UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended **June 30, 2012**

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

For the transition period from__________ to __________ .

Commission File Number: **001-35113**

GNC Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	**20-8536244** (I.R.S. Employer Identification No.)
300 Sixth Avenue **Pittsburgh, Pennsylvania** (Address of principal executive offices)	**15222** (Zip Code)

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

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

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer[**X**] Smaller reporting company [ ]

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

As of July 26, 2012, there were 106,632,824 outstanding shares of Class A common stock, par value $0.001 per share (the Class A common stock), of GNC Holdings, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, including share data)

	June 30, 2012 (unaudited)	December 31, 2011
Current assets:		
Cash and cash equivalents	$ 160,167	$ 128,438
Receivables, net	127,005	114,190
Inventories (Note 3)	509,714	423,610
Prepaids and other current assets	41,263	38,777
Total current assets	838,149	705,015
Long-term assets:		
Goodwill (Note 4)	639,755	637,877
Brands (Note 4)	720,000	720,000
Other intangible assets, net (Note 4)	145,750	149,589
Property, plant and equipment, net	199,220	198,171
Other long-term assets	26,311	18,935
Total long-term assets	1,731,036	1,724,572
Total assets	$ 2,569,185	$ 2,429,587
Current liabilities:		
Accounts payable	158,936	124,416
Current portion, long-term debt (Note 5)	1,588	1,592
Deferred revenue and other current liabilities	109,204	104,525
Total current liabilities	269,728	230,533
Long-term liabilities:		
Long-term debt (Note 5)	899,301	899,950
Deferred tax liabilities, net	285,268	283,403
Other long-term liabilities	39,983	37,239
Total long-term liabilities	1,224,552	1,220,592
Total liabilities	1,494,280	1,451,125
Stockholders equity:		
Common stock, $0.001 par value, 150,000 shares authorized:		
Class A, 110,987 shares issued and 106,318 shares outstanding and 4,669 shares held in treasury at June 30, 2012 and 105,988 shares issued and 102,985 shares outstanding and 3,004 shares held in treasury at December 31, 2011	110	105
Class B, 0 and 2,060 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	-	2
Paid-in-capital	791,268	741,848
Retained earnings	404,899	298,831
Treasury stock, at cost	(123,870)	(65,048)
Accumulated other comprehensive income	2,498	2,724
Total stockholders equity	1,074,905	978,462

Total liabilities and stockholders equity	$ 2,569,185	$ 2,429,587

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(unaudited)

(in thousands, except per share data)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue	$ 619,081	$ 518,535	$ 1,243,354	$ 1,024,543
Cost of sales, including cost of warehousing, distribution and occupancy	379,644	327,618	763,208	649,779
Gross profit	239,437	190,917	480,146	374,764
Compensation and related benefits	78,376	75,363	158,419	146,636
Advertising and promotion	13,411	13,391	29,630	27,598
Other selling, general and administrative	30,573	29,418	62,358	57,901
Foreign currency gain	17	48	(76)	(119)
Transaction related costs	-	-	686	12,362
Operating income	117,060	72,697	229,129	130,386
Interest expense, net (Note 5)	10,495	15,723	20,878	54,099
Income before income taxes	106,565	56,974	208,251	76,287
Income tax expense (Note 10)	39,894	20,970	77,723	30,360
Net income	$ 66,671	$ 36,004	$ 130,528	$ 45,927
Income per share - Basic and Diluted:				
Net income	$ 66,671	$ 36,004	$ 130,528	$ 45,927
Preferred stock dividends	-	(494)	-	(4,726)
Net income available to common shareholders	$ 66,671	$ 35,510	$ 130,528	$ 41,201
Earnings per share:				
Basic	$ 0.63	$ 0.35	$ 1.23	$ 0.43
Diluted	$ 0.62	$ 0.34	$ 1.21	$ 0.42
Weighted average common shares outstanding:				
Basic	106,517	102,723	106,161	95,088
Diluted	107,927	105,908	107,917	97,972
Dividends declared per share:	$ 0.11	-	$ 0.22	-

Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)

	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Net income.	$ 66,671	$ 36,004	$ 130,528	$ 45,927
Other comprehensive income:				
Unrealized gains on derivatives and qualified as cash flow hedges, net of tax of $2,718	-	-	-	4,751
Foreign currency translation adjustments	(580)	290	(226)	1,120
Other comprehensive income	(580)	290	(226)	5,871
Comprehensive income	$ 66,091	$ 36,294	$ 130,302	$ 51,798

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

(unaudited)

(in thousands, including per share data)

