

GNC HOLDINGS, INC.

Form 10-K

February 16, 2017

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

(Mark  
One)

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

For the fiscal year ended December 31, 2016

OR

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

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

Commission file number: 001-35113

GNC Holdings, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(state or other jurisdiction of

20-8536244

Incorporation or organization)

(I.R.S. Employer Identification No.)

300 Sixth Avenue

15222

Pittsburgh, Pennsylvania

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
---------------------	---

Class A common stock, par value \$0.001 per share	New York Stock Exchange
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Securities registered pursuant to section 12(g) of the Act: None

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

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

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

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

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

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

Non-accelerated filer   Accelerated filer   Smaller reporting company   
Large accelerated filer  Accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

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

The aggregate market value of all common stock (based upon the closing price of the New York Stock Exchange) of the registrant held by non-affiliates of the registrant as of June 30, 2016 was approximately \$1.65 billion.

As of February 9, 2017, the number of outstanding shares of Class A common stock, par value \$0.001 per share (the "common stock"), of GNC Holdings, Inc. was 68,403,091 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information in the Company's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year, is incorporated by reference in Part III of this Form 10-K.

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**FORWARD LOOKING STATEMENTS**

This Annual Report on Form 10-K (this "Annual Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Forward-looking statements can often be identified by the use of terminology such as "subject to," "believe," "anticipate," "plan," "expect," "intend," "estimate," "project," "may," "will," "should," "would," "could," "can," the negatives thereof, variations thereon and similar expressions, or by discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations and our beliefs may not prove correct. A detailed discussion of risk and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (Item 1A of this Form 10-K).

Consequently, forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. The forward-looking statements included in this Annual Report on Form 10-K are made as of the date of this filing. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

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PART I

Item 1. BUSINESS.

GNC Holdings, Inc. (together with its subsidiaries, referred to as "Holdings", "GNC", "the Company", "we", "us" and "our" unless specified otherwise) is headquartered in Pittsburgh, Pennsylvania and our common stock trades on the New York Stock Exchange (the "NYSE") under the symbol "GNC." Our business was founded in 1935 by David Shakarian who opened our first health food store in Pittsburgh, Pennsylvania.

Our principal executive office is located at 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222, and our telephone number is (412) 288-4600. We maintain and make available on GNC.com, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practical after we electronically file or furnish them to the United States Securities and Exchange Commission (the "SEC").

Business Strategy

Key elements of our business strategy are:

Leading retailer of nutritional supplements. Our history and core foundation is as a manufacturer and specialty retailer of high-quality nutritional supplements. Based on our worldwide network of more than 9,000 locations and our online channels, we believe that we are the leading specialty retailer of health, wellness and performance products.

Our objective is not only to manufacture and carry leading brands, but to carry a full range of products within each category and through the training and utilization of our in-store associates become the trusted advisors to the consumers seeking their best selves.

In-house product development and manufacturing. Our in-house product development and manufacturing capabilities enable us to offer our customers high-quality proprietary merchandise that can only be purchased through our locations or through GNC.com. Our broad and deep product mix, which is focused on premium, value-added nutritional products, is sold under our GNC proprietary brands and other nationally recognized third-party brands. Our nutritional supplement manufacturing facility in Greenville, South Carolina also manufactures high-quality supplement products for other contract manufacturing wholesale customers.

Knowledgeable in-store associates. We believe that the nutritional supplement consumer often desires and seeks out knowledgeable customer service. We differentiate ourselves from competitors in the online or food, drug and mass channels with our well-trained sales associates who are aided by regular trainings and in-store technology. We believe that our engaged customer service is another element of a unique shopping experience that is distinct from that of our competitors.

Driving constructive industry dialogue. We remain focused, together with other industry leaders and industry trade associations, on initiatives begun in 2015 to further develop an industry-led coalition designed to raise the bar for transparency and quality throughout the dietary supplement industry. We believe that over time the implementation of higher standards and more stringent industry self-regulation regarding manufacturing practices, ingredient traceability and product transparency will prove beneficial for the industry and lead to improved dialogue with regulators, stronger consumer trust and greater confidence in our industry.

Segments

We generate revenues from our three segments, which are U.S. and Canada, International and Manufacturing / Wholesale. The following table outlines our segments. For a description of operating (loss) income by segment, our total assets by segment, total revenues by geographic area, and total assets by geographic area, see Note 17, "Segments," to our audited consolidated financial statements included in this Annual Report.

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	Year ended December 31,							
	2016		2015		2014			
	(\$ in millions)							
U.S. and Canada	\$2,143.6	84.4 %	\$2,240.5	83.5 %	\$2,207.3	83.1 %		
International	160.7	6.3 %	183.0	6.8 %	174.9	6.6 %		
Manufacturing / Wholesale <sup>(1)</sup>	235.7	9.3 %	235.7	8.8 %	241.2	9.1 %		
Other	—	— %	24.1	0.9 %	31.6	1.2 %		
Total revenue <sup>(2)</sup>	\$2,540.0	100.0 %	\$2,683.3	100.0 %	\$2,655.0	100.0 %		

(1) Excludes intersegment sales

(2) Refer to Item 8 "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" for details with respect to the revision of sublease rental income. Specifically, sublease rental income received from franchisees is presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy," to conform to the current year presentation

Although we believe that none of our segment operations experience significant seasonal fluctuations, historically we have experienced, and expect to continue to experience, the lowest amount of revenue in our fourth quarter compared with the first three quarters of the year.

#### U.S. and Canada

Our U.S. and Canada segment generates revenues primarily from sales of products to customers at our company-owned stores in the United States, Canada and Puerto Rico, through product sales to franchisees, royalties on franchise retail sales and franchise fees and through our websites, GNC.com and LuckyVitamin.com.

#### Company-Owned Retail Stores in the U.S. and Canada

As of December 31, 2016, we operated 3,513 company-owned stores across all 50 states and the District of Columbia in the United States and in Canada and Puerto Rico. Most of our company-owned stores in the United States are between 1,000 and 2,000 square feet and are located primarily in shopping malls and strip shopping centers.

Traditional shopping mall and strip shopping center locations generate a large percentage of our total retail sales.

#### Domestic Franchise Stores

As of December 31, 2016, there were 1,178 domestic franchise stores. Our franchise stores in the United States are typically between 1,000 and 2,000 square feet, and approximately 90% are located in strip shopping centers. We believe we have good relationships with our franchisees, as evidenced by our domestic franchisee renewal rate of approximately 91% between 2010 and 2016. Currently, we have 525 franchisees operating stores in the United States. We do not rely heavily on any single franchise operator in the United States, where our largest franchisee owns and/or operates 86 store locations.

All of our franchise stores in the United States offer both our proprietary products and third-party products, with a product selection similar to that of our company-owned stores.

Revenues from our franchisees in the United States accounted for approximately 15% of our total U.S. and Canada segment revenues for the year ended December 31, 2016. New franchisees in the United States are required to pay an initial fee of \$40,000 for a franchise license. Existing GNC franchise operators may purchase an additional franchise license for a \$30,000 fee. Once a store begins operations, franchisees are required to pay us a continuing royalty of 6% of sales and contribute 3% of sales to a national advertising fund. Our standard franchise agreements for the United States are effective for an initial ten-year period with unlimited five-year renewal options. At the end of the initial term and each of the renewal periods, the renewal fee is generally 33% of the franchise fee that is then in effect. The franchisee renewal option is generally at our election. Franchisees must meet certain conditions to exercise the franchisee renewal option. Our franchisees in the United States receive limited geographical exclusivity and are required to utilize the standard GNC store format.

Generally, we negotiate lease terms to secure locations at cost-effective rates, which we typically sublease to our franchisees at cost. Franchisees must meet certain minimum standards and duties prescribed by our franchise operations manual, and we conduct periodic field visit reports to ensure our minimum standards are maintained. If a franchisee does not meet specified performance and appearance criteria, we are permitted to terminate the franchise

agreement. In these situations, we may take possession of the location, inventory and equipment, and operate the store as a company-owned store or rebrand the location.

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### Websites

GNC.com and LuckyVitamin.com continue to represent a significant part of our business. The ability to purchase our products through the internet also offers a convenient method for repeat customers to evaluate and purchase new and existing products. This additional sales channel has enabled us to market and sell our products in regions where we have limited or no retail operations. We may offer products on our GNC.com website that are not available at our retail locations, enabling us to broaden the assortment of products available to our customers, and our LuckyVitamin.com platform provides a wide range of nationally branded nutritional supplements with a diverse selection of wellness oriented products. Internet purchases are fulfilled and shipped directly from our distribution centers to our consumers using a third-party transportation service.

### International

Our International segment generates revenue primarily to our international franchisees through product sales, royalties and franchise fees and also includes our China operations and The Health Store.

### International Franchise Stores

As of December 31, 2016, there were 1,957 international franchise locations operating in 47 international countries (including distribution centers where retail sales are made). The international franchise stores are typically smaller and, depending upon the country and cultural preferences, are located in mall, strip shopping center, street or store-within-a-store locations. In addition, some international franchisees sell on the internet and distribute to other retail outlets in their respective countries. Typically, our international stores have a store format and signage similar to our United States franchise stores. We believe that our franchise program enhances our brand awareness and market presence and will enable us to continue to expand our store base internationally with limited capital expenditures. Our international franchise stores offer a more limited product selection than our franchise stores in the United States, primarily due to regulatory constraints.

Revenues from our international franchisees accounted for approximately 80% of our total international segment revenues for the year ended December 31, 2016. In 2016, new international franchisees were required to pay an initial fee of approximately \$25,000 for a franchise license for each full size store, \$12,500 for a franchise license for a store-within-a-store and continuing royalty fees that vary depending on the country. Our international franchise program has enabled us to expand into international markets with limited investment. We expanded our international presence from 1,307 international franchise locations at the end of 2009 to 1,973 international locations (including distribution centers where retail sales are made) as of December 31, 2016.

We enter into development agreements with international franchisees for either full-size stores or store-within-a-store locations. We enter into distribution agreements for wholesale distribution centers and, in some cases, limited internet distribution. The development agreement grants the franchisee the right to develop a specific number of stores in a territory, often the entire country. The franchisee then enters into a franchise agreement for each location. The full-size store franchise agreement has an initial ten-year term with two five-year renewal options. At the end of the initial term and renewal periods, the franchisee typically has the option to renew the agreement at 33% of the current initial franchise fee that is then being charged to new franchisees. Franchise agreements for international store-within-a-store locations have an initial term of five years, with two five-year renewal options. At the end of the initial term and each of the renewal periods, the franchisee has the option to renew the store-within-a-store agreement for up to a maximum of 50% of the franchise fee that is then in effect. Our international franchisees often receive exclusive franchising rights to the entire country, excluding United States military bases. Our international franchisees must meet minimum standards and duties similar to our United States franchisees.

### Manufacturing / Wholesale

Our Manufacturing / Wholesale segment is comprised of our manufacturing operations in South Carolina and our wholesale partner relationships. Our manufacturing facility supplies our U.S. and Canada and International segments with proprietary product and also manufactures products for other third parties. Our wholesale partner business includes the sale of products to wholesale customers, the largest of which include Rite Aid, Sam's Club and PetSmart. Our manufacturing operations are designed to ensure low-cost production of a variety of products of different quantities, sizes and packaging configurations while maintaining strict levels of quality control. Our manufacturing procedures are designed to promote consistency and quality in our finished goods. We conduct sample testing on raw



materials and finished products, including weight, purity and micro bacterial testing. The principal raw materials used in the manufacturing process are natural and synthetic vitamins, herbs, minerals and gelatin. We maintain multiple sources for the majority of our raw materials, although certain materials are single-sourced due to the unique nature of the material. In 2016, our largest vendor supplied approximately 10% of our raw materials.

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To increase brand awareness and promote access to customers who may not frequent specialty nutrition stores, we entered into a strategic alliance with Rite Aid in December 1998 to open GNC franchise "store-within-a-store" locations. As of December 31, 2016, we had 2,358 Rite Aid store-within-a-store locations. Through this strategic alliance, we generate revenues from sales to Rite Aid of our products at wholesale prices, the manufacture of Rite Aid private label products, retail sales of certain consigned inventory and license fees. We are Rite Aid's sole supplier for a number of Rite Aid private label supplements, pursuant to a supply agreement with Rite Aid that extends through 2017, renewing automatically for one year, unless otherwise elected by either party no later than June 1, 2017. The operating license and consignment agreement that comprise our store-within-a store alliance with Rite Aid each extend through 2019. Rite Aid has committed to open 250 new stores over the five year period ending December 31, 2019.

### Other

Beginning in October 2013 and through December 31, 2015, revenue also included the results of an additional website, DiscountSupplements.co.uk. Effective December 31, 2015, we sold substantially all of the assets of our Discount Supplements subsidiary.

### Products

We are a global specialty retailer of health, wellness and performance products, including protein, performance supplements, weight management supplements, vitamins, herbs and greens, wellness supplements, health and beauty, food and drink and other general merchandise. Refer to Item 8, "Financial Statements and Supplementary Data," Note 17, "Segments" for revenue by product category. Our domestic stores offer an extensive mix of brands across multiple categories and products. Through our online channels, GNC.com and LuckyVitamin.com, we offer additional products to online customers. This variety is designed to provide our customers with a wide selection of products to fit their specific needs and to generate a high number of transactions with purchases from multiple product categories. We offer a wide range of high-quality nutritional supplements sold under our GNC proprietary brand names, approximately half of which we manufacture. Sales of our proprietary brands at our U.S. company-owned and franchise stores, GNC.com and wholesale partners including Rite Aid, PetSmart and Sam's Club represented 46% and 52% of total system-wide retail product sales in 2016 and 2015, or \$1,013 million and \$1,197 million, respectively. We also offer products through nationally recognized third-party brand names. Sales of our third-party products at our U.S. company-owned and franchise stores, GNC.com and wholesale partners represented approximately 54% and 48% of total system-wide retail product sales in 2016 and 2015, or \$1,189 million and \$1,120 million, respectively, and together with proprietary sales yielded total U.S. system-wide sales of \$2,202 and \$2,317 million. In 2016 and 2015, we did not have a material concentration of sales from any single product or product line. Our largest vendor supplies approximately 15% of our third-party products.

Effective with the launch of the "One New GNC" on December 29, 2016, the Gold Card Member Pricing program was discontinued in all domestic company-owned and franchise stores on December 28, 2016 and we introduced a free points-based loyalty program, which enables customers to earn points based on their purchases. Points earned by members are valid for one year and may be redeemed for cash discounts on any product we sell at both company-owned or franchise locations. In addition, we offered a paid membership program, "PRO Access," for \$39.99 per year. The program provides members with the delivery of three boxes throughout the membership year as well as the periodic offering of product discounts and opportunities to earn triple points among other benefits. The boxes include sample merchandise and other materials. The impact of these new loyalty programs were not material to the 2016 consolidated financial statements but are expected to be material in 2017 and beyond.

### Product Distribution

Products are delivered to retail stores and customers who make purchases via one of our websites, via a third party transportation network, through our distribution centers located in: Leetsdale, Pennsylvania; Whitestown, Indiana; Anderson, South Carolina, and Phoenix, Arizona. Our distribution centers support our company-owned stores as well as franchise stores and Rite Aid locations. Each of our distribution centers has a quality control department that monitors products received from our vendors to ensure they meet our quality standards.

### Employees

As of December 31, 2016, we had approximately 16,800 employees, including approximately 6,500 full-time and 10,300 part-time employees. None of our employees belong to a union or is a party to any collective bargaining or similar agreement. We consider our relationship with our employees to be good.

Competition

The United States nutritional supplements retail industry is a large, highly fragmented and growing industry, with no single industry participant accounting for a majority of total industry retail sales. Competition is based on price, quality and assortment

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of products, customer service, convenience of store locations and websites, marketing support and availability of new products. In addition, the market is highly sensitive to the introduction of new products.

We compete with both publicly and privately owned companies, which are highly fragmented in terms of geographical market coverage and product categories. We also compete with other specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, mail-order companies, other internet sites and a variety of other smaller participants. In the United States, many of our competitors have national brands that are heavily advertised and are manufactured by large pharmaceutical and food companies and other retailers. Most supermarkets, drugstores and mass merchants have narrow product offerings limited primarily to simple vitamins, herbs and popular third-party sports and diet products. Our international competitors also include large international pharmacy chains and major international supermarket chains, as well as other large U.S.-based companies with international operations. Our wholesale and manufacturing operations compete with other wholesalers and manufacturers of third-party nutritional supplements.

### Trademarks and Other Intellectual Property

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

### Insurance and Risk Management

We are self-insured for certain losses related to health, workers' compensation and general liability insurance and maintain stop-loss coverage with third-party insurers to limit our liability exposure. We face an inherent risk of exposure to product liability claims in the event that, among other things, the use of products sold by us results in injury. We carry product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained losses of \$10.0 million per policy year. We have the ability to refer claims to most of our vendors and their insurers to pay the costs associated with any claims arising from such vendors' products. In most cases, our insurance covers such claims that are not adequately covered by a vendor's insurance and provides for excess secondary coverage above the limits provided by our product vendors.

We also purchase insurance to cover auto liability, network and cyber security, privacy liability and other casualty and property risks. We self-insure certain property and casualty risks such as property damage due to our analysis of the risk, the frequency and severity of a loss and the cost of insurance for the risk.

### Government Regulation

#### Product Regulation

##### Domestic

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

The Dietary Supplement Health and Education Act of 1994 ("DSHEA") amended the Federal Food, Drug, and Cosmetic Act (the "FDC Act") to establish a new framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements. Generally, under the FDC Act, dietary ingredients that were

marketed in the United States prior to October 15, 1994 may be used in dietary supplements without notifying the FDA. "New" dietary ingredients (i.e., dietary ingredients that were "not marketed in the United States before October 15, 1994") must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been "present in the food supply as an article used for food" without being "chemically altered." A new dietary ingredient notification must provide the FDA evidence of a "history of use or other evidence of safety" establishing that use of the dietary ingredient "will reasonably be expected to be safe." A new dietary ingredient notification must be submitted to the FDA at least 75 days before the initial marketing of the new dietary ingredient. The FDA may determine that

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a new dietary ingredient notification does not provide an adequate basis to conclude that a dietary ingredient is reasonably expected to be safe. Such a determination could prevent the marketing of such dietary ingredient. In 2011 and 2016, the FDA issued draft guidance governing the notification of new dietary ingredients. Although FDA guidance is not mandatory, and companies are free to use an alternative approach if the approach satisfies the requirements of applicable laws and regulations, FDA guidance is a strong indication of the FDA's "current thinking" on the topic discussed in the guidance, including its position on enforcement. At this time, it is difficult to determine whether the draft guidance, if finalized, would have a material impact on our operations. However, if the FDA were to enforce the applicable statutes and regulations in accordance with the draft guidance as written, such enforcement could require us to incur additional expenses, which could be significant, and negatively impact our business in several ways, including, but not limited to, enjoining the manufacturing of our products until the FDA determines that we are in compliance and can resume manufacturing, increasing our liability and reducing our growth prospects.

The FDA or other agencies could take actions against products or product ingredients that in its determination present an unreasonable health risk to consumers that would make it illegal for us to sell such products. In addition, the FDA could issue consumer warnings with respect to the products or ingredients in such products that are sold in our stores. Such actions or warnings could be based on information received through FDC Act-mandated reporting of serious adverse events. For example, the FDC Act requires that reports of serious adverse events be submitted to the FDA, and based in part on such reports, in May 2009, the FDA warned consumers to stop using Hydroxycut diet products, which are produced by Iovate Health Sciences, Inc. ("Iovate") and were sold in our stores. Through December 31, 2016, we estimate that we have refunded approximately \$3.5 million to our retail customers and approximately \$1.6 million to our wholesale customers for Hydroxycut product returns.

We take a number of actions to ensure the products we sell comply with the FDC Act. Some of these actions include maintaining and continuously updating a list of restricted ingredients that will be prohibited from inclusion in any products that are sold in our stores or on our websites. Vendors selling product to us for the sale of such products by us will be required to warrant to us that the products sold to us do not contain any of these restricted ingredients. In addition, we have developed and maintain a list of ingredients that we believe comply with the applicable provisions of the FDC Act. As is common in our industry, we rely on our third-party vendors to ensure that the products they manufacture and sell to us comply with all applicable regulatory and legislative requirements. In general, we seek representations and warranties, indemnification and/or insurance from our vendors. However, even with adequate insurance and indemnification, any claims of non-compliance could significantly damage our reputation and consumer confidence in our products. In addition, the failure of such products to comply with applicable regulatory and legislative requirements could prevent us from marketing the products or require us to recall or remove such products from the market, which in certain cases could materially and adversely affect our business, financial condition and results of operations. In the past, we have attempted to offset any losses related to recalls and removals with reformulated or alternative products; however, there can be no assurance that we would be able to offset all or any portion of losses related to any future removal or recall.

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

In addition, DSHEA provides that so-called "third-party literature," e.g., a reprint of a peer-reviewed scientific publication linking a particular dietary ingredient with health benefits, may be used "in connection with the sale of a dietary supplement to consumers" without the literature being subject to regulation as labeling. The literature: (1) must not be false or misleading; (2) may not "promote" a particular manufacturer or brand of dietary supplement; (3) must

present a balanced view of the available scientific information on the subject matter; (4) if displayed in an establishment, must be physically separate from the dietary supplements; and (5) should not have appended to it any information by sticker or any other method. If the literature fails to satisfy each of these requirements, we may be prevented from disseminating such literature with our products, and any dissemination could subject our product to regulatory action as an illegal drug.

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

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

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

The FTC exercises jurisdiction over the advertising of dietary supplements and over-the-counter drugs and has instituted numerous enforcement actions against dietary supplement companies for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. We continue to be subject to a consent decree issued by the FTC in 1994 covering hair care products.

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

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

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

### Foreign

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

### New Legislation or Regulation

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



companies to identify themselves as a dietary supplement company and update this information annually, provide a list of all dietary supplement products they sell and a copy of the labels and update this information annually, and report all adverse events related to dietary supplements, not just serious adverse events; (2) issue guidance to clarify when an ingredient is considered a new dietary ingredient, the evidence needed to document the safety of new dietary ingredients, and appropriate methods for establishing ingredient identity; (3) provide guidance to the industry to clarify when products should be marketed as either dietary supplements or conventional foods formulated with added dietary ingredients; and

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(4) coordinate with stakeholder groups involved in consumer outreach to identify additional mechanisms for educating consumers about the safety, efficacy, and labeling of dietary supplements, implement these mechanisms, and assess their effectiveness. These recommendations could lead to increased regulation by the FDA or future legislation concerning dietary supplements.

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

### Franchise Regulation

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

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

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

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

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

### Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the "DHEC") requested that we investigate contamination associated with historical activities at our South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from our facility. We entered into a Voluntary Cleanup Contract with the DHEC regarding the matter on September 24, 2012. Pursuant to such contract, we are completing additional investigations with the DHEC's approval. We will consult with the DHEC on the next steps in the work after their review of the results of the investigation is complete. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of our potential liability. Therefore, no liability has been recorded in the Company's consolidated financial statements. The Company installed and began operating a pilot vapor extraction system under a portion of the facility in the second half of 2016 with DHEC's approval to assess the effectiveness of such a remedial system.

In addition to the foregoing, we are subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation and disposal of our non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its operations into the environment, including discharges to air, surface water and groundwater. Failure to comply with such laws and regulations could result in costs for remedial actions, penalties or the imposition of other liabilities. New laws, changes in existing laws or the interpretation thereof, or the development of new facts or changes in their processes could also cause us to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. We are also subject to laws and regulations that impose liability and

cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or for properties to which substances or wastes that were sent in connection with current or former operations at its facilities. The presence of contamination from such substances or wastes

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

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Item 1A. RISK FACTORS.

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

Risks Relating to Our Business and Industry

Our current and historical effective tax rate may not be indicative of future rates.

In light of our global earnings mix, our current and historical effective tax rate may not be indicative of future rates due to changes in domestic and international tax laws in the various jurisdictions in which we operate, changes in our global earnings mix or changes to our tax positions. For example, at the present time, the United States generally taxes a company's foreign earnings upon the repatriation of such earnings, and these tax rules may change in the foreseeable future. In the event that such changes are enacted in jurisdictions that are material to our overall results, our effective tax rate may significantly differ from current and historical rates.

Resources devoted to product innovation may not yield new products that achieve commercial success.

Our ability to develop new and innovative GNC-branded products depends on, among other factors, our ability to understand evolving customer and market trends and our ability to translate these insights into commercially viable new products. If we are unable to do so, our customer relationships and product sales could be harmed significantly. Furthermore, the nutritional supplements industry is characterized by rapid and frequent changes in demand for products and new product introductions. Our failure to accurately predict these trends could negatively impact consumer opinion of our stores as a source for the latest products. This could harm our customer relationships and cause losses to our market share. The development of new and innovative products also requires significant investment in research and development and testing of new ingredients, formulas and possibly new production processes. The R&D process can be expensive and prolonged and entails considerable uncertainty. Products may appear promising in development but fail to reach market within the expected time frame, or at all. We may face significant challenges with regard to a key product launch. Further, products also may fail to achieve commercial viability. Finally, there is no guarantee that our development teams will be able to successfully respond to competitive products that could render some of our offerings obsolete. Development of a new product, from discovery through testing to the store shelf, typically takes between four to seven months, but may require an even longer timeline if clinical trials are involved. Each of these time periods can vary considerably from product to product.

We continue to explore new strategic initiatives, including our One New GNC model, but we may not be able to successfully execute on, or realize the expected benefit from the implementation of, our strategic initiatives, and our pursuit of new strategic initiatives may pose significant costs and risks.

We conducted a vast array of consumer tests, pilot programs and other market research throughout 2015 and 2016 as part of our comprehensive review of our customers' experience. Based on this work, we launched our One New GNC single-tier pricing model and new customer loyalty programs, myGNC Rewards and PRO Access, at the end of 2016. We expect the impact of these strategic initiatives to be significant in fiscal 2017 and beyond. Our future operating results are dependent, in part, on our management's success in implementing these and other strategic initiatives. Also, our short-term operating results could be unfavorably impacted by the opportunity and financial costs associated with the implementation of these strategic plans, and we may not realize the expected benefits from such strategies. In addition, we may not be successful in achieving the intended objectives of these strategic initiatives in a timely manner or at all.

