

GNC HOLDINGS, INC.  
Form 10-Q  
May 02, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark one)

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

For the quarterly period ended **March 31, 2013**

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

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

Commission File Number: **001-35113**

**GNC Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
Incorporation or organization)

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

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

**15222**  
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of April 26, 2013, there were 98,319,365 outstanding shares of Class A common stock, par value \$0.001 per share (the Class A common stock), of GNC Holdings, Inc.

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Table of Contents

**TABLE OF CONTENTS**

|   | <b>PAGE</b> |
|---|-------------|
| <b><u>PART I - FINANCIAL INFORMATION</u></b>  |             |
| <b><u>Item 1.</u></b>   |             |
| <b><u>Financial Statements</u></b>  |             |
| <u>Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012</u>                           | 1           |
| <u>Unaudited Consolidated Statements of Income for the three months ended March 31, 2013 and 2012</u>               | 2           |
| <u>Unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012</u> | 2           |
| <u>Unaudited Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2013 and 2012</u> | 3           |
| <u>Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u>           | 4           |
| <u>Summarized Notes to Unaudited Consolidated Financial Statements</u>  | 5           |
| <b><u>Item 2.</u></b>   |             |
| <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>                 | 16          |
| <b><u>Item 3.</u></b>   |             |
| <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>  | 24          |
| <b><u>Item 4.</u></b>   |             |
| <b><u>Controls and Procedures</u></b>   | 25          |
| <b><u>PART II - OTHER INFORMATION</u></b>   |             |
| <b><u>Item 1.</u></b>   |             |
| <b><u>Legal Proceedings</u></b>   | 26          |
| <b><u>Item 1A.</u></b>  |             |
| <b><u>Risk Factors</u></b>  | 26          |
| <b><u>Item 2.</u></b>   |             |
| <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>   | 27          |
| <b><u>Item 3.</u></b>   |             |
| <b><u>Defaults Upon Senior Securities</u></b>   | 27          |
| <b><u>Item 4.</u></b>   |             |
| <b><u>Mine Safety Disclosures</u></b>   | 27          |
| <b><u>Item 5.</u></b>   |             |
| <b><u>Other Information</u></b>   | 27          |
| <b><u>Item 6.</u></b>   |             |
| <b><u>Exhibits</u></b>  | 27          |
| <b><u>Signatures</u></b>  | 28          |



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

(in thousands, including share data)

|  | <b>March 31,<br/>2013<br/>(unaudited)</b> | <b>December 31,<br/>2012</b> |
|--|---|------------------------------|
| Current assets:  |   |                              |
| Cash and cash equivalents  | \$ 176,164                                | \$ 158,541                   |
| Receivables, net   | 137,659                                   | 129,641                      |
| Inventories (Note 3)   | 510,719                                   | 491,599                      |
| Prepays and other current assets   | 41,769                                    | 39,016                       |
| Total current assets   | 866,311                                   | 818,797                      |
| Long-term assets:  |   |                              |
| Goodwill (Note 4)  | 641,024                                   | 639,915                      |
| Brands (Note 4)  | 720,000                                   | 720,000                      |
| Other intangible assets, net (Note 4)  | 139,783                                   | 141,717                      |
| Property, plant and equipment, net   | 198,928                                   | 199,487                      |
| Other long-term assets   | 33,142                                    | 32,124                       |
| Total long-term assets   | 1,732,877                                 | 1,733,243                    |
| Total assets   | \$ 2,599,188                              | \$ 2,552,040                 |
| Current liabilities:   |   |                              |
| Accounts payable   | \$ 138,621                                | \$ 125,165                   |
| Current portion, long-term debt (Note 5)   | 3,816                                     | 3,817                        |
| Deferred revenue and other current liabilities   | 142,011                                   | 116,337                      |
| Total current liabilities  | 284,448                                   | 245,319                      |
| Long-term liabilities:   |   |                              |
| Long-term debt (Note 5)  | 1,093,930                                 | 1,094,745                    |
| Deferred tax liabilities, net  | 283,576                                   | 283,203                      |
| Other long-term liabilities  | 48,349                                    | 46,734                       |
| Total long-term liabilities  | 1,425,855                                 | 1,424,682                    |
| Total liabilities  | 1,710,303                                 | 1,670,001                    |
| Stockholders' equity:  |   |                              |
| Common stock, \$0.001 par value, 330,000 shares authorized:<br>Class A, 112,176 shares issued and 98,190 shares outstanding and 13,986 shares<br>held in treasury at March 31, 2013 and 111,725 shares issued and 99,244 shares<br>outstanding and 12,481 shares held in treasury at December 31, 2012 | 111                                       | 111                          |
| Paid-in-capital  | 820,964                                   | 810,094                      |
| Retained earnings  | 550,570                                   | 492,687                      |
| Treasury stock, at cost  | (485,210)                                 | (423,900)                    |
| Accumulated other comprehensive income   | 2,450                                     | 3,047                        |
| Total stockholders' equity   | 888,885                                   | 882,039                      |
| Total liabilities and stockholders' equity   | \$ 2,599,188                              | \$ 2,552,040                 |

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



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

(unaudited)

(in thousands, except per share data)

|  | <b>Three months ended March 31,</b> |         |             |         |
|--|-------------------------------------|---------|-------------|---------|
|  | <b>2013</b>                         |         | <b>2012</b> |         |
| Revenue  | \$                                  | 664,691 | \$          | 624,272 |
| Cost of sales, including cost of warehousing, distribution and occupancy |                                     | 408,554 |             | 383,563 |
| Gross profit   |                                     | 256,137 |             | 240,709 |
| Compensation and related benefits  |                                     | 79,545  |             | 80,044  |
| Advertising and promotion  |                                     | 20,440  |             | 16,219  |
| Other selling, general and administrative                                |                                     | 31,665  |             | 31,784  |
| Foreign currency gain  |                                     | (33)    |             | (93)    |
| Transaction related costs  |                                     | -       |             | 686     |
| Operating income   |                                     | 124,520 |             | 112,069 |
| Interest expense, net (Note 5)   |                                     | 11,015  |             | 10,383  |
| Income before income taxes   |                                     | 113,505 |             | 101,686 |
| Income tax expense (Note 10)   |                                     | 40,862  |             | 37,829  |
| Net income   | \$                                  | 72,643  | \$          | 63,857  |
| <b>Income per share - Basic and Diluted:</b>                             |                                     |         |             |         |
| Earnings per share:  |                                     |         |             |         |
| Basic  | \$                                  | 0.73    | \$          | 0.60    |
| Diluted  | \$                                  | 0.73    | \$          | 0.59    |
| Weighted average common shares outstanding:                              |                                     |         |             |         |
| Basic  |                                     | 98,997  |             | 105,805 |
| Diluted  |                                     | 99,861  |             | 107,746 |
| Dividends declared per share:  | \$                                  | 0.15    | \$          | 0.11    |

**Consolidated Statements of Comprehensive Income**

(unaudited)

(in thousands)

|  | <b>Three months ended March 31,</b> |        |             |        |
|--|-------------------------------------|--------|-------------|--------|
|  | <b>2013</b>                         |        | <b>2012</b> |        |
| Net income                               | \$                                  | 72,643 | \$          | 63,857 |
| <i>Other comprehensive income:</i>       |                                     |        |             |        |
| Foreign currency translation adjustments |                                     | (597)  |             | 354    |
| Other comprehensive income               |                                     | (597)  |             | 354    |
| Comprehensive income                     | \$                                  | 72,046 | \$          | 64,211 |