	Common Stock								
	Class A		Class B		Treasury	Paid-in-	Retained	Other Comprehensive	Total Stockholders
	Shares	Dollars	Shares	Dollars	Stock	Capital	Earnings	Income/(Loss)	Equity
Balance at December 31, 2011	**102,985**	**$ 105**	**2,060**	**$ 2**	**$ (65,048)**	**$741,848**	**$298,831**	**$ 2,724**	**$ 978,462**
Comprehensive Income	-	-	-	-	-	-	130,528	(226)	130,302
Conversion of stock	2,060	2	(2,060)	(2)	-	-	-	-	-
Purchase of treasury stock	(1,665)	-	-	-	(58,822)	-	-	-	(58,822)
Common stock dividends	-	-	-	-	-	-	(23,409)	-	(23,409)
Exercise of stock options	2,938	3	-	-	-	47,100	-	-	47,103
Non-cash stock-based compensation	-	-	-	-	-	2,320	-	-	2,320
Other	-	-	-	-	-	-	(1,051)	-	(1,051)
Balance at June 30, 2012 (unaudited)	**106,318**	**$ 110**	**-**	**$ -**	**$(123,870)**	**$791,268**	**$404,899**	**$ 2,498**	**$1,074,905**
Balance at December 31, 2010	**59,199**	**$ 60**	**28,169**	**$ 28**	**$ (2,277)**	**$451,728**	**$171,224**	**$ (1,280)**	**$ 619,483**
Comprehensive Income	-	-	-	-	-	-	45,927	5,871	51,798
Issuance of common stock	16,000	16	-	-	-	237,237	-	-	237,253
Conversion of stock	14,387	14	(14,387)	(14)	-	-	-	-	-
Preferred stock dividends	-	-	-	-	-	-	(4,726)	-	(4,726)
Exercise of stock options	478	-	-	-	-	4,620	-	-	4,620
Non-cash stock-based compensation	-	-	-	-	-	2,215	-	-	2,215
Balance at June 30, 2011 (unaudited)	**90,064**	**$ 90**	**13,782**	**$ 14**	**$ (2,277)**	**$695,800**	**$212,425**	**$ 4,591**	**$ 910,643**

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 130,528	$ 45,927
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on early extinguishment of debt	-	19,855
Depreciation and amortization expense	24,329	22,891
Amortization of debt costs	1,166	1,636
Increase in provision for inventory losses	6,554	8,847
(Increase) decrease in receivables	(15,049)	611
Increase in inventory	(90,642)	(40,884)
Decrease in prepaids and other current assets	1,699	3,219
Increase in accounts payable	34,475	30,158
Increase (decrease) in deferred revenue and other current liabilities	1,384	(12,361)
Other operating activities	(1,578)	(382)
Net cash provided by operating activities	92,866	79,517
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(20,838)	(16,455)
Other investing activities	(1,895)	(1,422)
Net cash used in investing activities	(22,733)	(17,877)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(833)	(1,355,165)
Dividends paid to shareholders	(23,409)	-
Proceeds from exercised stock options	19,540	3,325
Repurchase of treasury stock	(59,960)	-
Tax benefit from exercise of stock options	28,903	1,612
Repurchase of Series A preferred stock	-	(223,107)
Net proceeds from sale of Class A common stock	-	237,253
Proceeds from issuance of long-term debt	-	1,196,200
Deferred financing fees	-	(17,346)
Other financing activities	(2,500)	-
Net cash used in financing activities	(38,259)	(157,228)
Effect of exchange rate on cash and cash equivalents	(145)	(344)
Net increase (decrease) in cash and cash equivalents	31,729	(95,932)
Beginning balance, cash and cash equivalents	128,438	193,902
Ending balance, cash and cash equivalents	$ 160,167	$ 97,970

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

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NOTE 1. NATURE OF BUSINESS

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

The Company is vertically integrated as its operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three primary segments: Retail, Franchising and Manufacturing/Wholesale. Corporate retail store operations are located in North America and Puerto Rico, and in addition the Company offers products domestically through GNC.com, www.drugstore.com, and since September 2011, LuckyVitamin.com. Franchise stores are located in the United States and 55 international countries (including distribution centers where retail sales are made). The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, Pennsylvania and South Carolina. The Company manufactures the majority of its branded products, but also merchandises various third party products. Additionally, the Company licenses the use of its trademarks and trade names.

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

Recent Significant Transactions. In March 2011, General Nutrition Centers, Inc. (Centers), a wholly owned subsidiary of Holdings, entered into a senior credit facility, consisting of a $1.2 billion term loan facility (the Term Loan Facility) and an $80.0 million revolving credit facility (the Revolving Credit Facility and, together with the Term Loan Facility, the Senior Credit Facility), and utilized the proceeds to repay all outstanding indebtedness under the 2007 Senior Credit Facility, the Senior Notes, and the Senior Subordinated Notes (the Refinancing).

