December 31, 2015 and 2014, which represented approximately 2.0% of our inventory value.

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## Impairment of Long-Lived Assets

Long-lived assets, including fixed assets and definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. If the sum of the undiscounted future cash flows is less than the carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. Estimates of cash flows require significant judgment and certain assumptions about future volume, revenue and expense growth rates and asset disposal values. While we make estimates based on historical experience, current expectations and assumptions that we believe are reasonable, actual results, including future cash flows, could differ from our estimates resulting in required impairment charges. We recorded a \$5.0 million impairment charge related to Discount Supplements as explained below under "Goodwill and Indefinite-Lived Intangible Assets," in the third quarter of 2015. There were no impairment charges recorded in the years ended December 31, 2014 or 2013.

## Goodwill and Indefinite-Lived Intangible Assets

During the third quarter of 2015, as a result of a triggering event, an interim impairment test was performed for the goodwill balance of the Discount Supplements reporting unit. As a result of the impairment review, we recorded a \$23.3 million goodwill impairment in the third quarter of 2015 that together with the \$5.0 million impairment related to definite-lived intangibles and other long-lived assets resulted in \$28.3 million of long-lived asset impairments. On December 31, 2015, we completed an asset sale of Discount Supplement resulting in a \$2.7 million loss on sale. In the fourth quarter of 2015, we performed our annual goodwill impairment review and concluded all of our reporting units' fair values were substantially in excess of their respective carrying values, except for approximately \$12 million of goodwill associated with the Lucky Vitamin reporting unit, which had an estimated fair value that exceeded its carrying value by less than 15%.

Due to the Lucky Vitamin reporting unit fair value exceeding carrying value by less than 15%, we performed a sensitivity analysis used under the discounted cash flow method to determine the impact of its fair value. We assumed a decrease of 100 and 300 basis points to projected annual revenue, including the terminal year. In addition, we reviewed the effect of lowering the discount rate by 100 basis points. The following was the impact to this analysis:

Assumption Change	% Fair Value Excess (Deficit) to Carrying Value
1% decrease in annual revenue	7.9%
3% decrease in annual revenue	(2.7)%
1% increase in discount rate	0.9%

Although we believe we have used reasonable estimates and assumptions to calculate the fair value of the Lucky Vitamin reporting unit, these estimates and assumptions could be materially different from actual results. If actual market conditions are less favorable than those projected, or if events occur or circumstances change that would reduce the fair value of this reporting unit below its carrying value, we may be required to conduct an interim test or possibly recognize impairment charges, which may be material, in future periods.

Indefinite-lived intangible assets, consisting of our brands, are also evaluated annually in the fourth quarter for impairment and on an interim basis if events or changes in circumstances between annual tests indicate that the assets might be impaired. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the difference. In the fourth quarter of 2015, we performed the review for our indefinite-lived brand intangible assets using an income approach and concluded that the fair values were substantially in excess of their respective carrying values.

## Leases

Many of our lease agreements contain escalation clauses under which, if fixed and determinable, rent expense is recognized on a straight-line basis over the lives of the leases, including renewal periods that are reasonably assured. Certain of our leases also contain clauses for rent to be paid as a percentage of sales, which are based on a percentage of retail sales or a percentage of retail sales in excess of stipulated amounts (contingent rent). Contingent rent is recorded as rent expense when attainment of the target is considered probable and is recognized in proportion to the retail sales contributing to the achievement of the target. We regularly review projected sales for applicable stores to determine if the target has been achieved and the extent that projected sales will exceed the target to determine the

appropriate amount of contingent rent expense to record.

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### Self-Insurance

We are self-insured for certain losses related to health, workers' compensation and general liability insurance and we maintain stop-loss coverage with third-party insurers to limit our liability exposure. Liabilities associated with these losses are estimated by considering historical claims experience, estimated lag time to report and pay claims, average cost per claim and other actuarial factors.

### Income Taxes

We compute our annual tax rate based on the statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we earn income. Significant judgment is required in determining our annual tax rate and in evaluating uncertainty in our tax positions. We recognize a benefit for tax positions that we believe will more likely than not be sustained upon examination. The amount of benefit recognized is the largest amount of benefit that we believe has more than a 50% probability of being realized upon settlement. We regularly monitor our tax positions and adjust the amount of recognized tax benefit based on our evaluation of information that has become available since the end of our last financial reporting period.

We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, we consider future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, we would adjust related valuation allowances in the period that the change in circumstances occurs. As of December 31, 2015 and 2014, we had a valuation allowance of \$2.9 million and \$1.1 million, respectively, principally related to certain foreign net operating loss carryforwards.

### Recently Issued Accounting Pronouncements

Refer to Item 8, "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies."

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. In the ordinary course of business, we are primarily exposed to foreign currency, interest rate and fuel and certain other commodity risks. We have not entered into any significant derivative instruments during 2015 but we may in the future utilize derivative instruments to manage our exposure to fluctuations in fuel and certain other commodity prices, interest rates and foreign currency exchange rates.

#### Interest Rate Market Risk

The Senior Credit Facility is subject to changing interest rates. Although changes in interest rates do not impact our operating income, the changes could affect the fair value of such debt and related interest payments. An increase of 1% on our variable rate debt balance at December 31, 2015 would result in an increase to interest expense, net of \$10.6 million for the year ended December 31, 2015, after giving effect to the 0.75% floor on the Term Loan Facility. Refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity" for more information. A decrease in the current interest rates would have no impact on interest expense due to an interest rate floor that exists under the Senior Credit Facility.

#### Foreign Currency Exchange Rate Market Risk

We are subject to the risk of foreign currency exchange rate changes in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of our non-U.S. based subsidiaries. The primary currencies to which we are exposed to fluctuations are the Canadian Dollar, the Chinese Renminbi, the British Pound, and the Euro. The impact of foreign exchange rate changes primarily related to the Canadian dollar resulted in a decrease of approximately \$21 million to Retail segment revenue in 2015 compared with 2014. In addition, since our international franchisees pay for product sales and royalties to us in the U.S. dollar, any strengthening of the U.S. dollar relative to our franchisees' local currency could adversely impact our revenue.

We have intercompany balances with foreign entities that are routinely settled primarily relating to product sales and management fees. Gains or losses resulting from these foreign currency transactions were not material for the fiscal years ended December 31, 2015, 2014 and 2013.





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Fuel Price Market Risk

We rely on our ability to replenish depleted inventory through deliveries to our distribution centers and stores by various means of transportation, including shipments by sea and truck. We are exposed to fluctuations in fuel prices in these arrangements which may have a favorable or unfavorable impact to our consolidated financial statements.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.  
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of GNC Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of GNC Holdings, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP  
Pittsburgh, Pennsylvania  
February 11, 2016

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(in thousands, except per share amounts)

	December 31,	
	2015	2014
Current assets:		
Cash and cash equivalents	\$56,462	\$133,834
Receivables, net	142,486	136,361
Inventory (Note 3)	555,885	569,132
Deferred income taxes (Note 4)	10,916	7,622
Prepays and other current assets	27,114	29,394
Total current assets	792,863	876,343
Long-term assets:		
Goodwill (Note 5)	649,892	672,293
Brands (Note 5)	720,000	720,000
Other intangible assets, net (Note 5)	119,204	132,992
Property, plant and equipment, net (Note 6)	230,535	232,397
Deferred income taxes (Note 4)	3,358	3,079
Other long-term assets	36,167	40,696
Total long-term assets	1,759,156	1,801,457
Total assets	\$2,552,019	\$2,677,800
Current liabilities:		
Accounts payable	\$152,099	\$129,064
Current portion of long-term debt (Note 7)	4,550	4,740
Deferred revenue and other current liabilities (Note 8)	121,062	106,539
Total current liabilities	277,711	240,343
Long-term liabilities:		
Long-term debt (Note 7)	1,447,904	1,337,638
Deferred income taxes (Note 4)	304,491	282,842
Other long-term liabilities	53,352	60,934
Total long-term liabilities	1,805,747	1,681,414
Total liabilities	2,083,458	1,921,757
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value, 300,000 shares authorized:		
Class A, 114,341 shares issued, 76,276 shares outstanding and 38,065 shares held in treasury at December 31, 2015 and 114,025 shares issued, 88,335 shares outstanding and 25,690 shares held in treasury at December 31, 2014	114	113
Additional paid-in capital	916,128	877,566
Retained earnings	1,058,148	898,574
Treasury stock, at cost (Note 12)	(1,496,180)	(1,016,381)
Accumulated other comprehensive loss	(9,649)	(3,829)
Total stockholders' equity	468,561	756,043
Total liabilities and stockholders' equity	\$2,552,019	\$2,677,800

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



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Income

(in thousands, except per share amounts)

	Year ended December 31,		
	2015	2014	2013
Revenue	\$2,639,212	\$2,613,154	\$2,626,761
Cost of sales, including warehousing, distribution and occupancy	1,654,569	1,632,914	1,636,298
Gross profit	984,643	980,240	990,463
Selling, general, and administrative	567,296	554,882	533,666
Long-lived asset impairments (Note 5)	28,333	—	—
Other income, net	(4,093	) (14,154	) (3,701
Operating income	393,107	439,512	460,498
Interest expense, net (Note 7)	50,936	46,708	53,029
Income before income taxes	342,171	392,804	407,469
Income tax expense (Note 4)	122,872	136,932	142,448
Net income	\$219,299	\$255,872	\$265,021
Earnings per share (Note 13):			
Basic	\$2.61	\$2.83	\$2.75
Diluted	\$2.60	\$2.81	\$2.72
Weighted average common shares outstanding (Note 13):			
Basic	83,927	90,493	96,481
Diluted	84,186	90,918	97,383
Dividends declared per share	\$0.72	\$0.64	\$0.60

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

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

(in thousands)

	Year ended December 31,		
	2015	2014	2013
Net income	\$219,299	\$255,872	\$265,021
Other comprehensive loss:			
Foreign currency translation loss	(7,439	) (5,784	) (1,092
Release of cumulative translation loss to earnings related to substantial liquidation of Discount Supplements	1,619	—	—
Other comprehensive loss	(5,820	) (5,784	) (1,092
Comprehensive income	\$213,479	\$250,088	\$263,929

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



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GNC HOLDINGS, INC. AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity  
(in thousands, except per share amounts)