We recognized impairment charges during 2016 and may recognize additional such charges in the future, which could adversely affect our results of operations and financial condition.

We evaluate goodwill and our indefinite-lived brand intangible asset for impairment on at least an annual basis. We evaluate property and equipment and definite-lived intangible assets for recoverability when indicators of impairment exist. We will recognize an impairment charge if: our \$720.0 million indefinite-lived brand intangible asset has a carrying value that exceeds its estimated fair value; our \$176.1 million of goodwill has a carrying value for an applicable reporting unit that exceeds its fair value; or our property and equipment and definite-lived intangible assets totaling \$343.5 million at December 31, 2016 have estimated future undiscounted cash flows that are less than the

applicable carrying values. In assessing fair value, we rely primarily on a discounted cash flow analysis, as well as other generally accepted valuation methodologies. These analyses rely on the judgments and estimates of management, which involve inherent uncertainties. Impairment losses are significantly affected by estimates of future operating cash flows and estimates of fair value as well as the Company's total market capitalization. Estimates of future operating cash flows are identified from strategic long-term plans, which are based upon experience, knowledge, and expectations; however, these estimates can be affected by such factors as future operating results, future store profitability, future volumes, revenue and expense growth rates and asset disposal values and future economic conditions, all of which can be difficult

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to predict accurately. Any significant deterioration in macroeconomic conditions could affect the fair value of our long-lived assets and could result in future impairment charges, which would adversely affect our results of operations. We recorded long-lived asset impairment charges of \$476.6 million in fiscal 2016. While we currently believe that the fair values of our long-lived assets exceed their respective carrying values, changes in our estimates and assumptions regarding the future performance of our business could result in further impairment charges, which may have a material adverse effect on our results of operations.

Our inability to attract, train and retain highly qualified associates could adversely impact our business, financial condition and results of operations.

Our success depends on the continued contributions of our store and field associates, and the loss of these contributions could have a material adverse effect on our business. We must attract, train and retain a large and growing number of qualified associates, while controlling related labor costs and maintaining our core values. Our ability to control labor and benefit costs is subject to numerous external factors, including regulatory changes, prevailing wage rates, and healthcare and other insurance costs. We compete with other retail and non-retail businesses for these store and field associates and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain qualified store and field associates in the future, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

As of December 31, 2016, our total consolidated long-term debt (including current portion) was \$1,540.5 million, including the \$245.3 million related to the \$287.5 million principal amount of 1.5% convertible senior notes due 2020 that the Company issued in a private offering in August 2015 (the "Notes") (net of \$42.2 million related to the conversion feature and discount), and we had an additional \$167.2 million available under our \$300.0 million revolving credit facility (the "Revolving Credit Facility") after giving effect to \$127.0 million of borrowings outstanding and \$5.8 million utilized to secure letters of credit. The Notes currently bear interest at a rate of 1.50% per year, payable semiannually in arrears on February 15 and August 15 each year prior to their maturity in August 2020, unless earlier converted. Our term loan facility (the "Term Loan Facility" and, together with the



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Revolving Credit Facility, our "Senior Credit Facility") requires amortization payments in a principal amount equal to \$1.1 million quarterly.

All of the debt under our Senior Credit Facility bears interest at variable rates. Our unhedged debt is subject to additional interest expense if these rates increase significantly, which could also reduce our ability to borrow additional funds.

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

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

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

We may be able to incur additional debt in the future, including collateralized debt. Although the Senior Credit Facility contains restrictions on the incurrence of additional debt, these restrictions are subject to a number of qualifications and exceptions. If we add to our current level of debt, the risks described above would be greater. We may not have the ability to raise the funds necessary to settle conversions of the Notes or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our or the subsidiary guarantors' ability to pay cash upon conversion or repurchase of the Notes.

Holders of the Notes will have the right to require us to repurchase their notes upon the occurrence of certain "fundamental changes," as defined in the Indenture governing the Notes, at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or pay cash upon conversions of notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our existing or future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the Indenture or to pay any cash payable on future conversions of the Notes as required by the Indenture would constitute a default under the Indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

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

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

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

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion

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in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

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

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

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

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

In the past, the credit markets and the financial services industry have experienced disruption characterized by the bankruptcy, failure, collapse or sale of various financial institutions, increased volatility in securities prices, diminished liquidity and credit availability and intervention from the United States and other governments. Continued concerns about the systemic impact of potential long-term or widespread downturn, energy costs, geopolitical issues, the availability and cost of credit, the global commercial and residential real estate markets and related mortgage markets and reduced consumer confidence have contributed to increased market volatility. The cost and availability of credit has been and may continue to be adversely affected by these conditions. We cannot be certain that funding for our capital needs will be available from our existing financial institutions and the credit markets if needed, and if available, to the extent required and on acceptable terms. The Revolving Credit Facility matures in September 2018. If we cannot renew or refinance this facility upon its maturity or, more generally, obtain funding when needed, in each case on acceptable terms, we may be unable to continue our current rate of growth and store expansion, which may have an adverse effect on our revenues and results of operations.

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

assets or borrow more money, which we may not be able to do on terms satisfactory to us or at all. In addition, any refinancing could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations.

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

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

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

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

The \$300 million Revolving Credit Facility also requires that we meet a senior secured debt ratio of consolidated senior secured debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA. If we fail to satisfy such ratio, then we will be restricted from drawing the remaining \$167 million of available borrowings under the Revolving Credit Facility and any amount outstanding may become due and payable subject to defined rights to cure, which may impair our liquidity. We had \$127 million of borrowings outstanding under the Revolving Credit Facility and satisfied the aforementioned ratio at December 31, 2016.

Our ability to comply with these covenants and other provisions of the Senior Credit Facility may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events beyond our control. The breach of any of these covenants could result in a default under our debt, which could cause those and other obligations to become due and payable subject to defined rights to cure. In addition, these restrictions may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted.

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

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

The price of our common stock historically has been volatile.

The market price for our common stock has varied during the twelve-month period ended December 31, 2016 between a high of \$35.90 on April 27, 2016 and a low of \$10.29 on December 23, 2016. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including those factors discussed under the heading “Risk Factors” in this Annual Report, as well as: variations in our quarterly operating results from our expectations or those of securities analysts or other investors; revisions in analyst estimates or announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or the sale of substantial amounts of our common stock.

We depend on the services of key executives and any failure to attract or retain key executives or other skilled professionals could affect our business strategy and adversely impact our performance and results of operations. Our senior executives are instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business. Furthermore, to the extent that we must replace one or more executives or hire additional



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senior executives or other professionals to support our growing business, we may be unable to identify candidates of sufficient experience and capabilities in a timely fashion, which could negatively impact our business and operations. If our risk management methods are not effective, our business, reputation and financial results may be adversely affected.

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

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

The processing, formulation, safety, manufacturing, packaging, labeling, advertising and distribution of our products are subject to federal laws and regulation by one or more federal agencies, including the FDA, the FTC, the CPSC, the USDA, and the EPA. These activities are also regulated by various state, local and international laws and agencies of the states and localities in which our products are sold. Government regulations may prevent or delay the introduction, or require the reformulation, of our products, which could result in lost revenues and increased costs to us. For instance, the FDA regulates, among other things, the composition, safety, manufacture, labeling and marketing of dietary supplements (including vitamins, minerals, herbs, and other dietary ingredients for human use). The FDA may not accept the evidence of safety for any new dietary ingredient that we may wish to market, may determine that a particular dietary supplement or ingredient presents an unacceptable health risk based on the required submission of serious adverse events or other information, and may determine that a particular claim or statement of nutritional value that we use to support the marketing of a dietary supplement is an impermissible drug claim, is not substantiated, or is an unauthorized version of a "health claim." See Item 1, "Business—Government Regulation—Product Regulation" for additional information. Any of these actions could prevent us from marketing particular dietary supplement products or making certain claims or statements with respect to those products. The FDA could also require us to remove a particular product from the market. Any future recall or removal would result in additional costs to us, including lost revenues from any products that we are required to remove from the market, any of which could be material. Any product recalls or removals could also lead to an increased risk of litigation and liability, substantial costs, and reduced growth prospects.

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

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

The FTC exercises jurisdiction over the advertising of dietary supplements and has instituted numerous enforcement actions against dietary supplement companies, including us, for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. As a result of these enforcement actions, we are currently subject to a consent decree that limits our ability to make certain claims with respect to our hair care products. See Item 1, "Business—Government Regulation—Product Regulation" for more information. Failure by us or our franchisees to comply with the consent decree and applicable regulations could result in substantial monetary penalties, which could have a material adverse effect on our financial condition or results of operations.

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

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

In addition, third-party manufacturers produce many of the products we sell. We rely on these manufacturers to ensure the integrity of their ingredients and formulations. As a distributor of products manufactured by third parties, we may also be liable



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for various product liability claims for products we do not manufacture. Although our purchase agreements with our third-party vendors typically require the vendor to indemnify us to the extent of any such claims, any such indemnification is limited by its terms. Moreover, as a practical matter, any such indemnification is dependent on the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. We may be unable to obtain full recovery from the insurer or any indemnifying third-party in respect of any claims against us in connection with products manufactured by such third-party.

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

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

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

We may be subject to product recalls, withdrawals or seizures if any of the products we formulate, manufacture or sell are believed to cause injury or illness or if we are alleged to have violated governmental regulations in the manufacturing, labeling, promotion, sale or distribution of such products. For example, in May 2009, the FDA warned consumers to stop using Hydroxycut diet products, which are produced by Iovate and were sold in our stores. Iovate issued a voluntary recall, with which we fully complied. Sales of the recalled Hydroxycut products amounted to approximately \$57.8 million, or 4.7% of our retail sales in 2008, and \$18.8 million, or 4.2% of our retail sales in the first four months of 2009. We provided refunds or gift cards to consumers who returned these products to our stores. In the second quarter of 2009, we experienced a reduction in sales and margin due to this recall as a result of accepting returns of products from customers and a loss of sales as a replacement product was not available. Through December 31, 2016, we estimate that we have refunded approximately \$3.5 million to our retail customers and approximately \$1.6 million to our wholesale customers for Hydroxycut product returns. Any additional recall, withdrawal or seizure of any of the products we formulate, manufacture or sell would require significant management attention, could result in substantial and unexpected expenditures and could materially and adversely affect our business, financial condition or results of operations. Furthermore, a recall, withdrawal or seizure of any of our products could materially and adversely affect consumer confidence in our brands and decrease demand for our products and the market price of our common stock.

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

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

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

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

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

We have procured insurance independently for the following areas: (1) general liability; (2) product liability; (3) directors and officers liability; (4) network security and privacy liability; (5) property losses; (6) workers' compensation; and (7) various other areas. In addition, although we believe that we will continue to be able to obtain insurance in these areas in the future, because of increased selectivity by insurance providers, we may only be able to obtain such insurance at increased rates and/or with reduced coverage levels. Furthermore, we are self-insured for other areas, including: (1) medical benefits; (2) physical damage to our vehicles for field personnel use; and (3) physical damages that may occur at company-owned stores. We are not insured for some property and casualty risks due to the frequency and severity of a loss, the cost of insurance and the overall risk analysis. In addition, we carry product liability insurance coverage that requires us to pay deductibles/retentions with primary and excess liability coverage above the retention amount. Because of our deductibles and self-insured retention amounts, we have significant exposure to fluctuations in the number and severity of claims. We currently maintain product liability insurance with a retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. We could raise our deductibles/retentions, which would increase our already significant exposure to expense from claims. If any claim exceeds our coverage, we would bear the excess expense, in addition to our other self-insured amounts. If the frequency or severity of claims or our expenses increase, our operating income and profitability could be materially and adversely affected.

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

Our manufacturing operations produced approximately 25% of the products we sold in each of the years ended December 31, 2016 and 2015. Other than powders, chewables and liquids, nearly all of our proprietary products are produced in our manufacturing facility located in Greenville, South Carolina. In 2016, our largest vendor supplied approximately 10% of our raw materials. However, in the event any of our third-party suppliers or vendors becomes unable or unwilling to continue to provide raw materials in the required volumes and quality levels or in a timely manner, we would be required to identify and obtain acceptable replacement supply sources. If we are unable to identify and obtain alternative supply sources in a timely manner or at all, our business could be adversely affected. Any significant disruption in our operations at our Greenville, South Carolina facility for any reason, including regulatory requirements, an FDA determination that the facility is not in compliance with the cGMP regulations, the loss of certifications, power interruptions, fires, hurricanes, war or other force of nature, could disrupt our supply of products, adversely affecting our sales and customer relationships.

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

Our products are composed of certain key raw materials. If the prices of these raw materials were to increase significantly, the prices our contract manufacturers and third-party manufacturers charge us for our GNC-branded

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

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

We rely on our ability to replenish depleted inventory in our stores through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea and truck. Unexpected delays in those deliveries or increases in transportation costs (including through increased fuel costs) could significantly decrease our ability to make sales and earn profits. In addition, labor shortages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business. In addition, our network and communications systems are dependent on third-party providers and are vulnerable to system interruption and damage, which could limit our ability to operate our business and could have a material adverse effect on our business, financial condition or results of operations. Our systems and operations and those of our third-party internet service providers are vulnerable to damage or interruption from fire, flood, earthquakes, power loss, server failure, telecommunications and internet service failure, acts of war or terrorism, computer viruses and denial-of-service attacks, physical or electronic breaches, sabotage, human error and similar events. Any of these events could lead to system interruptions, including the nonavailability or nonfunctionality of our website, processing and order fulfillment delays and loss of critical data for us, our suppliers or our internet service providers, and could prevent us from processing customer purchases. Any significant interruption could seriously harm our business, financial condition and operating results. Because we are dependent on third-party service providers for the implementation and maintenance of certain aspects of our systems and operations, which may be outside of our control, we may not be able to remedy such interruptions in a timely manner, if at all.

If we fail to protect our brand name, competitors may adopt trade names that dilute the value of our brand name, and prosecuting or defending infringement claims could cause us to incur significant expenses or prevent us from manufacturing, selling or using some aspect of our products, which could adversely affect our revenues and market share.

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

We are currently and may in the future be subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from manufacturing, selling or using some aspect of our products. Claims of intellectual property infringement also may require us to enter into costly royalty or license agreements. However, we may be unable to obtain royalty or license agreements on terms acceptable to us or at all. Claims that our technology or products infringe on intellectual property rights could be costly and would divert the attention of management and key personnel, which in turn could adversely affect our revenues and profitability.

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

Our franchise operations generated approximately 18% of our revenues in each of the years ended December 31, 2016 and 2015. In 2016, we refranchised 102 company-owned stores, which was consistent with our previously announced refranchising strategy, which sought to increase the proportion of our domestic stores that are franchise locations. Our revenues from franchise stores depend on the franchisees' ability to operate their stores profitably and adhere to our franchise standards. The closing of franchise stores or the failure of franchisees to comply with our policies could adversely affect our reputation and could reduce the amount of our franchise revenues. These factors could have a material adverse effect on our revenues and operating income.

If we are unable to attract new franchisees or to convince existing franchisees to open additional stores, any growth in royalties from franchise stores will depend solely upon increases in revenues at existing franchise stores. In addition,

our ability to open additional franchise locations is limited by the territorial restrictions in our existing franchise agreements as well as our ability to identify additional markets in the United States and other countries. If we are unable to open additional franchise locations, we will have to sustain additional growth internally by attracting new and repeat customers to our existing locations.

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

The support of our franchisees is critical for the success of our marketing programs and other strategic initiatives we seek to undertake, and the successful execution of these initiatives will depend on our ability to maintain alignment with our franchisees.

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

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

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

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

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

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

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

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

As of December 31, 2016, we had 227 company-owned Canadian stores, 11 company-owned The Health Store stores located in Ireland, 5 company-owned stores located in China, and 1,957 international franchise stores in approximately 50 international countries (including distribution centers where retail sales are made). As part of our business strategy, we intend to expand our international franchise presence. Our international operations are subject to a number of risks inherent to operating in foreign countries, and any expansion of our international operations will

increase the effects of these risks. These risks include, among others:

- political and economic instability of foreign markets;
- foreign governments' restrictive trade policies;
- inconsistent product regulation or sudden policy changes by foreign agencies or governments;
- the imposition of, or increase in, duties, taxes, government royalties or non-tariff trade barriers;
- difficulty in collecting international accounts receivable and potentially longer payment cycles;



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• difficulty of enforcing contractual obligations of foreign franchisees;  
• increased costs in maintaining international franchise and marketing efforts;  
• problems entering international markets with different cultural bases and consumer preferences;  
• compliance with laws and regulations applicable to international operations, such as the Foreign Corrupt Practices Act and regulations promulgated by the Office of Foreign Asset Control;  
• fluctuations in foreign currency exchange rates; and

• operating in new, developing or other markets in which there are significant uncertainties regarding the interpretation, application and enforceability of laws and regulations relating to contract and intellectual property rights.

Any of these risks could have a material adverse effect on our international operations and our growth strategy.

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

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

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

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

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

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

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

results of operations.

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

The protection of customer, employee, vendor, franchisee and other business data is critical to us. Federal, state, provincial and international laws and regulations govern the collection, retention, sharing and security of data that we receive from and about our employees, customers, vendors and franchisees. The regulatory environment surrounding information security and privacy has been increasingly demanding in recent years, and may see the imposition of new and additional requirements by states and the federal government as well as foreign jurisdictions in which we do business. Compliance with these requirements may result in cost increases due to necessary systems changes and the development of new processes to meet these requirements by us and our franchisees. In addition, customers and franchisees have a high expectation that we will adequately protect their personal information. If we or our service provider fail to comply with these laws and regulations or experience a significant breach of customer, employee, vendor, franchisee or other company data, our reputation could be damaged and result in an increase in service charges, suspension of service, lost sales, fines or lawsuits.

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

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

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

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

The occurrence of one or more natural disasters, such as hurricanes, fires, floods and earthquakes (whether or not caused by climate change), unusually adverse weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events result in the closure of one or

more of our distribution centers, a significant number of stores, a manufacturing facility or our corporate headquarters, or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption to our information systems. These events also could have indirect consequences, such as increases in the cost of insurance, if they were to result in significant loss of property or other insurable damage.

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

Holdings is a holding company and, accordingly, substantially all of our operations are conducted through its subsidiaries. Holdings' subsidiaries are separate and distinct legal entities. As a result, Holdings' cash flow depends upon the earnings of its subsidiaries. In addition, Holdings depends on the distribution of earnings, loans or other payments by its subsidiaries. Holdings' subsidiaries have no obligation to provide it with funds for its payment obligations. If there is an insolvency, liquidation or other reorganization of any of Holdings' subsidiaries, Holdings' stockholders will have no right to proceed against their assets. Creditors of those subsidiaries will be entitled to payment in full from the sale or other disposal of the assets of those subsidiaries before Holdings, as a stockholder, would be entitled to receive any distribution from that sale or disposal.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

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## Item 2. PROPERTIES.

As of December 31, 2016, there were 9,022 GNC store locations globally (including distribution centers where retail sales are made). In our U.S. and Canada segment substantially all of our stores are located on leased premises that typically range in size from 1,000 to 2,000 square feet. Primarily all of our domestic franchisees are located on premises we lease and then sublease to our respective franchisees. All of our franchise stores in the international markets are owned or leased directly by our franchisees. No single store is material to our operations. The table below presents our consolidated stores by location in the U.S. and international countries as of December 31, 2016.

Location	Company-Owned Retail	Domestic Franchise	International Franchise*	
Alabama	36	14	Aruba	1
Alaska	15	2	Bahrain	5
Arizona	76	3	Bangladesh	1
Arkansas	24	4	Bolivia	28
California	292	145	Brunei	3
Colorado	80	10	Bulgaria	9
Connecticut	42	5	Cayman Islands	2
Delaware	17	3	Chile	190
District of Columbia	7	1	Costa Rica	27
Florida	288	113	Dominican Republic	2
Georgia	115	40	El Salvador	13
Hawaii	29	—	Guam	3
Idaho	13	3	Guatemala	62
Illinois	118	61	Honduras	7
Indiana	69	18	Hong Kong	87
Iowa	28	5	India	76
Kansas	33	6	Indonesia	55
Kentucky	43	7	Korea Military	6
Louisiana	46	16	Latvia	1
Maine	11	—	Lebanon	12
Maryland	63	28	Lithuania	1
Massachusetts	80	4	Malaysia	85
Michigan	89	38	Mexico	633
Minnesota	59	26	Mongolia	7
Mississippi	25	16	Montenegro	1
Missouri	63	14	Myanmar	1
Montana	7	4	Nigeria	10
Nebraska	10	14	Oman	6
Nevada	31	12	Pakistan	7
New Hampshire	19	6	Panama	16
New Jersey	97	49	Paraguay	3
New Mexico	23	2	Peru	110
New York	213	53	Philippines	46
North Carolina	125	27	Qatar	8
North Dakota	10	—	Romania	5
Ohio	127	43	Russia	13
Oklahoma	28	16	Saudi Arabia	60
Oregon	41	4	Singapore	61
Pennsylvania	166	35	South Africa	5
Rhode Island	15	—	South Korea	163

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South Carolina	49	22	Sri Lanka	1
South Dakota	7	3	Taiwan	50
Tennessee	55	24	Thailand	36
Texas	142	225	Trinidad & Tobago	8
Utah	40	5	Turks & Caicos	2
Vermont	5	—	United Arab Emirates	17
Virginia	99	28	Ukraine	1
Washington	68	16	Vietnam	11
West Virginia	23	5		
Wisconsin	72	3		
Wyoming	9	—		
Puerto Rico	36	—		
Military bases in other U.S. territories	8	—		
U.S. Subtotal	3,286			
Canada	227	—		
Ireland	11	—		
China	5			
Total	3,529	1,178	Total	1,957

\* Includes distribution centers where retail sales are made.

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In our Manufacturing / Wholesale segment, there are 2,358 GNC franchise "store-within-a-store" locations under our strategic alliance with Rite Aid.

In addition to the above, we own and lease the following locations to support our store operations:

Location	Approximate Square Footage (in 000s)	Own or Lease
Corporate Headquarters:		
Pittsburgh, PA	253	Own
Nutra Manufacturing:		
Greenville, SC <sup>(1)</sup>	280	Own
Distribution Centers:		
Anderson, SC <sup>(1)</sup>	813	Own
Indianapolis, IN	343	Lease
Leetsdale, PA	217	Lease
Leetsdale, PA (Lucky Vitamin)	62	Lease
Phoenix, AZ	112	Lease
Other Locations / Offices:		
Boston, MA	2	Own
Tustin, CA	2	Lease
Mississauga, Ontario	5	Lease
Dublin, Ireland	<7	Lease
Shanghai, China	1	Lease
Braintree, Essex, U.K. <sup>(2)</sup>	21	Lease

(1) We manufacture approximately half of our proprietary products at our manufacturing facility in Greenville, South Carolina. The Anderson, South Carolina location is used for packaging, materials receipt, lab testing, warehousing and distribution. Both the Greenville and Anderson facilities are leased on a long-term basis pursuant to "fee-in-lieu-of-taxes" arrangements with the counties in which the facilities are located, but we retain the right to purchase each of the facilities at any time during the lease for \$1.00, subject to a loss of property tax benefits. The land and building of these facilities are recorded within property and equipment on our consolidated balance sheet.

(2) Effective December 31, 2015, we sold substantially all of the assets of Discount Supplements and ceased operations. We sublease a portion of this space.

Our manufacturing facility is used by the Manufacturing / Wholesale segment. Distribution centers are used by all of our segments. Retail stores are used by the U.S. and Canada and International segments depending upon location.

### Item 3. LEGAL PROCEEDINGS.

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

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

Our contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the



settlement posture of the parties. Consequently, except as otherwise noted below with regard to a particular matter, we cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and we are unable to estimate a possible loss or range of loss. If we ultimately are required

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to make a payment in connection with an adverse outcome in any of the matters discussed below, it is possible that it could have a material adverse effect on our business, financial condition, results of operations or cash flows. As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, we have been and are currently subjected to various product liability claims. Although the effects of these claims to date have not been material to us, it is possible that current and future product liability claims could have a material adverse effect on our business or financial condition, results of operations or cash flows. We currently maintain product liability insurance with a deductible/retention of \$4.0 million per claim with an aggregate cap on retained loss of \$10.0 million. We typically seek and have obtained contractual indemnification from most parties that supply raw materials for our products or that manufacture or market products we sell. We also typically seek to be added, and have been added, as an additional insured under most of such parties' insurance policies. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. Consequently, we may incur material products liability claims, which could increase our costs and adversely affect our reputation, revenue and operating income. During the year ended December 31, 2016, we recorded \$5.1 million in legal-related charges associated with a Pennsylvania fluctuating workweek wage issue, the Jason Olive case and a government regulation matter, the amounts of which were individually immaterial. These items are explained below in more detail.