In April 2011, Holdings consummated an initial public offering (the IPO) of 25.875 million shares of its Class A common stock, par value $0.001 per share (the Class A common stock), at an IPO price of $16.00 per share. The net proceeds from the IPO, together with cash on hand, were used to redeem all outstanding shares of Holdings Series A preferred stock, par value $0.001 per share (the Series A preferred stock), repay approximately $300.0 million of outstanding borrowings under the Term Loan Facility and pay approximately $11.1 million to satisfy obligations under the Management Services Agreement (as defined in Note 11, Related Party Transactions) and Holdings Class B common stock, par value $0.001 per share (the Class B common stock and, together with the Class A common stock, the common stock).

On August 31, 2011, the Company acquired substantially all of the assets and assumed certain liabilities of S&G Properties, LLC d/b/a LuckyVitamin.com and What s The Big Deal?, Inc. d/b/a Gary s World of Wellness (collectively referred to as LuckyVitamin.com), an online retailer of health and wellness products. The aggregate purchase price of LuckyVitamin.com was approximately $19.8 million.

During the first quarter of 2012 and the fourth quarter of 2011, certain of Holdings stockholders completed registered offerings of 19.6 million and 23.0 million shares, respectively, of Class A common stock at prices of $33.50 and $24.75 per share, respectively.

During the first six months of 2012, the Company completed an approved share repurchase program for $60.0 million shares of Holdings Class A common stock. On June 19, 2012, the Holdings Board of Directors (the Board) authorized a share repurchase program pursuant to which the Company may repurchase up to an aggregate of $300.0 million shares of Holdings Class A common stock during the following twelve month period ending July 31, 2013. The Company expects to finance any repurchases with cash, potential financing transactions, or a combination of the foregoing.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s audited financial statements in the Holdings Annual Report on Form 10-K filed for the year ended December 31, 2011. There have been no material changes to the application of critical accounting policies and significant judgments and estimates since December 31, 2011.

The accompanying unaudited consolidated financial statements include all adjustments (consisting of a normal and recurring nature) that management considers necessary for a fair statement of financial information for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2012.

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

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

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

Transaction Related Costs. The Company recognizes transaction related costs as expenses in the period incurred. For the six months ended June 30, 2012, the Company recognized $0.7 million of expenses related to the registered offering completed by Holdings stockholders during the first quarter of 2012. For the six months ended June 30, 2011, the Company recognized $12.4 million of expenses related to the IPO.

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (the FASB) issued updated guidance on current comprehensive income presentation. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income that contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This new guidance is effective for the Company for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted this guidance during the first quarter of 2012. The adoption of this guidance had no material impact on the Company s consolidated financial statements, as it only required a change in the format of presentation.

In May 2011, the FASB issued changes to conform existing guidance regarding fair value measurement and disclosure between GAAP and International Financial Reporting Standards. These changes both clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and amend certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The clarifying changes relate to the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity s stockholders equity, and disclosure of quantitative information about unobservable inputs used for Level 3 fair value measurements. The amendments relate to measuring the fair value of financial instruments that are managed within a portfolio; application of premiums and discounts in a fair value measurement; and additional disclosures concerning the valuation processes used and sensitivity of the fair value measurement to changes in unobservable inputs for those items categorized as Level 3, a reporting entity s use of a nonfinancial asset in a way that differs from the asset s highest and best use, and the categorization by level in the fair value hierarchy for items required to be measured at fair value for disclosure purposes only. The Company adopted this guidance during the first quarter of 2012, and it had no material impact on the Company s financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. INVENTORIES

The net carrying value of inventories consisted of the following:

	June 30, 2012 (unaudited)	December 31, 2011
	(in thousands)	
Finished product ready for sale	$ 419,827	$ 354,913
Work-in-process, bulk product and raw materials	80,847	61,684
Packaging supplies	9,040	7,013
Total	$ 509,714	$ 423,610

NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET

For the six months ended June 30, 2012 and 2011, the Company acquired 17 and 16 franchise stores, respectively. These acquisitions were accounted for as business combinations and the Company recorded the acquired inventory, fixed assets, franchise rights and goodwill, with an applicable reduction to receivables and cash. For the six months ended June 30, 2012 and 2011, the total purchase price associated with these acquisitions was $3.4 million and $1.9 million, respectively, of which $1.6 million and $0.7 million, respectively, was paid in cash.

The following table summarizes the Company s goodwill activity:

	Retail	Franchising	Manufacturing/ Wholesale	Total
		(in thousands)		
Balance at December 31, 2011	$ 317,733	$ 117,303	$ 202,841	$ 637,877
Acquired franchise stores	1,878	-	-	1,878
Balance at June 30, 2012 (unaudited)	$ 319,611	$ 117,303	$ 202,841	$ 639,755

Intangible assets other than goodwill consisted of the following:

	Retail Brand	Franchise Brand	Operating Agreements (in thousands)	Other Intangibles	Total
Balance at December 31, 2011	$ 500,000	$ 220,000	$ 138,970	$ 10,619	$ 869,589
Acquired franchise stores	-	-	-	440	440
Amortization expense	-	-	(3,326)	(953)	(4,279)
Balance at June 30, 2012 (unaudited)	$ 500,000	$ 220,000	$ 135,644	$ 10,106	$ 865,750