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





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

|  | Common Stock      |                    | Treasury<br>Stock | Paid-in-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Total<br>Stockholders<br>Equity |                   |                     |
|--|-------------------|--------------------|-------------------|---------------------|----------------------|--|---------------------------------|-------------------|---------------------|
|  | Class A<br>Shares | Class B<br>Dollars |                   |                     |                      |  |                                 | Class B<br>Shares | Class B<br>Dollars  |
| <b>Balance at December 31, 2012</b>          | <b>99,244</b>     | <b>\$ 111</b>      | -                 | \$ -                | <b>\$ (423,900)</b>  | <b>\$ 810,094</b>                                      | <b>\$ 492,687</b>               | <b>\$ 3,047</b>   | <b>\$ 882,039</b>   |
| Comprehensive income                         | -                 | -                  | -                 | -                   | -                    | -  | 72,643                          | (597)             | 72,046              |
| Repurchase of treasury stock                 | (1,504)           | -                  | -                 | -                   | (61,310)             | -  | -                               | -                 | (61,310)            |
| Common stock dividends                       | -                 | -                  | -                 | -                   | -                    | -  | (14,760)                        | -                 | (14,760)            |
| Conversions to common stock                  | 450               | -                  | -                 | -                   | -                    | 9,055  | -                               | -                 | 9,055               |
| Non-cash stock-based compensation            | -                 | -                  | -                 | -                   | -                    | 1,815  | -                               | -                 | 1,815               |
| <b>Balance at March 31, 2013 (unaudited)</b> | <b>98,190</b>     | <b>\$ 111</b>      | -                 | \$ -                | <b>\$ (485,210)</b>  | <b>\$ 820,964</b>                                      | <b>\$ 550,570</b>               | <b>\$ 2,450</b>   | <b>\$ 888,885</b>   |
| <b>Balance at December 31, 2011</b>          | <b>102,985</b>    | <b>\$ 105</b>      | <b>2,060</b>      | <b>\$ 2</b>         | <b>\$ (65,048)</b>   | <b>\$ 741,848</b>                                      | <b>\$ 298,831</b>               | <b>\$ 2,724</b>   | <b>\$ 978,462</b>   |
| Comprehensive income                         | -                 | -                  | -                 | -                   | -                    | -  | 63,857                          | 354               | 64,211              |
| Conversion of Class B stock to Class A stock | 2,060             | 2                  | (2,060)           | (2)                 | -                    | -  | -                               | -                 | -                   |
| Repurchase of treasury stock                 | (165)             | -                  | -                 | -                   | (4,748)              | -  | -                               | -                 | (4,748)             |
| Common stock dividends                       | -                 | -                  | -                 | -                   | -                    | -  | (11,724)                        | -                 | (11,724)            |
| Conversions to common stock                  | 2,183             | 2                  | -                 | -                   | -                    | 32,240   | -                               | -                 | 32,242              |
| Non-cash stock-based compensation            | -                 | -                  | -                 | -                   | -                    | 1,176  | -                               | -                 | 1,176               |
| Other  | -                 | -                  | -                 | -                   | -                    | -  | (1,051)                         | -                 | (1,051)             |
| <b>Balance at March 31, 2012 (unaudited)</b> | <b>107,063</b>    | <b>\$ 109</b>      | -                 | \$ -                | <b>\$ (69,796)</b>   | <b>\$ 775,264</b>                                      | <b>\$ 349,913</b>               | <b>\$ 3,078</b>   | <b>\$ 1,058,568</b> |

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

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

|   | <b>Three Months Ended March 31,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2013</b>                         | <b>2012</b>     |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>                               |                                     |                 |
| Net income  | \$ 72,643                           | \$ 63,857       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                 |
| Depreciation and amortization expense   | 12,549                              | 12,335          |
| Amortization of debt costs  | 629                                 | 582             |
| Increase in provision for inventory losses  | 3,993                               | 2,797           |
| Increase in receivables   | (9,418)                             | (10,455)        |
| Increase in inventory   | (23,058)                            | (55,884)        |
| Increase in prepaids and other current assets                                     | (5,049)                             | (1,614)         |
| Increase in accounts payable  | 13,256                              | 37,473          |
| Increase in deferred revenue and other current liabilities                        | 27,599                              | 19,221          |
| Other operating activities  | 2,383                               | 2,404           |
| <b>Net cash provided by operating activities</b>                                  | <b>95,527</b>                       | <b>70,716</b>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>                               |                                     |                 |
| Capital expenditures  | (9,917)                             | (9,220)         |
| Other investing activities  | (682)                               | (1,388)         |
| <b>Net cash used in investing activities</b>                                      | <b>(10,599)</b>                     | <b>(10,608)</b> |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>                               |                                     |                 |
| Dividends paid to shareholders  | (14,728)                            | (11,497)        |
| Payments on long-term debt  | (943)                               | (415)           |
| Proceeds from exercised stock options   | 4,342                               | 12,936          |
| Tax benefit from exercise of stock options  | 5,086                               | 20,625          |
| Repurchase of treasury stock  | (61,310)                            | (5,885)         |
| Other financing activities  | -                                   | (2,500)         |
| <b>Net cash (used in) provided by financing activities</b>                        | <b>(67,553)</b>                     | <b>13,264</b>   |
| Effect of exchange rate on cash and cash equivalents                              | 248                                 | (236)           |
| Net increase in cash and cash equivalents   | 17,623                              | 73,136          |
| Beginning balance, cash and cash equivalents                                      | 158,541                             | 128,438         |
| Ending balance, cash and cash equivalents   | \$ 176,164                          | \$ 201,574      |

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

Table of Contents

**NOTE 1. NATURE OF BUSINESS**

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

The Company is vertically integrated, as its operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three segments: Retail, Franchising and Manufacturing/Wholesale. Corporate retail store operations are located in the United States, Canada and Puerto Rico, and in addition, the Company offers products domestically through GNC.com, LuckyVitamin.com and www.drugstore.com. Franchise stores are located in the United States and over 50 international countries (including distribution centers where retail sales are made). The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, Pennsylvania and South Carolina. The Company manufactures the majority of its branded products, but also merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

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

**Recent Significant Transactions.** In April 2011, Holdings consummated an initial public offering (the IPO ) of 25.9 million shares of its Class A common stock, par value \$0.001 per share (the Class A common stock ), at an IPO price of \$16.00 per share. Prior to the IPO, Holdings' outstanding common stock was principally owned by Ontario Teachers' Pension Plan Board ( OTPP ) and Ares Corporate Opportunities Fund II L.P. ( Ares ), and together with OTPP, collectively referred to as the Sponsors ). On March 19, 2012, OTPP converted all of its shares of Class B common stock into an equal number of shares of Class A common stock. Subsequent to the IPO, certain of Holdings' stockholders, including the Sponsors, completed the following registered offerings of Class A common stock:

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

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

As of March 31, 2013, the Company had completed \$61.3 million of its February 2013 approved \$250.0 million share repurchase program of Class A common stock.

In March 2011, GNC Corporation and General Nutrition Centers, Inc., each a wholly owned subsidiary of Holdings, entered into a Credit Agreement (the "Credit Agreement") that provided for a \$1.2 billion term loan (the "Term Loan Facility") and an \$80.0 million revolving credit facility (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Senior Credit Facility"). On August 1, 2012, the Credit Agreement was amended to increase the outstanding borrowings by \$200.0 million (the "Incremental Term Loan"). In October 2012, the Credit Agreement was amended to adjust the per annum interest rate to the greater of LIBOR and 1.00%, plus an applicable margin of 2.75% (the "Repricing").