	Common Stock Class A		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Dollars					
Balance at December 31, 2012	99,336	\$ 111	\$(423,900 )	\$ 810,094	\$ 492,687	\$ 3,047	\$ 882,039
Comprehensive income	—	—	—	—	265,021	(1,092 )	263,929
Purchase of treasury stock	(6,547 )	—	(309,255 )	—	—	—	(309,255 )
Dividends declared	—	—	—	—	(57,600 )	—	(57,600 )
Exercise of stock options	1,222	1	—	14,588	—	—	14,589
Restricted stock awards	83	—	—	—	—	—	—
Minimum tax withholding requirements	(22 )	—	—	(1,327 )	—	—	(1,327 )
Excess tax benefit from stock-based compensation	—	—	—	15,369	—	—	15,369
Stock-based compensation	—	—	—	7,835	—	—	7,835
Balance at December 31, 2013	94,072	\$ 112	\$(733,155 )	\$ 846,559	\$ 700,108	\$ 1,955	\$ 815,579
Comprehensive income	—	—	—	—	255,872	(5,784 )	250,088
Purchase of treasury stock	(6,671 )	—	(283,226 )	—	—	—	(283,226 )
Dividends declared	—	—	—	—	(57,406 )	—	(57,406 )
Exercise of stock options	970	1	—	22,170	—	—	22,171
Restricted stock awards	(18 )	—	—	—	—	—	—
Minimum tax withholding requirements	(18 )	—	—	(762 )	—	—	(762 )
Excess tax benefit from stock-based compensation	—	—	—	3,743	—	—	3,743
Stock-based compensation	—	—	—	5,856	—	—	5,856
Balance at December 31, 2014	88,335	\$ 113	\$(1,016,381)	\$ 877,566	\$ 898,574	\$(3,829 )	\$ 756,043
Comprehensive income	—	—	—	—	219,299	(5,820 )	213,479
Purchase of treasury stock	(12,414)	—	(479,799 )	—	—	—	(479,799 )
Dividends declared	—	—	—	—	(59,725 )	—	(59,725 )
Exercise of stock options	80	1	—	1,743	—	—	1,744
Restricted stock awards	290	—	—	—	—	—	—
Minimum tax withholding requirements	(15 )	—	—	(574 )	—	—	(574 )
Excess tax benefit from stock-based compensation	—	—	—	604	—	—	604
Stock-based compensation	—	—	—	6,280	—	—	6,280
Issuance of convertible senior notes, net	—	—	—	30,509	—	—	30,509

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Balance at December 31, 2015      76,276    ~~-\$114~~    \$(1,496,180)    \$916,128    ~~-\$1,058,148~~    ~~\$(9,649)~~    )-\$468,561

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

(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$219,299	\$255,872	\$265,021
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	57,237	56,337	51,814
Amortization of debt costs	6,421	1,729	2,507
Stock-based compensation	6,280	5,857	7,835
Loss on debt refinancing	—	—	5,712
Long-lived asset impairments	28,333	—	—
Gain on sale of company-owned stores to franchisees	(7,580)	) (9,940	) (2,677
Deferred income tax expense	450	(6,418	) (1,778
Reversal of contingent purchase price liability	—	(4,438	) (859
Changes in assets and liabilities:			
Decrease (increase) in receivables	422	9,766	(13,802
Decrease (increase) in inventory	5,381	(24,089	) (54,435
Decrease in prepaid and other current assets	776	2,260	2,548
Increase (decrease) in accounts payable	22,375	(8,978	) 6,628
Increase (decrease) in deferred revenue and accrued liabilities	9,841	12,497	(27,907
Other operating activities	5,298	13,330	(1,161
Net cash provided by operating activities	354,533	303,785	239,446
Cash flows from investing activities:			
Capital expenditures	(45,827	) (70,455	) (50,247
Cash paid for acquisitions (net of cash acquired)	—	(6,402	) (27,562
Other investing activities	178	1,370	(465
Net cash used in investing activities	(45,649	) (75,487	) (78,274
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	—	249,552
Proceeds from issuance of convertible senior notes	287,500	—	—
Revolving credit facility borrowings	43,000	—	—
Payments on long-term debt	(169,060	) (5,443	) (3,379
Debt issuance costs	(8,225	) —	(2,397
Proceeds from exercise of stock options	1,744	22,170	14,588
Excess tax benefits from stock-based compensation	604	3,743	15,369
Minimum tax withholding requirements	(574	) (762	) (1,327
Cash paid for treasury stock	(479,799	) (283,226	) (309,255
Dividends paid to shareholders	(59,648	) (57,491	) (57,437
Net cash used in financing activities	(384,458	) (321,009	) (94,286
Effect of exchange rate changes on cash and cash equivalents	(1,798	) 328	790
Net (decrease) increase in cash and cash equivalents	(77,372	) (92,383	) 67,676
Beginning balance, cash and cash equivalents	133,834	226,217	158,541
Ending balance, cash and cash equivalents	\$56,462	\$133,834	\$226,217

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

(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash paid during the period for:			
Income taxes	\$ 121,006	\$ 125,088	\$ 143,573
Interest	42,911	48,940	40,696
	As of December 31,		
Non-cash investing activities:	2015	2014	2013
Capital expenditures in current liabilities	\$6,018	\$4,182	\$2,489

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS

GNC Holdings, Inc., a Delaware corporation ("Holdings," and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the "Company"), is a global specialty retailer of health and wellness products, which include vitamins, minerals and herbal supplements ("VMHS"), sports nutrition products, diet products and other wellness products.

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

The processing, formulation, packaging, labeling and advertising of the Company's products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (the "FDA"), the Federal Trade Commission (the "FTC"), 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 AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements and footnotes have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-K and Regulation S-X. The Company's annual reporting period is based on a calendar year.

Summary of Significant Accounting Policies

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

**Use of Estimates.** The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases these estimates on assumptions that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

**Cash and Cash Equivalents.** The Company considers cash and cash equivalents to include all cash and liquid deposits and investments with an original maturity of three months or less. The majority of payments due from banks for third-party credit and debit cards process within 24 to 72 hours, and are classified as cash equivalents.

**Receivables, net.** The Company extends credit terms for sales of product to its franchisees and, to a lesser extent, various third-party customers. Receivables consist principally of unpaid invoices for product sales, franchisee royalties and sublease payments. The Company also has notes receivables with certain of its franchisees that were approximately \$18 million at December 31, 2015 and 2014 and are primarily recorded within other long-term assets on the consolidated balance sheets.

The Company monitors the financial condition of the Company's franchisees and other third-party customers and establishes an allowance for doubtful accounts for balances estimated to be uncollectible. In addition to considering the aging of receivable balances and assessing the financial condition of the Company's franchisees, the Company considers collateral including inventory and fixed assets for domestic franchisees and letters of credit for international

franchisees. The allowance for doubtful accounts was \$4.1 million and \$6.2 million at December 31, 2015 and 2014, respectively.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories. Inventory components consist of raw materials, work-in-process, finished product and packaging supplies. Inventories are stated at the lower of cost or market on a first in/first out basis ("FIFO"). Inventories include costs associated with distribution and transportation costs, as well as manufacturing overhead, which are capitalized and expensed as merchandise is sold. Inventories are recorded at net realizable value, net of shrinkage, obsolescence and vendor allowances. The Company regularly reviews its inventory levels in order to identify slow moving and short dated products, using factors such as amount of inventory on hand, remaining shelf life, current and expected market conditions, historical trends and the likelihood of recovering the inventory costs based on anticipated demand.

Property, Plant and Equipment. Property, plant and equipment expenditures are recorded at cost. Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the property. The estimated useful lives are as follows:

Building	30 yrs
Machinery and equipment	3-10 yrs
Building and leasehold improvements	3-15 yrs
Furniture and fixtures	5-8 yrs
Software	3-5 yrs

Building improvements are depreciated over their estimated useful life or the remaining useful life of the related building, whichever period is shorter. Improvements to retail leased premises are depreciated over the estimated useful life of the improvements or the related leases including renewals that are reasonably assured, whichever period is shorter. Expenditures that materially increase the value or clearly extend the useful life of property, plant and equipment are capitalized while repair and maintenance costs incurred in the normal operations of business are expensed as incurred.

Goodwill and Intangible Assets. The Company was acquired by Ares Corporate Opportunities Fund II L.P. and Ontario Teachers' Pension Plan Board in March 2007 and subsequently completed an initial public offering in 2011 of its common stock resulting in these entities owning an immaterial number of shares of the Company's common stock. In connection with this acquisition, the Company recorded approximately \$600 million of goodwill and \$720 million of indefinite-lived intangible assets related to its brands.

The Company formally evaluates the carrying amount of goodwill for each of its reporting units in the fourth quarter. In addition, the Company performs an evaluation on an interim basis if it determines that recent events or prevailing conditions indicate a potential impairment of goodwill. A significant amount of judgment is involved in determining whether an indicator of impairment has occurred between annual impairment tests. These indicators include, but are not limited to, overall financial performance such as adverse changes in recent forecasts of operating results, industry and market considerations, a sustained decrease in the price of a share of the Company's common stock, updated business plans and regulatory and legal developments.

Goodwill is impaired when the carrying amount of a reporting unit's goodwill exceeds its implied fair value based upon a two-step process. In step one of the analysis, the fair value of the reporting unit is compared with its carrying value. If the carrying value of the reporting unit exceeds its fair value, step two of the test must be performed, which requires the Company to determine the implied fair value of goodwill in the same manner as if it had acquired the reporting unit in an arm's length transaction as of the testing date. This second step is performed by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded amount of goodwill exceeds this implied fair value, an impairment charge is recorded for the difference as an operating expense in the period incurred.

Indefinite-lived intangible assets, consisting of the Company's brands, are also evaluated annually in the fourth quarter for impairment and on an interim basis if events or changes in circumstances between annual tests indicate that the assets might be impaired. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the difference. See Note 5, "Goodwill and Intangible Assets, Net" for more information.



Impairment of Long-lived Assets. The Company evaluates whether the carrying values of property and equipment and definite-lived intangible assets have been impaired whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable based on estimated undiscounted future cash flows. Factors that may trigger an impairment review include significant changes in the intended use of assets, significant negative industry or economic trends, under-performing stores and store closings. If it is determined that the carrying value of the asset group is not recoverable, an impairment loss is recognized

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the amount the carrying amount of the asset exceeds its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques.

**Revenue Recognition.** Within the Retail segment, retail sales are recognized at the point of sale, net of sales tax.

Revenue related to e-commerce sales is recognized upon delivery to customers and includes shipping charges. 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. Revenue is deferred on sales of the Company's Gold Cards and subsequently recognized over the membership period, which is either a one- or two-year period.

Revenue from gift cards is recognized when the gift card is redeemed. These 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. Revenue recognized related to breakage was not material in each of the fiscal years ended December 31, 2015, 2014 and 2013.

The Franchise segment generates revenues through product sales to franchisees, royalties and franchise fees. 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 is recognized when risk of loss, title and insurable risks have transferred to the franchisee, net of estimated returns and allowances. Franchise fees are paid in advance, deferred and recognized by the Company at the time of a franchise store opening. Franchise royalties are recognized as a percentage of the franchisees' retail sales in the period the franchisees' sales occur.

The Manufacturing/Wholesale segment sells product to the Company's other segments, which is eliminated in consolidation, and third-party customers. Revenue is recognized when risk of loss, title and insurable risks have transferred to the customer, net of estimated returns and allowances.

**Cost of Sales.** The Company purchases products directly from third-party vendors and manufactures its own products. Cost of sales includes product costs, vendor allowances, inventory shrinkage and obsolescence, manufacturing overhead, freight, distribution, shipping and store occupancy costs. Store occupancy costs include rent, common area maintenance charges, real estate and other asset-based taxes, general maintenance, utilities, depreciation, fixture lease expenses and certain insurance expenses.

**Vendor Allowances.** The Company receives allowances from various vendors based on either sales or purchase volumes as well as cooperative advertising. As the right of offset exists under these arrangements, credit earned under both arrangements are recorded as a reduction in the vendors' accounts payable balances on the balance sheet and represent the estimated amounts due to the Company under the rebate provisions of such contracts. Amounts expected to be received from vendors relating to the purchase of merchandise inventories are recognized as a reduction to cost of sales as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction to the related expense in the period that the related expense is incurred. The Company recorded a reduction to cost of sales of \$98.7 million, \$89.5 million and \$92.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, for vendor allowances associated with the purchase of merchandise.

**Research and Development.** Research and development costs arising from internally generated projects are expensed as incurred. The Company recognized \$0.7 million, \$1.2 million and \$1.4 million for the years ended December 31, 2015, 2014 and 2013, respectively. These costs are included in selling, general and administrative expense in the accompanying consolidated statements of income.