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Estimated Life in years	June 30, 2012 Cost	June 30, 2012 Accumulated Amortization (unaudited)	June 30, 2012 Carrying Amount	December 31, 2011 Cost	December 31, 2011 Accumulated Amortization	December 31, 2011 Carrying Amount
				(in thousands)			
Brands - retail	-	$ 500,000	$ -	$ 500,000	$ 500,000	$ -	$ 500,000
Brands - franchise	-	220,000	-	220,000	220,000	-	220,000
Retail agreements	25-35	31,000	(5,722)	25,278	31,000	(5,196)	25,804
Franchise agreements	25	70,000	(14,817)	55,183	70,000	(13,417)	56,583
Manufacturing agreements	25	70,000	(14,817)	55,183	70,000	(13,417)	56,583
Other intangibles	5-15	10,600	(1,544)	9,056	10,600	(938)	9,662
Franchise rights	1-5	4,873	(3,823)	1,050	4,433	(3,476)	957
Total		$ 906,473	$ (40,723)	$ 865,750	$ 906,033	$ (36,444)	$ 869,589

The following table represents future estimated amortization expense of intangible assets with finite lives at June 30, 2012:

Years ending December 31,	Estimated amortization expense (unaudited) (in thousands)
2012	$ 4,240
2013	8,226
2014	8,086
2015	7,986
2016	7,907
Thereafter	109,305
Total	$ 145,750

NOTE 5. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt consisted of the following:

	June 30, 2012 (unaudited)	December 31, 2011
	(in thousands)	
Senior Credit Facility	$ 897,572	$ 897,387
Mortgage	3,304	4,135
Capital leases	13	20
Total Debt	900,889	901,542
Less: current maturities	(1,588)	(1,592)
Long-term Debt	$ 899,301	$ 899,950

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended June 30, 2012, interest expense of $20.9 million consisted primarily of interest on outstanding borrowings under the Term Loan Facility. Interest under both the Term Loan Facility and the Revolving Credit Facility is based on variable rates. At June 30, 2012 and December 31, 2011, the interest rate under the Term Loan Facility was 4.25%, and the interest rate under the Revolving Credit Facility was 4.00% and 4.25%, respectively. The Revolving Credit Facility was undrawn and had outstanding letters of credit of $1.4 million and $8.0 million at June 30, 2012 and December 31, 2011, respectively. Interest on the letters of credit was 3.00% and 3.25% at June 30, 2012 and December 31, 2011, respectively.

For the six months ended June 30, 2011, interest expense of $54.1 million consisted primarily of $14.2 million on the Senior Credit Facility, $23.2 million of expenses related to the Refinancing, $4.9 million of original issue discount and deferred financing fees related to the $300.0 million repayment of outstanding borrowings under the Term Loan Facility in connection with the IPO, and $10.3 million of interest expense on former indebtedness prior to the Refinancing. The $23.2 million of expenses related to the Refinancing consisted of $5.8 million in interest rate swap termination costs, write-off of $13.4 million of deferred financing fees of former indebtedness, write-off of $1.6 million in original issue discount related to former indebtedness and $2.4 million to defease former indebtedness.

As of June 30, 2012, the Company believes that it is in compliance with all covenants under the Senior Credit Facility.

NOTE 6. FINANCIAL INSTRUMENTS

At June 30, 2012 and December 31, 2011, the Company s financial instruments consisted of cash and cash equivalents, receivables, franchise notes receivable, accounts payable, certain accrued liabilities and long-term debt. The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates their respective fair values because of the short maturities of these instruments. Based on the interest rates currently available and their underlying risk, the carrying value of the franchise notes receivable approximates their respective fair values. These fair values are reflected net of reserves for uncollectible amounts. The Company determined the estimated fair values of its debt by using currently available market information. The fair value of debt would be classified as a Level 1 category on the fair value hierarchy, as defined in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. As considerable judgment is required to determine these estimates and assumptions, changes in the assumptions or methodologies may have an effect on these estimates. The actual and estimated fair values of the Company s financial instruments are as follows:

June 30, 2012		December 31, 2011	
Carrying Amount	Fair Value	Carrying Amount	Fair Value
(unaudited)			

	(in thousands)			
Cash and cash equivalents	$ 160,167	$ 160,167	$ 128,438	$ 128,438
Receivables, net	127,005	127,005	114,190	114,190
Franchise notes receivable, net	6,558	6,558	6,510	6,510
Accounts payable	158,936	158,936	124,416	124,416
Long-term debt (including current portion)	900,889	894,146	901,542	892,526

NOTE 7. COMMITMENTS AND CONTINGENCIES

Litigation

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As a manufacturer and retailer of health and wellness products and other consumer products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. Although the effects of these claims to date have not been material to the Company, it is possible that current and future product liability claims could have a material adverse impact on its business, financial condition, operating results or cash flows. The Company currently maintains product liability insurance with a deductible/retention of $3.0 million per claim with an aggregate cap on retained loss of $10.0 million. The Company typically seeks and has obtained contractual indemnification from most parties that supply raw materials for its products or that manufacture or market products it sells. The Company also typically seeks to be added, and has been added, as an additional insured under most of such parties insurance policies. The Company is also entitled to indemnification by a former owner of the Company for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers.