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The year-end consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ( "U.S. GAAP" ). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's audited financial statements in Holdings' Annual Report on Form 10-K filed for the year ended December 31, 2012. There have been no material changes to the application of significant accounting policies and significant judgments and estimates since December 31, 2012.

Table of Contents

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

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

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

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

**Transaction Related Costs.** The Company recognizes transaction related costs as expenses in the period incurred. For the three months ended March 31, 2013, the Company incurred no transaction related costs. For the three months ended March 31, 2012, the Company incurred \$0.7 million of expenses related to the March 2012 offering.

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (the FASB ) issued an accounting standard regarding the reclassification of amounts out of accumulated other comprehensive income ( AOCI ). This standard does not change the current requirements for reporting net income or other comprehensive income. However, the standard requires disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the footnotes to the financial statements. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This guidance is effective for fiscal years beginning after December 15, 2012. The Company adopted this guidance during the first quarter of 2013. The adoption of this guidance had no material impact on the Company s consolidated financial statements.

**NOTE 3. INVENTORIES**

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The net carrying value of inventories consisted of the following:

|   | <b>March 31,<br/>2013<br/>(unaudited)</b> | <b>December 31,<br/>2012</b> |
|---|---|------------------------------|
|   | <b>(in thousands)</b>                     |                              |
| Finished product ready for sale                 | \$ 427,837                                | \$ 415,096                   |
| Work-in-process, bulk product and raw materials | 75,982                                    | 70,022                       |
| Packaging supplies                              | 6,900                                     | 6,481                        |
| Total   | \$ 510,719                                | \$ 491,599                   |

Table of Contents**NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET**

For the three months ended March 31, 2013 and 2012, the Company acquired 7 and 13 franchise stores, respectively. These acquisitions were accounted for using the purchase method of accounting and the Company recorded the acquired inventory, fixed assets, franchise rights and goodwill, with an applicable reduction to receivables and cash. For the three months ended March 31, 2013 and 2012, the total purchase price associated with these acquisitions was \$1.7 million and \$2.6 million, respectively, of which \$1.2 million and \$1.1 million, respectively, was paid in cash.

The following table summarizes the Company's goodwill activity:

|                                       | Retail         | Franchising | Manufacturing/<br>Wholesale | Total      |
|---------------------------------------|----------------|-------------|-----------------------------|------------|
|                                       | (in thousands) |             |                             |            |
| Balance at December 31, 2012          | \$ 319,771     | \$ 117,303  | \$ 202,841                  | \$ 639,915 |
| Acquired franchise stores             | 1,109          | -           | -                           | 1,109      |
| Balance at March 31, 2013 (unaudited) | \$ 320,880     | \$ 117,303  | \$ 202,841                  | \$ 641,024 |

Intangible assets other than goodwill consisted of the following:

|  | Retail<br>Brand | Franchise<br>Brand | Operating<br>Agreements | Other<br>Intangibles | Total      |
|--|-----------------|--------------------|-------------------------|----------------------|------------|
|  | (in thousands)  |                    |                         |                      |            |
| Balance at December 31, 2012             | \$ 500,000      | \$ 220,000         | \$ 132,317              | \$ 9,400             | \$ 861,717 |
| Acquired franchise stores                | -               | -                  | -                       | 186                  | 186        |
| Amortization expense                     | -               | -                  | (1,663)                 | (457)                | (2,120)    |
| Balance at March 31, 2013<br>(unaudited) | \$ 500,000      | \$ 220,000         | \$ 130,654              | \$ 9,129             | \$ 859,783 |

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

|                      | Weighted<br>-<br>Average<br>Life | Cost           | March 31, 2013<br>Accumulated<br>Amortization<br>(unaudited) | Carrying<br>Amount | Cost       | December 31, 2012<br>Accumulated<br>Amortization | Carrying<br>Amount |
|----------------------|----------------------------------|----------------|--|--------------------|------------|--|--------------------|
|                      |                                  | (in thousands) |  |                    |            |  |                    |
| Brands - retail      | -                                | \$ 500,000     | \$ -   | \$ 500,000         | \$ 500,000 | \$ -   | \$ 500,000         |
| Brands - franchise   | -                                | 220,000        | -  | 220,000            | 220,000    | -  | 220,000            |
| Retail agreements    | 30.2                             | 31,000         | (6,512)  | 24,488             | 31,000     | (6,249)  | 24,751             |
| Franchise agreements | 25.0                             | 70,000         | (16,917)   | 53,083             | 70,000     | (16,217)   | 53,783             |

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|                          |      |            |             |            |            |             |            |
|--------------------------|------|------------|-------------|------------|------------|-------------|------------|
| Manufacturing agreements | 25.0 | 70,000     | (16,917)    | 53,083     | 70,000     | (16,217)    | 53,783     |
| Other intangibles        | 11.4 | 10,600     | (2,454)     | 8,146      | 10,600     | (2,151)     | 8,449      |
| Franchise rights         | 3.7  | 5,320      | (4,337)     | 983        | 5,134      | (4,183)     | 951        |
| Total                    | 24.5 | \$ 906,920 | \$ (47,137) | \$ 859,783 | \$ 906,734 | \$ (45,017) | \$ 861,717 |



Table of Contents

The following table represents future estimated amortization expense of intangible assets with finite lives at March 31, 2013:

| Years ending December 31, | Estimated<br>amortization<br>expense<br>(unaudited)<br>(in thousands) |
|---------------------------|---|
| 2013                      | \$ 6,330  |
| 2014                      | 8,177   |
| 2015                      | 8,034   |
| 2016                      | 7,948   |
| 2017                      | 7,898   |
| Thereafter                | 101,396   |
| Total                     | \$ 139,783  |

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

Long-term debt consisted of the following:

|                          | March 31,<br>2013<br>(unaudited) | December 31,<br>2012 |
|--------------------------|----------------------------------|----------------------|
|                          | (in thousands)                   |                      |
| Senior Credit Facility   | \$ 1,095,739                     | \$ 1,096,112         |
| Mortgage                 | 2,003                            | 2,444                |
| Capital leases           | 4                                | 6                    |
| Total debt               | 1,097,746                        | 1,098,562            |
| Less: current maturities | (3,816)                          | (3,817)              |
| Long-term debt           | \$ 1,093,930                     | \$ 1,094,745         |

For the three months ended March 31, 2013 and 2012, interest expense was \$11.0 million and \$10.4 million, respectively, and consisted primarily of interest on outstanding borrowings under the Term Loan Facility. Interest under both the Term Loan Facility and the Revolving Credit Facility is based on variable rates. At both March 31, 2013 and December 31, 2012, the interest rate under the Term Loan Facility was 3.75% and the interest rate under the Revolving Credit Facility was 3.00%. The Revolving Credit Facility was undrawn and had outstanding letters of credit of \$1.1 million at both March 31, 2013 and December 31, 2012.

As of March 31, 2013, the Company believes that it is in compliance with all covenants under the Senior Credit Facility.