**Advertising Expenditures.** The Company recognizes the costs to communicate the advertising, promotion and marketing programs the first time the communication takes place. The costs of advertising production are expensed as incurred. The Company administers national advertising funds on behalf of its franchisees. In accordance with the franchisee contracts, the Company collects advertising fees from the franchisees and utilizes the proceeds to coordinate various advertising and marketing campaigns. The Company recognized advertising expense of \$64.3 million, \$70.5 million and \$67.2 million for the years ended December 31, 2015, 2014 and 2013, respectively, net of

\$16.0 million, \$15.9 million and \$15.4 million received from the national advertising fund derived from the Company's franchisees.

Leases. The Company has various operating leases for company-owned and franchise store locations, distribution centers, and equipment generally with an initial term of between five and ten years, which may include renewal options for varying terms thereafter. Leases for franchise store locations are subleased to franchisees. The Company is the primary lessee for the majority of the franchise store locations and makes rental payments to the landlord directly, and then bills the franchisee for reimbursement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If a franchisee defaults on its sublease, the Company has in the past converted, and expects in the future to, convert any such franchise store into a company-owned store and fulfill the remaining lease obligation.

Leases generally include amounts relating to base rent, percent rent and other charges such as common area maintenance and real estate taxes. Periodically, the Company receives varying amounts of reimbursements from landlords to compensate the Company for costs incurred in the construction of stores. These reimbursements are recorded as deferred rent within other long-term liabilities on the consolidated balance sheet and are amortized as a reduction to rent expense over the life of the related lease. The expenditures made by the Company are recorded as an increase to leasehold improvements within property, plant and equipment, net. Many of the Company's lease agreements contain escalation clauses under which, if fixed and determinable, rent expense is recognized on a straight-line basis over the lives of the leases, including renewal periods that are reasonably assured. Certain of the Company's leases also contain clauses for rent to be paid as a percentage of sales, which are based on a percentage of retail sales or a percentage of retail sales in excess of stipulated amounts (contingent rent). Contingent rent is recorded as rent expense when attainment of the target is considered probable and is recognized in proportion to the retail sales contributing to the achievement of the target.

Contingencies. The Company accrues a loss contingency if it is probable and can be reasonably estimated. If both of the conditions above are not met, disclosure is made when there is at least a reasonable possibility that a loss contingency has been incurred. As facts concerning contingencies evolve and become known, management reassesses the likelihood of probable loss and makes appropriate adjustments to its financial statements.

Pre-Opening Expenditures. The Company recognizes the cost associated with the opening of new stores, which consist primarily of rent, marketing, payroll and recruiting costs as incurred.

Income Taxes. The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities result from (i) the future tax impact of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and (ii) differences between the recorded value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income tax assets are reduced by a valuation allowance if it is more likely than not that some portion of the deferred income tax asset will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is at least more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The amount of the tax benefit that is recognized is measured as the largest amount of benefit that is more likely than not to be realized upon effective settlement. The Company classifies interest and penalties accrued in connection with unrecognized tax benefits as income tax expense in its consolidated statements of income.

Refer to Note 4, "Income Taxes," for more information.

Self-Insurance. The Company is self-insured for certain losses related to health, workers' compensation and general liability insurance and maintains stop-loss coverage with third-party insurers to limit its liability exposure. Liabilities associated with these losses are estimated by considering historical claims experience, estimated lag time to report and pay claims, average cost per claim and other actuarial factors.

Stock-based Compensation. The Company utilizes the Black-Scholes model to calculate the fair value of time-based stock option awards. The grant-date fair value of the Company's time-based restricted stock, performance-based restricted stock, time-based restricted stock units, and performance-based restricted stock units (collectively herein referred to as "restricted stock awards") are based on the closing price for a share of the Company's common stock on the New York Stock Exchange (the "NYSE") on the grant date. Compensation expense for time-based awards is recognized over the applicable vesting period, net of expected forfeitures. Performance-based awards also include a service condition and compensation expense is recognized over the applicable vesting period if the performance condition is probable of being achieved, net of expected forfeitures. The Company regularly reviews the probability of achieving the performance condition on these awards.

Earnings Per Share. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period. The Company uses the treasury stock method to compute diluted EPS, which assumes that outstanding stock awards were converted into common stock and that outstanding stock options that are in-the-money were exercised, and the resulting proceeds (which includes unrecognized compensation expense and excess tax benefits) were used to acquire shares of common stock at its average market price during the reporting period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Foreign Currency.** For all foreign operations, the functional currency is the local currency. Assets and liabilities of foreign operations are translated into the Company's reporting currency, the U.S. dollar, using period-end exchange rates, while income and expenses are translated using the average exchange rates for the reporting period. Translation gains and losses are recorded as part of other comprehensive income on the consolidated balance sheet. The Company has intercompany balances with foreign entities that are routinely settled primarily relating to product sales and management fees. Gains or losses resulting from these foreign currency transactions are included in the consolidated statements of income and were not material for the fiscal years ended December 31, 2015, 2014 and 2013.

**Correction of Immaterial Error**

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

**Revision**

Certain amounts in the consolidated financial statements for prior year periods have been revised to conform to the current year's presentation with no impact on previously reported operating income, net income or stockholders' equity. None of these revisions are material to prior periods.

**Other Income, Net**

Other income, net typically includes gains on the sale of company-owned stores to franchisees and foreign currency gains and losses. The year ended December 31, 2015 includes a loss of \$2.7 million attributable to the closure and related asset sale of Discount Supplements as further described in Note 5 "Goodwill and Intangible Assets." The years ended December 31, 2014 and 2013 include the reversal of \$4.4 million and \$0.9 million in contingent purchase price liabilities, respectively, associated with the Discount Supplements and Lucky Vitamin acquisitions.

**Recently Issued Accounting Pronouncements**

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

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

In April 2015, the FASB issued ASU 2015-03, which requires an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with the treatment of debt discounts. This standard does not affect the recognition and measurement guidance for debt issuance costs. This standard is effective for fiscal years beginning after December 15, 2015. The Company does not believe the adoption of this guidance will have a material effect on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, which updates guidance on performance stock awards. The update states that for any award that has a performance target that affects vesting and that could be achieved after the requisite period, that performance target should still be treated as a performance condition. The Company does not

believe the adoption of this guidance will have a material effect on the Company's consolidated financial statements. In May 2014, the FASB issued ASU 2014-09, which updates revenue recognition guidance relating to contracts with customers. This standard states that an entity should recognize revenue to depict the transfer of promised goods or services to

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## NOTE 3. INVENTORY

The net realizable value of inventory consisted of the following:

	December 31,	
	2015	2014
	(in thousands)	
Finished product ready for sale	\$487,075	\$501,027
Work-in-process, bulk product and raw materials	62,242	60,911
Packaging supplies	6,568	7,194
Total inventories, net	\$555,885	\$569,132

## NOTE 4. INCOME TAXES

Income before income taxes consisted of the following components:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Domestic	\$365,362	\$373,122	\$389,459
Foreign	(23,191 )	19,682	18,010
Total income before income taxes	\$342,171	\$392,804	\$407,469

Income tax expense consisted of the following components:

	Year ended December 31		
	2015	2014	2013
	(in thousands)		
Current:			
Federal	\$104,711	\$120,086	\$120,137
State	13,414	16,968	15,433
Foreign	4,297	6,296	8,656
Total current income tax expense	122,422	143,350	144,226
Deferred:			
Federal	3,193	(3,785 )	(363 )
State	(1,412 )	1,042	(955 )
Foreign	(1,331 )	(3,675 )	(460 )
Total deferred income tax expense (benefit)	450	(6,418 )	(1,778 )
Total income tax expense	\$122,872	\$136,932	\$142,448



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the differences between the Company's effective tax rate for financial reporting purposes and the federal statutory tax rate:

	Year ended December 31,				
	2015	2014	2013		
Percent of pretax earnings:					
Statutory federal tax rate	35.0	% 35.0	% 35.0	%	
Increase (reduction) resulting from:					
State income tax, net of federal tax benefit	3.5	% 3.2	% 3.1	%	
Other permanent differences	0.4	% 0.1	% 0.1	%	
International operations, net of foreign tax credits	3.8	% (0.5)	)% —	%	
Worthless stock tax benefit	(3.4)	)% —	% —	%	
Federal tax credits and income deductions	(2.5)	)% (2.3)	)% (2.1)	)%	
Tax impact of uncertain tax positions and other	(0.9)	)% (0.6)	)% (1.1)	)%	
Effective income tax rate	35.9	% 34.9	% 35.0	%	

As described in Note 5, "Goodwill and Intangible Assets, Net," the Company recorded a \$28.3 million long-lived asset impairment in the third quarter of 2015 related to the Discount Supplements business. The Company fully reduced the deferred income tax assets relating to net operating loss carryforwards of Discount Supplements by a valuation allowance in the third quarter of 2015 and recorded a discrete tax benefit of \$11.8 million due to the effect of an anticipated worthless stock deduction resulting from excess tax basis in the common shares of Discount Supplements.

Significant components of the Company's deferred tax assets and liabilities consisted of the following at December 31:

	2015			2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	(in thousands)					
Current assets (liabilities):						
Operating reserves	\$7,159	\$—	\$7,159	\$5,971	\$—	\$5,971
Deferred revenue	2,976	—	2,976	2,697	—	2,697
Prepaid expenses	—	(3,936)	(3,936)	—	(5,282)	(5,282)
Accrued workers' compensation	2,891	—	2,891	2,811	—	2,811
Other	1,826	—	1,826	1,425	—	1,425
Total current	\$14,852	\$(3,936)	\$10,916	\$12,904	\$(5,282)	\$7,622
Non-current assets (liabilities):						
Intangibles	\$—	\$(331,157)	\$(331,157)	\$—	\$(327,675)	\$(327,675)
Fixed assets	16,900	—	16,900	17,631	—	17,631
Stock compensation	3,344	—	3,344	1,977	—	1,977
Net operating loss and credit carryforwards	11,825	—	11,825	9,421	—	9,421
Long-term rent liabilities	8,438	—	8,438	7,836	—	7,836
Deferred Revenue	3,775	—	3,775	5,070	—	5,070
Convertible senior notes	—	(16,599)	(16,599)	—	—	—
Other	5,256	—	5,256	7,121	—	7,121
Valuation allowance	(2,915)	—	(2,915)	(1,144)	—	(1,144)
Total non-current	\$46,623	\$(347,756)	\$(301,133)	\$47,912	\$(327,675)	\$(279,763)
Total net deferred taxes	\$61,475	\$(351,692)	\$(290,217)	\$60,816	\$(332,957)	\$(272,141)



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the convertible debt issuance in August 2015 as explained in Note 7, "Long-Term Debt / Interest Expense," the Company recorded a deferred tax liability, which represents the difference between the carrying value of the debt for book purposes and tax purposes, the latter of which excludes the conversion feature bifurcation. The recognition of this deferred tax liability was recorded as a reduction to additional paid-in capital on the accompanying consolidated balance sheet and will be amortized as a reduction to income tax expense over the life of the convertible debt.