**DMAA/Aegeline Claims.** Prior to December 2013, we sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/ dimethylamylamine/ 13-dimethylamylamine, or "DMAA," which were recalled from our stores in November 2013, and/or Aegeline, a compound extracted from bael trees. As of December 31, 2016 we were named in the following 28 personal injury lawsuits involving products containing DMAA and/or Aegeline:

- Susan Straub and the Estate of Shane Staub v. General Nutrition Centers, Inc., USP Labs, LLC, Common Pleas Court of Philadelphia County, Pennsylvania (Case No. 140502403), filed May 20, 2014
- Justin Carolyne, et al. v. USP Labs, GNC Corporation, et al. Superior Court of California, County of Los Angeles (Case No. BC508212), filed May 22, 2013
- Jeremy Reed, Timothy Anderson, Dan Anderson, Nadia Black, et al. v. USPLabs, LLC, et al., GNC, Superior Court for California, County of San Diego (Case No. 37-2013-00074052-CU-PL-CTL), filed November 1, 2013
- Kenneth Waikiki v. USP Labs, Doyle, Geissler, USP Labs OxyElite, LLC, et al. and GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. 3-00639 DMK), filed November 21, 2013
- Nicholas Akau v. USP Labs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00029), filed January 23, 2014
- Malissa Igafo v. USP Labs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00030), filed January 23, 2013
- Calvin Ishihara v. USP Labs, GNC Corporation, et al., United States District Court for the District of Hawaii (Case No. CV 14-00031), filed January 23, 2014
- Gaye Anne Mattson v. USP Labs, GNC Corporation, et al., United States District for the District of Hawaii (Case No. CV 14-00032), filed January 23, 2014
- Thomas Park v. GNC Holdings, Inc., USP Labs, LLC, Superior Court of California, County of San Diego (Case No. 37-2014-110924), filed September 8, 2014
- Nicholas Olson, Adrian Chavez, Rebecca Fullerton, Robert Gunter, Davina Maes and Edwin Palm v. GNC Corporation, USP Labs, LLC, Superior Court of California, County of Orange (Case No. 2014-00740258) filed August 18, 2014
- Mereane Carlisle, Charles Paio, Chanelle Valdez, Janice Favella and Christine Mariano v. USPLabs, LLC et al., United states District Court for the District of Hawaii (Case No. CV14-00029), filed January 23, 2014.
- Nichole Davidson, William Dunlao, Gina martin, Lee Ann Miranda, Yuka Colecott, Sherine Cortinas, and Shawna Nishimoto v. GNC Corporation and USP Labs LLC, United States District Court for the District of Hawaii (Case No. 14-cv-00364) filed October 24, 2014



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Rodney Ofisa, Christine Mosca, Margaret Kawamoto as guardian for Jane Kawamoto (a minor), Ginny Pia, Kimberlynne Tom, Faituitasi Tuioti, Ireneo Rabang, and Tihane Laupola v. GNC Corporation and USP Labs LLC, United States District Court for the District of Hawaii (Case No. CV14-00365) filed October 24, 2014

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

• Keahi Paveo v. GNC Corporation, USP Labs, LLC, United States District Court for the District of Hawaii (Case No. 14-cv-00367) filed October 24, 2014

• Kai Wing Tsui and John McCutchen v. GNC Corporation, USP Labs, Superior Court of California, County of Los Angeles (Case No. BC559542), filed October 6, 2014

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

• Cuong Bahn, Ismael Flores, Chue Xiong, Leilani Groden, Trudy Jenkins, and Mary Hess v. USPLabs, LLC et al., California Superior Court, Orange County (Case No. 30-2015-00776749), filed March 12, 2015

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

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

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

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

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

• Natasiri Tali, Tram Dobbs, Mauela Reyna-Perez, Kimberly Turvey, Meagan Van Dyke, Hang Nga Tran, Shea Steard, and Jimmy Tran v. USPLabs, LLC et al., California Superior Court, Los Angeles County (Case No. BC575263), filed March 13, 2015

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

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

• Roel Vista v. USP Labs, LLC, GNC Corporation et al., United States District Court for the Northern District of California (Case No. CV-14-0037), filed January 24, 2014.

• Larry Tufts v. USP Labs, LLC, GNC Corporation et al., Court of Common Pleas for the County of Jasper, South Carolina (Case No. 2016-CP-27-0257).

The proceedings associated with the majority of these personal injury cases, which generally seek indeterminate money damages, are in the early stages, and any liabilities that may arise from these matters are not probable or reasonably estimable at this time. The case captioned Leanne Sparling and Michael Sparling on behalf of Michael Sparling, deceased v. USPLabs, GNC Corporation, et al., Superior Court of California, County of San Diego (Case No. 2013-00034663-CU-PL-CTL), which previously was scheduled for trial in February 2016, was dismissed with prejudice.



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We are contractually entitled to indemnification by our third-party vendor with regard to these matters, although our ability to obtain full recovery in respect of any such claims against us is dependent upon the creditworthiness of our vendor and/or its insurance coverage and the absence of any significant defenses available to its insurer.

**California Wage and Break Claim.** In July 2011, Charles Brewer, on behalf of himself and all others similarly situated, sued General Nutrition Corporation in federal court, alleging state and federal wage and hour claims (U.S. District Court, Northern District of California, Case No. 11CV3587). In October 2011, Mr. Brewer filed an amended complaint alleging, among other matters, meal, rest break and overtime violations on behalf of sales associates and store managers. In January 2013, the Court conditionally certified a Fair Labor Standards Act ("FLSA") class with respect to one of Plaintiff's claims, and in November 2014, the Court granted in part and denied in part the plaintiff's motion to certify a California class and granted our motion for decertification of the FLSA class. In May 2015, plaintiffs filed a motion for partial summary judgment as to the alleged liability for non-compliant wage statements, which was granted in part and denied in part in September 2015. On February 5, 2016, we along with attorneys representing the putative class agreed to class-wide settlements of the Brewer case and an additional, immaterial case raising similar claims, pursuant to which we agreed to pay up to \$9.5 million in the aggregate, including attorneys' fees and costs. Following a hearing on August 23, 2016, the Court approved the settlement agreement and dismissed the case with prejudice. As a result of this settlement, we recorded a charge of \$9.5 million in 2015, which was paid in the fourth quarter of 2016.

In February 2012, former Senior Store Manager, Elizabeth Naranjo, individually and on behalf of all others similarly situated sued General Nutrition Corporation in the Superior Court of the State of California for the County of Alameda (Case No. RG 12619626), alleging, among other matters, meal, rest break, and overtime violations. On October 22, 2014, the Court granted the plaintiff's motion to certify a class of approximately 900 current and former managers. Because the Court had not yet approved the plaintiff's trial plan, the certification order was provisional and dependent upon the submission of a workable trial plan. Since the Court entered its provisional certification order, the plaintiff submitted a proposed trial plan, a revised proposed trial plan, and a second revised proposed trial plan. In February 2017, the Court will consider plaintiff's second revised proposed trial plan. As of December 31, 2016, an immaterial liability has been accrued in the accompanying financial statements.

**Pennsylvania Fluctuating Workweek.** On September 18, 2013, Tawny Chevalier and Andrew Hiller commenced a class action in the Court of Common Pleas of Allegheny County, Pennsylvania. Plaintiff asserted a claim against us for a purported violation of the Pennsylvania Minimum Wage Act (PMWA), challenging our utilization of the "fluctuating workweek" method to calculate overtime compensation, on behalf of all employees who worked for us in Pennsylvania and who were paid according to the fluctuating workweek method. In October 2014, the Court entered an order holding that the use of the fluctuating workweek method violated the PMWA. In September 2016, the Court entered judgment in favor of Plaintiffs and the class in an immaterial amount, which has been recorded as a charge in the accompanying consolidated financial statements. Plaintiffs subsequently filed a petition for an award of attorney's fees, costs and incentive payment. The court awarded an immaterial amount in legal fees. We appealed from the adverse judgment and the award of attorney's fees; the appeal is pending.

**Jason Olive v. General Nutrition Corp.** In April 2012, Jason Olive filed a complaint in the Superior Court of California, County of Los Angeles (Case No. BC482686), for misappropriation of likeness in which he alleges that we continued to use his image in stores after the expiration of the license to do so in violation of common law and California statutes. Mr. Olive sought compensatory, punitive and statutory damages and attorneys' fees and costs. The trial in this matter began on July 20, 2016 and concluded on August 8, 2016. The jury awarded plaintiff immaterial amounts for actual damages and emotional distress damages, which are accrued in the accompanying financial statements. The jury refused to award plaintiff any of the profits he sought to disgorge, or punitive damages. The court entered judgment in the case on October 14, 2016. In addition to the verdict, we and Mr. Olive sought attorneys' fees and other costs from the Court. The Court refused to award attorney's fees to either side but awarded plaintiff an immaterial amount for costs. Plaintiff has appealed the judgment, and separately, the order denying attorney's fees.

We have cross-appealed the judgment and the Court's denial of attorney fees. The appeals are currently pending.

**Oregon Attorney General.** On October 22, 2015, the Attorney General for the State of Oregon sued General Nutrition Corporation in Multnomah County Circuit Court (Case No. 15CV28591) for alleged violations of Oregon's Unlawful

Trade Practices Act, in connection with its sale in Oregon of certain third-party products, which has been amended to add allegations related to products containing DMAA, oxilofrine, aegeline, and cynanchum auriculatum. GNC is vigorously defending against these allegations. On December 19, 2016, GNC filed an answer, including counterclaims and third party complaints for indemnification. As any losses that may arise from this matter are not probably or reasonably estimable at this time, no liability has been accrued in the accompanying interim consolidated financial statements. Moreover, we do not anticipate that any such losses are likely to have a material impact on our business or results of operations. We are contractually entitled to indemnification and defense by our third-party vendors, which have accepted our tender request for defense and indemnification. Ultimately, however, our ability to obtain full recovery in respect of any such claims against us is dependent upon the creditworthiness of our vendors and/or their insurance coverage and the absence of any significant defenses available to their insurers.

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Item 4. MINE SAFETY DISCLOSURES

This Item 4 is not applicable.

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## PART II

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

## Market Information

Since March 31, 2011, our common stock has been traded on the NYSE under the symbol "GNC." As of February 9, 2017, there were 68,403,091 shares of common stock outstanding, the closing price of our common stock was \$8.47 per share, and we had approximately 47 stockholders of record (including 39 holders of restricted stock).

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

2016 quarter ended	High	Low	Dividend per Share
March 31	\$32.74	\$23.13	\$ 0.20
June 30	\$35.90	\$23.23	\$ 0.20
September 30	\$28.11	\$18.92	\$ 0.20
December 31	\$22.32	\$10.29	\$ 0.20
2015 quarter ended	High	Low	Dividend per Share
March 31	\$49.66	\$41.43	\$ 0.18
June 30	\$49.06	\$40.93	\$ 0.18
September 30	\$51.69	\$39.65	\$ 0.18
December 31	\$43.09	\$22.64	\$ 0.18
2014 quarter ended	High	Low	Dividend per Share
March 31	\$58.55	\$42.54	\$ 0.16
June 30	\$47.35	\$33.70	\$ 0.16
September 30	\$42.01	\$30.84	\$ 0.16
December 31	\$47.40	\$35.44	\$ 0.16

## Dividends

In February 2017, the Board of Directors approved our recommendation to suspend the quarterly dividend. The dividend suspension is part of a broader plan to utilize a greater portion of our free cash to reduce debt.

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## Issuer Purchases of Equity Securities

Period <sup>(1)</sup>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Dollar Value of Shares That May Yet be Purchased Under the Plan or Program
October 1 to October 31, 2016	—	\$	—	\$197,795,011
November 1 to November 30, 2016	—	\$	—	\$197,795,011
December 1 to December 31, 2016	—	\$	—	\$197,795,011
Total	—	\$	—	

(1) Other than as set forth in the table above, we made no purchases of shares of Class A common stock for the quarter ended December 31, 2016.

(2) In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of Holdings' common stock. Holdings repurchased \$229.2 million of common stock during the twelve months ended December 31, 2016 and has utilized \$802.2 million of the current share repurchase program. As of December 31, 2016, \$197.8 million remains available for purchase under the program.

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Stock Performance Graph

The graph below matches GNC Holdings, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the S&P 500 index and the S&P 500 Retail index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from 12/31/2011 to 12/31/2016.

\*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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## Item 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data presented below as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 are derived from our audited consolidated financial statements and footnotes included in this Annual Report. The selected consolidated financial data presented below as of December 31, 2014, 2013 and 2012 and for the years ended December 31, 2013 and 2012 are derived from our audited consolidated financial statements and footnotes not included in this Annual Report.

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

(in millions, except per share data)	As of and for the Year ended December 31,				
	2016	2015	2014	2013	2012
Statement of Operations Data:					
Revenue <sup>(1)</sup>	\$2,540.0	\$2,683.3	\$2,655.0	\$2,664.3	\$2,463.1
Cost of sales, including warehousing, distribution and occupancy <sup>(1)</sup>	1,679.9	1,698.7	1,674.8	1,673.8	1,534.1
Gross profit	860.1	984.6	980.2	990.5	929.0
Selling, general and administrative	575.2	567.3	554.8	533.7	502.0
Gains on franchising	(19.1 )	(7.6 )	(9.9 )	(2.7 )	(0.8 )
Long-lived asset impairments	476.6	28.3	—	—	—
Other loss (income) net <sup>(2)</sup>	0.4	3.5	(4.2 )	(1.0 )	(0.1 )
Operating (loss) income	(173.0 )	393.1	439.5	460.5	427.9
Interest expense, net	60.4	50.9	46.7	53.0	47.6
(Loss) Income before income taxes	(233.4 )	342.2	392.8	407.5	380.3
Income tax expense	52.9	122.9	136.9	142.5	140.1
Net (loss) income	\$(286.3 )	\$219.3	\$255.9	\$265.0	\$240.2
Weighted average shares outstanding (in thousands):					
Basic	69.4	83.9	90.5	96.5	103.5
Diluted	69.4	84.2	90.9	97.4	104.9
(Loss) Earnings per share:					
Basic	\$(4.12 )	\$2.61	\$2.83	\$2.75	\$2.32
Diluted	\$(4.12 )	\$2.60	\$2.81	\$2.72	\$2.29
Dividends declared per share	\$0.80	\$0.72	\$0.64	\$0.60	\$0.44
Balance Sheet Data:					
Cash and cash equivalents	\$34.5	\$56.5	\$133.8	\$226.2	\$158.5
Working capital <sup>(3)</sup>	491.5	515.2	636.0	719.0	573.5
Total assets <sup>(4) (5)</sup>	2,068.6	2,554.4	2,678.2	2,738.6	2,545.5
Total current and non-current long-term debt <sup>(4)</sup>	1,540.5	1,449.2	1,337.9	1,341.8	1,089.8
Stockholders' (deficit) equity	(95.0 )	468.6	756.0	815.6	882.0
Statement of Cash Flows:					
Net cash provided by operating activities	\$208.2	\$354.5	\$303.8	\$239.4	\$223.0
Net cash used in investing activities	(22.4 )	(45.6 )	(75.5 )	(78.3 )	(43.2 )
Net cash used in financing activities	(207.5 )	(384.5 )	(321.0 )	(94.3 )	(149.3 )
Capital expenditures	59.6	45.8	70.5	50.2	41.9



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- Refer to Item 8 "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" for details with respect to the revision of sublease rental income. Specifically, sublease rental income from franchisees is presented as "Revenue" compared with the previous presentation as a
- (1) reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy," to conform to the current year presentation. The revision to "Revenue" and "Cost of sales, including warehousing, distribution, and occupancy" in the consolidated statements of operations for 2013 and 2012 were \$37.5 million and \$34.9 million, respectively.
- (2) In 2016, other loss principally related to \$0.4 million of foreign currency losses.  
In 2015, other loss principally related to \$2.7 million loss on sale of Discount Supplements and \$0.8 million of foreign currency losses.  
In 2014, other income principally related to a \$4.4 million reversal of a contingent purchase price liability partially offset by \$0.2 million of foreign currency losses.  
In 2013, other income principally related to a \$1.0 million reversal of a contingent purchase price liability.  
In 2012, other income principally related to \$0.1 million of foreign currency gains.
- (3) Defined as current assets less current liabilities.  
Includes the adoption of ASU 2015-03 and 2015-15 relating to the presentation of deferred financing fees.
- (4) Specifically, debt issuance cost was reclassified from "Other long-term assets" to "Long-term debt" on the consolidated balance sheet. The debt issuance costs reclassified on the consolidated balance sheet for 2014, 2013, and 2012 were \$4.4 million, \$5.3 million, and \$8.8 million, respectively.  
Includes the reclassification of deferred rent asset associated with recognizing sublease rental income for lease agreements that contain escalation clauses, which are fixed and determinable, on a straight-line basis from "Other long-term liabilities" to "Other long-term assets" on the consolidated balance sheet as a result of the revision for
- (5) sublease rent income. The deferred rent assets reclassified on the consolidated balance sheet for 2014, 2013, and 2012 were \$4.8 million, \$3.6 million, and \$2.3 million respectively. Refer to Item 8 "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" for more information with respect to the revision of sublease rental income.

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The following table summarizes our stores for the periods indicated:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
U.S. & Canada					
Company-owned <sup>(a)</sup> :					
Beginning of period balance	3,584	3,487	3,332	3,178	3,036
Store openings	69	115	183	170	147
Acquired franchise stores <sup>(b)</sup>	21	44	25	16	29
Franchise conversions <sup>(c)</sup>	(102 )	(33 )	(25 )	(9 )	(9 )
Store closings	(59 )	(29 )	(28 )	(23 )	(25 )
End of period balance	3,513	3,584	3,487	3,332	3,178
Domestic Franchise:					
Beginning of period balance	1,084	1,070	1,012	949	924
Store openings	33	32	70	74	56
Acquired franchise stores <sup>(b)</sup>	(21 )	(44 )	(25 )	(16 )	(29 )
Franchise conversions <sup>(c)</sup>	102	33	25	9	9
Store closings	(20 )	(7 )	(12 )	(4 )	(11 )
End of period balance	1,178	1,084	1,070	1,012	949
International <sup>(d)</sup>					
Beginning of period balance	2,095	2,150	2,034	1,840	1,600
Store openings	108	144	208	325	300
Store closings	(230 )	(199 )	(92 )	(131 )	(60 )
End of period balance	1,973	2,095	2,150	2,034	1,840
Store-within-a-store (Rite Aid):					
Beginning of period balance	2,327	2,269	2,215	2,181	2,125
Store openings	41	59	60	41	63
Store closings	(10 )	(1 )	(6 )	(7 )	(7 )
End of period balance	2,358	2,327	2,269	2,215	2,181
Total Stores	9,022	9,090	8,976	8,593	8,148

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(a) Includes Canada

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

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

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

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

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

**Overview**

We are a global specialty retailer of health, wellness and performance products, including protein, performance supplements, weight management supplements, vitamins, herbs and greens, wellness supplements, health and beauty, food and drink and other general merchandise. We derive our revenues principally from: product sales through our company-owned stores; the internet primarily through our websites, GNC.com and LuckyVitamin.com; domestic and international franchise activities; and sales of products manufactured in our facility to third parties. We sell products through a worldwide network of more than 9,000 locations operating under the GNC brand name.

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

**Our Current Strategy**

Over the past several years we have been experiencing varying degrees of declining traffic trends leading to lower same store sales in our retail stores. After extensive consumer research and market/competitive analysis we determined that our business model needed to be reimaged. Listening to the customer and addressing their key issues with our business led to the development and launch of the One New GNC. There are areas within our business where we were no longer competitive when compared to other retailers or retail channels and we are addressing those, which include product innovation and loyalty. We also learned that our customers were looking for more simplified prices and a more differentiated in-store experience. Pilot tests in the back-half of 2016 led to a national December 29, 2016 launch of the One New GNC. The costs associated with the launch of the One New GNC lowered our operating income by approximately \$10 million in the fourth quarter of 2016, which primarily relates to marketing spend and the impact of closing all of our U.S. company-owned stores on December 28, 2016.

Key elements of the One New GNC launch and areas of internal focus for the Company to address the consumer challenges described above, are as follows:

**Pricing and loyalty programs.** The roll-out of single-tier pricing and loyalty programs was effective system-wide in the U.S. with the launch of the One New GNC on December 29, 2016, which we anticipate becoming more significant in 2017 and beyond, and includes the following;

**Launch of the One New GNC pricing model.** Following more than a year of consumer tests and pilot programs we rolled out a single-tiered pricing strategy in our domestic company-owned and franchise locations. The new pricing model builds on the pricing work done in 2016 to appropriately identify and price our known value items, creates a clear definition of role and intent by product category, further improves the clarity of our price message and more closely aligns the customer's perception of our pricing with the quality and value of our products; and

**Growing the new myGNC Rewards and PRO Access loyalty programs.** Following extensive research during 2015 and 2016, concurrent with the launch of the One New GNC pricing model, we launched a free loyalty program, myGNC Rewards and a paid program, PRO Access. We believe that further developing and encouraging active customer participation in robust customer loyalty programs is an important step toward our goals for attracting new customers and building meaningful, long-term connections with our customers. Concurrent with the loyalty launch we also released an enhanced mobile application to enable simplified customer access to the program and their points.

**Improving the customer experience.** We are working on improvements in product availability and in-store shopping experience that will differentiate us from our competitors in the mind of the consumer. We have upgraded the



registers in all of our company-owned U.S. stores to address issues regarding speed of transactions. With the launch of the One New GNC we have increased our in-field training of store associates as it is our objective that customers visit our stores not just to buy product, but to know that our employees can provide support as a trusted advisor. We are also working to

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improve the restocking, reordering process and system for our stores to minimize out-of-stock inventory issues and maximize our inventory management efforts. We are investing in our online and omnichannel capabilities to better meet consumer demand without regard to the place and time a customer is interested in GNC.

We believe that developing the capability to leverage all of our sales channels to deliver a consistent and high-quality customer experience will better differentiate us from other competitors, particularly online only options. Our store base is a competitive advantage over online-only competitors especially as we continue to develop our in-store associates to deliver thoughtful assistance throughout the shopping experience.

Proprietary products and innovation capabilities. We believe that product innovation is critical to our growth, brand image superiority and competitive advantage. Through market research, interactions with customers and partnerships with leading industry vendors, we work to identify shifting consumer trends that can inform our product development process. We have industry leading product development teams located at our corporate headquarters in Pittsburgh and our manufacturing facility in Greenville, South Carolina which help drive our development and formulation of proprietary nutritional supplements with a focus on both high growth and higher margin categories. We believe that these internal capabilities can provide us with a competitive advantage as we can more quickly and potentially cost effectively take a concept from ideation, to development, to testing and ultimately to the shelf for sale to our customers.

We believe that our brand portfolio of proprietary products, which are available in our stores, on GNC.com and Amazon.com, advances GNC's brand presence and our general reputation as a leading retailer of health and wellness products.

Third Party partnerships. We carry a wide variety of well-known brands and have long standing relationships with many of our third party suppliers. We seek to leverage our partnerships with our top vendors to offer exclusive products that differentiate GNC from our competitors. Our key third party product providers join with us on key marketing initiatives and product launches. Having a fresh and innovative supply of new products from our partners is a key element of what we believe sets us apart from competitors.

Our refranchising strategy. We have increased the proportion of our domestic stores that are franchise locations, having refranchised 102 stores in 2016. We expect to see an increase in the proportion of franchise locations through the continued transitioning of company-owned to franchise locations over time. We evaluate all potential refranchising opportunities based on their ability to deliver shareholder value in excess of what would be created by continuing to operate as company-owned locations. As part of this effort, we remain focused on creating and nurturing franchise partnerships that support our company initiatives and image.

### Key Performance Indicators

The primary key performance indicators that senior management focuses on include revenue and operating income for each segment, which are discussed in detail within "Results of Operations", as well as same store sales growth. Same store sales growth represents the percentage change in same store point-of-sale retail sales in the period presented compared with the prior year period. Same store sales are calculated on a daily basis for each store and exclude the net sales of a store for any period if the store was not open during the same period of the prior year. We include our internet sales of GNC.com in our domestic retail company-owned same store sales calculation and effective January 1, 2016 we excluded Drugstore.com, which does not have a significant impact to same store sales and was terminated on September 30, 2016. When a store's square footage has been changed as a result of reconfiguration or relocation in the same mall or shopping center, the store continues to be treated as a same store. If, during the period presented, a store was closed, relocated to a different mall or shopping center, or converted to a franchise store or a company-owned store, sales from that store up to and including the closing day or the day immediately preceding the relocation or conversion are included as same store sales as long as the store was open during the same period of the prior year. We exclude sales during the period presented that occurred on or after the

date of relocation to a different mall or shopping center or the date of a conversion.

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## Results of Operations

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

(Expressed as a percentage of total consolidated revenue)

	Year ended December 31,			
	2016	2015	2014	
Revenues:				
U.S. and Canada	84.4	% 83.5	% 83.1	%
International	6.3	% 6.8	% 6.6	%
Manufacturing / Wholesale:				
Intersegment revenues	8.6	% 10.0	% 11.0	%
Third Party	9.3	% 8.8	% 9.1	%
Subtotal Manufacturing / Wholesale	17.9	% 18.8	% 20.1	%
Other	—	% 0.9	% 1.2	%
Elimination of intersegment revenue	(8.6)	)% (10.0)	)% (11.0)	)%
Total net revenues	100.0	% 100.0	% 100.0	%
Operating expenses:				
Cost of sales, including warehousing, distribution and occupancy	66.1	% 63.3	% 63.1	%
Gross Profit	33.9	% 36.7	% 36.9	%
Selling, general and administrative expenses	22.6	% 21.1	% 20.9	%
Gains on franchising	(0.8)	)% (0.3)	)% (0.4)	)%
Long-lived asset impairments	18.8	% 1.1	% 0.0	%
Other loss (income), net	—	% 0.1	% (0.2)	)%
Total operating expenses	106.8	% 85.3	% 83.4	%
Operating (loss) income:				
U.S. and Canada	(4.1)	)% 14.1	% 14.4	%
International	2.2	% 2.4	% 2.2	%
Manufacturing / Wholesale	(0.8)	)% 3.2	% 3.2	%
Unallocated corporate and other costs:				
Corporate costs	(4.1)	)% (3.7)	)% (3.3)	)%
Other	—	% (1.4)	% —	%
Subtotal unallocated corporate and other costs	(4.1)	)% (5.1)	)% (3.3)	)%
Total operating (loss) income	(6.8)	)% 14.7	% 16.6	%
Interest expense, net	2.4	% 1.9	% 1.8	%
(Loss) income before income taxes	(9.2)	)% 12.8	% 14.8	%
Income tax expense	2.1	% 4.6	% 5.2	%
Net (loss) income	(11.3)	)% 8.2	% 9.6	%

Note: The presentation of certain immaterial amounts in our consolidated financial statements of prior periods has been revised to conform to the current periods presented. Specifically, sublease rental income received from franchisees is presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy." This revision has no impact on operating income. For additional information regarding this revision, see Item 8, "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies."



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Comparison of the Years Ended December 31, 2016 (current year) and 2015 (prior year)

## Revenues

Our consolidated net revenues decreased \$143.3 million, or 5.3%, to \$2,540.0 million in the current year compared with \$2,683.3 million in 2015. The decrease was the result of lower sales in our U.S. and Canada and International segments.

**U.S. and Canada.** Revenues in our U.S. and Canada segment decreased \$96.9 million, or 4.3%, to \$2,143.6 million in the current year compared with \$2,240.5 million in 2015. E-commerce sales which include GNC.com and Lucky Vitamin, were 8.9% of U.S. and Canada revenue for the year ended December 31, 2016, compared with 9.6% in the year ended December 31, 2015.

Negative domestic retail same store sales of 6.5%, which includes corporate stores and GNC.com, resulted in a \$109.1 million decrease in revenue year-over-year. Negative same store sales were primarily due to lower sales in the vitamin, food/drink, protein and weight management categories, partially offset by improvement in the health and beauty and performance supplements categories and include the impact of a significant decrease in our GNC.com sales due in part to a meaningful reduction in our web promotions as well as lower point-of-sale gold card sales. In addition, our total corporate stores decreased from 3,584 at December 31, 2015 to 3,513 at December 31, 2016.