Table of Contents**NOTE 6. FINANCIAL INSTRUMENTS**

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

|  | <b>March 31, 2013</b>      |                       | <b>December 31, 2012</b>   |                       |
|--|----------------------------|-----------------------|----------------------------|-----------------------|
|  | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
|  | <b>(unaudited)</b>         |                       |                            |                       |
|  | <b>(in thousands)</b>      |                       |                            |                       |
| Cash and cash equivalents                  | \$ 176,164                 | \$ 176,164            | \$ 158,541                 | \$ 158,541            |
| Receivables, net                           | 137,659                    | 137,659               | 129,641                    | 129,641               |
| Franchise notes receivable, net            | 8,174                      | 8,174                 | 7,589                      | 7,589                 |
| Accounts payable                           | 138,621                    | 138,621               | 125,165                    | 125,165               |
| Long-term debt (including current portion) | 1,097,746                  | 1,105,979             | 1,098,562                  | 1,101,309             |

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

The Company is engaged in various legal actions, claims and proceedings resulting from the Company's business activities 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. As with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. The Company continues to assess the requirement to account for additional contingencies in accordance with the standard on contingencies. If the Company is required to make a payment in connection with an adverse outcome in these matters, it could have a material impact on the Company's business, financial condition, results of operations or cash flows.

As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. Although the effects of these claims to date have not been material to the Company, it is possible that current and future product liability claims could have a material adverse impact on its business or financial condition, results of operations, or cash flows. The Company currently maintains product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. The Company typically seeks and has obtained contractual indemnification from most parties that supply raw materials for its products or that manufacture or market products it sells. The Company also typically seeks to be added, and has

been added, as an additional insured under most of such parties' insurance policies. The Company is also entitled to indemnification by Numico for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. The Company may incur material product liability claims, which could increase its costs and adversely affect its reputation, revenue and operating income.

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

Following the recall, the Company was named, among other defendants, in approximately 93 lawsuits related to Hydroxycut-branded products in 14 states. Lovate previously accepted the Company's tender request for defense and indemnification under its purchasing agreement with the Company and, as such, Lovate has accepted the Company's request for defense and indemnification in the Hydroxycut matters. The Company's ability to obtain full recovery in respect of any claims against the Company in connection with products manufactured by Lovate under the indemnity is dependent on Lovate's insurance coverage, the creditworthiness of its insurer, and the absence of significant defenses by such insurer. To the extent the Company is not fully compensated by Lovate's insurer, it can seek recovery directly from Lovate. The Company's ability to fully recover such amounts may be limited by the creditworthiness of Lovate.

## Table of Contents

As of March 31, 2013, there were 73 pending lawsuits related to Hydroxycut in which the Company has been named: 67 individual, largely personal injury claims and six putative class action cases, generally inclusive of claims of consumer fraud, misrepresentation, strict liability and breach of warranty. In 2009, the United States Judicial Panel on Multidistrict Litigation consolidated pretrial proceedings of many of the pending actions in the Southern District of California (In re: Hydroxycut Marketing and Sales Practices Litigation, MDL No. 2087). The parties in the consolidated class actions have reached a settlement, and the settlement has been preliminarily approved by the Court. The parties' motion for final approval of the settlement was heard on April 23, 2013. The Company is not required to make any payments under the settlement.

As any liabilities that may otherwise arise from Hydroxycut claims against the Company are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

## **Commitments**

In addition to operating leases obtained in the normal course of business, the Company maintains certain purchase commitments with various vendors to ensure its operational needs are fulfilled. As of March 31, 2013, such future purchase commitments consisted of \$2.7 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 that contract, the Company is working under the DHEC's supervision to complete additional investigations to characterize the contamination. After the Company completes the investigations to understand the extent of the chlorinated solvent impacts, the Company will develop appropriate remedial measures for DHEC approval. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of the Company's potential liability.

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

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

Table of Contents

**NOTE 8. STOCK-BASED COMPENSATION PLANS**

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

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

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

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

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

The Company utilizes the Black Scholes model to calculate the fair value of options under both the 2011 Stock Plan and the 2007 Stock Plan. The grant-date fair value of the Company s restricted stock awards and restricted stock units is based on the closing price of a share of the Company s common stock on the New York Stock Exchange on the date of the grant. The resulting compensation cost is recognized in the Company s financial statements over the vesting period. The Company recognized \$1.8

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million and \$1.2 million of total non-cash stock-based compensation expense for the three months ended March 31, 2013 and 2012, respectively. At March 31, 2013, there was approximately \$19.5 million of total unrecognized compensation cost related to non-vested stock-based compensation for all awards previously made that are expected to be recognized over a weighted average period of approximately 2.0 years. All expense for the stock-based compensation plans is recorded to paid-in-capital.

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

During the three months ended March 31, 2012, the total intrinsic value of awards exercised was \$55.9 million, and the total amount received by Holdings from the exercise of options was \$13.5 million. The tax impact associated with the exercise of awards for the three months ended March 31, 2012 was a benefit of \$19.3 million, which was recorded to paid-in-capital.

Table of Contents**Stock Options**

The following table sets forth a summary of stock options under all plans for the three months ended March 31, 2013:

|                                  | <b>Total Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value (in<br/>thousands)</b> |
|----------------------------------|----------------------|--|---|---|
| Outstanding at December 31, 2012 | 3,159,542            | \$ 18.96   |   |   |
| Granted                          | 10,017               | 42.19  |   |   |
| Exercised                        | (449,872)            | 9.34   |   |   |
| Forfeited                        | (16,667)             | 27.74  |   |   |
| Outstanding at March 31, 2013    | 2,703,020            | \$ 20.60   | 6.1   | \$ 50,527   |
| Exercisable at March 31, 2013    | 896,748              | \$ 14.66   | 5.9   | \$ 22,079   |

The weighted average fair value of options granted during the three months ended March 31, 2013 and 2012 was \$12.97 and \$9.89, respectively. Fair value of options vested during the three months ended March 31, 2013 and 2012 was \$1.0 million and \$1.7 million, respectively.

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

The assumptions used in the Company's Black Scholes valuation related to stock option grants made during the three months ended March 31, 2013 were as follows:

|  |           |
|--|-----------|
| Dividend yield                               | 1.4%      |
| Expected option life                         | 4.8 years |
| Volatility factor percentage of market price | 40.1%     |
| Discount rate                                | 0.9%      |





Table of Contents**Restricted Stock Awards**

The following table sets forth a summary of restricted stock awards granted under the 2011 Stock Plan and related information for the three months ended March 31, 2013:

|                                  | <b>Restricted<br/>Stock</b> |    | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|-----------------------------|----|---|
| Outstanding at December 31, 2012 | 123,941                     | \$ | 24.24   |
| Granted                          | 5,526                       |    | 40.64   |
| Forfeited                        | (2,225)                     |    | 29.06   |
| Outstanding at March 31, 2013    | 127,242                     | \$ | 24.87   |

No restricted stock awards vested during the three months ended March 31, 2013.

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

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

The following table sets forth a summary of restricted stock units and performance stock units granted under the 2011 Stock Plan and related information for the three months ended March 31, 2013:

|                                  | <b>Time<br/>Vesting<br/>Restricted<br/>Stock Units</b> |    | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |        | <b>Performance<br/>Vesting<br/>Restricted<br/>Stock Units</b> |       | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|--|----|---|--------|---|-------|---|
| Outstanding at December 31, 2012 | 171,937  | \$ | 36.16   | -      | \$  | -     |   |
| Granted                          | 7,622  |    | 41.52   | 45,327 |   | 42.19 |   |
| Outstanding at March 31, 2013    | 179,559  | \$ | 36.39   | 45,327 | \$  | 42.19 |   |

No time vesting or performance vesting shares vested during the three months ended March 31, 2013.