At December 31, 2015 and 2014, the Company had deferred tax assets relating to foreign and state NOLs with lives ranging from 5 to 20 years. As of December 31, 2015 and 2014, a valuation allowance was provided for certain NOLs, as the Company currently believes that these NOLs may not be realizable prior to their expiration. During 2015, the Company increased its valuation allowance by \$1.8 million. During 2014 and 2013, the Company reduced its valuation allowance by \$1.6 million and \$1.4 million, respectively. The valuation allowance was adjusted based on a change in circumstances, including anticipated future earnings and a tax law change, which caused a change in judgment about the realizability of certain deferred tax assets related to NOLs.

The Company does not have any material undistributed earnings of international subsidiaries at December 31, 2015 and 2014 as these subsidiaries are either considered to be branches for United States tax purposes, to have incurred cumulative NOLs, or to have only minimal undistributed earnings.

Holdings files a consolidated federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it and its subsidiaries operate. The statutes of limitation for the Company's U.S. federal income tax returns are closed for years through 2011. The Company's 2010 and 2011 federal income tax returns have been examined by the Internal Revenue Service. The Internal Revenue Service closed the examination without making any material adjustments to the returns. The Company has various state and local jurisdiction tax years open to possible examination (the earliest open period is generally 2011), and the Company also has certain state and local tax filings currently under audit. As of December 31, 2015, the Company believes that it is appropriately reserved for any potential federal and state income tax exposures.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31,		
	2015	2014	2013
	(in thousands)		
Balance of unrecognized tax benefits at beginning of period	\$11,652	\$10,848	\$12,882
Additions for tax positions taken during current period	1,345	1,524	873
Additions for tax positions taken during prior periods	543	116	1,965
Reductions for tax positions taken during prior periods	(6,258)	(527)	(4,068)
Settlements	—	(309)	(804)
Balance of unrecognized tax benefits at end of period	\$7,282	\$11,652	\$10,848

The Company's liability for uncertain tax positions decreased by \$3.3 million during the current year due in part to the expiration of certain statutes of limitation with respect to the 2011 fiscal year, which was recorded as a reduction to income tax expense. The Company's liability for uncertain tax positions also decreased by \$3.0 million with a corresponding reduction to receivables.

As of December 31, 2015, the Company is not aware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. Accrued interest and penalties were \$1.8 million and \$4.2 million at December 31, 2015 and 2014, respectively. At December 31, 2015, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$9.1 million, including the impact of accrued interest and penalties. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its unrecognized tax benefits reflect the most likely outcome. The Company adjusts these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash. Favorable resolution would be recognized as a reduction to the effective income tax rate in the

period of resolution.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET

Annual Impairment Test

For the 2015 annual goodwill impairment assessment, management concluded that the Company's reporting units had fair values estimated using a discounted cash flow method (income approach) substantially in excess of their respective carrying values, except for approximately \$12 million of goodwill associated with the Lucky Vitamin reporting unit, which had an estimated fair value that exceeded its carrying value by less than 15%. If actual market conditions are less favorable than those projected, or if events occur or circumstances change that would reduce the fair value of the Lucky Vitamin reporting unit below its carrying value, management may be required to conduct an interim test or possibly recognize impairment charges in future periods. With the exception of the Discount Supplements reporting unit, no other goodwill impairments have been recorded to date. Management also performed a quantitative impairment test for its indefinite-lived brand intangible assets and concluded that the fair values under the income approach were substantially in excess of their respective carrying values.

Discount Supplements

Acquisition

On October 2, 2013, the Company acquired the assets and assumed the liabilities of Discount Supplements, which was accounted for as a business combination. The total purchase price for this acquisition was approximately \$33.3 million, of which \$24.6 million, \$9.6 million, \$0.9 million was allocated to goodwill, definite-lived intangible assets and other net liabilities, respectively.

Impairment Charge

During the third quarter of 2015, the Company evaluated the financial results of key strategic initiatives, which were undertaken as a result of declining results in the first half of 2015 and continued deterioration of market share. Based on the financial results for the quarter ended September 30, 2015, the Company concluded that these strategic measures were unsuccessful. As a result, the Company determined the Discount Supplements business did not fit into its strategic plan for maximizing long-term shareholder returns based on the Company's expectations of the required investments necessary to improve the financial performance of the business, both in the short and long-term. The current and anticipated financial performance of the business, coupled with the Company's consideration of future strategic options was considered a triggering event requiring an interim goodwill impairment review of the Discount Supplements reporting unit as of September 30, 2015.

The Company determined the fair value of the Discount Supplements reporting unit at September 30, 2015 using a discounted cash flow method (income approach). The key assumptions used were as follows:

Future cash flow assumptions - The Company's projections for Discount Supplements were based on organic growth and were derived from historical experience and assumptions regarding future growth and profitability trends. These projections also took into account the current economic climate in the United Kingdom where Discount Supplements operated, and the extent to which the regulatory environment was expected to impact future growth opportunities. The Company's analysis incorporated an assumed period of cash flows of five years with a terminal value.

Discount rate - The discount rate was based on Discount Supplements' estimated weighted average cost of capital ("WACC"). The components of WACC are the cost of equity and the cost of debt, each of which requires judgment by management to estimate. The Company developed its cost of equity estimate based on perceived risks and predictability of future cash flows. At September 30, 2015, the WACC used to estimate the fair value of the Discount Supplements reporting unit was 16.5%.

As a result of the review, the Company concluded that the carrying value of the Discount Supplements reporting unit exceeded its fair value and proceeded to step two of the impairment analysis. Based on the results of step two, the Company concluded that this reporting unit was fully impaired; as a result, a goodwill impairment charge of \$23.3 million was recorded in the third quarter of 2015.

As a result of the impairment indicators, the Company also performed an impairment analysis with respect to the definite-long-lived assets of Discount Supplements, consisting of trade name and website intangibles and property and equipment. The fair value of these assets were determined using various income approaches. Based on the results of the analyses, the Company recorded impairment charges of \$4.4 million on the trade name and website intangible assets and \$0.6 million on property and

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

equipment. All of the aforementioned charges totaling \$28.3 million are recorded in long-lived asset impairments in the consolidated statement of operations for the year ended December 31, 2015.

**Asset Sale**

The Company completed an asset sale of Discount Supplements on December 31, 2015, resulting in a loss of \$2.7 million recorded within other income, net on the consolidated statement of income primarily consisting of the release of cumulative translation losses to earnings, lease-related exit costs and inventory losses primarily related to packaging materials. The Company considers the Discount Supplements legal entity to be substantially liquidated as there are no future ongoing operations. The proceeds from the sale of \$1.3 million were received in the first quarter of 2016.

**Current and Prior Years Activity**

The following table summarizes the Company's goodwill activity by reportable segment:

	Retail (in thousands)	Franchising	Manufacturing/Wholesale	Total
Balance at December 31, 2013	\$346,202	\$117,303	\$202,841	\$666,346
Acquired franchise stores	1,372	—	—	1,372
Acquisition of The Health Store	6,853	—	—	6,853
Translation effect of exchange rates	(2,278)	) —	—	(2,278)
Balance at December 31, 2014	\$352,149	\$117,303	\$202,841	\$672,293
Acquired franchise stores	1,935	—	—	1,935
Translation effect of exchange rates	(1,077)	) —	—	(1,077)
Goodwill impairment - Discount Supplements	(23,259)	) —	—	(23,259)
Balance at December 31, 2015	\$329,748	\$117,303	\$202,841	\$649,892

Intangible assets, net consisted of the following:

	Retail Brand (in thousands)	Franchise Brand	Operating Agreements	Other Intangibles	Total
Balance at December 31, 2013	\$500,000	\$220,000	\$125,665	\$17,109	\$862,774
Acquired franchise stores	—	—	—	781	781
Acquisition of The Health Store	—	—	—	788	788
Amortization expense	—	—	(6,653)	) (4,222)	) (10,875)
Translation effect of exchange rates	—	—	—	(476)	) (476)
Balance at December 31, 2014	\$500,000	\$220,000	\$119,012	\$13,980	\$852,992
Acquired franchise stores	—	—	—	963	963
Amortization expense	—	—	(6,653)	) (3,599)	) (10,252)
Translation effect of exchange rates	—	—	—	(138)	) (138)
Impairment charge - Discount Supplements	—	—	—	(4,361)	) (4,361)
Balance at December 31, 2015	\$500,000	\$220,000	\$112,359	\$6,845	\$839,204





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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Weighted-Average Life	December 31, 2015			December 31, 2014		
		Gross	Accumulated Amortization/Impairment	Carrying Amount	Gross	Accumulated Amortization	Carrying Amount
(in thousands)							
Goodwill	Indefinite	\$673,151	\$ (23,259 )	\$649,892	\$672,293	\$—	\$672,293
Brands—retail	Indefinite	500,000	—	500,000	500,000	—	500,000
Brands—franchise	Indefinite	220,000	—	220,000	220,000	—	220,000
Retail agreements	30.3	31,000	(9,407 )	21,593	31,000	(8,354 )	22,646
Franchise agreements	25.0	70,000	(24,617 )	45,383	70,000	(21,817 )	48,183
Manufacturing agreements	25.0	70,000	(24,617 )	45,383	70,000	(21,817 )	48,183
Other intangibles	11.8	10,222	(4,560 )	5,662	20,457	(7,427 )	13,030
Franchise rights	3.0	7,206	(6,023 )	1,183	6,243	(5,293 )	950
Total		\$1,581,579	\$ (92,483 )	\$1,489,096	\$1,589,993	\$ (64,708 )	\$1,525,285

The following table represents future amortization expense of definite-lived intangible assets at December 31, 2015:

Years ending December 31,	Amortization expense (in thousands)
2016	\$8,108
2017	7,544
2018	7,369
2019	7,257
2020	7,204
Thereafter	81,722
Total future amortization expense	\$119,204

For the years ended December 31, 2015, 2014 and 2013, the Company acquired 44, 25 and 16 franchise stores, respectively. These acquisitions are accounted for utilizing the acquisition method of accounting, and the Company allocated the purchase price by recognizing acquired inventory, fixed assets, franchise rights and other net assets at fair value with any excess being recognized as goodwill. For the years ended December 31, 2015, 2014 and 2013, the total purchase prices associated with these acquisitions was \$6.2 million, \$3.7 million and \$2.9 million, respectively. On April 17, 2014, the Company acquired the assets and assumed the liabilities of The Health Store, which was accounted for as a business combination. The total purchase price for this acquisition was approximately \$8.9 million, of which \$6.9 million, \$0.8 million, and \$1.2 million was allocated to goodwill, definite-lived intangible assets and other net assets, respectively.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following:

	December 31,	
	2015	2014
	(in thousands)	
Land, buildings and improvements	\$70,487	\$69,165
Machinery and equipment	150,809	140,939
Leasehold improvements	139,448	132,378
Furniture and fixtures	106,722	101,823
Software	54,506	42,909
Construction in progress	6,340	4,628
Total property, plant and equipment	528,312	491,842
Less: accumulated depreciation	(297,777 )	(259,445 )
Net property, plant and equipment	\$230,535	\$232,397

The Company recognized depreciation expense on property, plant and equipment of \$47.0 million, \$45.5 million and \$42.8 million for the years ended December 31, 2015, 2014 and 2013, respectively, which is included in occupancy expense as part of cost of sales and selling, general and administrative expense on the consolidated statements of income.

