GNC HOLDINGS, INC.
Form 10-Q
July 26, 2018
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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, 2018

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

For the transition period from to .

Commission File Number: 001-35113

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

Delaware	20-8536244
(State or other jurisdiction of Incorporation or organization)	(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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

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

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

As of July 23, 2018, there were 83,888,937 outstanding shares of Class A common stock, par value $0.001 per share (the "common stock"), of GNC Holdings, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GNC HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(unaudited)
(in thousands)

	June 30, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$43,353	$64,001
Receivables, net	124,178	126,650
Inventory (Note 4)	493,653	485,732
Prepaid and other current assets	73,033	66,648
Total current assets	734,217	743,031
Long-term assets:		
Goodwill	140,883	141,029
Brand name	324,400	324,400
Other intangible assets, net	96,200	99,715
Property, plant and equipment, net	173,664	186,562
Other long-term assets	29,710	25,026
Total long-term assets	764,857	776,732
Total assets	$1,499,074	$1,519,763
Current liabilities:		
Accounts payable	$159,272	$153,018
Current debt (Note 5)	205,617	—
Deferred revenue and other current liabilities	119,096	114,081
Total current liabilities	483,985	267,099
Long-term liabilities:		
Long-term debt (Note 5)	1,046,069	1,297,023
Deferred income taxes	50,279	56,060
Other long-term liabilities	84,799	85,502
Total long-term liabilities	1,181,147	1,438,585
Total liabilities	1,665,132	1,705,684
Contingencies (Note 7)		
Stockholders’ deficit:		
Common stock	130	130
Additional paid-in capital	1,004,563	1,001,315
Retained earnings	563,387	543,814
Treasury stock, at cost	(1,725,349)	(1,725,349)
Accumulated other comprehensive loss	(8,789)	(5,831)
Total stockholders’ deficit	(166,058)	(185,921)
Total liabilities and stockholders’ deficit	$1,499,074	$1,519,763

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited)
(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue (Note 3)	$617,944	$650,238	$1,225,477	$1,305,186
Cost of sales, including warehousing, distribution and occupancy	410,209	430,455	810,868	865,541
Gross profit	207,735	219,783	414,609	439,645
Selling, general, and administrative	158,531	159,540	319,261	325,567
Long-lived asset impairments	—	19,356	—	19,356
Other loss (income), net	320	(486)	75	(1,619)
Operating income	48,884	41,373	95,273	96,341
Interest expense, net (Note 5)	32,943	16,067	54,716	31,961
Loss on debt refinancing (Note 5)	—	—	16,740	—
Income before income taxes	15,941	25,306	23,817	64,380
Income tax expense (Note 10)	2,600	8,662	4,286	22,992
Net income	$13,341	$16,644	$19,531	$41,388
Earnings per share (Note 8):				
Basic	$0.16	$0.24	$0.23	$0.61
Diluted	$0.16	$0.24	$0.23	$0.61
Weighted average common shares outstanding (Note 8):				
Basic	83,332	68,287	83,282	68,267
Diluted	83,409	68,362	83,389	68,331

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$13,341	$16,644	$19,531	$41,388
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(950)	1,048	(1,796)	1,600
Revaluation of interest rate swap, net of tax of $0.5 million	(1,162)	—	(1,162)	—
Total other comprehensive (loss) gain	(2,112)	1,048	(2,958)	1,600
Comprehensive income	$11,229	$17,692	$16,573	$42,988

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

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

	Common Stock Class A Shares	Common Stock Class A Dollars	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders’ Deficit
Balance at December 31, 2017	83,567	$ 130	$ (1,725,349)	$ 1,001,315	$ 543,814	$ (5,831)	$ (185,921)
Comprehensive income	—	—	—	—	19,531	(2,958)	16,573
Dividend forfeitures on restricted stock	—	—	—	—	42	—	42
Restricted stock awards	378	—	—	—	—	—	—
Minimum tax withholding requirements	(57)	—	—	(226)	—	—	(226)
Stock-based compensation	—	—	—	3,474	—	—	3,474
Balance at June 30, 2018	83,888	$ 130	$ (1,725,349)	$ 1,004,563	$ 563,387	$ (8,789)	$ (166,058)
Balance at December 31, 2016	68,399	$ 114	$ (1,725,349)	$ 922,687	$ 693,682	$ (8,697)	$ (117,563)
Comprehensive income	—	—	—	—	41,388	1,600	42,988
Dividend forfeitures on restricted stock	—	—	—	—	259	—	259
Restricted stock awards	101	—	—	—	—	—	—
Minimum tax withholding requirements	(32)	—	—	(247)	—	—	(247)
Stock-based compensation	—	—	—	2,709	—	—	2,709
Balance at June 30, 2017	68,468	$ 114	$ (1,725,349)	$ 925,149	$ 735,329	$ (7,097)	$ (71,854)