**NOTE 9. SEGMENTS**

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

Table of Contents

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

|  | <b>Three months ended March 31,</b> |                   |
|--|-------------------------------------|-------------------|
|  | <b>2013</b>                         | <b>2012</b>       |
|  | <b>(unaudited)</b>                  |                   |
|  | <b>(in thousands)</b>               |                   |
| <b>Revenue:</b>                                |                                     |                   |
| Retail   | \$ 493,467                          | \$ 469,821        |
| Franchise                                      | 107,887                             | 101,484           |
| Manufacturing/Wholesale:                       |                                     |                   |
| Intersegment revenues                          | 65,470                              | 66,508            |
| Third Party                                    | 63,337                              | 52,967            |
| Subtotal Manufacturing/Wholesale               | 128,807                             | 119,475           |
| Subtotal segment revenues                      | 730,161                             | 690,780           |
| Elimination of intersegment revenues           | (65,470)                            | (66,508)          |
| <b>Total revenue</b>                           | <b>\$ 664,691</b>                   | <b>\$ 624,272</b> |
| <b>Operating income:</b>                       |                                     |                   |
| Retail   | \$ 98,583                           | \$ 93,176         |
| Franchise                                      | 38,425                              | 34,428            |
| Manufacturing/Wholesale                        | 22,926                              | 22,837            |
| Unallocated corporate and other costs:         |                                     |                   |
| Warehousing and distribution costs             | (16,355)                            | (15,795)          |
| Corporate costs                                | (19,059)                            | (21,891)          |
| Transaction related costs                      | -                                   | (686)             |
| Subtotal unallocated corporate and other costs | (35,414)                            | (38,372)          |
| <b>Total operating income</b>                  | <b>\$ 124,520</b>                   | <b>\$ 112,069</b> |

**NOTE 10. INCOME TAXES**

The Company recognized \$40.9 million of income tax expense (or 36.0% of pre-tax income) during the three months ended March 31, 2013 compared to \$37.8 million (or 37.2% of pre-tax income) for the same period in 2012.

The Company files a consolidated U.S. federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it operates. The Company's 2010 federal income tax return is currently under examination by the Internal Revenue Service. The Company has various state and local jurisdiction tax years open to examination (the earliest open period is 2004), and the Company also has certain state and local jurisdictions currently under audit. As of March 31, 2013, the Company believes that it has appropriately reserved for potential federal and state income tax exposures.

At both March 31, 2013 and December 31, 2012, the Company had \$12.9 million of unrecognized tax benefits. As of March 31, 2013, the Company is not aware of any tax positions for which it is reasonably possible that the amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately \$12.9 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued approximately \$5.7 million at both March 31, 2013 and December 31, 2012 for potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to the ultimate settlement of uncertain tax positions, amounts previously accrued will be reduced and reflected as a reduction of the overall income tax provision.



Table of Contents

**NOTE 11. RELATED PARTY TRANSACTIONS**

**Sponsors.** Prior to the IPO, Holdings' outstanding common stock was principally owned by the Sponsors. On March 19, 2012, OTPP converted all of its shares of Class B common stock into an equal number of shares of Class A common stock. As of December 31, 2012 Ares does not own any shares of the Company's capital stock and OTPP owns less than 10,000 shares of the Company's Class A common stock, and therefore the Sponsors are no longer considered related parties.

**Lease Agreements.** General Nutrition Centres Company, the Company's wholly owned subsidiary, is a party, as lessee, to 16 lease agreements with Cadillac Fairview Corporation ( Cadillac Fairview ), as lessor, and 1 lease agreement with Ontrea, Inc. ( Ontrea ), as lessor, with respect to properties located in Canada. Each of Cadillac Fairview and Ontrea is a direct wholly owned subsidiary of OTPP. For the three months ended March 31, 2012, the Company paid \$0.7 million under the lease agreements with Cadillac Fairview, and an immaterial amount for the three months ended March 31, 2012 under the lease agreement with Ontrea. Each lease was negotiated in the ordinary course of business on an arm's length basis.

**NOTE 12. SUBSEQUENT EVENTS**

On April 26, 2013, the board of directors authorized and declared a cash dividend for the second quarter of 2013 of \$0.15 per share of Class A common stock, payable on or about June 28, 2013 to stockholders of record as of the close of business on June 14, 2013.

Table of Contents

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 1, Financial Statements in Part I of this Quarterly Report on Form 10-Q.

**Forward-Looking Statements**

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

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including, but not limited to, those we describe under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- significant competition in our industry;
- unfavorable publicity or consumer perception of our products;
- increases in the cost of borrowings and limitations on availability of additional debt or equity capital;
- our debt levels and restrictions in our debt agreements;
- incurrence of material product liability and product recall costs;

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- loss or retirement of key members of management;
- costs of compliance and our failure to comply with new and existing governmental regulations governing our products, including, but not limited to, proposed dietary supplement legislation and regulations;
- changes in our tax obligations;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- failure of our franchisees to conduct their operations profitably and limitations on our ability to terminate or replace under-performing franchisees;
- economic, political and other risks associated with our international operations;
- failure to keep pace with the demands of our customers for new products and services;
- disruptions in our manufacturing system or losses of manufacturing certifications;
- 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;





Table of Contents

- failure to successfully execute our growth strategy, including any delays in our planned future growth, any inability to expand our franchise operations or attract new franchisees, any inability to expand our company-owned retail operations, any inability to grow our international footprint, or any inability to expand our e-commerce business;
- changes in applicable laws relating to our franchise operations;
- damage or interruption to our information systems;
- risks and costs associated with data loss, credit card fraud and identity theft;
- impact of current economic conditions on our business;
- natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts and geo-political events; and
- failure to maintain effective internal controls.

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

**Business Overview**

We are a global specialty retailer of health and wellness products. We derive our revenues principally from product sales through our company-owned stores and online through GNC.com and LuckyVitamin.com, domestic and international franchise activities and sales of products manufactured in our facilities to third parties. We sell products through a worldwide network of more than 8,200 locations operating under the GNC brand name.

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

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

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

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

As of March 31, 2013, we have completed \$61.3 million of the February 2013 approved \$250.0 million share repurchase program of Class A common stock.

In March 2011, GNC Corporate and General Nutrition Centers, Inc., each a wholly owned subsidiary of Holdings, entered into a Credit Agreement (the Credit Agreement) that provided for a \$1.2 billion term loan (the Term Loan Facility) and an \$80.0 million revolving credit facility (the Revolving Credit Facility) and together with the Term Loan Facility, the Senior Credit Facility). On August 1, 2012, the Credit Agreement was amended to increase the outstanding borrowings by \$200.0 million (the Incremental Term Loan). In October 2012, the Credit Agreement was amended to adjust the per annum interest rate to the greater of LIBOR and 1.00%, plus an applicable margin of 2.75% (the Repricing).