## NOTE 7. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt consisted of the following:

	December 31,	
	2015	2014
	(in thousands)	
Term Loan Facility (net of \$2.2 million and \$3.3 million discount)	\$1,174,369	\$1,342,165
Revolving Credit Facility	43,000	—
Convertible senior notes	235,085	—
Other	—	213
Total debt	\$1,452,454	\$1,342,378
Less: current maturities	(4,550 )	(4,740 )
Total long-term debt	\$1,447,904	\$1,337,638

At December 31, 2015, the Company's future annual contractual principal payments on long-term debt were as follows:

Years Ending December 31,	Term Loan Facility <sup>(1)</sup>	Revolving Credit Facility	Convertible Notes <sup>(2)</sup>	Total
	(in thousands)			
2016	\$4,550	\$—	\$—	\$4,550
2017	4,550	43,000	—	47,550
2018	4,550	—	—	4,550
2019	1,162,958	—	—	1,162,958
2020	—	—	287,500	287,500
Total future principal payments	\$1,176,608	\$43,000	\$287,500	\$1,507,108

(1) Includes the unamortized original issuance discount of \$2.2 million.

(2) Includes unamortized conversion feature of \$46.3 million and original issuance discount of \$6.1 million.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Senior Credit Facility

In March 2011, General Nutrition Centers, Inc. ("Centers"), a wholly owned subsidiary of Holdings, entered into the Senior Credit Facility, consisting of the Term Loan Facility and the Revolving Credit Facility. The Senior Credit Facility permits the Company to prepay a portion or all of the outstanding balance without incurring penalties (except London Interbank Offering Rate ("LIBOR") breakage costs). GNC Corporation, the Company's indirect wholly owned subsidiary ("GNC Corporation"), and Centers' existing and future domestic subsidiaries have guaranteed Centers' obligations under the Senior Credit Facility. In addition, the Senior Credit Facility is collateralized by first priority pledges (subject to permitted liens) of substantially all of Centers' assets, including its equity interests and the equity interests of its domestic subsidiaries.

During the fourth quarter of 2013, Centers amended and restated the Senior Credit Facility to, among other amendments, increase the size of the Term Loan Facility by \$252.5 million, increase the amount available for borrowings under the Revolving Credit Facility from \$80 million to \$130 million, extend the Revolving Credit Facility maturity date to March 2017, and extend the maturity of the Term Loan Facility to March 2019. This amendment resulted in a \$5.7 million loss on debt refinancing recorded within interest expense, net on the accompanying consolidated statement of income consisting of the write-off of deferred financing fees and an original issuance discount. The amendment also included changes to ABR, LIBOR, and Applicable Margin rates.

As of December 31, 2015 and 2014, the Company's interest rate on its Term Loan Facility was 3.25%. As of December 31, 2015, the Company had \$43.0 million outstanding on its Revolving Credit Facility with a weighted average interest rate of 2.6%. The Company is also required to pay an annual fee of 2.50% on outstanding letters of credit and an annual commitment fee of 0.5% on the undrawn portion of the Revolving Credit Facility. The Company had \$85.9 million available under its revolving credit facility at December 31, 2015 after taking into effect amounts drawn, including \$1.1 million of letters of credit.

The Senior Credit Facility contains customary covenants, including incurrence covenants and certain other limitations on the ability of GNC Corporation, Centers, and Centers' subsidiaries to, among other things, make optional payments in respect of other debt instruments, pay dividends or other payments on capital stock, and enter into arrangements that restrict their ability to pay dividends or grant liens. As of December 31, 2015, the Company believes that it is in compliance with all covenants under the Senior Credit Facility.

Convertible Debt

Summary of Terms. On August 10, 2015, the Company issued \$287.5 million principal amount of 1.5% convertible senior notes due 2020 (the "Notes") in a private offering. The Notes are governed by the terms of an indenture between the Company and BNY Mellon Trust Company, N.A., as the Trustee (the "Indenture"). The Notes will mature on August 15, 2020, unless earlier purchased by the Company or converted. The Notes will bear interest at a rate of 1.5% per annum, and additionally will be subject to special interest in connection with any failure of the Company to perform certain of its obligations under the Indenture.

The Notes are unsecured obligations and do not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company or any of its subsidiaries. Certain events are considered "events of default" under the Notes, which may result in the acceleration of the maturity of the Notes, as described in the indenture governing the Notes. The Notes are fully and unconditionally guaranteed by certain operating subsidiaries of the Company ("Subsidiary Guarantors") and are subordinated to the Subsidiary Guarantors obligations from time to time with respect to the Senior Credit Facility and ranks equal in right of payment with respect to the Subsidiary Guarantor's other obligations.

The initial conversion rate applicable to the Notes is 15.1156 shares of common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$66.16 per share. The conversion rate will be subject to adjustment upon the occurrence of certain specified events, but will not be adjusted for any accrued and unpaid special interest. In addition, upon the occurrence of a "make-whole fundamental change" as defined in the Indenture, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change.

Prior to May 15, 2020, the Notes will be convertible only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2015, if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding calendar quarter, the last reported sale price of the Company's common stock on such trading day is greater than or equal to 130% of the applicable conversion price on such trading day; (2) during the 5 consecutive business day period after any 10 consecutive trading day period in which, for each day of that period, the trading price per \$1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on such trading day; or (3) upon the

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

occurrence of specified corporate transactions. On and after May 15, 2020, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Notes will be settled, at the Company's election, in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. If the Company has not delivered a notice of its election of settlement method prior to the final conversion period it will be deemed to have elected combination settlement with a dollar amount per note to be received upon conversion of \$1,000.

**Accounting Treatment.** Under GAAP, certain convertible debt instruments that may be settled in cash on conversion are required to be separately accounted for as liability and equity components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. Accordingly, in accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, which is recognized as a debt discount recorded as additional paid-in capital on the consolidated balance sheet represents the difference between the proceeds from the issuance of the Notes and the fair value of the liability component of the Notes and will be amortized to interest expense together with debt issuance costs described below using an effective interest rate of 6.1% over the term of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The Company recorded a deferred tax liability in connection with the convertible debt instrument, which represents the difference between the carrying value of the debt for book purposes and tax purposes, the latter of which excludes the conversion feature bifurcation. The recognition of this deferred tax liability was recorded as a reduction to additional paid-in capital on the accompanying consolidated balance sheet. Refer to Note 4, "Income Taxes" for more information. In accounting for the debt issuance costs related to the issuance of the Notes, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Debt issuance costs attributable to the liability component are amortized to interest expense using the effective interest method over the term of the Notes, and debt issuance costs attributable to the equity component are netted with the equity component in stockholders' equity. Debt issuance costs related to the Notes were comprised of discounts and commissions payable to the initial purchasers of \$7.9 million and third party offering costs of \$0.3 million. Discounts and commissions payable to the initial purchasers attributable to the liability component were recorded as a contra-liability and are presented net against the convertible senior notes balance on the consolidated balance sheet. Third party offering costs attributable to the liability component were recorded as an asset and are presented in other long-term assets on the consolidated balance sheet. The Notes consist of the following components as of December 31, 2015 (in thousands):

Liability component		
Principal	\$287,500	
Conversion feature	(46,271	)
Discount related to debt issuance costs	(6,144	)
Net carrying amount	\$235,085	
Equity component		
Conversion feature	\$49,680	
Discount related to debt issuance costs	(1,421	)
Deferred taxes	(17,750	)
Net amount recorded in additional paid-in capital	\$30,509	



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Interest Expense

The Company's net interest expense was as follows:

	For the year ended December 31,		
	2015	2014	2013
	(in thousands)		
Senior Credit Facility:			
Term Loan coupon	\$42,147	\$44,427	\$42,020
Revolver	805	682	680
Loss on debt refinancing	—	—	5,712
Amortization of discount and deferred financing fees (*)	2,583	1,729	4,712
Subtotal: Senior Credit Facility	45,535	46,838	53,124
Convertible Senior Notes:			
Coupon	1,702	—	—
Amortization of conversion feature	3,410	—	—
Amortization of discount and deferred financing fees	412	—	—
Subtotal: Convertible Senior Notes	5,524	—	—
Mortgage and other interest expense	81	123	159
Interest income	(204	) (253	) (254
Interest expense, net	\$50,936	\$46,708	\$53,029

(\*) In connection with the partial pay-down of \$164.3 million of the Term Loan Facility, the Company recorded \$0.8 million in accelerated amortization, which represents the pro-rata portion of the original issuance discount and deferred financing fees associated with the paid-down balance.

## NOTE 8. DEFERRED REVENUE AND OTHER CURRENT LIABILITIES

Deferred revenue and other current liabilities consisted of the following:

	December 31,	
	2015	2014
	(in thousands)	
Deferred revenue	\$45,018	\$47,823
Accrued compensation and related benefits	31,091	24,958
Accrued real estate taxes, utilities and other occupancy	3,352	3,028
Accrued sales tax	3,659	4,628
Accrued interest	2,210	374
Accrued income taxes	1,181	564
Dividends payable	222	152
Other current liabilities	34,329	25,012
Total deferred revenue and other current liabilities	\$121,062	\$106,539

Deferred revenue consists primarily of Gold Card membership fees and gift card sales. During 2014, the Company incurred \$7.8 million of expenses associated with changes among the executive leadership team. These expenses relating to management realignment consisted principally of executive severance. In October 2013, the Company transitioned to a third-party product transportation network and moved away from the Company's existing private fleet. The cost related to this transition was \$12.2 million, consisting of early lease termination on transportation equipment of \$9.8 million and employee severance and other costs of \$2.4 million. At December 31, 2015, the Company had no liability relating to the above restructuring costs.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Term Loan Facility	\$1,174,369	\$1,145,010	\$1,342,378	\$1,288,683
Convertible senior notes	235,085	188,940	—	—

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

As described in Note 5, "Goodwill and Intangible Assets, Net," the Company recorded asset impairments during the third quarter of 2015 which resulted in goodwill and definite-long-lived assets for Discount Supplements being measured at fair value on a non-recurring basis using Level 3 inputs at September 30, 2015.

## NOTE 10. LONG-TERM LEASE OBLIGATIONS



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's rent expense, which is recorded within cost of sales on the consolidated statements of income, was as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Company-owned and franchised retail stores:			
Rent on operating leases	\$197,114	\$189,369	\$174,756
Sublease income	(43,569 )	(41,696 )	(37,680 )
Landlord related taxes	21,854	21,247	19,552
Common operating expenses	38,663	37,284	34,978
Percent rent	20,775	22,185	23,943
Total company-owned and franchised retail stores	234,837	228,389	215,549
Truck fleet	—	—	4,491
Other	16,495	15,606	13,484
Total rent expense	\$251,332	\$243,995	\$233,524

Minimum future obligations for non-cancelable operating leases, excluding optional renewal periods, with initial or remaining terms of at least one year in effect at December 31, 2015 were as follows for the years ending December 31.

	Company-Owned Retail Stores (in thousands)	Franchise Retail Stores	Sublease Income	Other	Total
2016	\$143,706	\$31,209	\$(31,209 )	\$5,226	\$148,932
2017	118,617	25,608	(25,608 )	4,480	123,097
2018	89,722	18,689	(18,689 )	2,431	92,153
2019	63,664	12,325	(12,325 )	1,853	65,517
2020	43,968	7,019	(7,019 )	1,669	45,637
Thereafter	96,341	8,876	(8,876 )	10,647	106,988
Total future obligations	\$556,018	\$103,726	\$(103,726 )	\$26,306	\$582,324

## NOTE 11. COMMITMENTS AND CONTINGENCIES

## Litigation

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

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

The Company's contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are

significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement posture of the parties. Consequently, except as otherwise noted below with regard to a particular matter, the Company cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and the Company is unable to estimate a possible loss or range of loss.

As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims.