Revenues from our domestic franchisees decreased by \$5.2 million to \$326.7 million in the current year compared with \$331.9 million in 2015. This decrease was due to the impact of our franchisees having negative retail same stores sales of 6.8% in the current year, partially offset by an increase in the number of franchise stores from 1,084 at December 31, 2015 to 1,178 at December 31, 2016. Revenue from our company-owned stores in Canada decreased \$6.2 million year-over-year primarily due to negative same store sales of 7.1% and the unfavorable impact of foreign exchange rate changes. Partially offsetting the above decreases was a revenue increase of \$13.1 million due to higher sales from Lucky Vitamin.

Gold Card revenue (including the impact of deferred revenue) recognized in our company-owned U.S. stores in 2016 was \$62.2 million compared with \$59.2 million in 2015. The sales of Gold Cards ended on December 18, 2016 and the Gold Card Member Pricing program was discontinued in all domestic company-owned and franchise stores on December 28, 2016 in connection with the introduction of One New GNC. As a part of the launch, we provided former Gold Card customers within the one year membership period with a coupon equivalent to a reimbursement of the unexpired portion of their Gold Card membership fee. During the fourth quarter, we accelerated recognition of \$4.0 million of Gold Card deferred revenue, as a portion of the coupons were redeemed relating to the pilot markets and system-wide after the launch of the One New GNC.

**International.** Revenues in our International segment decreased \$22.3 million, or 12.2%, to \$160.7 million in 2016 compared with \$183.0 million in 2015. Despite our international franchisees reporting an increase in retail same store sales of 0.8% in the current year (excluding the impact of foreign exchange rate changes relative to the U.S. dollar), revenue from franchisees decreased \$28.1 million primarily relating to challenges in several markets as well as a net decrease in the number of franchise stores from 2,095 at December 31, 2015 to 1,973 at December 31, 2016. Partially offsetting the above decrease was an increase in revenue of \$5.6 million associated with our China business.

**Manufacturing / Wholesale.** Revenues in our Manufacturing / Wholesale segment, excluding intersegment revenues, were flat at \$235.7 million in each of the years ended December 31, 2016 and 2015. Third-party contract manufacturing sales increased by \$15.6 million, or 13.2%, to \$134.5 million in the current year compared with \$118.9 million in 2015. This increase was offset by a decrease in sales to our wholesale partners of \$15.7 million, or 13.4% to \$101.1 million for the year ended December 31, 2016 compared with \$116.8 million in 2015. Intersegment sales decreased \$48.6 million from \$267.4 million in the prior year to \$218.8 million in the current year due to lower proprietary sales in our U.S. and Canada and International segments.

**Other.** Revenue decreased by \$24.1 million due to the sale of Discount Supplements in the fourth quarter of 2015.

## Cost of Sales and Gross Profit

Cost of sales, which includes product costs, warehousing, distribution and occupancy costs, decreased \$18.8 million, or 1.1%, to \$1,679.9 million in the current year compared with \$1,698.7 million in 2015. Gross profit decreased \$124.5 million from \$984.6 million in the prior year to \$860.1 million in the current year, and as a percentage of revenue, decreased from 36.7% in the prior year to 33.9% in the current year. The decrease in gross profit rate was

primarily due to occupancy expense deleverage associated with negative same store sales and lower domestic retail product margin rate due to the impact of promotional pricing and reserves on certain third-party product that could not be returned to vendors as well as higher estimated reserves on certain proprietary products as a result of recent sales trends.

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

SG&A expense, including compensation and related benefits, advertising and other expenses, increased \$7.9 million, or 1.4%, to \$575.2 million in the current year compared with \$567.3 million in 2015. As a percentage of revenue, SG&A expense

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was 22.6% in the current year compared with 21.1% in 2015. The increase in SG&A expense was due to increases in compensation and related benefits of \$11.3 million and marketing of \$4.6 million, partially offset by a decrease in other SG&A expenses of \$8.0 million.

The increase in compensation and related benefits of \$11.3 million or 3.3% in the current year as compared with the prior year was primarily due to severance expense of \$4.5 million in the current year associated with the departure of our former Chief Executive Officer as well as higher salaries expense, the majority of which relates to store and field associates. Partially offsetting the above increases is a decrease of \$2.8 million as a result of the comparative effect of the correction of an immaterial error in the prior year as further explained in Item 8, "Financial Statements," Note 2, "Basis of Presentation" as well as lower sales incentives and certain other benefits.

The increase in marketing expense of \$4.6 million in the current year compared with the prior year was primarily due to the launch of One New GNC in December 2016.

The decreases in other SG&A expenses of \$8.0 million or 5.2% in the current year as compared with the prior year was primarily due to lower commissions associated with the lower GNC.com sales and lower legal-related charges, partially offset by the comparative effect of a prior year decrease in bad debt expense associated with a reduction in the previously established allowance for certain of our international franchisees based on cash collected, and higher IT expenses.

**Gains on Refranchising**

Gains on refranchising, which represent gains on the sale of company-owned stores to franchisees, were \$19.1 million for the year ended December 31, 2016 compared with \$7.6 million in the prior year. We sold 102 company-owned stores to franchisees in the current year, which includes the sale of 84 company-owned stores to one franchisee, compared with 33 company-owned stores in the prior year.

**Long-Lived Asset Impairments**

We recorded \$471.1 million in goodwill impairments that together with charges on property and equipment resulted in \$476.6 million of non-cash long-lived asset impairments. The goodwill impairment charges were recorded on the Domestic Stores, Manufacturing and Canada reporting units for \$366.4 million, \$90.5 million and \$14.2 million, respectively. We recorded a \$28.3 million impairment charge in the third quarter of 2015 relating to our Discount Supplements business which was sold in the fourth quarter of 2015. Refer to Item 8, "Financial Statements and Supplementary Data," Note 6, "Goodwill and Intangible Assets, Net" and Note 7, "Property, Plant and Equipment, Net" for more information.

**Other Loss, Net**

Other loss, net, in the current year of \$0.4 million primarily relates to foreign currency losses. Other loss, net in the prior year includes a loss of \$2.7 million relating to the sale of the assets of Discount Supplements and losses on foreign currency of \$0.8 million.

**Operating (Loss) Income**

As a result of the foregoing, consolidated operating loss was \$172.9 million in the current year compared with income of \$393.1 million in 2015. Operating (loss) income in the current and prior year was impacted significantly by long-lived asset impairment charges and gains on refranchising.

**U.S. and Canada.** Operating loss was \$105.3 million in the current year compared with income of \$378.2 million in 2015. As explained above, long-lived asset impairments were recorded in the current year in the U.S. and Canada segment totaling \$386.0 million. Excluding these non-cash impairment charges and gains on refranchising of \$19.1 million and \$7.6 million in the current year and prior year, respectively, operating income was \$261.6 million in the current year or 12.2% of segment revenue compared with \$370.6 million in the prior year or 16.5% of segment revenue. The decrease compared with the prior year was primarily due to expense deleverage in occupancy and salaries expense associated with negative company-owned same store sales, the launch of the One New GNC (which lowered operating income by approximately \$10 million) and lower domestic retail product margin rate as described above under "Cost of Sales and Gross Profit."

**International.** Operating income decreased \$9.1 million, or 14.1%, to \$55.4 million in the current year compared with \$64.5 million in 2015 and as a percentage of segment revenue was 34.5% and 35.2%, respectively. The decrease in operating income percentage was primarily due to the comparative effect of the prior year reduction in the



previously established bad debt allowance associated with certain of our franchisees as well as higher marketing and deleverage in salaries and benefits. Partially offsetting the decrease in operating income as a percentage of segment revenue was higher product margin rate due in part to a higher mix of proprietary sales.

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**Manufacturing / Wholesale.** Operating loss was \$20.0 million in the current year compared with income of \$86.2 million in 2015. As explained above, the current year was significantly impacted by a \$90.5 million goodwill impairment. Excluding this non-cash charge, operating income was \$70.5 million, or 15.5% of segment revenue, in the current year compared with 17.1% of segment revenue in the prior year. The decrease in operating income as a percentage of segment revenue was primarily due to lower intersegment sales, which resulted in unfavorable manufacturing variances, and a higher mix of third-party contract manufacturing sales, which generally contribute lower margins.

**Other.** Operating income increased by \$37.6 million due to the comparative effect of the prior year \$28.3 million long-lived asset impairment charge and \$2.7 million loss on sale, related to Discount Supplements, which was sold in the fourth quarter of 2015.

**Corporate costs.** Corporate costs increased by \$5.1 million, or 5.1%, to \$103.4 million in the current year compared with \$98.3 million in 2015 primarily due to higher salaries expense, severance of \$4.5 million related to the departure of the former Chief Executive Officer and higher IT expenses, partially offset by lower legal-related charges.

**Interest Expense**

Interest expense increased \$9.5 million, or 18.7%, to \$60.4 million in the current year compared with \$50.9 million in 2015. The increase in interest expense was due to the convertible debt issuance in August 2015, the majority of which relates to non-cash interest expense associated with the amortization of the conversion feature, and amounts drawn under the Revolving Credit Facility, partially offset by a lower balance on the Term Loan Facility.

**Income Tax Expense**

We recognized \$52.9 million (or 22.6% of pre-tax loss) of income tax expense in the current year compared with \$122.9 million (or 35.9% of pre-tax income) in 2015. The current year effective tax rate was significantly impacted by \$471.1 million of goodwill impairments, the majority of which are not deductible for tax purposes. Excluding the goodwill impairments, the effective tax rate would have been 36.7% in the current year. The current year tax rate was also impacted by an increase to the valuation allowance of \$4.4 million.

The prior year tax rate was impacted by a discrete tax benefit of \$11.8 million due to the effect of a worthless stock deduction resulting from excess tax basis in the common shares of Discount Supplements and a decrease in the liability for uncertain tax positions of \$3.3 million due in part to the expiration of certain statutes of limitation with respect to the 2011 fiscal year. The prior year tax rate was also impacted by an increase to the valuation allowance of \$2.3 million.

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

**Net (Loss) Income**

As a result of the foregoing, we recorded a net loss of \$286.3 million in the current year, which includes the impact of \$476.6 million of long-lived asset impairments, compared with net income of \$219.3 million in 2015.

**Diluted (Loss) Earnings Per Share**

Diluted loss per share was \$4.12 in the current year due to the decrease in net income partially offset by a 17.5% decrease in the weighted average diluted shares outstanding in the current year as a result of 7.9 million shares repurchased in 2016, the significant majority of which were in the first quarter.

**Comparison of the Years Ended December 31, 2015 and 2014****Revenues**

Our consolidated net revenues increased \$28.3 million, or 1.1%, to \$2,683.3 million for the year ended December 31, 2015 compared with \$2,655.0 million in 2014. Revenue increased in both our U.S. and Canada and International segments and decreased in our Manufacturing / Wholesale segment.

**U.S. and Canada.** Revenues in our U.S. and Canada segment increased \$33.2 million, or 1.5%, to \$2,240.5 million for the year ended December 31, 2015 compared with \$2,207.3 million in 2014, primarily due to an increase of approximately \$34 million from the addition of 97 net new company-owned stores, including 24 net new stores in Canada. Our company-owned store base increased from 3,487 stores at December 31, 2014 to 3,584 stores at December 31, 2015. In addition, revenue increased due to growth in our e-commerce businesses of \$5.6 million and

an increase of \$7.5 million in Gold Card revenue for company-owned stores largely due to the comparative effect of 2014 Gold Card revenue which was negatively affected by the Member Pricing launch in 2013, including a Gold Card give away promotion.

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Despite the impact of a decrease in domestic franchise same store retail sales of 2.1% year-over-year, domestic franchise revenue increased \$22.5 million to \$331.9 million for the year ended December 31, 2015 compared with \$309.4 million in 2014 due to increased third-party wholesale product sales.

Partially offsetting the increases in segment revenue above was a decrease of approximately \$22 million to product revenue due to the impact of negative domestic retail same store sales. In addition, the impact of Canadian dollar exchange rates resulted in a decrease of approximately \$17 million to segment revenue.

International. Revenues in our International segment increased \$8.1 million, or 4.6%, to \$183.0 million for the year ended December 31, 2015 compared with \$174.9 million in 2014. International franchise revenue increased \$3.5 million primarily due to higher third-party product sales. Excluding the impact of our franchise stores located in Venezuela, which was experiencing political unrest, our international franchisees reported negative same store retail sales of 1.3% in 2015, which excludes the impact of foreign exchange rate changes relative to the U.S. dollar.

Effective December 31, 2015, we terminated the agreement with the franchisee who operated stores in Venezuela, Columbia, and Spain. Additionally, revenue increased \$5.1 million from The Health Store (excluding the impact of foreign exchange rates), our chain of 10 retail stores located in Ireland whose acquisition was completed in April 2014.

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

Other. Discount Supplements, the assets of which we sold on December 31, 2015, yielded a \$5.5 million decrease in revenue (excluding the impact of foreign exchange rate changes).

Cost of Sales and Gross Profit

Cost of sales increased \$23.9 million, or 1.4%, to \$1,698.7 million for the year ended December 31, 2015 compared with \$1,674.8 million in 2014. Gross profit, as a percentage of revenue, decreased slightly from 36.9% in 2014 to 36.7% for the year ended December 31, 2015. Domestic Retail product margin rate slight improvement due to the elimination of unprofitable promotions in 2015 was more than offset by deleverage in occupancy costs associated with negative same store sales and higher distribution costs primarily due to our new distribution center in Indiana, which opened in October 2014.

SG&A Expense

SG&A expense, including compensation and related benefits, advertising and other expenses, increased \$12.4 million, or 2.2%, to \$567.3 million, for the year ended December 31, 2015 compared with \$554.9 million in 2014. As a percentage of revenue, SG&A expense was 21.1% for the year ended December 31, 2015 compared with 20.9% in 2014. The increase in SG&A expense was due to an increase in compensation and related benefits of \$8.2 million and other SG&A expenses of \$11.4 million, partially offset by a decrease in advertising expense of \$7.2 million.

The increase in compensation and related benefits was principally due to an increase in store salaries and benefits to support our increased store base. In addition, compensation expense of \$2.8 million was recorded in 2015 relating to the correction of an immaterial error in the first quarter of 2015 as explained in Item 8, "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Summary of Significant Accounting Policies." These expenses were partially offset by the management realignment charge recorded in 2014, in which we incurred \$7.8 million of severance-related expenses associated with the changes among our executive leadership team.

The increase in other SG&A expense was primarily due to an increase in costs related to a legal settlement as described in Item 8, "Financial Statements and Supplementary Data," Note 12 "Commitments and Contingencies," partially offset by a decrease in bad debt reserves established in 2014 associated with certain of our international franchisees.

The decrease in advertising expense was due to our evaluation to refine the optimal media mix to maximize our return as well as higher spend associated with Beat Average™ campaign launched in 2014 as compared with the "80 Years Quality Life / Quality Products" campaign launched in 2015.

Gains on Refranchising

Gains on refranchising were \$7.6 million for the year ended December 31, 2015 compared with \$9.9 million in the prior year. We sold 33 company-owned stores to franchisees in 2015 compared with 25 company-owned stores in 2014.

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## Long-Lived Asset Impairments

We recorded a \$28.3 million impairment charge in the third quarter of 2015 for Discount Supplements, which consisted of \$23.3 million related to goodwill, \$4.4 million related to trade name and website intangible assets and \$0.6 million related to fixed assets. Refer to Item 8, "Financial Statements and Supplementary Data," Note 6, "Goodwill and Intangible Assets, Net" for more information.

## Other (Loss) Income, Net

Other (loss) income, net, includes a loss of \$2.7 million attributable to the sale of substantially all of the assets of our Discount Supplements business in 2015 and the reversal of a \$4.4 million contingent purchase price liability in 2014 associated with Discount Supplements as well as foreign currency losses of \$0.8 million and \$0.2 million in 2015 and 2014, respectively.

## Operating Income

As a result of the foregoing, consolidated operating income decreased \$46.4 million, or 10.6%, to \$393.1 million for the year ended December 31, 2015 compared with \$439.5 million in 2014. Operating income, as a percentage of revenue, was 14.7% and 16.6% for the years ended December 31, 2015 and 2014, respectively.

**U.S. and Canada.** Operating income decreased \$4.0 million, or 1.1%, to \$378.2 million for the year ended December 31, 2015 compared with \$382.2 million in 2014 and as a percentage of segment revenue was 16.9% and 17.3%, respectively. Excluding the impact of gains on refranchising of \$7.6 million and \$9.9 million, operating income as a percentage of segment revenue was 16.5% and 16.9% in 2015 and 2014, respectively. The decrease in operating income was primarily due to expense deleverage in occupancy and compensation benefits associated with negative same store sales, partially offset by improved domestic retail product margin rate.

**International.** Operating income increased \$4.8 million, or 8.0%, to \$64.5 million for the year ended December 31, 2015 compared with \$59.7 million in 2014 and as a percentage of segment revenue was 35.2% and 34.1%, respectively. Excluding the impact of the decrease to bad debt reserves established in 2014 associated with certain of our international franchisees, operating income decreased by \$2.5 million and as a percentage of segment revenue decreased from 36.6% to 33.6% in 2015. The percentage decline is primarily due to a decline in product margin rate due to additional third-party wholesale product sales, which have lower margin rates relative to proprietary sales.

**Manufacturing / Wholesale.** Operating income was \$86.2 million for the year ended December 31, 2015 compared with \$85.5 million in 2014. Excluding the impact of the \$3.5 million charge in 2014 associated with lower manufacturing volumes to align inventory levels to business trends, operating income decreased \$2.8 million and as a percentage of segment revenue increased from 16.7% to 17.1% in 2015 primarily due to higher product margin rate for our wholesale customers partially offset by a lower rate for third-party contract manufacturing.

**Other.** Operating income decreased by \$37.9 million in the year ended December 31, 2015 compared to 2014 primarily due to \$28.3 million of long-lived asset impairment charges and \$2.7 million loss on sale of substantially all of the assets in 2015 and the reversal of the contingent purchase price liability in 2014, all of which related to Discount Supplements.

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

## Interest Expense

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

## Income Tax Expense

We recognized \$122.9 million (or 35.9% of pre-tax income) of income tax expense for the year ended December 31, 2015 compared with \$136.9 million (or 34.9% of pre-tax income) in 2014. The tax rate for 2015 was impacted by a discrete tax benefit of \$11.8 million due to the effect of a worthless stock deduction resulting from excess tax basis in the common shares of Discount Supplements and a net decrease in the liability for uncertain tax positions of \$3.3 million due in part to the expiration of certain statutes of limitation with respect to the 2011 fiscal year. The tax rate

for 2015 was also impacted by an increase to the valuation allowance of \$2.3 million. The tax rate for 2014 was impacted by a reduction to a valuation allowance of \$1.6 million. The 2014 income tax rate also included the recognition of \$3.0 million of other net discrete tax benefits related primarily to state tax positions in 2014.

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The valuation allowance in each period was adjusted based on a change in circumstances, including anticipated future earnings, as well as a tax law change which impacted 2014, which caused a change in judgment about the realizability of certain deferred tax benefits related to net operating losses.

**Net Income**

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

**Diluted Earnings Per Share**

Diluted earnings per share decreased 7.5% from \$2.81 in 2014 to \$2.60 in 2015 due to the 14.3% decrease in net income partially offset by a 7.4% decrease in the weighted average diluted shares outstanding in 2015 as a result of the share repurchase program.

**Change in Reportable Segments**

Based on the refranchising initiatives announced in late 2015, which sought to increase the proportion of domestic stores that are franchise locations in 2016 and beyond, the Company's organizational structure and the financial reporting utilized by the Company's chief operating decision maker (its chief executive officer) to assess performance and allocate resources changed; as a result, the Company's reportable segments were changed effective in the second quarter of 2016. The Company believes that the new segments better present management's new view of the business. The Company aggregates its operating segments into three reportable segments, which effective in the second quarter of 2016, include U.S. and Canada, International and Manufacturing / Wholesale. In connection with the change in the Company's segment reporting, warehousing and distribution costs have been allocated to each reportable segment, as appropriate. The Company's chief operating decision maker evaluates segment operating results based primarily on performance indicators, including revenue and operating income. Operating income of each reportable segment exclude certain items that are managed at the consolidated level, such as corporate costs. The Manufacturing / Wholesale segment manufactures and sells product to the U.S. and Canada and International segments at cost with a markup, which is eliminated at consolidation.

The following table shows the new reportable segments compared with the previous reporting structure.

Old	New
Segment: Retail Includes: Company-owned stores in the U.S., Puerto Rico and Canada, The Health Store and e-commerce including Discount Supplements, which was sold in the fourth quarter of 2015	Segment: U.S. and Canada Includes: Company-owned stores in the U.S., Puerto Rico and Canada, franchise stores in the U.S. and e-commerce
Segment: Franchise Includes: Domestic and international franchise locations and China operations	Segment: International Includes: Franchise locations in approximately 50 countries, The Health Store and China operations
Segment: Manufacturing / Wholesale Includes: Manufactured product sold to our other segments, third-party contract manufacturing and sales to wholesale partners	Segment: Manufacturing / Wholesale Includes: Manufactured product sold to our other segments, third-party contract manufacturing and sales to wholesale partners (no change from old)
	Other Includes: Discount Supplements, an e-commerce business which was sold in the fourth quarter of 2015





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The table below presents the interim results for 2015 and 2014 and the first quarter of 2016 under the new reportable segments. As part of this change, warehousing and distribution costs were allocated, as appropriate, to our reportable segments.

(Unaudited)	2016 Q1 3/31	2015 Full Year	Q1 3/31	Q2 6/30	Q3 9/30	Q4 12/31	2014 Full Year	Q1 3/31	Q2 6/30	Q3 9/30	
Revenue:	(in thousands)										
U.S. and Canada	\$574,600	\$2,240,515	\$578,938	\$582,584	\$565,252	\$513,741	\$2,207,283	\$572,494	\$574,557	\$565,252	
International	36,842	183,007	39,624	44,159	50,568	48,656	174,934	41,554	42,737	45,568	
Manufacturing / Wholesale:											
Intersegment revenues	63,031	267,377	66,254	72,984	67,511	60,628	291,220	81,195	75,723	73,511	
Third-party	57,463	235,680	55,524	56,233	61,620	62,303	241,176	61,944	59,566	61,620	
Subtotal											
Manufacturing / Wholesale	120,494	503,057	121,778	129,217	129,131	122,931	532,396	143,139	135,289	135,131	
Total reportable segment revenues	731,936	2,926,579	740,340	755,960	744,951	685,328	2,914,613	757,187	752,583	735,131	
Other	—	24,096	7,180	6,588	5,918	4,410	31,613	8,586	8,677	7,180	
Elimination of intersegment revenues	(63,031 )	(267,377 )	(66,254 )	(72,984 )	(67,511 )	(60,628 )	(291,220 )	(81,195 )	(75,723 )	(73,511 )	
Total revenue	\$668,905	\$2,683,298	\$681,266	\$689,564	\$683,358	\$629,110	\$2,655,006	\$684,578	\$685,537	\$668,905	
Operating income:											
U.S. and Canada	\$86,301	\$378,233	\$100,555	\$105,519	\$93,745	\$78,414	\$382,248	\$103,022	\$103,785	\$93,745	
International	13,103	64,486	16,214	15,693	16,118	16,461	59,734	16,061	15,502	12,500	
Manufacturing / Wholesale	18,433	86,172	20,007	21,061	22,521	22,583	85,539	22,562	21,869	21,061	
Total reportable segment operating income	117,837	528,891	136,776	142,273	132,384	117,458	527,521	141,645	141,156	135,131	
Other	(11 )	(37,444 )	(1,394 )	(1,088 )	(29,591 )	(5,371 )	411	259	270	3,000	
Corporate costs	(23,761 )	(98,340 )	(25,777 )	(23,547 )	(20,643 )	(28,373 )	(88,420 )	(20,649 )	(20,375 )	(20,643 )	
Total operating income	\$94,065	\$393,107	\$109,605	\$117,638	\$82,150	\$83,714	\$439,512	\$121,255	\$121,051	\$94,065	

Note: The presentation of certain immaterial amounts in our consolidated financial statements of prior periods has been revised to conform to the current periods presented. Specifically, sublease rental income received from franchisees is presented as “Revenue” compared with the previous presentation as a reduction to occupancy expense in “Cost of sales, including warehousing, distribution, and occupancy.” This revision has no impact on operating income.

For additional information regarding this revision, see Item 8, "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Significant Accounting Policies" under "Revision for Sublease Rent Income."

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### Liquidity and Capital Resources

We expect to fund our operations through internally generated cash and, if necessary, from borrowings under our \$300.0 million Revolving Credit Facility. At December 31, 2016, we had \$167.2 million available under the Revolving Credit Facility, after giving effect to \$127.0 million of borrowings outstanding and \$5.8 million utilized to secure letters of credit.

We expect that our primary uses of cash in the near future will be for capital expenditures, working capital requirements and debt repayment. In February 2017, the Board of Directors approved our recommendation to suspend the quarterly dividend. The dividend suspension is part of a broader plan to utilize a greater portion of our free cash to reduce debt. By suspending what has been a \$0.20 per share quarterly dividend, we intend to reallocate approximately \$55 million of cash annually, primarily to reduce debt through the pay-down of our revolver.

We currently anticipate that cash generated from operations, together with amounts available under the Revolving Credit Facility, will be sufficient to meet our operating expenses and fund capital expenditures. During the first quarter of 2016, we extended the maturity date of our Revolving Credit Facility from March 2017 to September 2018 and increased the amount available from \$130.0 million to \$300.0 million. We are required to make quarterly principal payments of \$1.1 million on the amount outstanding under our Term Loan Facility, payable every quarter through December 31, 2018. Our ability to make scheduled payments of principal on, to pay interest on or to refinance our debt and to satisfy our other debt obligations will depend on our future operating performance, which will be affected by general economic, financial and other factors beyond our control. Based on our results for the year ended December 31, 2016, the ratio on our Consolidated Net Senior Secured Leverage Ratio will require us to make an excess cash flow payment on our outstanding term loan debt of \$11.4 million in the second quarter of 2017. We are currently in compliance with the terms of our Senior Credit Facility and expect to remain in compliance over the next twelve months.