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, 2018	2017
Cash flows from operating activities:		
Net income	$19,531	$41,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	24,106	30,854
Amortization of debt costs	9,025	6,602
Stock-based compensation	3,474	2,709
Long-lived asset impairments	—	19,356
Gains on refranchising	(208)	(124)
Loss on debt refinancing	16,740	—
Third-party fees associated with refinancing	(16,322)	—
Changes in assets and liabilities:		
Decrease in receivables	2,112	13,227
(Increase) decrease in inventory	(9,201)	15,039
Increase in prepaid and other current assets	(3,175)	(1,917)
Increase (decrease) in accounts payable	6,751	(38,607)
Decrease in deferred revenue and accrued liabilities	(1,017)	(16,086)
Other operating activities	(2,674)	409
Net cash provided by operating activities	49,142	72,850
Cash flows from investing activities:		
Capital expenditures	(8,333)	(20,397)
Refranchising proceeds	1,175	2,160
Store acquisition costs	(118)	(432)
Net cash used in investing activities	(7,276)	(18,669)
Cash flows from financing activities:		
Borrowings under revolving credit facility	104,000	151,000
Payments on revolving credit facility	(104,000)	(147,000)
Payments on Tranche B-1 Term Loan	(2,275)	(40,853)
Payments on Tranche B-2 Term Loan	(21,400)	—
Original Issuance Discount and revolving credit facility fees	(35,235)	—
Deferred fees associated with pending equity transaction	(3,014)	—
Minimum tax withholding requirements	(226)	(247)
Net cash used in financing activities	(62,150)	(37,100)
Effect of exchange rate changes on cash and cash equivalents	(364)	454
Net (decrease) increase in cash and cash equivalents	(20,648)	17,535
Beginning balance, cash and cash equivalents	64,001	34,464
Ending balance, cash and cash equivalents	$43,353	$51,999

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES
Supplemental Cash Flow Information
(unaudited)
(in thousands)

	As of June 30,	
	2018	2017
Non-cash investing activities:		
Capital expenditures in current liabilities	$1,120	$2,141
Non-cash financing activities:		
Original issuance discount (Note 5)	$13,231	$—

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

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GNC HOLDINGS, INC. AND SUBSIDIARIES
Condensed Notes to the Unaudited Consolidated Financial Statements

NOTE 1. NATURE OF BUSINESS

GNC Holdings, Inc., a Delaware corporation ("Holdings," and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the "Company"), is a global 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, U.S. and Canada, International, and Manufacturing / Wholesale. Corporate retail store operations are located in the United States, Canada, Puerto Rico, China and Ireland. In addition, the Company offers products on the internet through GNC.com, third-party websites, and prior to the sale of its assets on September 30, 2017, LuckyVitamin.com. Franchise locations exist in the United States and approximately 50 other countries. The Company operates its primary manufacturing facility in South Carolina and distribution centers in Arizona, Indiana, Pennsylvania and South Carolina. The Company manufactures approximately half of its branded products and merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

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

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements, which have been prepared in accordance with the applicable rules of the Securities and Exchange Commission, include all adjustments (consisting of a normal and recurring nature) that management considers necessary to fairly state the Company's results of operations, financial position and cash flows. The December 31, 2017 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). These interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Footnotes included in the Company's audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 10-K"). Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2018.