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

**DMAA/Aegeline Claims.** Prior to December 2013, the Company sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/ dimethylamylamine/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 December 31, 2014, the Company was named in 28 personal injury lawsuits involving products containing DMAA and/or Aegeline.

As a general matter, the proceedings associated with these personal injury cases, which generally seek indeterminate money damages, are in the early stages, and any losses that may arise from these matters are not probable or reasonably estimable at this time. The case captioned *Leanne Sparling and Michael Sparling on behalf of Michael Sparling, deceased v. USPLabs, GNC Corporation et al.*, which previously was scheduled for trial in February 2016, was dismissed with prejudice.

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

On February 29, 2012, former Senior Store Manager, Elizabeth Naranjo, individually and on behalf of all others similarly situated sued General Nutrition Corporation in the Superior Court of the State of California for the County of Alameda. The complaint contains eight causes of action, alleging, among other matters, meal, rest break, and overtime violations. As of December 31, 2015, an immaterial liability has been accrued in the accompanying financial statements.

Jason Olive v. General Nutrition Corp. In April 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles, for misappropriation of likeness in which he alleges that the Company continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Mr. Olive is seeking compensatory, punitive and statutory damages and attorneys' fees and costs. The trial in this matter previously scheduled for December 2014 was

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

postponed and no new trial date has been set. As of December 31, 2014, an immaterial liability has been accrued in the accompanying financial statements.

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

Commitments

In addition to operating leases obtained in the normal course of business, the Company maintains certain purchase commitments with various vendors to ensure its operational needs are fulfilled. As of December 31, 2015, such future purchase commitments consisted of \$40.7 million. Other commitments related to the Company's business operations cover varying periods of time and are not significant. All of these commitments are expected to be fulfilled with no adverse consequences to the Company's operations or financial condition.

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 and the DHEC is currently reviewing the results. The Company will consult with the DHEC on the next steps in the work after their review of the results of the investigation is complete. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of the Company's potential liability, therefore no liability has been recorded in the accompanying consolidated balance sheet.

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 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.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 12. STOCKHOLDERS' EQUITY

## Treasury Stock

In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of Holdings' common stock. Holdings repurchased \$479.8 million of common stock during 2015. As of December 31, 2015, \$427.0 million remains available for purchase under the program.

## Preferred Stock

Holdings is authorized to issue up to 60.0 million shares of preferred stock, par value \$0.001 per share. No shares of preferred stock were issued or outstanding in 2015, 2014 and 2013.

## NOTE 13. EARNINGS PER SHARE

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

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Basic weighted average shares	83,927	90,493	96,481
Effect of dilutive employee stock-based compensation awards	259	425	902
Diluted weighted averages shares	84,186	90,918	97,383

For the year ended December 31, 2015 and each of the years ended December 31, 2014 and 2013, the Company had 0.2 million and 0.3 million shares, respectively, that were not included in the computation of diluted earnings per share because the impact of applying the treasury stock method to these options was anti-dilutive.

The Company has the intent and ability to settle the principal portion of its Notes in cash, and as such, has applied the treasury stock method, which has resulted in all underlying convertible shares being anti-dilutive in the current year as the Company's average stock price from the issuance of the Notes through December 31, 2015 is less than the conversion price. Refer to Note 7, "Long-Term Debt / Interest Expense" for more information on the Notes.

## NOTE 14. STOCK-BASED COMPENSATION PLANS

## Overview

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

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

Both plans have provisions that allow for the granting of stock options, restricted stock and other stock based awards and are available to certain eligible employees, directors, consultants or advisors as determined by the Compensation Committee. The Company will not grant any additional awards under the 2007 Stock Plan. Up to 11.5 million shares of common stock may be issued under the 2015 Stock Plan (subject to adjustment to reflect certain transactions and events specified in the 2015 Stock Plan for any award grant), of which 8.4 million shares remain available for issuance as of December 31, 2015.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth a summary of all share awards outstanding under all plans at December 31:

	2015	2014
Time-based stock options	688,083	746,533
Time-based restricted stock awards	194,271	122,681
Performance-based restricted stock awards	140,916	41,656
Total share awards outstanding	1,023,270	910,870

The Company recognized \$6.3 million, \$5.9 million and \$7.8 million of non-cash compensation expense for the years ended December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, there was approximately \$11.6 million of total unrecognized expense related to non-vested stock-based compensation that is expected to be recognized over a weighted average period of approximately 1.3 years.

Cash received from the exercise of options was \$1.7 million, \$22.2 million, and \$14.6 million in 2015, 2014 and 2013, respectively, which was recorded as additional paid-in capital on the accompanying consolidated balance sheets and presented as a cash inflow from financing activities on the accompanying consolidated statements of cash flows. The total tax benefit associated with stock-based compensation resulted in an excess tax benefit of \$0.6 million, \$3.7 million, and \$15.4 million in 2015, 2014 and 2013, respectively, which was recorded as additional paid-in capital and presented as a financing cash inflow.

**Stock Options**

Stock options were granted with exercise prices at or above fair market value on the date of grant, typically vest over a four- or five-year period and expire seven or ten years from the date of grant. The following table sets forth a summary of stock options under all plans:

	Total Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	746,533	\$26.19		\$15,505
Granted	50,815	\$41.10		
Exercised	(80,183)	) \$21.75		\$1,970
Forfeited and expired	(29,082)	) \$27.92		
Outstanding at December 31, 2015	688,083	\$27.75	5.4	\$4,187
Exercisable at December 31, 2015	394,997	\$23.44	4.2	\$3,656

During the years ended December 31, 2014, and 2013, the total intrinsic value of options exercised was \$13.9 million, and \$44.6 million. The assumptions used in the Company's Black Scholes valuation were as follows:

	Year ended December 31,		
	2015	2014	2013
Dividend yield	1.5% - 2.4%	1.5% - 1.9%	1.0% - 1.4%
Expected term	6.3 years	6.3 years	4.8 years
Volatility	31.1% - 38.3%	37.6% - 37.9%	35.9% - 40.5%
Risk free rate	1.3% - 1.9%	1.7% - 1.9%	0.7% - 1.4%

The option term has been estimated by considering both the vesting period and the contractual term. Volatility is estimated utilizing a peer group average. The Black Scholes valuation resulted in a weighted average grant date fair value in 2015, 2014 and 2013 of \$15.64, \$11.08 and \$16.16, respectively.

**Restricted Stock Awards**



Under the 2015 Stock Plan, the Company granted time-based and performance-based restricted stock and restricted stock units. Time-based awards vest over a period of three years. Performance-based awards vest after a period of three years and the achievement of performance targets; based on the extent to which the targets are achieved, vested shares may range from 0% to 200% of the original share amount. Compensation expense related to the performance-based awards is adjusted as necessary to reflect changes in the probability that the vesting criteria will be achieved.

The following table sets forth a summary of restricted stock awards granted under the 2015 Stock Plan:

	Time-Based		Performance-Based	
	Shares	Wtd Avg Grant Date Fair Value	Shares	Wtd Avg Grant Date Fair Value
Outstanding at December 31, 2014	122,681	\$38.04	41,656	\$44.64
Granted	141,701	\$47.85	106,314	\$49.00
Vested	(55,448)	) \$35.22	—	\$—
Forfeited	(14,663)	) \$38.64	(7,054)	) \$46.02
Outstanding at December 31, 2015	194,271	\$45.95	140,916	\$47.86

The total intrinsic value of time-based restricted stock awards vested was \$2.4 million, \$4.3 million and \$3.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The total intrinsic value of restricted stock awards outstanding at December 31, 2015 was \$6.0 million and \$4.4 million for time-based and performance-based awards, respectively. The weighted average grant date fair value of time-based and performance-based restricted stock awards granted was \$43.38 and \$44.62 in 2014 and \$50.39 and \$45.76 in 2013, respectively.

#### NOTE 15. RETIREMENT PLANS

The Company sponsors a 401(k) defined contribution savings plan covering substantially all employees. Full time employees who have completed 30 days of service and part time employees who have completed 1000 hours of service are eligible to participate in the plan. The plan provides for employee contributions of 1% to 80% of individual compensation into deferred savings, subject to IRS limitations. The plan provides for Company contributions upon the employee meeting the eligibility requirements. The Company match consists of both a fixed and a discretionary match. The fixed match is 50% on the first 3% of the salary that an employee defers and the discretionary match could be up to an additional 50% match on the 3% deferral. A discretionary match can be approved at any time by the Company.

An employee becomes vested in the Company match portion as follows:

Years of Service	Percent Vested	%
0-1	0	%
1-2	33	%
2-3	66	%
3+	100	%

The Company made cash contributions to the 401(k) plan of \$1.5 million, \$1.5 million and \$2.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company has a Non-qualified Deferred Compensation Plan that provides benefits payable to certain eligible associates upon their retirement or their designated beneficiaries upon death. This plan allows participants the opportunity to defer pretax amounts ranging from 2% to 100% of their base compensation plus bonuses. During 2015 and 2014, the Company elected to match a percentage of the contributions from employees. For each of the years ended December 31, 2015 and 2014, this contribution was \$0.3 million.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 16. SEGMENTS

The Company aggregates its operating segments into three reportable segments, which include Retail, Franchising, and Manufacturing/Wholesale. The Company's chief operating decision maker, its Chief Executive Officer, evaluates segment operating results based primarily on performance indicators, including revenue and operating income.

Operating income of each reportable segment excludes certain items that are managed at the consolidated level, such as warehousing, distribution and other corporate costs. The Company's long-lived asset impairment charge of \$28.3 million along with the \$2.7 million loss on sale related to Discount Supplements recorded in 2015 is included in the Company's Retail reporting segment as described in Note 5 "Goodwill and Intangible Assets, Net." In addition, the Company recorded a charge for \$9.5 million included in Corporate related to a legal settlement as described in Note 11 "Commitments and Contingencies." The following table represents key financial information for each of the Company's reportable segments:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenue:			
Retail	\$1,945,197	\$1,939,150	\$1,926,770
Franchise	458,335	432,828	436,917
Manufacturing/Wholesale:			
Intersegment revenues	267,377	291,220	318,766
Third party	235,680	241,176	263,074
Subtotal Manufacturing/Wholesale	503,057	532,396	581,840
Subtotal segment revenues	2,906,589	2,904,374	2,945,527
Elimination of intersegment revenues	(267,377)	) (291,220	) (318,766
Total revenue	\$2,639,212	\$2,613,154	\$2,626,761
Operating income:			
Retail	\$308,303	\$348,952	\$362,658
Franchise	164,525	157,342	153,545
Manufacturing/Wholesale	90,292	89,921	104,709
Corporate and other costs:			
Warehousing and distribution costs	(71,673	) (68,283	) (77,101
Corporate costs	(98,340	) (88,420	) (83,313
Subtotal corporate and other costs	(170,013	) (156,703	) (160,414
Total operating income	393,107	439,512	460,498
Interest expense, net	50,936	46,708	53,029
Income before income taxes	\$342,171	\$392,804	\$407,469

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31		
	2015	2014	2013
	(in thousands)		
Depreciation and amortization:			
Retail	\$33,405	\$34,653	\$30,769
Franchise	3,047	3,020	3,004
Manufacturing / Wholesale	10,582	10,725	11,003
Corporate / Other	10,203	7,939	7,038
Total depreciation and amortization	\$57,237	\$56,337	\$51,814
Capital expenditures:			
Retail	\$30,600	\$36,627	\$34,835
Franchise	221	222	229
Manufacturing / Wholesale	5,662	5,903	8,464
Corporate / Other	9,344	27,703	6,719
Total capital expenditures	\$45,827	\$70,455	\$50,247
Total revenues by geographic areas:			
United States	\$2,478,687	\$2,440,836	\$2,486,542
Foreign	160,525	172,318	140,219
Total revenues	\$2,639,212	\$2,613,154	\$2,626,761
		As of December 31	
		2015	2014
		(in thousands)	
Total assets:			
Retail		\$1,505,286	\$1,574,332
Franchise		512,102	511,701
Manufacturing / Wholesale		400,048	406,797
Corporate / Other		134,583	184,970
Total assets		\$2,552,019	\$2,677,800
Property, plant, and equipment, net:			
United States		\$221,049	\$223,068
Foreign		9,486	9,329
Total property, plant and equipment, net		\$230,535	\$232,397

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Retail Revenue

The following table represents sales by product category in the Retail reportable segment:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Retail Product Categories:			
VMHS	\$626,626	\$649,110	\$663,625
Sports nutrition	778,813	759,819	764,908
Diet	201,400	193,830	198,834
Other wellness	108,500	110,594	92,123
Other (*)	229,858	225,797	207,280
Total retail revenue	\$1,945,197	\$1,939,150	\$1,926,770

(\*) Includes revenue primarily related to Canada operations, Lucky Vitamin, Discount Supplements and The Health Store, whose sales categories are not consistent with domestic point of sales system, and deferred Gold Card revenue.