Table of Contents

**Executive Overview**

In 2013, we have continued to focus on achieving our five principal corporate goals: growing company-owned domestic retail earnings, growing company-owned domestic retail square footage, growing our international footprint, expanding our e-commerce business and further leveraging the GNC brand. These goals are designed to drive both short-term and long-term financial results. Our efforts led to the following results for the three months ended March 31, 2013 compared to the same period in 2012:

- Our company-owned domestic same store sales increased by 1.9%, which includes an 18.8% increase from our GNC.com business.
- We increased our company-owned domestic store count by 32 net new stores during the first quarter of 2013.
- Our retail segment sales increased by 5.0%, and operating income increased 5.8%.
- Total franchising revenue grew 6.3%, and operating income increased 11.6%.
- Domestic franchising revenue grew 4.2%, and we added 9 net new domestic franchise stores during the first quarter of 2013.
- International franchise revenue grew 9.9%, and we added 31 net new international franchise stores during the first quarter of 2013.
- We increased our sales in our wholesale/manufacturing segment by 19.6% through our wholesale distribution channels and increased third-party sales.
- We generated 6.5% of total revenue growth which drove an 11.1% increase in total operating income.
- In April 2013, the Company announced the planned second quarter expansion of its Gold Card Member Pricing program to all stores nationwide and GNC.com, which evolves Gold Card from a fixed 20% discount the first week of each month to an everyday variable discount Member pricing model.

- We generated net cash from operating activities of \$95.5 million, repurchased \$61.3 million in common stock, and paid \$14.7 million in common stock dividends.
- We launched our *Respect Yourself* marketing campaign to increase our brand awareness and expand our message across demographics. This integrated campaign spans our stores, digital, social, direct, print and outdoor media, and a national television campaign.

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

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

- *Retail:* Retail revenues are generated by sales to consumers at our company-owned stores and online through our websites, GNC.com and LuckyVitamin.com. Although we believe that our retail and franchise businesses are not seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter. Our industry is expected to grow at an annual average rate of approximately 6.5% through 2020. As a leader in our industry, we expect our organic retail revenue to grow faster than the projected industry growth as a result of our disproportionate market share, scale economies in purchasing and advertising, strong brand awareness and vertical integration.
- *Franchise:* Franchise revenues are generated primarily by:
  - (1) product sales to our franchisees;
  - (2) royalties on franchise retail sales; and
  - (3) franchise fees, which we charge for initial franchise awards, renewals and transfers of franchises.

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



Table of Contents

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

A significant portion of our business infrastructure is comprised of fixed operating costs. Our vertically integrated distribution network and manufacturing capacity can support higher sales volume without significant incremental costs. We therefore expect our operating expenses to grow at a lesser rate than our revenues, resulting in positive operating leverage.

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

- broader consumer awareness of health and wellness issues and rising healthcare costs may increase the use of the products we offer and positively affect our operating performance;
- interest in, and demand for, condition-specific products based on scientific research may positively affect our operating performance if we can timely develop and offer such condition-specific products;
- the effects of favorable and unfavorable publicity on consumer demand with respect to the products we offer may have similarly favorable or unfavorable effects on our operating performance;
- a lack of long-term experience with human consumption of ingredients in some of our products could create uncertainties with respect to the health risks, if any, related to the consumption of such ingredients and negatively affect our operating performance;
- increased costs associated with complying with new and existing governmental regulation may negatively affect our operating performance; and
- a decline in disposable income available to consumers may lead to a reduction in consumer spending and negatively affect our operating performance.

**Results of Operations**

The following information presented for the three months ended March 31, 2013 and 2012 was prepared by management, is unaudited and was derived from our unaudited consolidated financial statements and accompanying notes. In the opinion of management, all adjustments necessary for a fair statement of our financial position and operating results for such periods and as of such dates have been included.

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

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



Table of Contents**Results of Operations**

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

|  | Three Months Ended March 31, |               |                |               |
|--|------------------------------|---------------|----------------|---------------|
|  | 2013                         |               | 2012           |               |
|  | (unaudited)                  |               |                |               |
| <b>Revenues:</b>   |                              |               |                |               |
| Retail   | \$ 493.5                     | 74.3%         | \$ 469.8       | 75.2%         |
| Franchise  | 107.9                        | 16.2%         | 101.5          | 16.3%         |
| Manufacturing / Wholesale  | 63.3                         | 9.5%          | 53.0           | 8.5%          |
| <b>Total net revenues</b>  | <b>664.7</b>                 | <b>100.0%</b> | <b>624.3</b>   | <b>100.0%</b> |
| <b>Operating expenses:</b>   |                              |               |                |               |
| Cost of sales, including warehousing, distribution and occupancy costs | 408.6                        | 61.5%         | 383.6          | 61.4%         |
| Compensation and related benefits                                      | 79.5                         | 12.0%         | 80.0           | 12.8%         |
| Advertising and promotion  | 20.4                         | 3.1%          | 16.2           | 2.6%          |
| Other selling, general and administrative expenses                     | 29.6                         | 4.4%          | 29.6           | 4.7%          |
| Transaction related costs  | -                            | 0.0%          | 0.7            | 0.1%          |
| Amortization expense   | 2.1                          | 0.3%          | 2.2            | 0.4%          |
| Foreign currency gain  | -                            | 0.0%          | (0.1)          | 0.0%          |
| <b>Total operating expenses</b>  | <b>540.2</b>                 | <b>81.3%</b>  | <b>512.2</b>   | <b>82.0%</b>  |
| <b>Operating income:</b>   |                              |               |                |               |
| Retail   | 98.6                         | 14.8%         | 93.2           | 14.9%         |
| Franchise  | 38.4                         | 5.8%          | 34.5           | 5.5%          |
| Manufacturing / Wholesale  | 22.9                         | 3.4%          | 22.8           | 3.7%          |
| Unallocated corporate and other costs:                                 |                              |               |                |               |
| Warehousing and distribution costs                                     | (16.4)                       | -2.5%         | (15.8)         | -2.5%         |
| Corporate costs  | (19.0)                       | -2.8%         | (21.9)         | -3.5%         |
| Transaction related costs  | -                            | 0.0%          | (0.7)          | -0.1%         |
| Subtotal unallocated corporate and other costs, net                    | (35.4)                       | -5.3%         | (38.4)         | -6.1%         |
| <b>Total operating income</b>  | <b>124.5</b>                 | <b>18.7%</b>  | <b>112.1</b>   | <b>18.0%</b>  |
| Interest expense, net  | 11.0                         |               | 10.4           |               |
| <b>Income before income taxes</b>                                      | <b>113.5</b>                 |               | <b>101.7</b>   |               |
| Income tax expense   | 40.9                         |               | 37.8           |               |
| <b>Net income</b>  | <b>\$ 72.6</b>               |               | <b>\$ 63.9</b> |               |

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

Table of Contents

**Comparison of the Three Months Ended March 31, 2013 and 2012**

**Revenues**

Our consolidated net revenues increased \$40.4 million, or 6.5%, to \$664.7 million for the three months ended March 31, 2013 compared to \$624.3 million for the same period in 2012. The increase was the result of increased sales in each of our segments.

*Retail.* Revenue in our Retail segment increased \$23.7 million, or 5.0%, to \$493.5 million for the three months ended March 31, 2013 compared to \$469.8 million for the same period in 2012. Domestic retail revenue increased \$18.6 million due to the opening of new stores and a 1.9% increase in our same store sales driven by sales increases in the sports nutrition category and an increase in sales from GNC.com of \$4.7 million, or 17.4%, to \$31.7 million for the three months ended March 31, 2013, compared to \$27.0 million for the same period in 2012. In addition, sales from LuckyVitamin.com contributed \$1.1 million to the increase in revenue. Canadian sales increased by \$3.9 million in U.S. dollars for the three months ended March 31, 2013 compared to the same period in 2012. Our company-owned store base increased by 139 domestic stores to 3,053 at March 31, 2013 compared to 2,914 at March 31, 2012, due to new store openings and franchise store acquisitions. Our Canadian store base increased by 2 stores to 167 at March 31, 2013 compared to 165 at March 31, 2012.