Hydroxycut Claims. On May 1, 2009, the FDA issued a warning on several Hydroxycut-branded products manufactured by Iovate Health Sciences U.S.A., Inc. (Iovate). The FDA warning was based on 23 reports of liver injuries from consumers who claimed to have used the products between 2002 and 2009. As a result, Iovate voluntarily recalled 14 Hydroxycut-branded products. Following the recall, the Company was named, among other defendants, in approximately 93 lawsuits related to Hydroxycut-branded products in 14 states. Iovate previously accepted the Company s tender request for defense and indemnification under its purchasing agreement with the Company and, as such, Iovate has accepted the Company s request for defense and indemnification in the Hydroxycut matters. The Company s ability to obtain full recovery under the indemnity is dependent on Iovate s insurance coverage, the creditworthiness of its insurer, and the absence of significant defenses by such insurer. To the extent the Company is not fully compensated by Iovate s insurer, it can seek recovery directly from Iovate. The Company s ability to fully recover such amounts may be limited by the creditworthiness of Iovate.

Currently, there are 74 pending lawsuits related to Hydroxycut in which the Company has been named: 68 individual, largely personal injury claims and six putative class action cases, generally inclusive of claims of consumer fraud, misrepresentation, strict liability and breach of warranty. As any liabilities that may arise from these matters are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

By court order dated October 6, 2009, the United States Judicial Panel on Multidistrict Litigation consolidated pretrial proceedings of many of the pending actions in the Southern District of California (In re: Hydroxycut Marketing and Sales Practices Litigation, MDL No. 2087).

Pro-Hormone/Androstenedione Cases. The Company is currently defending two lawsuits (the Andro Actions) in New Jersey and New York relating to the sale by the Company of certain nutritional products between 1999 and 2004, alleged to contain the ingredients commonly known as Androstenedione, Androstenediol, Norandrostenedione, and Norandrostenediol (collectively, Andro Products). In each of the Andro Actions, plaintiffs sought, or are seeking, to certify a class and obtain damages on behalf of the class representatives and all those similarly-situated who purchased from the Company certain nutritional supplements alleged to contain one or more Andro Products. As any liabilities that may arise from these other Andro Actions are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

Commitments

The Company maintains certain purchase commitments with various vendors to ensure its operational needs are fulfilled. As of June 30, 2012, such future purchase commitments consisted of $3.0 million of advertising commitments. Other commitments related to the Company s business operations cover varying periods of time and are not significant. All of these commitments are expected to be fulfilled with no adverse consequences to the Company s operations or financial condition.

Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the DHEC) requested that the Company investigate contamination associated with historical activities at its South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite

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from its facility. The Company is awaiting DHEC approval of the scope of additional investigations in order to understand the extent of these impacts and develop appropriate remedial measures for DHEC approval. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of the Company s potential liability.

In addition to the foregoing, the Company is subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation, and disposal of the Company s non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its operations into the environment, including discharges to air, surface water and groundwater. Failure to comply with 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 operation expenditures to maintain compliance with environmental laws and regulations and environmental permits. The Company also is 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 its properties or properties at which its waste has been disposed. The Company believes it has complied with, and is currently complying with, its environmental obligations pursuant to environmental and health and safety laws and regulations and that any liabilities for noncompliance will not have a material adverse effect on its business, financial performance, or cash flows. However, it is difficult to predict future liabilities and obligations, which could be material.

NOTE 8. STOCK-BASED COMPENSATION PLANS

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

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

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

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

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are subject to restricted stock, performance shares or other stock-based awards that are full Share Awards are forfeited for any reason, 1.8 shares of Class A common stock for each full share award forfeited will again be available for the grant of awards under the 2011 Stock Plan.

Upon adoption of the 2011 Stock Plan, the Company determined it will not grant any additional awards under the 2007 Stock Plan. No stock appreciation rights, restricted stock, deferred stock or performance shares were granted under the 2007 Stock Plan.

The Company utilizes the Black Scholes model to calculate the fair value of options under both the 2011 Stock Plan and the 2007 Stock Plan. The grant-date fair value of the Company s restricted stock awards is based on the stock price on the grant date. The resulting compensation cost is recognized in the Company s financial statements over the option vesting period. The Company recognized $2.3 million and $2.2 million of non-cash stock-based compensation expense for the six months ended June 30, 2012 and 2011, respectively. At June 30, 2012, there was approximately $13.8 million of total unrecognized compensation cost related to non-vested stock-based compensation for all awards previously made that are expected to be recognized over a weighted average period of approximately 2.0 years.