## Franchise Revenue

The following is a summary of the Company's revenue by type in the Franchise reportable segment:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Product sales	\$387,716	\$358,247	\$363,810
Royalties	58,306	59,561	58,247
Franchise fees	6,129	7,076	7,936
Other	6,184	7,944	6,924
Total franchise revenue	\$458,335	\$432,828	\$436,917

Manufacturing/Wholesale sales are generated from sales of manufactured products to third parties, primarily in the VMHS product category, and intersegment sales.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 17. QUARTERLY FINANCIAL INFORMATION

The following table summarizes the Company's 2015 and 2014 quarterly results:

	Three months ended (unaudited)				Year ended
	March 31, 2015 <sup>(1)</sup>	June 30, 2015	September 30, 2015	December 31, 2015	December 31, 2015
	(In thousands, except per share amounts)				
Total revenue	\$670,247	\$678,520	\$672,244	\$618,201	\$2,639,212
Gross profit	249,433	256,332	250,644	228,234	984,643
Operating income	109,605	117,638	82,150	83,714	393,107
Net income	63,270	67,357	45,750	42,922	219,299
Weighted average shares outstanding:					
Basic	87,865	85,501	83,669	78,775	83,927
Diluted	88,105	85,777	83,958	79,008	84,186
Earnings per share:					
Basic <sup>(2)</sup>	\$0.72	\$0.79	\$0.55	\$0.54	\$2.61
Diluted <sup>(2)</sup>	\$0.72	\$0.79	\$0.54	\$0.54	\$2.60
	Three months ended (unaudited)				Year ended
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	December 31, 2014
	(In thousands, except per share amounts)				
Total revenue	\$674,456	\$675,216	\$656,326	\$607,156	\$2,613,154
Gross profit	253,719	258,580	247,748	220,193	980,240
Operating income	121,255	121,051	108,725	88,481	439,512
Net income	69,903	69,887	64,314	51,768	255,872
Weighted average shares outstanding:					
Basic	92,975	90,414	89,814	88,824	90,493
Diluted	93,684	90,931	90,233	89,044	90,918
Earnings per share:					
Basic <sup>(2)</sup>	\$0.75	\$0.77	\$0.72	\$0.58	\$2.83
Diluted <sup>(2)</sup>	\$0.75	\$0.77	\$0.71	\$0.58	\$2.81

(1) Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" for details with respect to the correction of a \$2.8 million immaterial error relating to prior periods in the calculation of the portion of the accrued payroll liability relating to certain amounts paid to store employees.

(2) Quarterly results for earnings per share may not add to full year results due to rounding.

## NOTE 18. SUBSEQUENT EVENTS

On January 28, 2016, the Company's Board of Directors authorized and declared a cash dividend for the first quarter of 2016 of \$0.20 per share of common stock, payable on or about March 25, 2016 to stockholders of record as of the close of business on March 11, 2016.

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

Item 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual 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, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO has concluded that, as of December 31, 2015, our disclosure controls and procedures are effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our management, with the participation of our CEO, has assessed the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on this assessment, our management has concluded that, as of December 31, 2015, our internal control over financial reporting was effective based on that framework.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2015, as stated in their report, which is included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report.

Changes in Internal Control Over Financial Reporting

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

Item 9B. OTHER INFORMATION.

None.

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## PART III

## Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2016 Annual Meeting to be held on May 24, 2016, which is incorporated herein by reference, under the captions "Election of Directors," "Executive Officers," "Other Board Information," and "Section 16(a) Beneficial Ownership Reporting Compliance."

## Item 11. EXECUTIVE COMPENSATION

Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2016 Annual Meeting to be held on May 24, 2016, which is incorporated herein by reference, under the captions "Director Compensation," "Executive Compensation" and "Compensation Discussion and Analysis;" provided, however, that the subsection entitled "Executive Compensation—Compensation Committee Report" shall not be deemed to be incorporated by reference.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

## Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information regarding outstanding stock options and shares remaining available for future issuance under each of the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan (the "2007 Stock Plan") and the GNC Holdings, Inc. 2015 Stock and Incentive Plan (the "2015 Stock Plan") as of December 31, 2015:

Plan Category(1)	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans	
2007 Stock Plan	122,620	\$12.13	—	
2015 Stock Plan	565,463	\$31.12	8,385,970	(2)(3)
Total	688,083	\$27.75	8,385,970	

Effective May 21, 2015, our 2011 Stock and Incentive Plan was amended and restated as the 2015 Stock Plan. The (1)2007 Stock Plan and 2015 Stock Plan are the only equity compensation plans that we have adopted, and each of 2007 Stock Plan and 2015 Stock Plan has been approved by our stockholders.

Excludes 565,463 outstanding stock options as set forth in the first column, 130,742 shares of outstanding time (2)vested restricted stock, 99,080 shares of performance vesting restricted stock, 47,684 shares of outstanding time vesting restricted stock units and 35,238 shares of performance vesting restricted stock units.

(3)Up to 11,500,000 shares of our common stock may be issued under the 2015 Stock Plan (subject to adjustment to reflect certain transactions and events specified in the 2015 Stock Plan for any award grant). If any award granted under the 2015 Stock Plan expires, terminates or is cancelled without having been exercised in full, the number of shares underlying such unexercised award will again become available for issuance under the 2015 Stock Plan. The total number of shares of our common stock available for awards under the 2015 Stock Plan will be reduced by (i) the total number of stock options or stock appreciation rights exercised, regardless of whether any of the shares of our common stock underlying such awards are not actually issued to the participant as the result of a net settlement and (ii) any shares of our common stock used to pay any exercise price or tax withholding obligation. In addition, the number of shares of our common stock that are subject to restricted stock, performance shares or other stock-based awards that are not subject to the appreciation of the value of a share of our common stock ("Full Share Awards") is limited by counting shares granted pursuant to such Full Share Awards against the aggregate share reserve as 1.8 shares for every share granted. If any stock option, stock appreciation right or other stock-based award that is not a Full Share Award is cancelled, expires or terminates unexercised for any reason, the shares covered by such awards will again be available for issuance under the 2015 Stock Plan. If any shares of our

common stock that are subject to Full Share Awards are forfeited for any reason, 1.8 shares of our common stock will again be available for issuance under the 2015 Stock Plan. Additional information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2016 Annual Meeting to be held on May 24, 2016, which is incorporated herein by reference, under the caption "Security Ownership of Certain Beneficial Owners and Management."



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Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.  
Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2016 Annual Meeting to be held on May 24, 2016, which is incorporated herein by reference, under the captions "Certain Relationships and Related Transactions," and "Other Board Information—Director Independence."

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2016 Annual Meeting to be held on May 24, 2016, which is incorporated herein by reference, under the caption "Ratification of Appointment of Auditors."

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PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this Annual Report:

(1) Financial statements filed in Part II, Item 8 of this Annual Report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

As of December 31, 2015 and December 31, 2014

Consolidated Statements of Income

For the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Cash Flows

For the years ended December 31, 2015, 2014 and 2013

Notes to Consolidated Financial Statements

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(2) Financial statement schedules:

## SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF GNC HOLDINGS, INC.

GNC HOLDINGS, INC.

(Parent Company Only)

Balance Sheets

(in thousands)

	December 31,	
	2015	2014
Current assets:		
Cash and cash equivalents	\$1	\$1
Prepays and other current assets	385	343
Total current assets	386	344
Long-term assets:		
Deferred financing fees	248	—
Intercompany receivable	164,300	—
Investment in subsidiaries	709,409	905,524
Total long-term assets	873,957	905,524
Total assets	\$874,343	\$905,868
Current liabilities:		
Accounts payable	\$22	\$—
Intercompany payable	3,502	1,466
Deferred revenue and other current liabilities	1,995	189
Total current liabilities	5,519	1,655
Long-term liabilities:		
Deferred tax liabilities	16,599	—
Convertible senior notes	235,085	—
Intercompany loan	148,579	148,170
Total long term liabilities	400,263	148,170
Total liabilities	405,782	149,825
Stockholders' equity:		
Class A common stock	114	113
Additional paid-in capital	916,128	877,566
Retained earnings	1,058,148	898,574
Treasury stock, at cost	(1,496,180)	(1,016,381)
Accumulated other comprehensive loss	(9,649)	(3,829)
Total stockholders' equity	468,561	756,043
Total liabilities and stockholders' equity	\$874,343	\$905,868

See the accompanying note to the condensed parent-only financial statements.

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## SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF GNC HOLDINGS, INC.

## GNC HOLDINGS, INC.

(Parent Company Only)

## Statements of Income and Comprehensive Income

(in thousands, except per share data)

	Year ended December 31,		
	2015	2014	2013
Selling, general and administrative	\$1,645	\$1,552	\$749
Subsidiary income	(223,090)	(257,045)	(265,522)
Operating income	221,445	255,493	264,773
Interest expense, net	4,241	153	44
Income before income taxes	217,204	255,340	264,729
Income tax benefit	(2,095)	(532)	(292)
Net income	\$219,299	\$255,872	\$265,021
Other comprehensive loss:			
Foreign currency translation loss	(7,439)	(5,784)	(1,092)
Release of cumulative translation loss to earnings related to substantial liquidation of Discount Supplements	1,619	—	—
Other comprehensive loss	(5,820)	(5,784)	(1,092)
Comprehensive income	\$213,479	\$250,088	\$263,929
Earning per share:			
Basic	\$2.61	\$2.83	\$2.75
Diluted	\$2.60	\$2.81	\$2.72
Weighted average common shares outstanding (Note 13):			
Basic	83,927	90,493	96,481
Diluted	84,186	90,918	97,383
Dividends declared per share	\$0.72	\$0.64	\$0.60

See the accompanying note to the condensed parent-only financial statements.

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## SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF GNC HOLDINGS, INC.