### Cash Provided by Operating Activities

Cash provided by operating activities was \$208.2 million, \$354.5 million and \$303.8 million during the years ended December 31, 2016, 2015 and 2014 respectively. The decrease in cash flow from operations in the current year compared with the prior year was primarily due to reduced operating performance and higher inventory purchases. The increase in cash flow from operations in 2015 as compared with 2014 was primarily due to improved working capital.

### Cash Used in Investing Activities

We used cash from investing activities of \$22.4 million, \$45.6 million and \$75.5 million for the years ended December 31, 2016, 2015 and 2014 respectively, of which capital expenditures were \$59.6 million, \$45.8 million and \$70.5 million. The increase in capital expenditures in 2016 compared with 2015 primarily relates to investments for our strategic initiatives and IT infrastructure including new registers and tablets in our stores. The decrease in capital expenditures in 2015 compared with 2014 primarily relates to the opening of our distribution center located in Whitestown, Indiana in October 2014. In 2017, we expect our capital expenditures to be approximately \$34 million, which includes investments for store development, IT infrastructure and maintenance. We anticipate funding our 2017 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

During the year ended December 31, 2016, we completed the franchising of 102 stores for \$39.2 million of net proceeds, which includes the sale of 84 stores to one franchisee for \$28.6 million in proceeds. During the year ended December 31, 2015 and 2014, we completed the franchising of 33 and 25 stores for \$3.4 million and \$3.6 million of net proceeds, respectively. In 2014, we spent \$6.4 million related to the acquisition of The Health Store.

### Cash Used in Financing Activities

For the year ended December 31, 2016, cash used in financing activities was \$207.5 million, primarily consisting of the repurchase of an aggregate of \$229.2 million in shares of common stock under share repurchase programs and dividends paid to our stockholders of \$55.3 million, partially offset with net borrowings of \$84.0 million under our Revolving Credit Facility.

For the year ended December 31, 2015, cash used in financing activities was \$384.5 million, which includes the repurchase of an aggregate of \$479.8 million in shares of common stock under share repurchase programs and

dividends paid to our stockholders of \$59.6 million. In August 2015, we issued \$287.5 million principal amount of 1.5% convertible senior notes due 2020 (the "Notes") and in connection with this transaction, we paid down \$164.3 million of our Term Loan Facility and paid \$8.2 million of debt issuance costs. In 2015, we borrowed \$43.0 million under our Revolving Credit Facility.

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

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## Indebtedness

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

As of December 31, 2016 and 2015, the Company's interest rate on its Senior Credit Facility was 3.27% and 3.25%, respectively. At December 31, 2016, the Company had \$127.0 million of borrowings outstanding on its revolving credit facility at a weighted average interest rate of 2.7%. The Company is also required to pay an annual fee of 2.50% on outstanding letters of credit and an annual commitment fee of 0.5% on the undrawn portion of the Revolving Credit Facility.

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

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

•the prime rate (as publicly announced by JPMorgan Chase Bank, N.A. as its prime rate in effect);

•the overnight federal funds effective rate plus 0.50%;

•one month LIBOR plus 1.0%; or

•1.75% applicable to the Term Loan Facility only.

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

•LIBOR; or

•0.75% applicable to the Term Loan Facility only.

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

On March 4, 2016, we amended the Revolving Credit Facility to extend its maturity from March 2017 to September 2018 and increase total availability from \$130 million to \$300 million.

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

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

## Contractual Obligations

The following table summarizes our future minimum non-cancelable contractual obligations at December 31, 2016:

(in millions)	Payments due by period				
	Total	2017	2018-2019	2020-2021	After 2021
Long-term debt obligations <sup>(1)</sup>	\$1,586.6	\$12.6	\$1,286.5	\$287.5	\$—
Scheduled interest payments <sup>(2)</sup>	122.5	50.7	67.5	4.3	—
Operating lease obligations <sup>(3)</sup>	578.3	147.8	202.8	114.3	113.4
Purchase commitments <sup>(4)</sup>	37.7	18.3	18.1	1.3	—
Total	\$2,325.1	\$229.4	\$1,574.9	\$407.4	\$113.4

These balances consist of the following debt obligations: (a) \$1,172.1 million of outstanding borrowings under the Term Loan Facility including \$1.6 million of unamortized original issuance discount; (b) \$127.0 million under the (1) Revolving Credit Facility that has a contractual maturity in September 2018; and (c) \$287.5 million of outstanding borrowings under the Notes including the unamortized conversion feature of \$37.2 million

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and original issuance discount of \$5.0 million. Repayment of long-term debt obligations include scheduled payments on the Term Loan facility including the excess cash flow payment to be paid in the second quarter of 2017.

The interest that will accrue on the long-term obligations includes variable rate payments, which are estimated (2) using the associated LIBOR index as of December 31, 2016. Interest under the Senior Credit Facility currently accrues based on a three-month LIBOR.

Consists of the following contractual payments excluding optional renewals: (a) \$655.3 million for company-owned retail and franchise stores; (b) \$108.9 million of sublease income from franchisees; and (c) \$31.9 million relating to various leases for warehouses, vehicles, and various equipment at our facility. (3) Operating lease obligations exclude insurance, taxes, maintenance, percentage rent and other costs. These amounts are subject to fluctuation from year to year. For each of the years ended December 31, 2016, 2015 and 2014 these amounts collectively represented approximately 35% of the aggregate costs associated with our company-owned retail store operating leases.

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

### Off Balance Sheet Arrangements

The majority of our contractual obligations not presented on our consolidated balance sheet relate to operating leases for our stores. Future scheduled lease payments under non-cancelable operating leases as of December 31, 2016 are described under the heading "Operating lease obligations" in the table above.

### Critical Accounting Estimates

#### Use of Estimates

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

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

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

#### Allowance for Doubtful Accounts

The majority of our domestic store and e-commerce revenues are received as cash at the point of sale. The majority of our franchise and wholesale revenues are billed with varying terms for payment. An allowance for doubtful accounts is established based on the financial condition of our franchisees and other third-party customers and historical write-off experience. Our allowance for doubtful accounts was \$4.6 million and \$4.1 million at December 31, 2016 and 2015, respectively.

#### Inventory

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

#### Impairment of Definite-Long-Lived Assets



Fixed assets and definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. If the sum of the undiscounted future cash flows is less than the carrying value of the asset group, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the long-lived asset. Estimates of cash flows require significant judgment and certain assumptions about future volume, revenue and expense growth rates and asset disposal values. While we make estimates based on historical

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experience, current expectations and assumptions that we believe are reasonable, actual results, including future cash flows, could differ from our estimates resulting in required impairment charges. We recorded \$5.4 million of charges related to property and equipment in 2016 related to certain of our stores and a \$5.0 million impairment charge related to Discount Supplements in the third quarter of 2015. Refer to Item 8 "Financial Statements and Supplementary Data," Note 7 "Property, Plant and Equipment, Net" for more information.

**Goodwill and Indefinite-Lived Intangible Assets**

As described in Item 8 "Financial Statements and Supplementary Data," Note 6 "Goodwill and Intangible Assets," based on a significant decline in our share price in the fourth quarter of 2016 coupled with the short-term expected decline in future projected operating results associated with strategic changes around the One New GNC, we concluded a triggering event occurred in the fourth quarter requiring a goodwill impairment test for all of our reporting units as of December 31, 2016. Non-cash goodwill impairment charges of \$366.4 million, \$90.5 million and \$14.2 million were recorded for the Domestic Stores, Manufacturing and Canada reporting units, respectively. The results of the impairment testing indicated that the Wholesale reporting unit had a fair value that exceeded its carrying value by less than 10%. In addition, the Manufacturing (after current year impairment charge) and Lucky Vitamin reporting units had fair values that exceeded their carrying values by less than 20%. The results for Lucky Vitamin were generally consistent with testing performed at September 30, 2016 and December 31, 2015.

We determined the fair values of our reporting units at December 31, 2016 using a discounted cash flow method (income approach) weighted 50% and a guideline company method (market approach) weighted 50%. The key assumptions under the income approach include, but are not limited to, future cash flow assumptions and the discount rate as more fully explained in Item 8 "Financial Statements and Supplementary Data," Note 6 "Goodwill and Intangible Assets." The guideline company method involves analyzing transaction and financial data of publicly-traded companies to develop multiples, which are adjusted to account for differences in growth prospects and risk profiles of the reporting unit and the comparable.

We also performed a quantitative impairment test for our \$720.0 million indefinite-lived brand intangible asset, and concluded that the estimated fair value under the relief from royalty method (an income approach) exceeded its respective carrying value by less than 25%. Key assumptions included in the determination of the estimated fair value include, but are not limited to, projected future revenues, the royalty rate and the discount rate.

The following table illustrates the amount of goodwill allocated to each reporting unit as well as the deficit, if any, created between the fair value and the carrying value of each reporting unit that would occur given hypothetical reductions in their respective fair values under step one at December 31, 2016 (after current year impairment charges):

	Goodwill	10%	20%	30%
	(in thousands)			
GNC.com	\$9,251	\$—	\$—	\$—
Lucky Vitamin	11,467	—	(450 )	(3,514 )
International Franchise	37,772	—	—	—
The Health Store	5,221	—	—	(68 )
Manufacturing	61,540	—	(5,634 )	(31,580 )
Wholesale	50,811	(1,800 )	(11,038 )	(20,276 )
Total	\$176,062	\$(1,800)	\$(17,122)	\$(55,438)

The following table represents a sensitivity analysis on goodwill for the Wholesale, Manufacturing and Lucky Vitamin reporting units (under the income approach without consideration to the market approach) depicting the percentage excess (deficit) of fair value compared with carrying value:

Assumption Change	Wholesale	Manufacturing	Lucky Vitamin
1% increase in discount rate	0.9%	11.0%	14.7%
1% decrease in long-term growth rate	5.3%	15.8%	19.4%

The following table represents a sensitivity analysis on the indefinite-lived brand intangible asset depicting the percent of excess fair value over carrying value.



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Assumption Change	Indefinite-Lived Brand Asset
1% increase in discount rate	15.3%
1% decrease in royalty rate	1.6%
2% decrease in royalty rate	(21.5)%

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

**Leases**

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

**Self-Insurance**

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

**Income Taxes**

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

We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, we consider future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, we would adjust related valuation allowances in the period that the change in circumstances occurs. As of December 31, 2016 and 2015, we had a valuation allowance of \$21.3 million and \$16.9 million, respectively, principally related to certain state and foreign net operating loss carryforwards.

**Recently Issued Accounting Pronouncements**

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

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

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. In the ordinary course of business, we are primarily exposed to foreign currency, interest rate and fuel and certain other commodity risks. We have not entered into any derivative instruments during 2016 but we may in the future utilize derivative instruments to manage our exposure to fluctuations in fuel and certain other commodity prices, interest rates and foreign currency exchange rates.



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Interest Rate Market Risk

The Senior Credit Facility is subject to changing interest rates. Although changes in interest rates do not impact our operating income, the changes could affect the fair value of such debt and related interest payments. An increase of 1% on our variable rate debt balance at December 31, 2016 would result in an increase to interest expense, net of \$11.7 million for the year ended December 31, 2016, after giving effect to the 0.75% floor on the Term Loan Facility. Refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity" for more information. A decrease in the current interest rates would have no impact on interest expense due to an interest rate floor that exists under the Senior Credit Facility.

Foreign Currency Exchange Rate Market Risk

We are subject to the risk of foreign currency exchange rate changes in the conversion from local currencies to the U.S. dollar of the reported financial position and operating results of our non-U.S. based subsidiaries. The primary currencies to which we are exposed to fluctuations are the Canadian Dollar, the Chinese Renminbi, Hong Kong dollar, the British Pound, and the Euro. The impact of foreign exchange rate changes primarily related to the Canadian dollar resulted in a decrease of approximately \$4 million to U.S. and Canada segment revenue in 2016 compared with 2015. In addition, since our international franchisees pay for product sales and royalties to us in the U.S. dollar, any strengthening of the U.S. dollar relative to our franchisees' local currency could adversely impact our revenue. We have intercompany balances with foreign entities that are routinely settled primarily relating to product sales and management fees. Gains or losses resulting from these foreign currency transactions were not material for the fiscal years ended December 31, 2016, 2015 and 2014.

Fuel Price Market Risk

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

Impact of Inflation

Inflationary factors such as increases in the cost of our products and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of margins and selling, general and administrative expenses as a percentage of revenue if the selling prices of our products do not increase with inflation.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of GNC Holdings, Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed under Item 15(a)(2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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



/s/ PricewaterhouseCoopers LLP  
Pittsburgh, Pennsylvania  
February 16, 2017

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(in thousands, except per share amounts)

	December 31,	
	2016	2015
Current assets:		
Cash and cash equivalents	\$34,464	\$56,462
Receivables, net	129,178	142,486
Inventory (Note 3)	583,212	555,885
Deferred income taxes (Note 4)	12,875	10,916
Prepaid and other current assets	39,400	27,114
Total current assets	799,129	792,863
Long-term assets:		
Goodwill (Note 6)	176,062	649,892
Brand name (Note 6)	720,000	720,000
Other intangible assets, net (Note 6)	111,229	119,204
Property, plant and equipment, net (Note 7)	232,292	230,535
Deferred income taxes (Note 4)	—	3,358
Other long-term assets	29,927	38,555
Total long-term assets	1,269,510	1,761,544
Total assets	\$2,068,639	\$2,554,407
Current liabilities:		
Accounts payable	\$179,933	\$152,099
Current portion of long-term debt (Note 8)	12,562	4,550
Deferred revenue and other current liabilities (Note 9)	115,171	121,062
Total current liabilities	307,666	277,711
Long-term liabilities:		
Long-term debt (Note 8)	1,527,891	1,444,628
Deferred income taxes (Note 4)	272,000	304,491
Other long-term liabilities	56,129	59,016
Total long-term liabilities	1,856,020	1,808,135
Total liabilities	2,163,686	2,085,846
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, \$0.001 par value, 300,000 shares authorized:		
Class A, 114,390 shares issued, 68,399 shares outstanding and 45,991 shares held in treasury at December 31, 2016 and 114,341 shares issued, 76,276 shares outstanding and 38,065 shares held in treasury at December 31, 2015	114	114
Additional paid-in capital	922,687	916,128
Retained earnings	716,198	1,058,148
Treasury stock, at cost (Note 13)	(1,725,349 )	(1,496,180 )
Accumulated other comprehensive loss	(8,697 )	(9,649 )
Total stockholders' (deficit) equity	(95,047 )	468,561
Total liabilities and stockholders' equity	\$2,068,639	\$2,554,407

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



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(in thousands, except per share amounts)

	Year ended December 31,		
	2016	2015	2014
Revenue	\$2,540,016	\$2,683,298	\$2,655,006
Cost of sales, including warehousing, distribution and occupancy	1,679,897	1,698,655	1,674,766
Gross profit	860,119	984,643	980,240
Selling, general, and administrative	575,218	567,296	554,882
Gains on refranchising	(19,112 )	(7,580 )	(9,940 )
Long-lived asset impairments (Note 6)	476,553	28,333	—
Other loss (income), net	407	3,487	(4,214 )
Operating (loss) income	(172,947 )	393,107	439,512
Interest expense, net (Note 8)	60,443	50,936	46,708
(Loss) Income before income taxes	(233,390 )	342,171	392,804
Income tax expense (Note 4)	52,860	122,872	136,932
Net (loss) income	\$(286,250 )	\$219,299	\$255,872
(Loss) Earnings per share (Note 14):			
Basic	\$(4.12 )	\$2.61	\$2.83
Diluted	\$(4.12 )	\$2.60	\$2.81
Weighted average common shares outstanding (Note 14):			
Basic	69,409	83,927	90,493
Diluted	69,409	84,186	90,918
Dividends declared per share	\$0.80	\$0.72	\$0.64

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

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive (Loss) Income

(in thousands)

	Year ended December 31,		
	2016	2015	2014
Net (loss) income	\$(286,250)	\$219,299	\$255,872
Other comprehensive income (loss):			
Foreign currency translation gain (loss)	952	(7,439 )	(5,784 )
Release of cumulative translation loss to earnings related to substantial liquidation of Discount Supplements	—	1,619	—
Other comprehensive income (loss)	952	(5,820 )	(5,784 )
Comprehensive (loss) income	\$(285,298)	\$213,479	\$250,088

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

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

	Common Stock Class A		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated	
	Shares	Dollars				Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance at December 31, 2013	94,072	\$ 112	\$(733,155)	\$846,559	\$700,108	\$ 1,955	\$ 815,579
Comprehensive income	—	—	—	—	255,872	(5,784)	250,088
Purchase of treasury stock	(6,671)	—	(283,226)	—	—	—	(283,226)
Dividends declared	—	—	—	—	(57,406)	—	(57,406)
Exercise of stock options	970	1	—	22,170	—	—	22,171
Restricted stock awards	(18)	—	—	—	—	—	—
Minimum tax withholding requirements	(18)	—	—	(762)	—	—	(762)
Excess tax benefit from stock-based compensation	—	—	—	3,743	—	—	3,743
Stock-based compensation	—	—	—	5,856	—	—	5,856
Balance at December 31, 2014	88,335	\$ 113	\$(1,016,381)	\$877,566	\$898,574	\$ (3,829)	\$ 756,043
Comprehensive income	—	—	—	—	219,299	(5,820)	213,479
Purchase of treasury stock	(12,414)	—	(479,799)	—	—	—	(479,799)
Dividends declared	—	—	—	—	(59,725)	—	(59,725)
Exercise of stock options	80	1	—	1,743	—	—	1,744
Restricted stock awards	290	—	—	—	—	—	—
Minimum tax withholding requirements	(15)	—	—	(574)	—	—	(574)
Excess tax benefit from stock-based compensation	—	—	—	604	—	—	604
Stock-based compensation	—	—	—	6,280	—	—	6,280
Issuance of convertible senior notes, net	—	—	—	30,509	—	—	30,509
Balance at December 31, 2015	76,276	\$ 114	\$(1,496,180)	\$916,128	\$1,058,148	\$ (9,649)	\$ 468,561
Comprehensive loss	—	—	—	—	(286,250)	952	(285,298)
Purchase of treasury stock	(7,926)	—	(229,169)	—	—	—	(229,169)
Dividends declared	—	—	—	—	(55,700)	—	(55,700)
Exercise of stock options	24	—	—	353	—	—	353
Restricted stock awards	74	—	—	—	—	—	—
Minimum tax withholding requirements	(49)	—	—	(1,169)	—	—	(1,169)
Excess tax benefit from stock-based compensation	—	—	—	(1,458)	—	—	(1,458)
Stock-based compensation	—	—	—	8,833	—	—	8,833
Balance at December 31, 2016	68,399	\$114	\$(1,725,349)	\$922,687	\$716,198	\$ (8,697)	\$(95,047)

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



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net (loss) income	\$(286,250)	\$219,299	\$255,872
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization expense	60,038	57,237	56,337
Amortization of debt costs	12,698	6,421	1,729
Stock-based compensation	8,833	6,280	5,857
Long-lived asset impairments	476,553	28,333	—
Gains on refranchising	(19,112)	(7,580)	(9,940)
Deferred income tax (benefit) expense	(31,026)	450	(6,418)
Changes in assets and liabilities:			
Decrease in receivables	11,053	422	9,766
(Increase) decrease in inventory	(33,496)	5,381	(24,089)
(Increase) decrease in prepaid and other current assets	(11,955)	776	2,260
Increase (decrease) in accounts payable	26,980	22,375	(8,978)
(Decrease) increase in deferred revenue and accrued liabilities	(8,282)	9,841	12,497
Other operating activities	2,164	5,298	8,892
Net cash provided by operating activities	208,198	354,533	303,785
Cash flows from investing activities:			
Capital expenditures	(59,579)	(45,827)	(70,455)
Refranchising proceeds	39,177	3,374	3,555
Acquisition costs	(2,018)	(3,196)	(8,587)
Net cash used in investing activities	(22,420)	(45,649)	(75,487)
Cash flows from financing activities:			
Borrowings under revolving credit facility	234,500	43,000	—
Payments on revolving credit facility	(150,500)	—	—
Payments on term loan facility	(4,550)	(169,060)	(5,443)
Proceeds from issuance of convertible senior notes	—	287,500	—
Debt issuance costs	(1,827)	(8,225)	—
Proceeds from exercise of stock options	353	1,743	22,170
Gross excess tax benefits from stock-based compensation	162	604	3,743
Minimum tax withholding requirements	(1,169)	(574)	(762)
Cash paid for treasury stock	(229,169)	(479,799)	(283,226)
Dividends paid to shareholders	(55,336)	(59,647)	(57,491)
Net cash used in financing activities	(207,536)	(384,458)	(321,009)
Effect of exchange rate changes on cash and cash equivalents	(240)	(1,798)	328
Net decrease in cash and cash equivalents	(21,998)	(77,372)	(92,383)
Beginning balance, cash and cash equivalents	56,462	133,834	226,217
Ending balance, cash and cash equivalents	\$34,464	\$56,462	\$133,834

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





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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## Supplemental Cash Flow Information

(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash paid during the period for:			
Income taxes	\$93,216	\$121,006	\$125,088
Interest	47,597	42,911	48,940
	As of December 31,		
Non-cash investing activities:	2016	2015	2014
Capital expenditures in current liabilities	\$7,556	\$6,018	\$4,182

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS

GNC Holdings, Inc., a Delaware corporation ("Holdings," and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the "Company"), is a global specialty retailer of health, wellness and performance products, including protein, performance supplements, weight management supplements, vitamins, herbs and greens, wellness supplements, health and beauty, food and drink and other general merchandise. The Company is vertically integrated as its operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three reportable segments, which effective in the second quarter of 2016 include U.S. and Canada, International, and Manufacturing / Wholesale (refer to Note 17, "Segments" for more information). Corporate retail store operations are located in the United States, Canada, Puerto Rico, China and Ireland. In addition, the Company offers products on the internet primarily through GNC.com and LuckyVitamin.com. The Company also offered product on the internet through A1 Sports Limited d/b/a Discount Supplements ("Discount Supplements") up to and including December 31, 2015 when the assets of Discount Supplements were sold and operations were ceased. Franchise locations exist in the United States and approximately 50 other countries. The Company operates its primary manufacturing facility in South Carolina and distribution centers in Arizona, Indiana, Pennsylvania and South Carolina. The Company manufactures approximately half of its branded products and merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

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

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

Basis of Presentation

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

Summary of Significant Accounting Policies

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

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

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

**Receivables, net.** The Company extends credit terms for sales of product to its franchisees, wholesale partners and contract manufacturing customers. Receivables consist principally of unpaid invoices for product sales, franchisee royalties and sublease payments. The Company also has notes receivables with certain of its franchisees that were \$12.1 million and \$17.8 million at December 31, 2016 and 2015, respectively, and are primarily recorded within other long-term assets on the consolidated balance sheets. As of the first quarter of 2016, the Company discontinued offering franchisees loans. Franchisees secure financing from lending institutions, which include but are not limited to the small business administration and national banks with franchise programs. These loans typically require the Company to subordinate its first lien position on inventory and furniture and fixtures at predetermined amounts.

The Company monitors the financial condition of its customers and establishes an allowance for doubtful accounts for balances estimated to be uncollectible. In addition to considering the aging of receivable balances and assessing the financial

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

condition, the Company considers collateral including inventory and fixed assets for domestic franchisees and letters of credit for international franchisees. The allowance for doubtful accounts was \$4.6 million and \$4.1 million at December 31, 2016 and 2015, respectively.

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

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

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

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

**Goodwill and Intangible Assets.** The Company was acquired by Ares Corporate Opportunities Fund II L.P. and Ontario Teachers' Pension Plan Board in March 2007 and subsequently completed an initial public offering in 2011 of its common stock. In connection with this acquisition, the Company recorded approximately \$600 million of goodwill and a \$720 million indefinite-lived intangible asset related to its brand name.

Goodwill is allocated to the Company's reporting units, which are at or below the level of an operating segment as defined by Accounting Standards Codification ("ASC") 280 "Segment Reporting." The Company formally evaluates the carrying amount of goodwill for each of its reporting units in the fourth quarter. In addition, the Company performs an evaluation on an interim basis if it determines that recent events or prevailing conditions indicate a potential impairment of goodwill. A significant amount of judgment is involved in determining whether an indicator of impairment has occurred between annual impairment tests. These indicators include, but are not limited to, overall financial performance such as adverse changes in recent forecasts of operating results, industry and market considerations, a sustained decrease in the share price of the Company's common stock, updated business plans and regulatory and legal developments.

Goodwill is impaired when the carrying amount of a reporting unit's goodwill exceeds its implied fair value based upon a two-step process. In step one of the analysis, the fair value of the reporting unit is compared with its carrying value. If the carrying value of the reporting unit exceeds its fair value, step two of the test must be performed, which requires the Company to determine the implied fair value of goodwill in the same manner as if it had acquired the reporting unit in an arm's length transaction as of the testing date. This second step is performed by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded amount of goodwill exceeds this implied fair value, an impairment charge is recorded for the difference as an operating expense in the period incurred. During the year ended December 31, 2016, the Company recorded \$471.1 million of goodwill impairment charges. See Note 6, "Goodwill and Intangible

Assets" for more information.

The Company's indefinite-lived intangible brand asset is also evaluated annually in the fourth quarter for impairment and on an interim basis if events or changes in circumstances between annual tests indicate that the assets might be impaired. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the difference.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Impairment of Definite-Long-lived Assets.** The Company evaluates whether the carrying values of property and equipment and definite-lived intangible assets have been impaired whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable based on estimated undiscounted future cash flows. Factors that may trigger an impairment review include significant changes in the intended use of assets, significant negative industry or economic trends, under-performing stores and anticipated store closings. If it is determined that the carrying value of the applicable asset group is not recoverable, an impairment loss is recognized for the amount the carrying value of the long-lived asset exceeds its estimated fair value. During the year ended December 31, 2016, the Company recorded \$5.4 million in long-lived asset impairment related to property and equipment. Refer to Note 7, "Property, Plant and Equipment, Net" for more information.

**Revenue Recognition.** Within the U.S. and Canada segment, retail sales in company-owned stores are recognized at the point of sale, net of sales tax. Revenue related to e-commerce sales is recognized upon delivery to customers and includes shipping charges. A provision for anticipated returns is recorded through a reduction of sales and cost of sales (for product that can be resold or returned to vendors) in the period that the related sales are recorded.