During the six months ended June 30, 2012, the total intrinsic value of awards exercised was $78.5 million and the total amount received by Holdings from the exercise of options was $19.5 million. The tax impact associated with the exercise of awards for the six months ended June 30, 2012 was a benefit of $27.0 million and was recorded to paid in capital.

The following table sets forth a summary of stock options under all plans for the six months ended June 30, 2012:

	Total Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value (in Thousands)**
Outstanding at December 31, 2011	6,673,054	$ 11.46		
Granted	44,667	32.46		
Exercised	(2,938,829)	6.83		
Forfeited	(30,456)	17.24		
Expired	-	-		
Outstanding at June 30, 2012	3,748,436	$ 15.30	6.2	$ 89,605
Exercisable at June 30, 2012	1,614,566	$ 9.24	5.3	$ 48,372

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

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The assumptions used in the Company s Black Scholes valuation related to stock option grants made during the six months ended June 30, 2012 were as follows:

Dividend yield	1.3%-1.4%
Expected option life	5.0 years
Volatility factor percentage of market price	40.70%
Discount rate	0.9%

The following table sets forth a summary of restricted stock granted under the 2011 Stock Plan and related information for the six months ended June 30, 2012:

	Restricted Stock	Weighted Average Fair Value
Outstanding at December 31, 2011	138,119	$ 22.35
Granted	13,179	37.10
Forfeited	(2,044)	20.43
Outstanding at June 30, 2012	149,254	$ 23.68

NOTE 9. SEGMENTS

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

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	(unaudited) (in thousands)			
Revenue:				
Retail	$ 458,632	$ 384,304	$ 928,453	$ 768,007
Franchise	103,539	82,827	205,024	160,211
Manufacturing/Wholesale:				
Intersegment (1)	70,609	57,032	137,118	107,731
Third Party	56,910	51,404	109,877	96,325
Sub total Manufacturing/Wholesale	127,519	108,436	246,995	204,056
Sub total segment revenues	689,690	575,567	1,380,472	1,132,274
Intersegment elimination (1)	(70,609)	(57,032)	(137,118)	(107,731)
Total revenue	$ 619,081	$ 518,535	$ 1,243,354	$ 1,024,543
Operating income:				
Retail	$ 97,617	$ 63,409	$ 190,792	$ 127,006
Franchise	32,290	25,938	66,719	51,294
Manufacturing/Wholesale	23,858	21,043	46,695	37,597
Unallocated corporate and other costs:				
Warehousing and distribution costs	(15,625)	(15,239)	(31,420)	(30,387)
Corporate costs	(21,080)	(22,454)	(42,971)	(42,762)
Transaction related costs	-	-	(686)	(12,362)
Sub total unallocated corporate and other costs	(36,705)	(37,693)	(75,077)	(85,511)
Total operating income	$ 117,060	$ 72,697	$ 229,129	$ 130,386

(1) Intersegment revenues are eliminated from consolidated revenue.

NOTE 10. INCOME TAXES

The Company recognized $77.7 million of income tax expense (or 37.3% of pretax income) during the six months ended June 30, 2012 compared to $30.4 million (or 39.8% of pretax income) for the same period in 2011. For the six months ended June 30, 2011, income tax expense included $2.3 million (3.0% of pretax income) related to non deductible costs incurred in connection with the IPO.

The Company files a consolidated U.S. federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it operates. The Company has been audited by the Internal Revenue Service (the IRS) through its March 15, 2007 tax year and the Company has been informed that its federal income tax return for 2010 will be audited. The Company has various state, local and international jurisdiction tax years open to examination (the earliest open period is 2003), and is also currently under audit in certain state and local jurisdictions. As of June 30, 2012, the Company believes that it has appropriately reserved for any potential federal, state, local and international income tax exposures.

At each of June 30, 2012 and December 31, 2011, the Company had $12.3 million and $10.5 million, respectively, of unrecognized tax benefits. As of June 30, 2012, the Company is not aware of any tax positions for which it is reasonably possible that the amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately $12.3 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued approximately $6.2 million and $3.5 million for June 30, 2012 and December 31, 2011, respectively, in potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to the ultimate settlement of uncertain tax positions, amounts previously accrued will be reduced and reflected as a reduction of the overall income tax provision.

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NOTE 11. RELATED PARTY TRANSACTIONS

Management Services Agreement On March 16, 2007, the Company entered into a Management Services Agreement (the Management Services Agreement) with ACOF Operating Manager II, L.P. (ACOF Operating Manager), an affiliate of Ares Corporate Opportunities Fund II, L.P., which was terminated upon the consummation of the IPO. The Management Services Agreement provided for an annual management fee of $0.8 million, payable quarterly and in advance to ACOF Operating Manager, on a pro rata basis, until the tenth anniversary from March 16, 2007 plus any one-year extensions (which extensions occurred automatically on each anniversary date of March 16, 2007), as well as reimbursements for ACOF Operating Manager s, and its affiliates , out-of-pocket expenses in connection with the management services provided under the Management Services Agreement. For the six months ended June 30, 2011, $0.2 million was paid to ACOF Operating Manager in accordance with the terms of the Management Services Agreement.