*Franchise.* Revenues in our Franchise segment increased \$6.4 million, or 6.3%, to \$107.9 million for the three months ended March 31, 2013 compared to \$101.5 million for the same period in 2012. Domestic franchise revenues increased \$2.7 million primarily due to higher product sales, royalties and fees. Our domestic franchise same store sales increased by 3.2% for the three months ended March 31, 2013 compared to the same period in 2012. There were 958 domestic franchise stores at March 31, 2013 compared to 928 stores at March 31, 2012. International revenue increased by \$3.7 million, or 9.9%, for the three months ended March 31, 2013, compared the same period in 2012, primarily as a result of higher product sales, royalties and fees. Our international franchise store base increased by 237 stores to 1,861 at March 31, 2013 compared to 1,624 at March 31, 2012.

*Manufacturing/Wholesale.* Revenues in our Manufacturing/Wholesale segment, which includes third-party sales from our manufacturing facilities in South Carolina, as well as wholesale sales to Rite Aid, PetSmart, Sam's Club, and www.drugstore.com, increased \$10.3 million, or 19.6%, to \$63.3 million for the three months ended March 31, 2013 compared to \$53.0 million for the same period in 2012. For the three months ended March 31, 2013, third-party contract manufacturing sales from our South Carolina manufacturing plant increased by \$3.5 million, or 11.2%, compared to the same period in 2012. In addition, wholesale revenue increased due to timing of purchase orders and shipments with key wholesale customers.

**Cost of Sales**

Cost of sales, which includes product costs, costs of warehousing and distribution and occupancy costs, increased \$25.0 million, or 6.5%, to \$408.6 million for the three months ended March 31, 2013 compared to \$383.6 million for the same period in 2012. Cost of sales, as a percentage of net revenue, was 61.5% and 61.4% for the three months ended March 31, 2013 and 2012, respectively.

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

SG&A expenses, including compensation and related benefits, advertising and promotion expense, other SG&A expenses including amortization expense and transaction related costs, increased \$2.9 million, or 2.3%, to \$131.6 million for the three months ended March 31, 2013 compared to \$128.7 million for the same period in 2012. These expenses, as a percentage of net revenue, were 19.8% for the three months ended March 31, 2013 compared to 20.6% for the three months ended March 31, 2012.

*Compensation and related benefits.* Compensation and related benefits decreased \$0.5 million, or -0.6%, to \$79.5 million for the three months ended March 31, 2013 compared to \$80.0 million for the same period in 2012. The decrease in compensation and related benefits was primarily due to a decrease in store and corporate incentives, partially offset by an increase to support our increased store base and sales volume.

*Advertising and promotion.* Advertising and promotion expenses increased \$4.2 million, or 26.0%, to \$20.4 million for the three months ended March 31, 2013 compared to \$16.2 million for the same period in 2012. The increase in advertising expense resulted primarily from an increase in media expense with the launch of the Respect Yourself campaign.

Table of Contents

*Other SG&A.* Other SG&A expenses, including amortization expense, decreased \$0.1 million, or -0.3%, to \$31.7 million for the three months ended March 31, 2013 compared to \$31.8 million for the same period in 2012.

*Transaction related costs.* We did not incur any transaction related costs for the three months ended March 31, 2013. For the three months ended March 31, 2012, we incurred \$0.7 million of expenses related to the March 2012 offering.

**Operating Income**

As a result of the foregoing, consolidated operating income increased \$12.5 million, or 11.1%, to \$124.5 million for the three months ended March 31, 2013 compared to \$112.1 million for the same period in 2012. Operating income, as a percentage of net revenue, was 18.7% and 18.0% for the three months ended March 31, 2013 and 2012, respectively.

*Retail.* Operating income increased \$5.4 million, or 5.8%, to \$98.6 million for the three months ended March 31, 2013 compared to \$93.2 million for the same period in 2012. The increase in operating income was driven by higher gross profit margin and expense leverage on the same store sales increase in payroll, partially offset by a planned increase in marketing spend this quarter in support of the Respect Yourself marketing campaign launch.

*Franchise.* Operating income increased \$4.0 million, or 11.6%, to \$38.4 million for the three months ended March 31, 2013 compared to \$34.5 million for the same period in 2012. The increase was due to increased wholesale product sales and royalty income.

*Manufacturing/Wholesale.* Operating income increased \$0.1 million, or 0.4%, to \$22.9 million for the three months ended March 31, 2013 compared to \$22.8 million for the same period in 2012. Operating income grew slower than sales due to a lower mix of proprietary product sales.

*Warehousing and distribution costs.* Unallocated warehousing and distribution costs increased \$0.6 million, or 3.5%, to \$16.4 million for the three months ended March 31, 2013 compared to \$15.8 million for the same period in 2012. The increase was primarily due to higher fuel costs and increased wages to support higher sales volume.

*Corporate costs.* Corporate overhead costs decreased \$2.8 million, or -12.9%, to \$19.0 million for the three months ended March 31, 2013 compared to \$21.9 million for the same period in 2012. This decrease was due to decreases in compensation expenses and other SG&A costs.

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*Transaction related costs.* We did not incur any transaction related costs for the three months ended March 31, 2013. For the three months ended March 31, 2012, we incurred \$0.7 million of expenses related to the March 2012 offering.

### ***Interest Expense***

Interest expense increased \$0.6 million, or 6.1%, to \$11.0 million for the three months ended March 31, 2013 compared to \$10.4 million for the same period in 2012. This increase was primarily due to the borrowings under the \$200.0 million Incremental Term Loan, partially offset by the effects of the Repricing.

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

We recognized \$40.9 million of income tax expense (or 36.0% of pre-tax income) during the three months ended March 31, 2013 compared to \$37.8 million (or 37.2% of pre-tax income) for the same period in 2012. The income tax rate was lower for the three months ended March 31, 2013 compared to the same period in 2012 as a result of benefit of the American Taxpayer Relief Act of 2012 enacted on January 2, 2013 and non-deductible transaction related costs in 2012.

### ***Net Income***

As a result of the foregoing, consolidated net income increased \$8.7 million to \$72.6 million for the three months ended March 31, 2013 compared to \$63.9 million for the same period in 2012.

### ***Liquidity and Capital Resources***

At March 31, 2013, we had \$176.2 million in cash and cash equivalents and \$581.9 million in working capital, compared with \$158.5 million in cash and cash equivalents and \$573.5 million in working capital at December 31, 2012. The \$8.4 million increase in our working capital was primarily driven by an increase in our receivables and inventory levels due to an increase in volume, partially offset by an increase in accounts payable.

Table of Contents

We expect to fund our operations through internally generated cash and, if necessary, from borrowings under the Revolving Credit Facility. At March 31, 2013, we had \$78.9 million available under the Revolving Credit Facility, after giving effect to \$1.1 million utilized to secure letters of credit.

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

On February 14, 2013, the board of directors authorized a program to repurchase up to an aggregate of \$250.0 million of our Class A common stock. We repurchased \$61.3 million of Class A common stock during the first quarter of 2013.

On April 26, 2013, the board of directors authorized and declared a cash dividend for the second quarter of 2013 of \$0.15 per share of Class A common stock, payable on or about June 28, 2013 to stockholders of record as of the close of business on June 14, 2013.