Revenue is deferred on sales of the Company's Gold Cards and subsequently recognized over the one year membership period. The Gold Card Member Pricing program which provided members product discounts was discontinued in all domestic company-owned and franchise stores on December 28, 2016 in connection with the introduction of the One New GNC. As a part of this launch, the Company provided former Gold Card customers that were within the membership period of generally one year with a coupon which was equivalent to a reimbursement of the unexpired portion of their Gold Card membership fee. During the fourth quarter, the Company recognized \$4.0 million of Gold Card deferred revenue, as the coupons were redeemed in the pilot markets and system-wide after the launch of the One New GNC. As of December 31, 2016, the Company has \$24.4 million of deferred Gold Card revenue which will be recognized in the first quarter of 2017 over the coupon redemption period which expires in March 2017.

Effective with the launch of the One New GNC on December 29, 2016, the Company introduced a free points-based loyalty program myGNC Rewards; system-wide in the U.S. The program enables customers to earn points based on their purchases. Points earned by members are valid for one year and may be redeemed for cash discounts on any product the Company sells at both company-owned or franchise locations. The Company defers the estimated standalone selling price of points related to this program as a reduction to revenue as points are earned by allocating a portion of the transaction price the customer pays to a loyalty program liability on the consolidated balance sheet. The estimated selling price of each point is based on the estimated value of product for which the point is expected to be redeemed, net of points not expected to be redeemed, based on historical redemption. When a customer redeems earned points, revenue is recognized with a corresponding reduction to the program liability. The program liability and impact to revenue related to this program was not material to 2016 results but is expected to be material in 2017 and beyond.

Also effective with the launch of the One New GNC, the Company began offering a paid membership program, PRO Access, for \$39.99 per year, which provides members with the delivery of three boxes throughout the membership year, as well as the periodic offering of product discounts and opportunities to earn triple points among other benefits. The boxes include sample merchandise and other materials. The Company recognizes revenue under the PRO Access program as the underlying performance obligations are satisfied. Revenue under this program was not material in 2016 but is expected to be material in 2017 and beyond.

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

Revenues from domestic and international franchisees include product sales, royalties and franchise fees and are recorded within the U.S. and Canada segment for domestic franchisees and the International segment for international franchisees. The Company's franchisees purchase a significant amount of the products they sell in their retail stores

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

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



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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**Vendor Allowances.** The Company receives allowances/credits from various vendors based on either sales or purchase volumes, right of return for expired product and non-saleable customer returns, and cooperative advertising. As the right of offset exists under these arrangements, credit earned under these arrangements are recorded as a reduction in the vendors' accounts payable balances on the balance sheet and represent the estimated amounts due to the Company under the provisions of such contracts. Amounts expected to be received from vendors relating to the purchase of merchandise inventories are recognized as a reduction to cost of sales as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction to the related expense in the period that the expense is incurred. The Company recorded a reduction to cost of sales of \$94.9 million, \$98.7 million and \$89.5 million for the years ended December 31, 2016, 2015 and 2014, respectively, for vendor allowances associated with the purchase and sale of merchandise.

**Research and Development.** Research and development costs arising from internally generated projects are expensed as incurred. The Company recognized approximately \$6 million in each of the years ended December 31, 2016, 2015 and 2014.

**Advertising Expenditures.** The Company recognizes the costs of advertising, promotion and marketing programs the first time the communication takes place. The Company administers national advertising funds on behalf of its franchisees. In accordance with the franchisee contracts, the Company collects advertising fees from the franchisees and utilizes the proceeds to coordinate various advertising and marketing campaigns. The Company recognized advertising expense of \$74.1 million, \$69.5 million and \$76.7 million for the years ended December 31, 2016, 2015 and 2014, respectively, net of \$15.7 million, \$16.0 million and \$15.9 million received from the Company's franchisees.

**Leases.** The Company has various operating leases for company-owned and franchise store locations, distribution centers, and equipment generally with an initial term of five years, which may include renewal options for varying terms thereafter. Leases for franchise store locations are subleased to franchisees. The Company is the primary lessee for the majority of the franchise store locations and makes rental payments to the landlord directly, and then bills the franchisee for reimbursement. The Company records rental income received from franchisees as revenue. If a franchisee defaults on its sublease, the Company has in the past converted, any such franchise store into a company-owned store and fulfilled the remaining lease obligation.

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

**Contingencies.** The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company evaluates, on a quarterly

basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If both of the conditions above are not met, disclosure is made when there is at least a reasonable possibility that a loss contingency has been incurred. As facts concerning contingencies evolve and become known, management reassesses the likelihood of a probable loss and makes appropriate adjustments to its financial statements.

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

**Income Taxes.** The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities result from (i) the future tax impact of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and (ii) differences between the recorded value of assets

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income tax assets are reduced by a valuation allowance if it is more likely than not that some portion of the deferred income tax asset will not be realized.

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

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

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

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

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

**Foreign Currency.** For all active foreign operations, the functional currency is the local currency. Assets and liabilities of foreign operations are translated into the Company's reporting currency, the U.S. dollar, using period-end exchange rates, while income and expenses are translated using the average exchange rates for the reporting period. Translation gains and losses are recorded as part of other comprehensive (loss) income on the consolidated balance sheet. The Company has intercompany balances with its foreign entities that are routinely settled primarily relating to product sales and management fees. Gains or losses resulting from these foreign currency transactions are included in the consolidated statements of operations and were not material in the fiscal years ended December 31, 2016, 2015 and 2014.

**Revision for Sublease Rent Income**

The Company revised its presentation of sublease income received from its franchisees for prior year periods to conform to the current period's presentation with no impact on previously reported gross profit, operating income, net income, shareholders' equity or cash flow from operations. The Company is the primary obligor of the leases for the majority of its franchise store locations and makes rental payments directly to the landlord and separately bills the franchisee for reimbursement. Accordingly, beginning in the first quarter of 2016, sublease rental income received from franchisees is appropriately presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy" on the consolidated

statements of operations. In addition, the deferred rent asset associated with recognizing sublease rental income for lease agreements that contain escalation clauses, which are fixed and determinable, on a straight-line basis is now appropriately presented in "Other long-term assets" compared with the previous presentation as a reduction to the deferred rent liability in "Other long-term liabilities" on the consolidated balance sheets. This revision is not material to prior periods.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table includes the revisions to the 2015 and 2014 consolidated statements of operations:

	Year ended December 31,	
	2015	2014
Revenue:	(in thousands)	
Prior to revision	\$2,639,212	\$2,613,154
Revision	44,086	41,852
As Revised	\$2,683,298	\$2,655,006
Cost of sales, including warehousing, distribution and occupancy:		
Prior to revision	\$1,654,569	\$1,632,914
Revision	44,086	41,852
As Revised	\$1,698,655	\$1,674,766

The following table includes the revision to the consolidated balance sheet:

	December 31, 2015
Other long-term assets:	(in thousands)
Prior to revision (*)	\$ 32,891
Revision	5,664
As Revised	\$ 38,555
Other long-term liabilities:	
Prior to revision	\$ 53,352
Revision	5,664
As Revised	\$ 59,016

(\*) Includes the adoption of ASU 2015-03 and 2015-15 relating to the presentation of deferred financing fees as described below, which reclassified \$3.3 million of debt issuance costs from "Other long-term assets" to "Long-term debt" at December 31, 2015 on the consolidated balance sheet.

Correction of Immaterial Error

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

Other Loss (Income), Net

Other loss (income), net, in the year ended December 31, 2016 includes \$0.4 million of foreign currency losses. The year ended December 31, 2015 includes a loss of \$2.7 million attributable to the closure and related asset sale of Discount Supplements. The year ended December 31, 2014 include the reversal of \$4.4 million in a contingent purchase price liability associated with the Discount Supplements acquisition.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, which requires an entity to present debt issuance costs related to a recognized debt liability as a direct reduction from the carrying

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount of that debt liability, consistent with the treatment of debt discounts. This standard does not affect the recognition and measurement guidance for debt issuance costs. In August 2015, the FASB subsequently issued ASU 2015-15, which clarifies that ASU 2015-03 does not address the presentation of debt issuance costs related to line-of-credit arrangements. This standard is effective for fiscal years beginning after December 15, 2015.

Accordingly, the Company adopted this change in accounting principle during the first quarter of fiscal 2016, with retrospective application. Net debt issuance costs in the amount of \$3.3 million, which were previously classified as "Other long-term assets" at December 31, 2015, were reclassified as a reduction to "Long-term debt" on the Company's consolidated balance sheet to conform to the current year presentation.

In August 2014, the FASB issued ASU 2014-15, which requires management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. The standard is effective for annual reporting periods, and interim periods therein, ending after December 15, 2016. Accordingly, the Company has adopted this ASU and evaluated the Company's ability to continue as a going concern as well as the need for related footnote disclosure. The Company has concluded no disclosure is necessary regarding the entity's ability to continue as a going concern.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, an entity will recognize an impairment charge for the amount by which the carrying value exceeds the fair value. This standard is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

In August 2016, the FASB issued ASU 2016-15, which addresses changes to the classification of certain cash receipts and cash payments within the statement of cash flows in order to address diversity in practice. In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Both standards are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company is currently evaluating the potential impact of these changes on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, which includes multiple provisions intended to simplify various aspects of accounting and reporting for share-based payments. Currently, the difference between the deduction for tax purposes and the compensation cost of a share-based payment award results in either an excess tax benefit or deficiency. These excess tax benefits are recognized in additional paid-in capital and tax deficiencies (to the extent there are previous tax benefits) are recognized as an offset to accumulated excess tax benefits. If no previous tax benefit exists, the deficiencies are recognized in the income statement as an increase to income tax expense. The changes require all excess tax benefits and tax deficiencies related to share-based payments be recognized as income tax expense or benefit in the income statement. Gross excess tax benefits in the cash flow statement will also change from the current presentation as a financing activity to being classified as an operating activity. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. The Company does not expect the impact of this guidance to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments for all leases with a term greater than 12 months.

This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2018 and is required to be applied using a modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest comparative period presented. The Company has a significant number of leases, and as a result, expects this guidance to have a material impact on its consolidated balance sheet, the impact of which is currently being evaluated.

In November 2015, the FASB issued ASU 2015-17, which requires an entity to classify deferred tax assets and liabilities as noncurrent on the balance sheet. This standard is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. The Company does not believe the adoption of this guidance will have a material effect on the consolidated financial statements.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In May 2014, the FASB issued ASU 2014-09, which updates revenue recognition guidance relating to contracts with customers. This standard states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is in effect for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company is in the process of evaluating this guidance and expects it to have a material impact on the consolidated financial statements.

## Other Revisions

In addition to the sublease rent revision and the adoption of ASU 2015-03 as explained above, certain amounts in the consolidated financial statements for prior year periods have been revised to conform to the current period's presentation. The impact to prior periods of these revisions was not significant with no impact on previously reported operating income, net income, cash flows from operations or stockholders' equity.

## NOTE 3. INVENTORY

The net realizable value of inventory consisted of the following:

	December 31,	
	2016	2015
	(in thousands)	
Finished product ready for sale	\$527,238	\$487,075
Work-in-process, bulk product and raw materials	49,246	62,242
Packaging supplies	6,728	6,568
Inventory	\$583,212	\$555,885

## NOTE 4. INCOME TAXES

(Loss) income before income taxes consisted of the following components:

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Domestic	\$(212,095)	\$365,362	\$373,122
Foreign	(21,295 )	(23,191 )	19,682
(Loss) income before income taxes	\$(233,390)	\$342,171	\$392,804

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income tax expense consisted of the following components:

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Current:			
Federal	\$67,326	\$104,711	\$120,086
State	9,928	13,414	16,968
Foreign	6,632	4,297	6,296
Total current income tax expense	83,886	122,422	143,350
Deferred:			
Federal	(32,397 )	3,193	(3,785 )
State	(1,110 )	(1,412 )	1,042
Foreign	2,481	(1,331 )	(3,675 )
Total deferred income tax (benefit) expense	(31,026 )	450	(6,418 )
Total income tax expense	\$52,860	\$122,872	\$136,932

Income tax expense reflected in the accompanying consolidated statements of operations varies from the amounts that would have been provided by applying the United States federal statutory income tax rate to (loss) earnings before income taxes as shown below:

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
U.S. federal statutory income tax	\$(81,686)	\$119,760	\$137,481
Increase (reduction) resulting from:			
State income tax, net of federal tax benefit	6,316	11,976	12,570
Nondeductible goodwill	132,800	—	—
Other permanent differences	633	1,369	393
International operations, net of foreign tax credits	3,454	13,035	(2,121 )
Worthless stock tax benefit	—	(11,634 )	—
Federal tax credits and income deductions	(6,030 )	(8,554 )	(9,034 )
Tax impact of uncertain tax positions and other	(2,627 )	(3,080 )	(2,357 )
Income tax expense	\$52,860	\$122,872	\$136,932

The effective tax rate in the current fiscal year was significantly impacted by goodwill impairment charges totaling \$471.1 million as described in Note 6, "Goodwill and Intangible Assets," the significant majority of which is not deductible for income tax purposes. The portion of the impairment charge associated with goodwill that had tax basis resulted in a deferred tax benefit of \$34.3 million in the current year.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	(in thousands)					
Current assets (liabilities):						
Operating reserves	\$9,774	\$—	\$9,774	\$10,050	\$—	\$10,050
Deferred revenue	3,242	—	3,242	2,976	—	2,976
Prepaid expenses	—	(4,556)	(4,556)	—	(3,936)	(3,936)
Other	4,415	—	4,415	1,826	—	1,826
Total current	\$17,431	\$(4,556)	\$12,875	\$14,852	\$(3,936)	\$10,916
Non-current assets (liabilities):						
Intangibles	\$—	\$(300,253)	\$(300,253)	\$—	\$(331,157)	\$(331,157)
Fixed assets	16,006	—	16,006	16,900	—	16,900
Stock compensation	4,597	—	4,597	3,344	—	3,344
Net operating loss and credit carryforwards	26,628	—	26,628	25,829	—	25,829
Long-term rent liabilities	8,604	—	8,604	8,438	—	8,438
Deferred Revenue	1,197	—	1,197	3,775	—	3,775
Convertible senior notes	—	(12,581)	(12,581)	—	(16,599)	(16,599)
Other	5,126	—	5,126	5,256	—	5,256
Valuation allowance	(21,324)	—	(21,324)	(16,919)	—	(16,919)
Total non-current	\$40,834	\$(312,834)	\$(272,000)	\$46,623	\$(347,756)	\$(301,133)
Total net deferred taxes	\$58,265	\$(317,390)	\$(259,125)	\$61,475	\$(351,692)	\$(290,217)

At December 31, 2016 and 2015, the Company had deferred tax assets relating to foreign and state NOLs with lives ranging from 5 to 20 years. As of December 31, 2016 and 2015, a valuation allowance was provided for certain NOLs, as the Company currently believes that these NOLs may not be realizable prior to their expiration. During 2016 and 2015, the Company increased its valuation allowance by \$4.4 million and \$2.3 million, respectively. In 2014, the Company reduced its valuation allowance by \$1.6 million. The valuation allowance was adjusted in 2016 based on a change in circumstances, including anticipated future earnings, which caused a change in judgment about the realizability of certain deferred tax assets related to NOLs.

The Company does not have any material undistributed earnings of international subsidiaries at December 31, 2016 and 2015 as these subsidiaries are considered to be branches for United States tax purposes, to have incurred cumulative NOLs, or to have only minimal undistributed earnings.

GNC Holdings, Inc. files a consolidated federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it and its subsidiaries operate. The statutes of limitation for the Company's U.S. federal income tax returns are closed for years through 2012. The Company has various state and local jurisdiction tax years open to possible examination (the earliest open period is generally 2011), and the Company also has certain state and local tax filings currently under audit.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding penalties and interest, is as follows:

	December 31,		
	2016	2015	2014
	(in thousands)		
Balance of unrecognized tax benefits at beginning of period	\$7,282	\$11,652	\$10,848
Additions for tax positions taken during current period	289	1,345	1,524
Additions for tax positions taken during prior periods	1,031	543	116
Reductions for tax positions taken during prior periods	(1,378 )	(6,258 )	(527 )
Settlements	(768 )	—	(309 )
Balance of unrecognized tax benefits at end of period	\$6,456	\$7,282	\$11,652

The Company's liability for uncertain tax positions, excluding penalties and interest, decreased by \$0.8 million during the current year due in part to the expiration of certain statutes of limitation with respect to the 2012 fiscal year and the payment of settlements to satisfy open audits.

As of December 31, 2016, the Company is not aware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. Accrued interest and penalties were \$1.9 million and \$1.8 million at December 31, 2016 and 2015, respectively. At December 31, 2016, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$8.4 million, including the impact of accrued interest and penalties. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its unrecognized tax benefits reflect the most likely outcome. The Company adjusts these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash. Favorable resolution would be recognized as a reduction to the effective income tax rate in the period of resolution.

**NOTE 5. REFRANCHISING****Gains on Refranchising**

During the year ended December 31, 2016, the Company refranchised 102 of its company-owned stores, of which 84 were refranchised to one franchisee, and recorded refranchising gains of \$19.1 million. The Company's actions were consistent with a previously announced refranchising strategy, which sought to increase the proportion of its domestic stores that are franchise locations. The Company refranchised 33 and 25 stores, respectively, during the years ended December 31, 2015 and 2014 and recorded refranchising gains of \$7.6 million and \$9.9 million.

Refranchising gains are calculated by subtracting the carrying value of applicable assets disposed of from the sale proceeds. In addition, the initial franchise fee received is included in the gain along with any other costs incurred by the Company to get the underlying assets ready for sale. The Company recognizes gains on refranchising after the asset purchase agreement is signed, the franchisee has taken possession of the store and management is satisfied that the franchisee can meet its financial obligations.

**Held for Sale**

The Company classifies assets as held for sale when it commits to a plan to dispose of the assets by refranchising specific stores in their current condition at a price that is reasonable and the Company believes completing the sale within one year is probable without significant changes. Assets held for sale are recorded at the lower of their carrying value or fair value, less costs to sell and depreciation is ceased on assets at the time they are classified as held for sale. As of December 31, 2016, there are no assets that qualify as held for sale.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 6. GOODWILL AND INTANGIBLE ASSETS

## Goodwill

## Impairment Charge

Based on the significant decline in the Company's share price in the fourth quarter of 2016 coupled with the short-term expected decline in future projected operating results associated with the Company's strategic changes around the One New GNC, management concluded a triggering event occurred in the fourth quarter requiring a goodwill impairment test for all of its reporting units as of December 31, 2016. The results of the first step indicated no impairment for the GNC.com, Lucky Vitamin, International Franchise, The Health Store and Wholesale reporting units. However, the Domestic Stores, Manufacturing and Canada reporting units had fair values below their respective carrying values. Therefore, the Company performed the second step of the impairment testing for these reporting units. Because the carrying value of goodwill for these reporting units exceeded the amount that would be recorded at December 31, 2016 under a hypothetical purchase price allocation, a non-cash impairment was recorded for the difference resulting in charges of \$366.4 million, \$90.5 million and \$14.2 million for Domestic Stores, Manufacturing and Canada reporting units, respectively. The total non-cash goodwill impairments recorded were \$471.1 million of which \$380.6 million relates to the U.S and Canada segment and \$90.5 million relates to the Manufacturing / Wholesale segment, and together with impairments recorded on property and equipment, resulted in \$476.6 million of total non-cash long lived asset impairment charges in 2016. Refer to Note 7, "Property, Plant and Equipment, Net" for more information on the property and equipment charges. The goodwill impairment test performed as of December 31, 2016 satisfies the Company's annual testing requirement.

As a result of the impairment charges described above, there is no remaining goodwill balance on the Domestic Stores and Canada reporting units at December 31, 2016. The results of the impairment testing indicated that the Wholesale reporting unit, which has a goodwill balance of \$50.8 million, had a fair value that exceeded its carrying value by less than 10%. In addition, the Manufacturing (after current year impairment charge) and Lucky Vitamin reporting units had fair values, which have goodwill balances of \$61.5 million and \$11.5 million, respectively, that exceeded their carrying values by less than 20%. The results for Lucky Vitamin were generally consistent with testing performed at September 30, 2016 and December 31, 2015. If actual market conditions are less favorable than those projected, or if events occur or circumstances change that would reduce the fair values of the Wholesale, Manufacturing and Lucky Vitamin reporting units below their respective carrying values, management may be required to conduct an interim test and possibly recognize impairment charges in future periods.

The Company determined the fair values of its reporting units at December 31, 2016 using a discounted cash flow method (income approach) weighted 50% and a guideline company method (market approach) weighted 50%. The key assumptions used under the income approach were, but not limited to, the following:

Future cash flow assumptions - The Company's projections for its reporting units were based on organic growth and were derived from historical experience and assumptions regarding future growth and profitability trends. These projections also took into account the current expectations regarding the adoption of the One New GNC which will significantly impact the Domestic Stores and GNC.com reporting units as well as the Manufacturing reporting unit the operations of which heavily depend on supplying the Company's reporting units with proprietary product. The Company's analysis incorporated an assumed period of cash flows of 8 years with a terminal value.

Discount rate - The discount rate was based on an estimated weighted average cost of capital ("WACC") for each reporting unit. The components of WACC are the cost of equity and the cost of debt, each of which requires judgment by management to estimate. The Company developed its cost of equity estimate based on perceived risks and predictability of future cash flows. At December 31, 2016, the WACC used to estimate the fair values of the Company's reporting units was generally within a range of 15.0% to 16.5%. Any difference between the WACC among reporting units is primarily due to the precision with which management expects to be able to predict the future cash flows of each reporting unit.

The guideline company method involves analyzing transaction and financial data of publicly-traded companies to develop multiples, which are adjusted to account for differences in growth prospects and risk profiles of the reporting unit and the comparable.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Change in Reporting Units

In connection with the Company's change in reportable segments described in Note 17, "Segments," the Company's Domestic Retail and Domestic Franchise reporting units were combined into one Domestic Stores reporting unit, consistent with how the segment manager now reviews this business effective in the second quarter of 2016.

## Goodwill Roll-Forward

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

	U.S. and Canada	International	Manufacturing / Wholesale	Other <sup>(2)</sup>	Total
	(in thousands)				
Goodwill at December 31, 2014 <sup>(1)</sup>	\$402,105	\$ 43,796	\$ 202,841	\$23,551	\$672,293
2015 Activity:					
Acquired franchise stores	1,935	—	—	—	1,935
Translation effect of exchange rates	(166 )	(619 )	—	(292 )	(1,077 )
Impairment - Discount Supplements	—	—	—	(23,259 )	(23,259 )
Total 2015 activity	1,769	(619 )	—	(23,551 )	(22,401 )
Balance at December 31, 2015:					
Gross	403,874	43,177	202,841	—	649,892
Accumulated impairments	—	—	—	—	—
Goodwill	\$403,874	\$ 43,177	\$ 202,841	\$—	\$649,892
2016 Activity:					
Impairments	(380,644 )	—	(90,488 )	—	(471,132 )
Acquired franchise stores	1,372	—	—	—	1,372
Translation effect of exchange rates	12	(183 )	—	—	(171 )
Derecognition associated with refranchising	(3,899 )	—	—	—	(3,899 )
Total 2016 activity	(383,159 )	(183 )	(90,488 )	—	(473,830 )
Balance at December 31, 2016:					
Gross	401,359	42,994	202,841	—	647,194
Accumulated impairments	(380,644 )	—	(90,488 )	—	(471,132 )
Goodwill	\$20,715	\$ 42,994	\$ 112,353	\$—	\$176,062

(1) Because no impairments were recorded prior to and during the year ended December 31, 2014, accumulated impairments were \$0 at December 31, 2014.

(2) In connection with the sale of the assets of Discount Supplements in the fourth quarter of 2015, as further described below, the gross goodwill and accumulated impairment was derecognized.

## Intangible Assets

Management performed a quantitative impairment test for its \$720.0 million indefinite-lived brand intangible asset, and concluded that the estimated fair value under the relief from royalty method (an income approach) exceeded its respective carrying value by less than 25%. Key assumptions included in the estimation of the fair value include but are not limited to projected future revenues, the royalty rate and the discount rate. If actual market conditions are less favorable than those projected, or if events occur or circumstances change that would reduce the fair value below its carrying value, management may be required to conduct an interim test and possibly recognize an impairment charge in future periods. Management also evaluated its definite-lived intangible assets primarily consisting of operating agreements and concluded that the fair values of these assets exceeded their carrying values.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Weighted-Average Life	December 31, 2016			December 31, 2015		
		Gross	Accumulated Amortization	Carrying Amount	Gross	Accumulated Amortization	Carrying Amount
(in thousands)							
Retail agreements	30.3	\$31,000	\$ (10,460 )	\$20,540	\$31,000	\$ (9,407 )	\$21,593
Franchise agreements	25.0	70,000	(27,417 )	42,583	70,000	(24,617 )	45,383
Manufacturing agreements	25.0	70,000	(27,417 )	42,583	70,000	(24,617 )	45,383
Other intangibles	11.8	10,201	(5,467 )	4,734	10,222	(4,560 )	5,662
Franchise rights	3.0	7,486	(6,697 )	789	7,206	(6,023 )	1,183
Total		\$188,687	\$ (77,458 )	\$111,229	\$188,428	\$ (69,224 )	\$119,204

Amortization expense during the years ended December 31, 2016, 2015 and 2014 was \$8.2 million, \$10.3 million and \$10.9 million, respectively.

The following table represents future amortization expense of definite-lived intangible assets at December 31, 2016:

Years ending December 31,	Amortization expense (in thousands)
2017	\$ 7,626
2018	7,425
2019	7,285
2020	7,222
2021	7,113
Thereafter	74,558
Total future amortization expense	\$ 111,229

Acquisitions

For the years ended December 31, 2016, 2015 and 2014, the Company acquired 21, 44 and 25 franchise stores, respectively. These acquisitions are accounted for utilizing the acquisition method of accounting, and the Company allocated the purchase price by recognizing acquired inventory, fixed assets, franchise rights and other net assets at fair value with any excess being recorded as goodwill. For the years ended December 31, 2016, 2015 and 2014, the total purchase prices associated with these acquisitions was \$3.4 million, \$6.2 million, and \$3.7 million, respectively. On April 17, 2014, the Company acquired the assets and assumed the liabilities of The Health Store, which was accounted for as a business combination. The total purchase price for this acquisition was approximately \$8.9 million, of which \$6.9 million, \$0.8 million, and \$1.2 million was allocated to goodwill, definite-lived intangible assets and other net assets, respectively.