Recently Adopted Accounting Pronouncements

In December 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, which simplifies the application of certain hedge accounting guidance to better align hedge accounting with an organization's risk management activities in the financial statements. This standard eliminated the separate measurement and reporting of hedge ineffectiveness. Mismatches between changes in value of the hedged item and hedging instrument may still occur but they will no longer be separately reported. For cash flow and net investment hedges, all changes in value of the hedging instrument included in the assessment of effectiveness will be deferred in other comprehensive income and recognized in earnings at the same time that the hedged item affects earnings. The standard is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company adopted this standard during the second quarter of fiscal 2018, which was applied to the interest rate swaps entered into described below in Note 5 "Long-Term Debt / Interest Expense." The adoption of this standard did not have a material effect on the Company's Consolidated Financial Statements.

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

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

Adoption of New Revenue Recognition Standard

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

The adoption of ASC 606 does not impact recognition of point-of-sale revenue in company-owned stores, most wholesale sales, royalties and sublease revenue, together which account for approximately 90% of the Company’s revenue. The new standard has no impact on the timing or classification of the Company’s cash flows as reported in the Consolidated Statement of Cash Flows and is not expected to have a significant impact on the Company’s Consolidated Statement of Operations in future periods. The Company recorded a reduction to retained earnings, net of tax, at January 1, 2016 (opening balance) and December 31, 2016 of approximately $23 million primarily relating to an increase in deferred franchise fees. Below is a description of the changes that resulted from the new standard.

Franchise fees. The Company's previous accounting policy for franchise and license fees received for new store openings and renewals was to recognize these fees when earned per the contract terms, which is when a new store opens or at the start of a new term. In accordance with the new guidance, these fees are now deferred and recognized over the applicable license term as the Company satisfies the performance obligation of granting the customer access to the rights of the Company’s intellectual property. This change impacted all of the Company’s reportable segments. In addition, franchise fees received as part of a sale of a company-owned store to a franchisee are now recorded as described above as part of revenue and will no longer be presented as part of gains on refranchising.

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

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

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

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

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

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

Revisions to Prior Periods

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

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

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

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

	Three months ended June 30, 2017					
	As Previously Reported	Franchise Fees	Specialty Manufacturing	Cooperative Advertising and Other Franchise Support Fees	Total Adjustments	As Revised
	(in thousands, except per share amounts)					
Revenue	$640,994	$ 1,353	$ 1,542	$ 6,349	$ 9,244	$650,238
Cost of sales (1)	428,271	—	1,342	842	2,184	430,455
Gross profit	212,723	1,353	200	5,507	7,060	219,783
SG&A (2)	154,033	—	—	5,507	5,507	159,540
Long-lived asset impairments	19,356	—	—	—	—	19,356
Other income, net	(486)	—	—	—	—	(486)
Operating income	39,820	1,353	200	—	1,553	41,373
Interest expense, net	16,067	—	—	—	—	16,067
Income before income taxes	23,753	1,353	200	—	1,553	25,306
Income tax expense	8,092	497	73	—	570	8,662
Net income	$15,661	$ 856	$ 127	$ —	$ 983	$16,644
Earnings per share:						
Basic	$0.23	$ 0.01	$ —	$ —	$ 0.01	$0.24
Diluted	$0.23	$ 0.01	$ —	$ —	$ 0.01	$0.24

	Six months ended June 30, 2017					
	As Previously Reported	Franchise Fees	Specialty Manufacturing	Cooperative Advertising and Other Franchise Support Fees	Total Adjustments	As Revised
	(in thousands, except per share amounts)					
Revenue	$1,285,832	$ 2,336	$ 4,628	$ 12,390	$ 19,354	$1,305,186
Cost of sales (1)	860,138	—	3,966	1,437	5,403	865,541
Gross profit	425,694	2,336	662	10,953	13,951	439,645
SG&A (2)	314,614	—	—	10,953	10,953	325,567
Long-lived asset impairments	19,356	—	—	—	—	19,356
Other income, net	(1,649)	30	—	—	30	(1,619)
Operating income	93,373	2,306	662	—	2,968	96,341
Interest expense, net	31,961	—	—	—	—	31,961
Income before income taxes	61,412	2,306	662	—	2,968	64,380
Income tax expense	21,901	847	244	—	1,091	22,992
Net income	$39,511	$ 1,459	$ 418	$ —	$ 1,877	$41,388
Earnings per share:						
Basic	$0.58	$ 0.02	$ 0.01	$ —	$ 0.03	$0.61
Diluted	$0.58	$ 0.02	$ 0.01	$ —	$ 0.03	$0.61

(1) Includes warehousing, distribution and occupancy.
(2) Defined as selling, general and administrative expense.