Upon the consummation of the IPO, the Management Services Agreement was terminated and ACOF Operating Manager received, in lieu of quarterly payments of the annual management fee, an automatic fee equal to the net present value of the aggregate annual management fee that would have been payable to ACOF Operating Manager during the remainder of the term of the Management Services Agreement. The amount of such payment was $5.6 million, and this amount was accrued and expensed in transaction related costs during the period ended March 31, 2011. No further payments will be made pursuant to the Management Services Agreement.

Special Dividend Prior to the consummation of the IPO, Ontario Teachers Pension Plan Board (OTPP), as the holder of Class B common stock, was entitled to receive ratably an annual special dividend payment equal to an aggregate amount of $0.8 million per year when, as and if declared by the Board, for a period of ten years commencing on March 16, 2007 (the Special Dividend Period). The special dividend was payable in equal quarterly installments on the first day of each quarter commencing on April 1, 2007. For the six months ended June 30, 2011, $0.2 million was paid to OTPP as a special dividend pursuant to the obligations under the Class B common stock.

Upon the consummation of the IPO, OTPP s right to receive the special dividend payments was terminated and OTPP received, in lieu of quarterly payments of the special dividend payments, an automatic payment equal to the net present value of the aggregate amount of the special dividend payments that would have been payable to OTPP during the remainder of the Special Dividend Period, calculated in good faith by the Board. The amount of such payment was $5.6 million, and this amount was accrued and expensed in transaction related costs during the period ended March 31, 2011. No further special dividend payments will be made.

Lease Agreements At June 30, 2012, General Nutrition Centres Company, the Company s wholly owned subsidiary, was party, as lessee, to 16 lease agreements with Cadillac Fairview Corporation (Cadillac Fairview), as lessor, and 1 lease agreement with Ontrea, Inc. (Ontrea), as lessor, with respect to properties located in Canada. Each of Cadillac Fairview and Ontrea is a direct wholly owned subsidiary of OTPP. For the six months ended June 30, 2012 and 2011, the Company paid $1.2 million and $1.3 million, respectively, under the lease agreements with Cadillac Fairview, and an immaterial amount for the six months ended June 30, 2012 under the lease agreement with Ontrea. Each lease was negotiated in the ordinary course of business on an arm s length basis.

NOTE 12. SUBSEQUENT EVENTS

On July 26, 2012, the Board authorized and declared a cash dividend for the third quarter of 2012 of $0.11 per share of Class A common stock, payable on or about September 28, 2012 to stockholders of record as of the close of business on September 14, 2012.

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

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

Forward-Looking Statements

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

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including, but not limited to, those we describe under the caption Risk Factors in our filings with the Securities and Exchange Commission pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- significant competition in our industry;
- unfavorable publicity or consumer perception of our products;
- increases in the cost of borrowings and limitations on availability of additional debt or equity capital;
- our debt levels and restrictions in our debt agreements;
- incurrence of material product liability and product recall costs;
- loss or retirement of directors or key members of management;
- costs of compliance and our failure to comply with new and existing governmental regulations including, but not limited to, tax regulations;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;

- failure of our franchisees to conduct their operations profitably and limitations on our ability to terminate or replace under-performing franchisees;
- economic, political and other risks associated with our international operations;
- failure to keep pace with the demands of our customers for new products and services;
- disruptions in our manufacturing system or losses of manufacturing certifications;
- disruptions in our distribution network;
- lack of long-term experience with human consumption of ingredients in some of our products;
- increases in the frequency and severity of insurance claims, particularly claims for which we are self-insured;
- failure to adequately protect or enforce our intellectual property rights against competitors;
- changes in raw material costs and pricing of our products;

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- failure to successfully execute our growth strategy, including any delays in our planned future growth, any inability to expand our franchise operations or attract new franchisees, or any inability to expand our company-owned retail operations;
- changes in applicable laws relating to our franchise operations;
- damage or interruption to our information systems;
- impact of current economic conditions on our business;
- natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts and geo-political events; and
- failure to maintain effective internal controls.

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

Business Overview

We are a global specialty retailer of health and wellness products. We derive our revenues principally from product sales through our company-owned stores and online through GNC.com and LuckyVitamin.com, domestic and international franchise activities and sales of products manufactured in our facilities to third parties. We sell products through a worldwide network of more than 7,800 locations operating under the GNC brand name.