Discount Supplements Prior Year Charges

During the third quarter of 2015, due to the declining financial performance and the Company's decision to review strategic options for the business a triggering event occurred requiring an interim goodwill impairment review of the Discount Supplements reporting unit as of September 30, 2015. The Company determined the fair value of the Discount Supplements reporting unit at September 30, 2015 using a discounted cash flow method (income approach). As a result of the review, the Company concluded that the carrying value of the Discount Supplements reporting unit exceeded its fair value and proceeded to step two of the impairment analysis. Based on the results of step two, the Company concluded that this reporting unit's goodwill was fully impaired; as a result, a goodwill impairment charge of \$23.3 million was recorded in the third quarter of 2015.





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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As a result of the impairment indicators, the Company also performed an impairment analysis with respect to the definite-long-lived assets of Discount Supplements, consisting of trade name and website intangibles and property and equipment. The fair value of these assets were determined using various income approaches. Based on the results of the analyses, the Company recorded impairment charges of \$4.4 million on the trade name and website intangible assets and \$0.6 million on property and equipment. All of the aforementioned charges totaling \$28.3 million were recorded in "Long-lived asset impairments" in the consolidated statement of operations for the year ended December 31, 2015.

The Company sold substantially all of the assets of Discount Supplements in the fourth quarter of 2015 and recorded a \$2.7 million loss recorded within Other Loss (income) net on the consolidated statement of operations.

**NOTE 7. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net, consisted of the following:

	December 31,	
	2016	2015
	(in thousands)	
Land, buildings and improvements	\$72,119	\$70,487
Machinery and equipment	172,261	150,809
Leasehold improvements	144,667	139,448
Furniture and fixtures	108,998	106,722
Software	64,264	54,506
Construction in progress	6,346	6,340
Total property, plant and equipment	568,655	528,312
Less: accumulated depreciation	(330,942 )	(297,164 )
Less: impairment	(5,421 )	(613 )
Net property, plant and equipment	\$232,292	\$230,535

The Company recognized depreciation expense on property, plant and equipment of \$51.8 million, \$47.0 million, and \$45.5 million for the years ended December 31, 2016, 2015 and 2014, respectively, which is included in occupancy expense as part of cost of sales and selling, general and administrative expense on the consolidated statements of operations.

**Impairment**

Management evaluated its property, plant, and equipment and recorded a \$5.4 million impairment charge within the U.S. and Canada segment for the year ended December 31, 2016, presented as "Long-lived asset impairments" in the accompanying consolidated statement of operations. For individual under-performing stores, the impairment test was performed at the individual store level as this is the lowest level which identifiable cash flows are largely independent of other groups of assets and liabilities. Under-performing stores were generally defined as those with historical and expected future losses or stores that management intends on closing in the near term. If the undiscounted estimated cash flows were less than the carrying value of the asset group, an impairment charge was calculated by subtracting the estimated fair value of property and equipment from its carrying value. Fair value was estimated using a discounted cash flow method (income approach) utilizing the undiscounted cash flows estimated in the first step of the test.

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 8. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt consisted of the following:

	December 31,	
	2016	2015
	(in thousands)	
Term Loan Facility (net of \$1.6 million and \$2.2 million discount)	\$1,170,486	\$1,174,369
Revolving Credit Facility	127,000	43,000
Notes	245,273	235,085
Debt issuance costs	(2,306 )	(3,276 )
Total debt	\$1,540,453	\$1,449,178
Less: current maturities	(12,562 )	(4,550 )
Long-term debt	\$1,527,891	\$1,444,628

At December 31, 2016, the Company's future annual contractual principal payments on long-term debt were as follows:

Year Ending December 31,	Term Loan Facility <sup>(1)</sup>	Revolving Credit Facility	Convertible Notes <sup>(2)</sup>	Total
	(in thousands)			
2017	\$12,562	\$—	\$—	\$12,562
2018	3,392	127,000	—	130,392
2019	1,156,096	—	—	1,156,096
2020	—	—	287,500	287,500
Total future principal payments	\$1,172,050	\$127,000	\$287,500	\$1,586,550

(1) Includes the unamortized original issuance discount of \$1.6 million.

(2) Includes unamortized conversion feature of \$37.2 million and original issuance discount of \$5.0 million.

**Senior Credit Facility**

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

The Company amended the Revolving Credit Facility on March 4, 2016, to extend its maturity from March 2017 to September 2018 and increase total availability from \$130.0 million to \$300.0 million. In connection with this transaction, the Company incurred \$1.7 million of costs, which were capitalized as deferred financing fees within "Other long-term assets" and will be amortized to interest expense over the new term of the Revolving Credit Facility. As of December 31, 2016, the Company had \$167.2 million available under the Revolving Credit Facility, after giving effect to \$127.0 million of borrowings outstanding and \$5.8 million utilized to secure letters of credit.

As of December 31, 2016 and 2015, the Company's interest rate on its Term Loan Facility was 3.27% and 3.25%, respectively. The Revolving Credit Facility had a weighted average interest rate of 2.7% and 2.6% at December 31, 2016 and 2015, respectively. The Company is also required to pay an annual fee of 2.5% on outstanding letters of credit and an annual commitment fee of 0.5% on the undrawn portion of the Revolving Credit Facility.

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

that restrict their ability to

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pay dividends or grant liens. As of December 31, 2016, the ratio on the Consolidated Net Senior Secured Leverage Ratio will require an excess cash flow payment on the outstanding term loan debt of \$11.4 million in the second quarter of 2017. The Company is currently in compliance, and expects to remain in compliance over the next twelve months, with the terms of its Senior Credit Facility.

Convertible Debt

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

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

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

Prior to May 15, 2020, the Notes will be convertible only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2015, if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding calendar quarter, the last reported sale price of the Company's common stock on such trading day is greater than or equal to 130% of the applicable conversion price on such trading day; (2) during the 5 consecutive business day period after any 10 consecutive trading day period in which, for each day of that period, the trading price per \$1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on such trading day; or (3) upon the occurrence of specified corporate transactions. On and after May 15, 2020, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Notes will be settled, at the Company's election, in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. If the Company has not delivered a notice of its election of settlement method prior to the final conversion period it will be deemed to have elected combination settlement with a dollar amount per note to be received upon conversion of \$1,000.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Notes consist of the following components:

	For the year ended December 31, 2016      2015 (in thousands)	
Liability component		
Principal	\$287,500	\$287,500
Conversion feature	(37,179 )	(46,271 )
Discount related to debt issuance costs	(5,048 )	(6,144 )
Net carrying amount	\$245,273	\$235,085
Equity component		
Conversion feature	\$49,680	\$49,680
Debt issuance costs	(1,421 )	(1,421 )
Deferred taxes	(17,750 )	(17,750 )
Net amount recorded in additional paid-in capital	\$30,509	\$30,509

## Interest Expense

Interest expense consisted of the following:

	For the year ended December 31, 2016      2015      2014 (in thousands)		
Senior Credit Facility:			
Term Loan Facility coupon	\$38,821	\$42,147	\$44,427
Revolving Credit Facility	4,689	805	682
Amortization of discount and debt issuance costs	2,444	2,583	1,729
Total Senior Credit Facility	45,954	45,535	46,838
Notes:			
Coupon	4,313	1,702	—
Amortization of conversion feature	9,092	3,410	—
Amortization of discount and debt issuance costs	1,140	412	—
Total Notes	14,545	5,524	—
Interest income and other	(56 )	(123 )	(130 )
Interest expense, net	\$60,443	\$50,936	\$46,708

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9. DEFERRED REVENUE AND OTHER CURRENT LIABILITIES

Deferred revenue and other current liabilities consisted of the following:

	December 31,	
	2016	2015
	(in thousands)	
Deferred revenue	\$40,338	\$45,018
Accrued compensation and related benefits	34,700	31,091
Accrued real estate taxes, utilities and other occupancy	4,932	3,352
Accrued sales tax	2,626	3,659
Accrued interest	2,383	2,210
Accrued income taxes	1,454	1,181
Dividends payable	586	222
Other current liabilities	28,152	34,329
Total deferred revenue and other current liabilities	\$115,171	\$121,062

Deferred revenue includes \$24.4 million associated with the domestic company-owned Gold Card Member Pricing program, which was discontinued on December 28, 2016 in connection with the introduction of the One New GNC and replaced with a points-based loyalty program. Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" for more information.

## NOTE 10. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Term Loan Facility	\$1,170,486	\$1,100,257	\$1,174,369	\$1,145,010
Notes	245,273	185,794	235,085	188,940

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





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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As described in Note 6, "Goodwill and Intangible Assets, Net," and Note 7, "Property, Plant and Equipment, Net," the Company recorded asset impairments in the years ended December 31, 2016 and 2015. This resulted in goodwill and property and equipment assets being measured at fair value on a non-recurring basis using Level 3 inputs as follows: goodwill at December 31, 2016 for the Domestic Stores, Canada and Manufacturing reporting units; and property and equipment at certain of the Company's stores at December 31, 2016.

## NOTE 11. LONG-TERM LEASE OBLIGATIONS

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

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Company-owned and franchise stores:			
Rent on operating leases	\$193,830	\$187,346	\$179,675
Landlord related taxes	27,747	25,765	24,779
Common operating expenses	45,375	44,184	42,674
Percent and contingent rent	19,435	21,109	22,573
Total company-owned and franchise stores	286,387	278,404	269,701
Other	19,905	16,568	15,716
Total rent expense	\$306,292	\$294,972	\$285,417

The Company recorded sublease revenue, within Revenue on the consolidated statements of operations, of \$47.6 million, \$44.1 million and \$41.9 million in the years ended December 31, 2016, 2015 and 2014, respectively, relating to subleases with its franchisees, which includes rental income and other occupancy related items.

Minimum future rent obligations for non-cancelable operating leases, excluding optional renewal periods, with initial or remaining terms of at least one year in effect at December 31, 2016 were as follows for the years ending December 31 and exclude taxes, common operating expense, and percent and contingent rent.

	Company-Owned and Franchise Stores	Sublease Income from Franchisees	Other	Rent on Operating Leases, net of Sublease Revenue
	(in thousands)			
2017	\$176,605	\$(33,966)	\$5,154	\$147,793
2018	138,943	(26,421)	2,846	115,368
2019	104,525	(19,469)	2,385	87,441
2020	77,882	(13,678)	1,809	66,013
2021	54,255	(7,429)	1,504	48,330
Thereafter	103,123	(7,956)	18,183	113,350
Total future obligations	\$655,333	\$(108,919)	\$31,881	\$578,295

## NOTE 12. COMMITMENTS AND CONTINGENCIES

## Litigation

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



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement posture of the parties. Consequently, except as otherwise noted below with regard to a particular matter, the Company cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and the Company is unable to estimate a possible loss or range of loss. If the Company ultimately is required to make a payment in connection with an adverse outcome in any of the matters discussed below, it is possible that it could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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

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

During the year ended December 31, 2016, the Company recorded \$5.1 million in legal-related charges associated with a Pennsylvania fluctuating workweek wage issue, the Jason Olive case and a government regulation matter, the amounts of which were individually immaterial. These items are explained below in more detail.

**DMAA/Aegeline Claims.** Prior to December 2013, the Company sold products manufactured by third parties that contained derivatives from geranium known as 1,3-dimethylpentylamine/ dimethylamylamine/1,3-dimethylamylamine, or "DMAA," which were recalled from the Company's stores in November 2013, and/or Aegeline, a compound extracted from bael trees. As of December 31, 2015, the Company was named in 28 personal injury lawsuits involving products containing DMAA and/or Aegeline.

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

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

**California Wage and Break Claim.** In July 2011, Charles Brewer, on behalf of himself and all others similarly situated, sued General Nutrition Corporation in federal court, alleging state and federal wage and hour claims. In October 2011, plaintiff filed an eight-count amended complaint alleging, among other matters, meal, rest break and overtime violations on behalf of sales associates and store managers. In January 2013, the Court conditionally certified a Fair Labor Standards Act ("FLSA") class with respect to one of Plaintiff's claims, and in November 2014,

the Court granted in part and denied in part the plaintiff's motion to certify a California class and granted the Company's motion for decertification of the FLSA class. In May 2015, plaintiffs filed a motion for partial summary judgment as to the Company' alleged liability for non-compliant wage statements, which was granted in part and denied in part in September 2015. On February 5, 2016, the Company and attorneys representing the putative class agreed to class-wide settlements of the Brewer case and an additional, immaterial case raising similar claims, pursuant to which the Company agreed to pay up to \$9.5 million in the aggregate, including attorneys' fees and costs. Following a hearing on August 23, 2016, the Court approved the settlement agreement and dismissed the case with prejudice. As a result of this settlement, the Company recorded a charge of \$9.5 million in 2015, which was paid in the fourth quarter of 2016.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Pennsylvania Fluctuating Workweek. On September 18, 2013, Tawny Chevalier and Andrew Hiller commenced a class action in the Court of Common Pleas of Allegheny County, Pennsylvania. Plaintiff asserted a claim against the Company for a purported violation of the Pennsylvania Minimum Wage Act (PMWA), challenging the Company's utilization of the "fluctuating workweek" method to calculate overtime compensation, on behalf of all employees who worked for the Company in Pennsylvania and who were paid according to the fluctuating workweek method. In October 2014, the Court entered an order holding that the use of the fluctuating workweek method violated the PMWA. In September 2016, the Court entered judgment in favor of Plaintiffs and the class in an immaterial amount, which has been recorded as a charge in the accompanying consolidated financial statements. Plaintiffs subsequently filed a petition for an award of attorney's fees, costs and incentive payment. The court awarded an immaterial amount in legal fees. The Company appealed from the adverse judgment; the appeal is pending.

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

Oregon Attorney General. On October 22, 2015, the Attorney General for the State of Oregon sued General Nutrition Corporation in Multnomah County Circuit Court for alleged violations of Oregon's Unlawful Trade Practices Act, in connection with its sale in Oregon of certain third-party products, which was amended on September 19, 2016 to add allegations related to products containing DMAA and oxilofrine. The Company is vigorously defending itself against these allegations. On December 19, 2016, the Company filed an answer, including counterclaims and third party complaints for indemnification. As any losses that may arise from this matter are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying consolidated financial statements. Moreover, the Company does not anticipate that any such losses are likely to have a material impact on the Company, its business or results of operations. The Company is contractually entitled to indemnification and defense by its third-party vendors. Ultimately, however, the Company's ability to obtain full recovery in respect of any such claims against it is dependent upon the creditworthiness of its vendors and/or their insurance coverage and the absence of any significant defenses available to their insurers.

Government Regulation

In November 2013, the Company received a subpoena from the U.S. Department of Justice ("DOJ") for information related to its investigation of a third party product vendor, USP Labs, LLC. The Company fully cooperated with the investigation of the vendor and the related products, all of which were discontinued in 2013. In December 2016, the Company reached agreement with the DOJ in connection with the Company's cooperation; which agreement acknowledges the Company relied on the representations and written guarantees of USP Labs and the Company's representation that it did not knowingly sell products not in compliance with the FDCA. Under the agreement, which includes an immaterial payment to the federal government, the Company will take a number of actions to broaden

industry-wide knowledge of prohibited ingredients and improve compliance by vendors of third party products. These actions are in keeping with the leadership role the Company has taken in setting industry quality and compliance standards, and the Company's commitment over the course of the agreement (60 months) to support a combination of its and the industry's initiatives. Some of these actions include maintaining and continuously updating a list of restricted ingredients that will be prohibited from inclusion in any products that are sold by the Company. Vendors selling product to the Company for the sale of such products by the Company will be required to warrant that the products sold do not contain any of these restricted ingredients. In addition, the Company will develop and maintain a list of ingredients that the Company believes comply with the applicable provisions of the FDCA.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the "DHEC") requested that the Company investigate contamination associated with historical activities at its South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from the facility. The Company entered into a Voluntary Cleanup Contract with the DHEC regarding the matter on September 24, 2012. Pursuant to such contract, the Company is completing additional investigations with the DHEC's approval. The Company installed and began operating a pilot vapor extraction system under a portion of the facility in the second half of 2016, which was an immaterial cost to the Company, with DHEC's approval to assess the effectiveness of such a remedial system. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any additional remedial action that may be required, the ultimate cost of remediation, or the amount of the Company's potential liability; therefore no liability has been recorded in the accompanying consolidated balance sheet. In addition to the foregoing, the Company is subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation and disposal of the Company's non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its operations into the environment, including discharges to air, surface water and groundwater. Failure to comply with such laws and regulations could result in costs for remedial actions, penalties or the imposition of other liabilities. New laws, changes in existing laws or the interpretation thereof, or the development of new facts or changes in their processes could also cause the Company to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. The Company is also subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or for properties to which substances or wastes that were sent in connection with current or former operations at its facilities. The presence of contamination from such substances or wastes could also adversely affect the Company's ability to sell or lease its properties, or to use them as collateral for financing. From time to time, the Company has incurred costs and obligations for correcting environmental and health and safety noncompliance matters and for remediation at or relating to certain of the Company's properties or properties at which the Company's waste has been disposed. However, compliance with the provisions of national, state and local environmental laws and regulations has not had a material effect upon the Company's capital expenditures, earnings, financial position, liquidity or competitive position. The Company believes it has complied with, and is currently complying with, its environmental obligations pursuant to environmental and health and safety laws and regulations and that any liabilities for noncompliance will not have a material adverse effect on its business, financial performance or cash flows. However, it is difficult to predict future liabilities and obligations, which could be material.

Commitments

In addition to operating leases obtained in the normal course of business, the Company maintains certain purchase commitments with various vendors to ensure its operational needs are fulfilled. As of December 31, 2016, such future purchase commitments consisted of \$37.7 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.



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 13. STOCKHOLDERS' EQUITY

## Treasury Stock

In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of Holdings' common stock. Holdings repurchased \$229.2 million of common stock during 2016. As of December 31, 2016, \$197.8 million remains available for purchase under the program and is not expected to be utilized in 2017.

## Preferred Stock

Holdings is authorized to issue up to 60.0 million shares of preferred stock, par value \$0.001 per share. No shares of preferred stock were issued to date.

## NOTE 14. EARNINGS PER SHARE

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

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Basic weighted average shares	69,409	83,927	90,493
Effect of dilutive stock-based compensation awards	—	259	425
Diluted weighted averages shares	69,409	84,186	90,918

For the year ended December 31, 2016, all 1.5 million outstanding stock-based awards were excluded from the computation of diluted EPS because the Company was in a net loss position and as a result inclusion of the awards would have been anti-dilutive. For the years ended December 31, 2015 and 2014, the following awards were not included in the computation of diluted EPS because the impact of applying the treasury stock method was antidilutive or because certain conditions have not been met with respect to the Company's performance-based awards.

	2015	2014
	(in thousands)	
Antidilutive:		
Time-based	161	280
Contingently issuable:		
Performance-based	139	116
Total stock-based awards	300	396

The Company has the intent and ability to settle the principal portion of its Notes in cash, and as such, has applied the treasury stock method, which has resulted in all underlying convertible shares being anti-dilutive as the Company's average stock price in the current year is less than the conversion price. Refer to Note 8, "Long-Term Debt / Interest Expense" for more information on the Notes.

## NOTE 15. STOCK-BASED COMPENSATION PLANS

## Overview

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

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

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

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Both plans have provisions that allow for the granting of stock options, restricted stock and other stock based awards and are available to eligible employees, directors, consultants or advisors as determined by the Compensation Committee. The Company will not grant any additional awards under the 2007 Stock Plan. Up to 11.5 million shares of common stock may be issued under the 2015 Stock Plan (subject to adjustment to reflect certain transactions and events specified in the 2015 Stock Plan for any award grant), of which 7.3 million shares remain available for issuance as of December 31, 2016.

The following table sets forth a summary of all stock-based compensation awards outstanding under all plans:

	December 31, 2016	December 31, 2015
Time-based stock options	913,960	688,083
Time-based restricted stock awards	312,245	194,271
Performance-based restricted stock awards	101,384	140,916
Market-based restricted stock awards	165,635	—
Total share awards outstanding	1,493,224	1,023,270

The Company recognized \$8.8 million, \$6.3 million and \$5.9 million of total non-cash stock-based compensation expense for the years ended December 31, 2016, 2015 and 2014, respectively. At December 31, 2016, there was approximately \$11.3 million of total unrecognized compensation cost related to non-vested stock-based compensation, net of expected forfeitures, for all awards previously made that are expected to be recognized over a weighted-average period of approximately 1.6 years.

Cash received from the exercise of options was \$0.4 million, \$1.7 million and \$22.2 million in 2016, 2015 and 2014, respectively, which was recorded as additional paid-in capital on the accompanying consolidated balance sheets and presented as a cash inflow from financing activities on the accompanying consolidated statements of cash flows. The total tax benefit associated with stock-based compensation resulted in gross excess tax benefits of \$0.2 million, \$0.6 million, and \$3.7 million in 2016, 2015 and 2014, respectively, which were recorded as additional paid-in capital and presented as a financing cash inflow.

On July 28, 2016, the Company announced the departure from the Company and resignation from the Board of Michael G. Archbold, its former Chief Executive Officer. During the year ended December 31, 2016 in connection with Mr. Archbold's departure, the company recognized \$4.5 million in severance expense of which \$2.3 million relates to the acceleration of non-cash stock-based compensation.

**Stock Options**

Time based stock options were granted using the Black-Scholes model with exercise prices at or above fair market value on the date of grant, typically vest at 25% per year over a four- or five-year period and expire seven or ten years from the date of grant. The following table sets forth a summary of stock options under all plans.

	Total Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	688,083	\$ 27.75		\$ 4,187
Granted	643,692	\$ 27.16		
Exercised	(24,165 )	\$ 14.62		\$ 341
Forfeited and Expired	(393,650)	\$ 30.43		
Outstanding at December 31, 2016	913,960	\$ 26.53	6.2	\$ 71
Exercisable at December 31, 2016	409,212	\$ 23.94	2.8	\$ 71



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the years ended December 31, 2015, and 2014, the total intrinsic value of options exercised was \$2.0 million, and \$13.9 million, respectively. The assumptions used in the Company's Black Scholes valuation were as follows:

	Year ended December 31,		
	2016	2015	2014
Dividend yield	2.3% - 3.8%	1.5% - 2.4%	1.5% - 1.9%
Expected term	6.3 years	6.3 years	6.3 years
Volatility	30.1% - 30.7%	31.1% - 38.3%	37.6% - 37.9%
Risk free rate	1.3% - 1.9%	1.3% - 1.9%	1.7% - 1.9%

The option term has been estimated by considering both the vesting period and the contractual term. Volatility was estimated utilizing a peer group average. The Black Scholes valuation resulted in a weighted average grant date fair value in 2016, 2015 and 2014 of \$6.23, \$15.64 and \$11.08, respectively.

**Restricted Stock Awards**

Under the 2015 Stock Plan, the Company granted time-based and performance-based restricted stock and restricted stock units, and market-based restricted stock. Time-based awards vest over a period of three years.

Performance-based awards vest after a period of three years and the achievement of performance targets; based on the extent to which the targets are achieved, vested shares may range from 0% to 200% of the original share amount.

Compensation expense related to the performance-based awards is adjusted as necessary to reflect changes in the probability that the vesting criteria will be achieved. Market-based awards vest after a period of three years and the achievement of total shareholder return compared with that of a selected group of peer companies. Total shareholder return is defined as share price appreciation plus the value of dividends paid during the three year vesting period. Fair value of these awards was determined using a Monte Carlo simulation, which requires various inputs and assumptions, including the Company's common stock price. Compensation cost for these awards is recognized regardless of whether the market condition is achieved. Vested shares may range from 0% to 200% of the original target. Key assumptions used in the Monte Carlo simulation for the awards granted during the year include peer group volatility of 34.2% and a risk-free rate of 0.89%.

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

	Time-Based		Performance-Based		Market-Based	
	Wtd		Wtd		Wtd	
	Avg		Avg		Avg	
	Grant		Grant		Grant	
	Shares	Date	Shares	Date	Shares	Date
	Fair		Fair		Fair	
	Value		Value		Value	
Outstanding at December 31, 2015	194,271	\$45.95	140,916	\$47.86	—	\$—
Granted	277,816	\$25.61	—	\$—	171,126	\$34.28
Vested	(131,462)	\$41.39	—	\$—	—	\$—
Forfeited	(28,380)	\$31.08	(39,532)	\$45.17	(5,491)	\$34.28
Outstanding at December 31, 2016	312,245	\$30.81	101,384	\$48.99	165,635	\$34.28

The total intrinsic value of time-based restricted stock awards vested was \$3.1 million, \$2.4 million and \$4.3 million for the years ended December 31, 2016, 2015 and 2014, respectively. The total intrinsic value of time-based restricted stock awards outstanding at December 31, 2016 was \$3.4 million. The total intrinsic value of performance-based and market-based awards outstanding at December 31, 2016 assuming vesting at 100% was \$1.1 million and \$1.8 million, respectively. The weighted average grant date fair value of time-based and performance-based restricted stock awards granted was \$45.95 and \$47.86 in 2015 and \$43.38 and \$44.62 in 2014, respectively.

**NOTE 16. RETIREMENT PLANS**

The Company sponsors a 401(k) defined contribution savings plan covering substantially all employees. Full time employees who have completed 30 days of service and part time employees who have completed 1,000 hours of service are eligible to participate in the plan. The plan provides for employee contributions of 1% to 80% of individual compensation into deferred

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savings, subject to IRS limitations. The plan provides for Company contributions upon the employee meeting the eligibility requirements. The Company match consists of both a fixed and a discretionary match. The fixed match is 50% on the first 3% of employee contributions and the discretionary match could be up to an additional 50% match on the 3% deferral. A discretionary match can be approved at any time by the Company.

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

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

The Company made cash contributions to the 401(k) plan of \$1.9 million, \$1.5 million and \$1.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company has a Non-qualified Deferred Compensation Plan that provides benefits payable to certain eligible employees upon scheduled in-service distribution, termination, or retirement. This plan allows participants the opportunity to defer pretax amounts ranging from 2% to 100% of their base compensation plus bonuses. During 2016, 2015 and 2014, the Company elected to match a percentage of the contributions from employees. For each of the years ended December 31, 2016, 2015 and 2014 this contribution was \$0.3 million.