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

	Three months ended June 30, 2017					
	As Previously Reported	Franchise Fees	Specialty Manufacturing	Cooperative Advertising and Other Franchise Support Fees	Total Adjustments	As Revised
	(in thousands)					
Revenue:						
U.S. and Canada	$520,804	$ 661	$ —	$ 6,349	$ 7,010	$527,814
International	43,631	182	—	—	182	43,813
Manufacturing / Wholesale:						
Intersegment revenues	56,000	—	—	—	—	56,000
Third party	53,945	510	1,542	—	2,052	55,997
Subtotal Manufacturing / Wholesale	109,945	510	1,542	—	2,052	111,997
Total reportable segment revenues	674,380	1,353	1,542	6,349	9,244	683,624
Other	22,614	—	—	—	—	22,614
Elimination of intersegment revenues	(56,000)	—	—	—	—	(56,000)
Total revenue	$640,994	$ 1,353	$ 1,542	$ 6,349	$ 9,244	$650,238
Operating income:						
U.S. and Canada	$51,829	$ 661	$ —	$ —	$ 661	$52,490
International	15,605	182	—	—	182	15,787
Manufacturing / Wholesale	17,927	510	200	—	710	18,637
Total reportable segment operating income	85,361	1,353	200	—	1,553	86,914
Corporate costs	(26,207)	—	—	—	—	(26,207)
Other	(19,334)	—	—	—	—	(19,334)
Unallocated corporate and other	(45,541)	—	—	—	—	(45,541)
Total operating income	$39,820	$ 1,353	$ 200	$ —	$ 1,553	$41,373

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	Six months ended June 30, 2017					
	As Previously Reported	Franchise Fees	Specialty Manufacturing	Cooperative Advertising and Other Franchise Support Fees	Total Adjustments	As Revised
	(in thousands)					
Revenue:						
U.S. and Canada	$1,050,983	$ 1,062	$ —	$ 12,390	$ 13,452	$1,064,435
International	83,048	516	—	—	516	83,564
Manufacturing / Wholesale:						
Intersegment revenues	117,298	—	—	—	—	117,298
Third party	106,445	758	4,628	—	5,386	111,831
Subtotal Manufacturing / Wholesale	223,743	758	4,628	—	5,386	229,129
Total reportable segment revenues	1,357,774	2,336	4,628	12,390	19,354	1,377,128
Other	45,356	—	—	—	—	45,356
Elimination of intersegment revenues	(117,298)	—	—	—	—	(117,298)
Total revenue	$1,285,832	$ 2,336	$ 4,628	$ 12,390	$ 19,354	$1,305,186
Operating income:						
U.S. and Canada	$101,948	$ 1,032	$ —	$ —	$ 1,032	$102,980
International	30,140	516	—	—	516	30,656
Manufacturing / Wholesale	34,484	758	662	—	1,420	35,904
Total reportable segment operating income	166,572	2,306	662	—	2,968	169,540
Corporate costs	(54,281)	—	—	—	—	(54,281)
Other	(18,918)	—	—	—	—	(18,918)
Unallocated corporate and other	(73,199)	—	—		—	(73,199)
Total operating income	$93,373	$ 2,306	$ 662	$ —	$ 2,968	$96,341

Recently Issued Accounting Pronouncements

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.