On March 4, 2011, General Nutrition Centers Inc. (Centers), a wholly owned subsidiary of GNC Holdings, Inc. (Holdings),entered into a $1.2 billion term loan facility with a term of seven years (the Term Loan Facility) and an $80.0 million revolving credit facility with a term of five years (the Revolving Credit Facility and, together with the Term Loan Facility, the Senior Credit Facility). Centers used a portion of the proceeds from the Term Loan Facility to refinance its former indebtedness, including all outstanding indebtedness under its 2007 Senior Credit Facility, consisting of a $675.0 million term loan facility (the 2007 Term Loan Facility) and a $60.0 million senior revolving credit facility (together with the 2007 Term Loan Facility, the 2007 Senior Credit Facility), the Senior Notes and the Senior Subordinated Notes, and to pay related fees and expenses. As of the date hereof, the Revolving Credit Facility remains undrawn. We refer to these transactions and the use of proceeds therefrom collectively as the Refinancing .

On April 6, 2011, we completed our initial public offering (IPO) pursuant to which 25.875 million shares of Class A common stock were sold at a price of $16.00 per share. We issued and sold 16 million shares and certain of our stockholders sold 9.875 million shares in the IPO. We used the net proceeds from the IPO, together with cash on hand (including additional funds from the Refinancing), to redeem all of our outstanding Series A preferred stock, repay $300.0 million of outstanding borrowings under the Term Loan Facility and pay sponsor-related obligations of approximately $11.1 million.

During the first quarter of 2012, certain of Holdings stockholders completed a registered offering of 19.6 million shares of Class A common stock at a price of $33.50 per share (the Q1 Secondary Offering).

Executive Overview

In 2012, we have continued to focus on achieving our five principal corporate goals: growing company-owned domestic retail earnings, growing company-owned domestic retail square footage, growing our international footprint, expanding our e-commerce business and further leveraging the GNC brand. These goals are designed to drive both short-term and long-term financial results. Our efforts led to the following results for the three months ended June 30, 2012 compared to the same period in 2011:

- Our company-owned domestic same store sales increased 12.9%, which included a 27.9% increase in our GNC.com business.
- We increased our company-owned domestic store count by 36 net new stores.

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- Our retail segment sales increased 19.3%, and operating income increased 53.9%.

- Total franchising revenue grew 25.0%, and operating income increased 24.5%.

- Domestic franchising revenue grew 16.8%, and we added 5 net new domestic franchise stores.

- International franchise revenue grew 40.3%, as we added 27 net new international franchise stores.

- We increased sales in our wholesale/manufacturing segment by 10.7% through our new wholesale distribution channels and increased third-party sales.

- Consistent with our focus on communicating our core Live Well theme in both magazine and print, we expanded our marketing campaign to include a best in class theme. The campaign s branding images reflect our core customer youthful, athletic, aspirational and goal oriented.

- We generated 19.4% of total revenue growth which drove a 61.0% increase in total operating income. However, excluding certain expenses associated with executive severance in 2011, total operating income increased by 53.7% in the three months ended June 30, 2012 compared to the same period in 2011.

Revenues and Operating Performance from our Segments

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

- *Retail:* Retail revenues are generated by sales to consumers at our company-owned stores and online through our websites GNC.com and LuckyVitamin.com. Although we believe that our retail and franchise businesses are not seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter. According to the Nutrition Business Journal s Supplement Business Report 2011, our industry is expected to grow at an annual average rate of approximately 3.7% through 2017. As a leader in our industry, we expect our organic retail revenue to grow faster than the projected industry growth as a result of our disproportionate market share, scale economies in purchasing and advertising, strong brand awareness and vertical integration.

- *Franchise:* Franchise revenues are generated primarily by:

(1) product sales to our franchisees;

(2) royalties on franchise retail sales; and

(3) franchise fees, which we charge for initial franchise awards, renewals and transfers of franchises.

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

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

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

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

- broader consumer awareness of health and wellness issues and rising healthcare costs may increase the use of the products we offer and positively affect our operating performance;

- interest in, and demand for, condition-specific products based on scientific research may positively affect our operating performance if we can timely develop and offer such condition-specific products;

- the effects of favorable and unfavorable publicity on consumer demand with respect to the products we offer may have similarly favorable or unfavorable effects on our operating performance;

- a lack of long-term experience with human consumption of ingredients in some of our products could create uncertainties with respect to the health risks, if any, related to the consumption of such ingredients and negatively affect our operating performance;

- increased costs associated with complying with new and existing governmental regulation may negatively affect our operating performance; and

- a decline in disposable income available to consumers may lead to a reduction in consumer spending and negatively affect our operating performance.

Results of Operations

The following information presented for the three and six months ended June 30, 2012 and 2011 was prepared by management, is unaudited and was derived from our unaudited consolidated financial statements and accompanying notes. In the opinion of management, all adjustments necessary for a fair statement of our financial position and operating results for such periods and as of such dates have been included.

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

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

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