#### NOTE 17. SEGMENTS

Based on the refranchising initiatives announced in late 2015, which sought to increase the proportion of domestic stores that are franchise locations in 2016 and beyond, the Company's organizational structure and the financial reporting utilized by the Company's chief operating decision maker (its chief executive officer) to assess performance and allocate resources changed; as a result, the Company's reportable segments were changed effective in the second quarter of 2016. The Company believes that the new segments better present management's new view of the business. The Company aggregates its operating segments into three reportable segments, which effective in the second quarter of 2016, include U.S. and Canada, International and Manufacturing / Wholesale. In connection with the change in the Company's segment reporting, warehousing and distribution costs have been allocated to each reportable segment, as appropriate. The Company's chief operating decision maker evaluates segment operating results based primarily on performance indicators, including revenue and operating (loss) income. Operating (loss) income of each reportable segment exclude certain items that are managed at the consolidated level, such as corporate costs. The Manufacturing / Wholesale segment manufactures and sells product to the U.S. and Canada and International segments at cost with a markup, which is eliminated at consolidation. The following table shows the new reportable segments compared with the previous reporting structure.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Old	New
Segment: Retail Includes: Company-owned stores in the U.S., Puerto Rico and Canada, The Health Store and e-commerce including Discount Supplements, which was sold in the fourth quarter of 2015	Segment: U.S. and Canada Includes: Company-owned stores in the U.S., Puerto Rico and Canada, franchise stores in the U.S. and e-commerce
Segment: Franchise Includes: Domestic and international franchise locations and China operations	Segment: International Includes: Franchise locations in approximately 50 countries, The Health Store and China operations
Segment: Manufacturing / Wholesale Includes: Manufactured product sold to our other segments, third-party contract manufacturing and sales to wholesale partners	Segment: Manufacturing / Wholesale Includes: Manufactured product sold to our other segments, third-party contract manufacturing and sales to wholesale partners (no change from old)
	Other Includes: Discount Supplements, an e-commerce business which was sold in the fourth quarter of 2015

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table represents key financial information for each of the Company's reportable segments. The U.S. and Canada and Manufacturing / Wholesale segments were significantly impacted by \$386.0 million and \$90.5 million, respectively, in long-lived asset impairments recorded in the current year. Refer to Note 6, "Goodwill and Intangible Assets" and Note 7, "Property, Plant and Equipment, Net" for more information.

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Revenue:			
U.S. and Canada	\$2,143,647	\$2,240,515	\$2,207,283
International	160,691	183,007	174,934
Manufacturing / Wholesale:			
Intersegment revenues	218,761	267,377	291,220
Third party	235,678	235,680	241,176
Subtotal Manufacturing / Wholesale	454,439	503,057	532,396
Total reportable segment revenues	2,758,777	2,926,579	2,914,613
Other	—	24,096	31,613
Elimination of intersegment revenues	(218,761 )	(267,377 )	(291,220 )
Total revenue	\$2,540,016	\$2,683,298	\$2,655,006
Operating (loss) income:			
U.S. and Canada	\$(105,252 )	\$378,233	\$382,248
International	55,404	64,486	59,734
Manufacturing / Wholesale	(19,961 )	86,172	85,539
Total reportable segment operating (loss) income	(69,809 )	528,891	527,521
Unallocated corporate and other costs			
Corporate costs	(103,362 )	(98,340 )	(88,420 )
Other	224	(37,444 )	411
Subtotal unallocated corporate and other costs	(103,138 )	(135,784 )	(88,009 )
Total operating (loss) income	(172,947 )	393,107	439,512
Interest expense, net	60,443	50,936	46,708
(Loss) income before income taxes	\$(233,390 )	\$342,171	\$392,804

Note: The presentation of certain immaterial amounts in our consolidated financial statements of prior periods have been revised to conform to the current periods presented. Specifically, sublease rental income received from franchisees is presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy." This revision has no impact on operating income. For additional information regarding this revision, see Item 8, "Financial Statements and Supplementary Data," Note 2, "Basis of Presentation and Significant Accounting Policies" under "Revision for Sublease Rent Income."



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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31,		
	2016	2015	2014
Depreciation and amortization:	(in thousands)		
U.S. and Canada	\$36,491	\$32,314	\$32,804
International	2,256	2,232	2,169
Manufacturing / Wholesale	10,600	10,582	10,725
Corporate and other	10,691	12,109	10,639
Total depreciation and amortization	\$60,038	\$57,237	\$56,337
Capital expenditures:			
U.S. and Canada	\$42,388	\$29,738	\$36,377
International	518	716	366
Manufacturing / Wholesale	7,467	5,655	5,903
Corporate and Other	9,206	9,718	27,809
Total capital expenditures	\$59,579	\$45,827	\$70,455
Total revenues by geographic areas:			
United States	\$2,402,649	\$2,522,774	\$2,483,689
Foreign	137,367	160,524	171,317
Total revenues	\$2,540,016	\$2,683,298	\$2,655,006
	As of December 31		
	2016	2015	
Total assets:	(in thousands)		
U.S. and Canada	\$1,457,575	\$1,827,311	
International	196,060	205,822	
Manufacturing / Wholesale	339,663	418,623	
Corporate and other	75,341	102,651	
Total assets	\$2,068,639	\$2,554,407	
Property, plant, and equipment, net:			
United States	\$223,107	\$221,049	
Foreign	9,185	9,486	
Total property, plant and equipment, net	\$232,292	\$230,535	

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## U.S. and Canada Revenue

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

	Year ended December 31,		
	2016	2015	2014
U.S. company-owned product sales:	(in thousands)		
Protein	\$369,150	\$389,917	\$386,691
Performance supplements	254,753	246,662	219,005
Weight management	154,195	165,114	178,072
Vitamins	218,908	271,099	319,953
Herbs / Greens	63,356	70,924	64,673
Wellness	200,914	211,377	196,571
Health / Beauty	164,510	149,520	148,009
Food / Drink	105,134	124,865	106,567
General merchandise	28,786	27,384	28,123
Total U.S. company-owned product sales	\$1,559,706	\$1,656,862	\$1,647,664
Wholesale sales to franchisees	250,779	257,497	235,666
Royalties and franchise fees	34,469	35,350	35,585
Sublease income	47,555	44,086	41,853
Gold card sales in U.S. company-owned stores	62,211	59,247	51,181
Other (*)	188,927	187,473	195,334
Total U.S. and Canada revenue	\$2,143,647	\$2,240,515	\$2,207,283

(\*) Includes revenue primarily related to Canada operations and Lucky Vitamin.

## International Revenue

The following is a summary of the Company's revenue in the International reportable segment:

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Wholesale sales to franchisees	\$104,405	\$130,719	\$123,045
Royalties and franchise fees	25,485	29,085	30,989
Other (*)	30,801	23,203	20,900
Total International revenue	\$160,691	\$183,007	\$174,934

(\*) Includes revenue primarily related to China operations and The Health Store.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Manufacturing / Wholesale Revenue

The following is a summary of the Company's revenue in the Manufacturing / Wholesale reportable segment:

	Year ended December 31,		
	2016	2015	2014
	(in thousands)		
Third-party contract manufacturing	\$ 134,542	\$ 118,852	\$ 125,129
Intersegment sales	218,761	267,378	291,221
Wholesale partner sales	101,136	116,827	116,046
Total Manufacturing / Wholesale revenue	\$ 454,439	\$ 503,057	\$ 532,396

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## GNC HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 18. QUARTERLY FINANCIAL INFORMATION

The following table summarizes the Company's 2016 and 2015 quarterly results:

	Three months ended (unaudited)				Year ended
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	December 31, 2016
	(In thousands, except per share amounts)				
Total revenue <sup>(1)</sup>	\$668,905	\$673,218	\$ 627,964	\$ 569,929	\$ 2,540,016
Gross profit	235,845	238,698	215,408	170,168	860,119
Operating (loss) income	94,065	116,224	64,893	(448,129 )	(172,947 )
Net (loss) income	50,815	64,028	32,354	(433,447 )	(286,250 )
Weighted average shares outstanding:					
Basic	73,078	68,176	68,190	68,219	69,409
Diluted	73,373	68,303	68,315	68,219	69,409
Earnings per share:					
Basic <sup>(2)</sup>	\$0.70	\$0.94	\$ 0.47	\$ (6.35 )	\$ (4.12 )
Diluted <sup>(2)</sup>	\$0.69	\$0.94	\$ 0.47	\$ (6.35 )	\$ (4.12 )
	Three months ended (unaudited)				Year ended
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	December 31, 2015
	(In thousands, except per share amounts)				
Total revenue <sup>(1)</sup>	\$681,266	\$689,564	\$ 683,358	\$ 629,110	\$ 2,683,298
Gross profit	249,433	256,332	250,644	228,234	984,643
Operating income	109,605	117,638	82,150	83,714	393,107
Net income	63,270	67,357	45,750	42,922	219,299
Weighted average shares outstanding:					
Basic	87,865	85,501	83,669	78,775	83,927
Diluted	88,105	85,777	83,958	79,008	84,186
Earnings per share:					
Basic <sup>(2)</sup>	\$0.72	\$0.79	\$ 0.55	\$ 0.54	\$ 2.61
Diluted <sup>(2)</sup>	\$0.72	\$0.79	\$ 0.54	\$ 0.54	\$ 2.60

(1) Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" for details with respect to the revision of sublease rental income. Specifically, sublease rental income is presented as "Revenue" compared with the previous presentation as a reduction to occupancy expense in "Cost of sales, including warehousing, distribution, and occupancy," to conform to the current year presentation.

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

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

None.

Item 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") 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 Exchange Act) as of the end of the period covered by this Annual Report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that, as of December 31, 2016, our disclosure controls and procedures are effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

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

Our management, with the participation of our CEO and CFO, has assessed the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on this assessment, our management has concluded that, as of December 31, 2016, our internal control over financial reporting was effective based on that framework.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in their report, which is included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report.

Changes in Internal Control Over Financial Reporting

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

Item 9B. OTHER INFORMATION.

None.

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## PART III

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

Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2017 Annual Meeting to be held on May 23, 2017, which is incorporated herein by reference, under the captions "Election of Directors," "Executive Officers," "Other Board Information," and "Section 16(a) Beneficial Ownership Reporting Compliance."

## Item 11. EXECUTIVE COMPENSATION

Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2017 Annual Meeting to be held on May 23, 2017, which is incorporated herein by reference, under the captions "Director Compensation," "Executive Compensation" and "Compensation Discussion and Analysis;" provided, however, that the subsection entitled "Executive Compensation—Compensation Committee Report" shall not be deemed to be incorporated by reference.

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

## Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information regarding outstanding stock options and shares remaining available for future issuance under each of the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan (the "2007 Stock Plan") and the GNC Holdings, Inc. 2015 Stock and Incentive Plan (the "2015 Stock Plan") as of December 31, 2016:

Plan Category(1)	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Issuance under Equity Compensation Plans	
2007 Stock Plan	107,820	\$ 12.18	—	
2015 Stock Plan	806,140	\$ 28.45	7,251,966	(2)(3)
Total	913,960	\$ 26.53	7,251,966	

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

Excludes 806,140 outstanding stock options as set forth in the first column, 75,210 shares of outstanding time (2)vested restricted stock, 101,384 shares of performance vesting restricted stock, 237,035 shares of outstanding time vesting restricted stock units and 165,635 of market vesting restricted stock units.

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

share reserve as 1.8 shares for every share granted. If any stock option, stock appreciation right or other stock-based award that is not a Full Share Award is canceled, expires or terminates unexercised for any reason, the shares covered by such awards will again be available for issuance under the 2015 Stock Plan. If any shares of our common stock that are subject to Full Share Awards are forfeited for any reason, 1.8 shares of our common stock will again be available for issuance under the 2015 Stock Plan.

Additional information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2016 Annual Meeting to be held on May 23, 2017, which is incorporated herein by reference, under the caption "Security Ownership of Certain Beneficial Owners and Management."

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Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.  
Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2017 Annual Meeting to be held on May 23, 2017, which is incorporated herein by reference, under the captions "Certain Relationships and Related Transactions," and "Other Board Information—Director Independence."

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information with respect to this Item will be included in our definitive Proxy Statement to be filed with respect to our 2017 Annual Meeting to be held on May 23, 2017, which is incorporated herein by reference, under the caption "Ratification of Appointment of Auditors."



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PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

As of December 31, 2016 and December 31, 2015

Consolidated Statements of Operations

For the years ended December 31, 2016, 2015 and 2014

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

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(2) Financial statement schedules:

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

GNC HOLDINGS, INC.

(Parent Company Only)

Balance Sheets

(in thousands)

	December 31,	
	2016	2015
Current assets:		
Cash and cash equivalents	\$—	\$1
Prepays and other current assets	191	385
Total current assets	191	386
Long-term assets:		
Deferred financing fees	—	248
Intercompany receivable	164,300	164,300
Investment in subsidiaries	149,933	709,409
Total long-term assets	314,233	873,957
Total assets	\$314,424	\$874,343
Current liabilities:		
Accounts payable	\$—	\$22
Intercompany payable	404	3,502
Deferred revenue and other current liabilities	2,274	1,995
Total current liabilities	2,678	5,519
Long-term liabilities:		
Deferred tax liabilities	12,550	16,599
Convertible senior notes	245,273	235,085
Intercompany loan	148,970	148,579
Total long term liabilities	406,793	400,263
Total liabilities	409,471	405,782
Stockholders' equity:		
Class A common stock	114	114
Additional paid-in capital	922,687	916,128
Retained earnings	716,198	1,058,148
Treasury stock, at cost	(1,725,349)	(1,496,180)
Accumulated other comprehensive loss	(8,697)	(9,649)
Total stockholders' (deficit) equity	(95,047)	468,561
Total liabilities and stockholders' equity	\$314,424	\$874,343

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

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

## GNC HOLDINGS, INC.

(Parent Company Only)

## Statements of Operations and Comprehensive (Loss) Income

(in thousands, except per share data)

	Year ended December 31,		
	2016	2015	2014
Selling, general and administrative	\$1,543	\$1,645	\$1,552
Subsidiary loss (income)	279,192	(223,090 )	(257,045 )
Operating (loss) income	(280,735 )	221,445	255,493
Interest expense, net	9,643	4,241	153
(Loss) income before income taxes	(290,378 )	217,204	255,340
Income tax benefit	(4,128 )	(2,095 )	(532 )
Net (loss) income	\$(286,250)	\$219,299	\$255,872
Other comprehensive income (loss):			
Foreign currency translation gain (loss)	\$952	\$(7,439 )	\$(5,784 )
Release of cumulative translation loss to earnings related to substantial liquidation of Discount Supplements	—	1,619	—
Other comprehensive income (loss)	952	(5,820 )	(5,784 )
Comprehensive (loss) income	\$(285,298)	\$213,479	\$250,088
(Loss) Earnings per share:			
Basic	\$(4.12 )	\$2.61	\$2.83
Diluted	\$(4.12 )	\$2.60	\$2.81
Weighted average common shares outstanding:			
Basic	69,409	83,927	90,493
Diluted	69,409	84,186	90,918
Dividends declared per share	\$0.80	\$0.72	\$0.64

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

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

## GNC HOLDINGS, INC.

(Parent Company Only)

## Statements of Cash Flows

(in thousands)

	Year ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net (loss) income	\$(286,250)	\$219,299	\$255,872
Deficit (Equity) in loss (income) of subsidiaries	279,192	(223,090 )	(257,045 )
Dividends received	283,280	422,355	317,808
Other operating activities	10,895	4,738	2,393
Net cash provided by operating activities	287,117	423,302	319,028
Cash flows from financing activities:			
Loan to a subsidiary	—	(164,300 )	—
Proceeds from issuance of convertible notes	—	287,500	—
Debt issuance costs on convertible senior notes	(1,797 )	(8,225 )	—
Proceeds from exercise of stock options	353	1,744	22,170
Minimum tax withholding requirements	(1,169 )	(574 )	(762 )
Repurchase of treasury stock	(229,169 )	(479,799 )	(283,226 )
Dividend payment	(55,336 )	(59,648 )	(57,491 )
Net cash used in financing activities	(287,118 )	(423,302 )	(319,309 )
Net decrease in cash and cash equivalents	(1 )	—	(281 )
Beginning balance, cash and cash equivalents	1	1	282
Ending balance, cash and cash equivalents	\$—	\$1	\$1

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

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GNC HOLDINGS, INC.

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

NOTE 1. BACKGROUND

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

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## SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

GNC Holdings, Inc. and Subsidiaries

Valuation and Qualifying Accounts

(in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
2014				
Allowance for doubtful accounts	\$1,890	\$ 4,535	\$ (233 )	\$6,192
Reserve for sales returns	4,966	70,075	(70,092 )	4,949
Tax valuation allowances	16,236	579	(2,162 )	14,653
2015				
Allowance for doubtful accounts	\$6,192	\$ 2,679	\$ (4,744 )	\$4,127
Reserve for sales returns	4,949	67,283	(67,385 )	4,847
Tax valuation allowances	14,653	2,266	—	16,919
2016				
Allowance for doubtful accounts	\$4,127	\$ 6,231	\$ (5,747 )	\$4,611
Reserve for sales returns	4,847	66,246	(67,723 )	3,370
Tax valuation allowances	16,919	4,405	—	21,324

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(1)Exhibits:

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

- 3.1 Amended and Restated Certificate of Incorporation of Holdings, as currently in effect. (Incorporated by reference to Exhibit 3.1 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113), filed August 1, 2013.)
- 3.2 Fifth Amended and Restated Bylaws of Holdings, as currently in effect. (Incorporated by reference to Exhibit 3.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed October 23, 2012.)
- 4.8 Specimen of Class A Common Stock Certificate. (Incorporated by reference to Exhibit 4.8 to Holdings' Pre-Effective Amendment No. 3 to its Registration Statement on Form S-1 (File No. 333-169618), filed February 25, 2011.)
- 4.9 Indenture, dated as of August 10, 2015, by and among Holdings, the Subsidiary Guarantors party thereto and Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 10.1 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113) filed July 28, 2016).
- 10.1 Lease Agreement, dated as of November 1, 1998, between Greenville County, South Carolina and General Nutrition Products, Inc. (Incorporated by reference to Exhibit 10.34 to Holdings' Pre-Effective Amendment No. 2 to its Registration Statement on Form S-1 (File No. 333-169618), filed February 10, 2011.)
- 10.2 GNC Live Well Later Non-Qualified Deferred Compensation Plan, effective February 1, 2002. (Incorporated by reference to Exhibit 10.14 to Centers' Registration Statement on Form S-4 (File No. 333-114502), filed April 15, 2004.)
- 10.3 Deferred Compensation Plan for Centers, effective January 1, 2009. (Incorporated by reference to Exhibit 10.32 to Centers' Annual Report on Form 10-K (File No. 333-114396), filed February 25, 2011.)
- 10.4 GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan, adopted as of March 16, 2007. (Incorporated by reference to Exhibit 10.12 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-144396), filed August 10, 2007.)\*\*
- 10.5 Amendment No. 1 to the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan, dated as of February 12, 2008. (Incorporated by reference to Exhibit 10.11 to Centers' Annual Report on Form 10-K (File No. 333-144396), filed March 14, 2008.) \*\*
- 10.6 Form of Non-Qualified Stock Option Agreement Pursuant to the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.13 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-144396), filed August 10, 2007.) \*\*
- 10.7

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GNC Holdings, Inc. 2011 Stock and Incentive Plan (Incorporated by reference to Exhibit 10.1 to Holdings' Registration Statement on Form S-8 (File No. 333-173578), filed April 18, 2011.) \*\*

10.8 Form of Non-Qualified Stock Option Agreement pursuant to the GNC Holdings, Inc. 2011 Stock and Incentive Plan. (Incorporated by reference to Exhibit 10.33 to Holdings Pre-Effective Amendment No. 5 to its Registration Statement on Form S-1 (File No. 333-169618), filed March 11, 2011.) \*\*

10.9 Form of Restricted Stock Agreement pursuant to the GNC Holdings, Inc. 2011 Stock and Incentive Plan. (Incorporated by reference to Exhibit 10.34 to Holdings' Registration Statement on Form S-1 (File No. 333-176721), filed September 7, 2011.) \*\*

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

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

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- 10.12 GNC Holdings, Inc. 2015 Stock and Incentive Plan (Incorporated by reference to Appendix A to Holdings' Schedule 14A Definitive Proxy Statement (File No. 001-35113), filed April 12, 2015)\*\*
- 10.13 Form of Non-Qualified Stock Option Agreement pursuant to the GNC Holdings, Inc. 2015 Stock and Incentive Plan.\*
- 10.14 Form of Restricted Stock Agreement pursuant to the GNC Holdings, Inc. 2015 Stock and Incentive Plan.\*
- 10.15 Form of Performance-Vested Restricted Stock Unit Agreement pursuant to the GNC Holdings, Inc. 2015 Stock and Incentive Plan.\*
- 10.16 Form of Time-Vested Restricted Stock Unit Agreement pursuant to the GNC Holdings, Inc. 2015 Stock and Incentive Plan.\*
- 10.17 Form of Indemnification Agreement between Holdings and each of our directors and relevant schedule. (Incorporated by reference to Exhibit 10.3 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113), filed October 29, 2015) \*\*
- 10.18 Form of Indemnification Agreement between Holdings and certain officers and relevant schedule. (Incorporated by reference to Exhibit 10.2 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113), filed October 29, 2015) \*\*
- 10.19 GNC/Rite Aid Retail Agreement, dated December 8, 1998, between General Nutrition Sales Corporation and Rite Aid Corporation. (Incorporated by reference to Exhibit 10.24 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-114502), filed August 9, 2004.)†
- 10.20 Amendment to the GNC/Rite Aid Retail Agreement, dated December 8, 1998, by and between General Nutrition Sales Corporation and Rite Aid Hdqtrs Corp. (Incorporated by reference to Exhibit 10.25 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-114502), filed August 9, 2004.)†
- 10.21 Amendment to the GNC/Rite Aid Retail Agreement, effective as of May 1, 2004, between General Nutrition Sales Corporation and Rite Aid Hdqtrs Corp. (Incorporated by reference to Exhibit 10.26 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-114502), filed August 9, 2004.)†
- 10.22 Amended and Restated GNC/Rite Aid Retail Agreement, dated July 31, 2007, between Nutra Sales Corporation (f/k/a General Nutrition Sales Corporation) and Rite Aid Hdqtrs. Corp. (Incorporated by reference to Exhibit 10.34 to Centers' Pre-Effective Amendment No. 1 to its Registration Statement on Form S-4 (File No. 333-144396), filed August 10, 2007.)†
- 10.23 Credit Agreement, dated as of November 26, 2013, among GNC Corporation, Centers, the lenders party thereto, Goldman Sachs Bank USA, as Syndication Agent, Deutsche Bank Securities Inc. and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents and JPMorgan Chase Bank, N.A., as Administrative Agent Goldman Sachs Bank USA, as syndication agent, Deutsche Bank Securities Inc. and Morgan Stanley Senior Funding, Inc., as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed December 2, 2013.)

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10.24 First Amendment, dated December 9, 2013, among Centers, GNC Corporation, the several banks and other financial institutions or entities parties thereto and JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.1 to Holdings' Current Report on Form 8-K (File No. 001-35113), filed December 10, 2013.)

10.25 Guarantee and Collateral Agreement, dated as of November 26, 2013, by GNC Corporation, Centers and the other Grantors party thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.2 to Holdings' Current Report on Form 8- K (File No. 001-35113), filed December 2, 2013.)

10.26 Replacement and Incremental Facility Amendment, dated as of March 4, 2016, by GNC Corporation, GNC Nutrition Centers, Inc. the lender parties and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to Holdings' f Current Report on Form 8-K (File No. 001-35113), filed March 9, 2016).

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10.27	Directors' Non-Qualified Deferred Compensation Plan Effective as of January 1, 2013 (Incorporated by reference to Exhibit 10.1 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113), filed May 2, 2013.)**
10.28	Form of Holdings Director Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.2 to Holdings' Quarterly Report on Form 10-Q (File No. 001-35113), filed May 2, 2013.)**
10.29	Mutual General Release and Waiver, dated as of August 12, 2014, among Joseph M. Fortunato, Centers and Holdings (incorporated by reference to Exhibit 10.2 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113) filed October 30, 2014.)**
10.30	Separation Agreement and Mutual General Release and Waiver, dated as of September 10, 2014, among Thomas R. Dowd, Holdings and Centers (incorporated by reference to Exhibit 10.1 to Holdings Quarterly Report on Form 10-Q (File No. 001-35113) filed October 30, 2014)**
10.31	Separation Agreement and Mutual General Release and Waiver, dated as of November 10, 2014, among Gerald J. Stubenhofer, Holdings and Centers.**
21.1	Subsidiaries of the Registrant.*
23.1	Consent of PricewaterhouseCoopers LLP.*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

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\* Filed herewith

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

† Portions of this exhibit have been omitted pursuant to a request for confidential treatment. The omitted portions have been separately filed with the SEC.



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Item 16. FORM 10-K SUMMARY.

We may voluntarily include a summary of information required by Form 10-K under this Item 16. We have elected not to include such summary information.

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SIGNATURES

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

GNC HOLDINGS, INC.

By: /s/ ROBERT F. MORAN

Robert F. Moran  
Director, Interim Chief Executive Officer  
Dated: February 16, 2017

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

By: /s/ ROBERT F. MORAN

Robert F. Moran  
Director, Interim Chief Executive Officer (principal executive officer)  
Dated: February 16, 2017

By: /s/ TRICIA K. TOLIVAR

Tricia K. Tolivar  
Chief Financial Officer (principal financial officer and principal accounting officer)  
Dated: February 16, 2017

By: /s/ JEFFREY P. BERGER

Jeffrey P. Berger  
Director  
Dated: February 16, 2017

By: /s/ ALAN D. FELDMAN

Alan D. Feldman  
Director  
Dated: February 16, 2017

By: /s/ MICHAEL F. HINES

Michael F. Hines  
Director  
Dated: February 16, 2017

By: /s/ AMY B. LANE

Amy B. Lane  
Director  
Dated: February 16, 2017

By: /s/ PHILIP E. MALLOTT

Philip E. Mallott  
Director  
Dated: February 16, 2017

By: /s/ RICHARD J. WALLACE

Richard J. Wallace

Director

Dated: February 16, 2017

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