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

***Cash Provided by Operating Activities***

Cash provided by operating activities was \$95.5 million and \$70.7 million for the three months ended March 31, 2013 and 2012, respectively. The increase was due to an increase in net income of \$8.7 million and the timing of payments for inventory, accounts payable, and accounts receivable for the three months ended March 31, 2013 compared to the same period in 2012.

For the three months ended March 31, 2013, inventory increased \$23.1 million as a result of increases in our finished goods to support our increased sales. Accounts receivables increased \$9.4 million as a result of increased sales to our franchisees. Accounts payable increased \$13.3 million due to the increase in inventory and timing of payments. Deferred revenue and other current liabilities increased \$27.6 million due to an increase in accrued taxes.

***Cash Used in Investing Activities***

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Cash used in investing activities was \$10.6 million for both the three months ended March 31, 2013 and 2012. Capital expenditures, which were primarily for new stores and improvements to our retail stores and our South Carolina manufacturing facility, were \$9.9 million and \$9.2 million for the three months ended March 31, 2013 and 2012, respectively.

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

We expect capital expenditures to be approximately \$50 million in 2013, which includes costs associated with growing our domestic square footage. We anticipate funding our 2013 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

Table of Contents

***Cash Used in Financing Activities***

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

For the three months ended March 31, 2012, cash provided by financing activities was \$13.3 million, primarily due to \$33.6 million of proceeds from exercised stock options, including the associated tax benefit, offset partially by dividends paid to stockholders of \$11.5 million and the repurchase of stock under a repurchase program of \$5.9 million.

**Contractual Obligations**

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

**Off Balance Sheet Arrangements**

As of March 31, 2013, we had no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements, or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

**Critical Accounting Estimates**

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

**Recent Accounting Pronouncements**



In February 2013, the Financial Accounting Standards Board (the FASB ) issued an accounting standard regarding the reclassification of amounts out of accumulated other comprehensive income ( AOCI ). This standard does not change the current requirements for reporting net income or other comprehensive income. However, the standard requires disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the footnotes to the financial statements. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This guidance is effective for fiscal years beginning after December 15, 2012. We adopted this guidance during the first quarter of 2013. The adoption of this guidance had no material impact on our consolidated financial statements.

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

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

#### ***Interest Rate Market Risk***

All of Centers' long-term debt is subject to changing interest rates. Although changes in interest rates do not impact our operating income, the changes could affect the fair value of such debt and related interest payments. Based on our variable rate debt balance as of March 31, 2013, an increase of 1% in the interest rates would cause our annual interest rate costs to increase by approximately \$2.2 million. A decrease in the current interest rates would have no impact on interest expense due to an interest rate floor that exists on the Senior Credit Facility.

Table of Contents

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

We are subject to the risk of foreign currency exchange rate changes in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of our non-U.S. based subsidiaries. We are also subject to foreign currency exchange rate changes for purchases of goods and services that are denominated in currencies other than the U.S. dollar. The primary currencies to which we are exposed to fluctuations are the Canadian Dollar and the Chinese Renminbi. The fair value of our net foreign investments and our foreign denominated payables would not be materially affected by a 10% adverse change in foreign currency exchange rates for the three months ended March 31, 2013 and 2012.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that, as of March 31, 2013, our disclosure controls and procedures are effective at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting**

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

Table of Contents

**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are engaged in various legal actions, claims and proceedings resulting from the Company's business activities arising in the normal course of business, including claims related to breach of contracts, products liabilities, intellectual property matters and employment-related matters. As with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. We continue to assess the requirement to account for additional contingencies in accordance with the standard on contingencies. If we are required to make a payment in connection with an adverse outcome in these matters, it could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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

*Hydroxycut Claims.* On May 1, 2009, the Food and Drug Administration ( FDA ) issued a warning on several Hydroxycut-branded products manufactured by lovate. The FDA warning was based on 23 reports of liver injuries from consumers who claimed to have used the products between 2002 and 2009. As a result, lovate voluntarily recalled 14 Hydroxycut-branded products.

Following the recall, the Company was named, among other defendants, in approximately 93 lawsuits related to Hydroxycut-branded products in 14 states. lovate previously accepted our tender request for defense and indemnification under its purchasing agreement with us and, as such, lovate has accepted our request for defense and indemnification in the Hydroxycut matters. Our ability to obtain full recovery in respect to any claims against us in connection with products manufactured by lovate under the indemnity is dependent on lovate's insurance coverage, the creditworthiness of its insurer, and the absence of significant defenses by such insurer. To the extent the Company is not fully compensated by lovate's insurer, we can seek recovery directly from lovate. Our ability to fully recover such amounts may be limited by the creditworthiness of lovate.

During the three months ended March 31, 2013, we were not named in any new personal injury lawsuits related to Hydroxycut. As of March 31, 2013, there were 73 pending lawsuits related to Hydroxycut in which the Company has been named: 67 individual, largely personal injury claims and six putative class action cases, generally inclusive of claims of consumer fraud, misrepresentation, strict liability and breach of warranty. In 2009, the United States Judicial Panel on Multidistrict Litigation consolidated pretrial proceedings of many of the pending actions in the Southern District of California (In re: Hydroxycut Marketing

and Sales Practices Litigation, MDL No. 2087). The parties in the consolidated class actions have reached a settlement, and the settlement has been preliminarily approved by the Court. The parties' motion for final approval of the settlement was heard on April 23, 2013. The Company is not required to make any payments under the settlement.

**Item 1A. Risk Factors**

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

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

The following table sets forth information regarding Holdings purchases of shares of Class A common stock during the quarter ended March 31, 2013:

|                                 | <b>Total Number of<br/>Shares Purchased (1)</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans</b> | <b>Maximum Number (or<br/>Approximate Dollar<br/>Value) of Shares that<br/>May Yet Be Purchased<br/>under the Plans or<br/>Programs</b> |
|---------------------------------|---|---|---|---|
| January 1 to January 31, 2013   | -   | -   | -   | -   |
| February 1 to February 28, 2013 | 954,488   | 40.44                                       | 954,488   | \$ 211,404,070  |
| March 1 to March 31, 2013       | 550,000   | 41.30                                       | 550,000   | \$ 188,690,297  |
| <b>Total</b>                    | <b>1,504,488</b>                                | <b>\$ 40.75</b>                             | <b>1,504,488</b>  |   |

(1) On February 14, 2013, we announced that our board of directors approved a share repurchase program pursuant to which we were authorized to purchase up to an aggregate of \$250.0 million shares of Class A common stock during the twelve month period ending February 28, 2014 (the Repurchase Program). Other than purchases in connection with the Repurchase Program as set forth in the table above, we made no purchases of shares of Class A common stock for the quarter ended March 31, 2013.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Item 4 is not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 10.1               | GNC Holdings, Inc. Directors Non-Qualified Deferred Compensation Plan Effective as of January 1, 2013*                                 |
| 10.2               | Form of Director Restricted Stock Unit Award Agreement*  |
| 31.1               | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                |
| 31.2               | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                |
| 32.1               | Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS            | XBRL Instance Document   |
| 101.SCH            | XBRL Taxonomy Extension Schema   |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase  |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase  |

\* Management contract or compensatory plan or arrangement of the Company required to be filed as an exhibit.

Table of Contents

**SIGNATURES**

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

GNC HOLDINGS, INC.  
(Registrant)

Date: May 2, 2013

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

Date: May 2, 2013

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

Date: May 2, 2013

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