## GNC HOLDINGS, INC.

(Parent Company Only)

## Statements of Cash Flows

(in thousands)

	Year ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$219,299	\$255,872	\$265,021
Equity in income of subsidiaries	(223,090	) (257,045	) (265,522
Dividends received	422,355	317,808	289,300
Other operating activities	4,738	2,393	1,334
Net cash provided by operating activities	423,302	319,028	290,133
Cash flows from financing activities:			
Loan from a subsidiary	—	—	62,700
Loan to a subsidiary	(164,300	) —	—
Proceeds from issuance of convertible notes	287,500	—	—
Debt issuance costs on convertible senior notes	(8,225	) —	—
Proceeds from exercise of stock options	1,744	22,170	14,588
Minimum tax withholding requirements	(574	) (762	) (1,327
Repurchase of treasury stock	(479,799	) (283,226	) (309,255
Dividend payment	(59,648	) (57,491	) (57,437
Net cash used in financing activities	(423,302	) (319,309	) (290,731
Net decrease in cash and cash equivalents	—	(281	) (598
Beginning balance, cash and cash equivalents	1	282	880
Ending balance, cash and cash equivalents	\$1	\$1	\$282

See the accompanying note to the condensed parent-only financial statements.

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GNC HOLDINGS, INC.

SCHEDULE I—NOTES TO THE CONDENSED FINANCIAL STATEMENTS (PARENT ONLY)

NOTE 1. BACKGROUND

These condensed parent company financial statements should be read in conjunction with the consolidated financial statements of GNC Holdings, Inc. and subsidiaries. The Senior Credit Facility of General Nutrition Centers, Inc. ("Centers"), a wholly owned subsidiary of GNC Holdings, Inc., contains customary covenants, including incurrence covenants and certain other limitations on the ability of GNC Corporation, Centers, and Centers' subsidiaries to, among other things, make optional payments in respect of other debt instruments, pay dividends or other payments on capital stock, and enter into arrangements that restrict their ability to pay dividends or grant liens.

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## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

GNC Holdings, Inc. and Subsidiaries

Valuation and Qualifying Accounts

(in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
2013				
Allowance for doubtful accounts	\$2,178	\$4,241	\$(4,529)	) \$1,890
Reserve for sales returns	4,276	70,308	(69,618)	) 4,966
Tax valuation allowances	4,176	—	(1,449)	) 2,727
2014				
Allowance for doubtful accounts	\$1,890	\$4,535	\$(233)	) \$6,192
Reserve for sales returns	4,966	70,075	(70,092)	) 4,949
Tax valuation allowances	2,727	579	(2,162)	) 1,144
2015				
Allowance for doubtful accounts	\$6,192	\$2,679	\$(4,744)	) \$4,127
Reserve for sales returns	4,949	67,283	(67,385)	) 4,847
Tax valuation allowances	1,144	1,771	—	) 2,915

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(1)Exhibits:

Listed below are all exhibits filed as part of this Annual Report. Certain exhibits are incorporated by reference from statements and reports previously filed by Holdings or Centers with the SEC pursuant to Rule 12b-32 under the Exchange Act:

- 3.1 Amended and Restated Certificate of Incorporation of Holdings, as currently in effect. (Incorporated by reference to Exhibit 3.1 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113), filed August 1, 2013.)
- 3.2 Fifth Amended and Restated Bylaws of Holdings, as currently in effect. (Incorporated by reference to Exhibit 3.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed October 23, 2012.)
- 4.8 Specimen of Class A Common Stock Certificate. (Incorporated by reference to Exhibit 4.8 to Holdings' Pre-Effective Amendment No. 3 to its Registration Statement on Form S-1 (File No. 333-169618), filed February 25, 2011.)
- 10.1 Lease Agreement, dated as of November 1, 1998, between Greenville County, South Carolina and General Nutrition Products, Inc. (Incorporated by reference to Exhibit 10.34 to Holdings' Pre-Effective Amendment No. 2 to its Registration Statement on Form S-1 (File No. 333-169618), filed February 10, 2011.)
- 10.2 GNC Live Well Later Non-Qualified Deferred Compensation Plan, effective February 1, 2002. (Incorporated by reference to Exhibit 10.14 to Centers' Registration Statement on Form S-4 (File No. 333-114502), filed April 15, 2004.)
- 10.3 Deferred Compensation Plan for Centers, effective January 1, 2009. (Incorporated by reference to Exhibit 10.32 to Centers' Annual Report on Form 10-K (File No. 333-114396), filed February 25, 2011.)
- 10.4 GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan, adopted as of March 16, 2007. (Incorporated by reference to Exhibit 10.12 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-144396), filed August 10, 2007.)\*\*
- 10.5 Amendment No. 1 to the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan, dated as of February 12, 2008. (Incorporated by reference to Exhibit 10.11 to Centers' Annual Report on Form 10-K (File No. 333-144396), filed March 14, 2008.) \*\*
- 10.6 Form of Non-Qualified Stock Option Agreement Pursuant to the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.13 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-144396), filed August 10, 2007.) \*\*
- 10.7 GNC Holdings, Inc. 2011 Stock and Incentive Plan (Incorporated by reference to Exhibit 10.1 to Holdings' Registration Statement on Form S-8 (File No. 333-173578), filed April 18, 2011.) \*\*
- 10.8 Form of Non-Qualified Stock Option Agreement pursuant to the GNC Holdings, Inc. 2011 Stock and Incentive Plan. (Incorporated by reference to Exhibit 10.33 to Holdings Pre-Effective Amendment No. 5 to its Registration Statement on Form S-1 (File No. 333-169618), filed March 11, 2011.) \*\*
- 10.9 Form of Restricted Stock Agreement pursuant to the GNC Holdings, Inc. 2011 Stock and Incentive Plan. (Incorporated by reference to Exhibit 10.34 to Holdings' Registration Statement on Form S-1 (File



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No. 333-176721), filed September 7, 2011.) \*\*

10.10 Form of Restricted Stock Unit Agreement pursuant to the GNC Holdings, Inc. 2011 Stock and Incentive Plan (Incorporated by reference to Exhibit 10.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed October 23, 2012.)\*\*

10.11 Form of Performance-Vested Restricted Stock Unit Agreement pursuant to the GNC Holdings, Inc. 2011 Stock and Incentive Plan \*,(Incorporated by reference to Exhibit 10.10.3 to Holdings' Annual Report on Form 10-K, (File No. 001-35113), filed February 26, 2013.)\*\*

10.12 GNC Holdings, Inc. 2015 Stock and Incentive Plan (Incorporated by reference to Appendix A to Holdings' Schedule 14A Definitive Proxy Statement (File No. 001-35113), filed April 12, 2015)\*\*

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- 10.13 Form of Indemnification Agreement between Holdings and each of our directors and relevant schedule. (Incorporated by reference to Exhibit 10.3 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113), filed October 29, 2015) \*\*
- 10.14 Form of Indemnification Agreement between Holdings and certain officers and relevant schedule. (Incorporated by reference to Exhibit 10.2 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113), filed October 29, 2015) \*\*
- 10.15 GNC/Rite Aid Retail Agreement, dated December 8, 1998, between General Nutrition Sales Corporation and Rite Aid Corporation. (Incorporated by reference to Exhibit 10.24 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-114502), filed August 9, 2004.)†
- 10.16 Amendment to the GNC/Rite Aid Retail Agreement, dated December 8, 1998, by and between General Nutrition Sales Corporation and Rite Aid Hdqtrs Corp. (Incorporated by reference to Exhibit 10.25 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-114502), filed August 9, 2004.)†
- 10.17 Amendment to the GNC/Rite Aid Retail Agreement, effective as of May 1, 2004, between General Nutrition Sales Corporation and Rite Aid Hdqtrs Corp. (Incorporated by reference to Exhibit 10.26 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-114502), filed August 9, 2004.)†
- 10.18 Amended and Restated GNC/Rite Aid Retail Agreement, dated July 31, 2007, between Nutra Sales Corporation (f/k/a General Nutrition Sales Corporation) and Rite Aid Hdqtrs. Corp. (Incorporated by reference to Exhibit 10.34 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-144396), filed August 10, 2007.)†
- 10.19 Credit Agreement, dated as of November 26, 2013, among GNC Corporation, Centers, the lenders party thereto, Goldman Sachs Bank USA, as Syndication Agent, Deutsche Bank Securities Inc. and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents and JPMorgan Chase Bank, N.A., as Administrative Agent Goldman Sachs Bank USA, as syndication agent, Deutsche Bank Securities Inc. and Morgan Stanley Senior Funding, Inc., as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed December 2, 2013.)
- 10.20 First Amendment, dated December 9, 2013, among Centers, GNC Corporation, the several banks and other financial institutions or entities parties thereto and JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed December 10, 2013.)
- 10.21 Guarantee and Collateral Agreement, dated as of November 26, 2013, by GNC Corporation, Centers and the other Grantors party thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.2 to Holdings' Current Report on Form 8- K (File No. 001-35113), filed December 2, 2013.)
- 10.23 Directors' Non-Qualified Deferred Compensation Plan Effective as of January 1, 2013 (Incorporated by reference to Exhibit 10.1 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113), filed May 2, 2013.)\*\*

- 10.24 Form of Holdings Director Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.2 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113), filed May 2, 2013.)\*\*
- 10.25 Employment Agreement, dated as of August 4, 2015, among Michael G. Archbold, Centers and Holdings (incorporated by reference to Exhibit 10.1 to Holdings Current Report on Form 8-K (File No. 0001-35113) filed August 8, 2014.)\*\*
- 10.26 Mutual General Release and Waiver, dated as of August 12, 2014, among Joseph M. Fortunato, Centers and Holdings (incorporated by reference to Exhibit 10.2 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113) filed October 30, 2014.)\*\*

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10.27	Separation Agreement and Mutual General Release and Waiver, dated as of September 10, 2014, among Thomas R. Dowd, Holdings and Centers (incorporated by reference to Exhibit 10.1 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113) filed October 30, 2014**
10.28	Separation Agreement and Mutual General Release and Waiver, dated as of November 10, 2014, among Gerald J. Stubenhofer, Holdings and Centers.**
21.1	Subsidiaries of the Registrant.*
23.1	Consent of PricewaterhouseCoopers LLP.*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

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\* Filed herewith

\*\* Management contract or compensatory plan or arrangement of the Company required to be filed as an exhibit. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. The omitted portions have been separately filed with the SEC.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GNC HOLDINGS, INC.

By: /s/ MICHAEL G. ARCHBOLD  
Michael G. Archbold  
Chief Executive Officer  
Dated: February 11, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ MICHAEL G. ARCHBOLD  
Michael G. Archbold  
Director, Chief Executive Officer (principal executive officer)  
Dated: February 11, 2016

By: /s/ TRICIA K. TOLIVAR  
Tricia K. Tolivar  
Chief Financial Officer (principal financial officer and principal accounting officer)  
Dated: February 11, 2016

By: /s/ JEFFREY P. BERGER  
Jeffrey P. Berger  
Director  
Dated: February 11, 2016

By: /s/ ALAN D. FELDMAN  
Alan D. Feldman  
Director  
Dated: February 11, 2016

By: /s/ MICHAEL F. HINES  
Michael F. Hines  
Director  
Dated: February 11, 2016

By: /s/ AMY B. LANE  
Amy B. Lane  
Director  
Dated: February 11, 2016

By: /s/ PHILIP E. MALLOTT  
Philip E. Mallott  
Director  
Dated: February 11, 2016



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By: /s/ ROBERT F. MORAN  
Robert F. Moran  
Director  
Dated: February 11, 2016

By: /s/ C. SCOTT O'HARA  
C. Scott O'Hara  
Director  
Dated: February 11, 2016

By: /s/ RICHARD J. WALLACE  
Richard J. Wallace  
Director  
Dated: February 11, 2016