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NOTE 3. REVENUE

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

U.S. and Canada Revenue

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
U.S. company-owned product sales: (1)	(in thousands)			
Protein	$87,072	$90,706	$174,742	$182,969
Performance supplements	73,100	74,709	148,716	148,017
Weight management	38,686	39,758	78,473	80,275
Vitamins	49,495	52,112	99,866	103,348
Herbs / Greens	16,945	17,018	33,103	32,735
Wellness	49,680	51,175	97,381	99,596
Health / Beauty	47,525	48,887	95,579	97,597
Food / Drink	28,709	25,448	54,069	49,570
General merchandise	5,878	7,345	12,940	15,209
Total U.S. company-owned product sales	$397,090	$407,158	$794,869	$809,316
Wholesale sales to franchisees	60,675	66,082	117,835	130,363
Royalties and franchise fees	8,532	9,492	17,280	18,823
Sublease income	11,633	12,362	23,398	24,958
Cooperative advertising and other franchise support fees	5,973	6,349	11,506	12,390
Gold Card revenue recognized in U.S.(2)	—	—	—	24,399
Other (3)	33,414	26,371	64,843	44,186
Total U.S. and Canada revenue	$517,317	$527,814	$1,029,731	$1,064,435

(1) Includes GNC.com sales.

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

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

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International Revenues

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Wholesale sales to franchisees	$27,185	$26,250	$48,945	$51,806
Royalties and franchise fees	6,576	6,280	13,197	12,851
Other (*)	14,874	11,283	26,558	18,907
Total International revenue	$48,635	$43,813	$88,700	$83,564

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

Manufacturing / Wholesale Revenue

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Third-party contract manufacturing	$30,580	$34,220	$63,302	$67,962
Intersegment sales	65,238	56,000	129,901	117,298
Wholesale partner sales	21,412	21,777	43,744	43,869
Total Manufacturing / Wholesale revenue	$117,230	$111,997	$236,947	$229,129

Revenue by Geography

The following is a summary of the revenue by geography.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Total revenues by geographic areas:	(in thousands)			
United States	$579,324	$613,669	$1,151,555	$1,234,692
Foreign	38,620	36,569	73,922	70,494
Total revenues	$617,944	$650,238	$1,225,477	$1,305,186

Revenue Recognition Policies

Within the U.S. and Canada segment, retail sales in company-owned stores are recognized at the point of sale. Revenue related to e-commerce sales is recognized upon shipment based on meeting the transfer of control criteria. The Company has made a policy election to treat shipping and handling as costs to fulfill the contract, and as a result, any fees received from customers are included in the transaction price allocated to the performance obligation of providing goods with a corresponding amount accrued within cost of sales for amounts paid to applicable carriers. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenue. A provision for anticipated returns is recorded through a reduction of sales and cost of sales (for product that can be resold or returned to vendors) in the period that the related sales are recorded.

Effective with the launch of the One New GNC on December 29, 2016, the Company introduced myGNC Rewards, a free points-based loyalty program while discontinuing its Gold Card Member Pricing program system-wide in the U.S. The loyalty program enables customers to earn points based on their purchases. Points earned by members

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are valid for one year and may be redeemed for cash discounts on any product the Company sells at both company-owned or franchise locations. The Company defers the estimated standalone selling price of points related to this program as a reduction to revenue as points are earned by allocating a portion of the transaction price the customer pays to a loyalty program liability within deferred revenue and other current liabilities on the Consolidated Balance Sheet. The estimated selling price of each point is based on the estimated value of product for which the point is expected to be redeemed, net of points not expected to be redeemed, based on historical redemption rates. When a customer redeems earned points, revenue is recognized with a corresponding reduction to the program liability.

Also effective with the launch of the One New GNC, the Company began offering a paid membership program, PRO Access, for $39.99 per year, which provides members with the delivery of sample boxes throughout the membership year, as well as the offering of certain other benefits including the opportunity to earn triple points on a periodic basis. The boxes include sample merchandise and other materials. The Company allocates the transaction price of the membership to the sample boxes and other benefits based on estimated relative stand-alone prices. The membership price paid is recorded within deferred revenue and other current liabilities on the Consolidated Balance Sheet and recognized as revenue as the underlying performance obligations are satisfied.

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

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

The Manufacturing / Wholesale segment sells product to the Company's other segments, which is eliminated in consolidation, and third-party customers. Revenue is recognized over time, net of estimated returns and allowances, as manufacturing occurs if the customized goods have no alternative use (specially made for the end customer) and the Company has an enforceable right to payment for performance completed to date (even if such right is not enforced in practice). The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company uses the cost-to-cost measure of progress for its contracts because it best depicts the transfer of control to the customer which occurs as the Company incurs costs on its contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials, other direct costs and an allocation of indirect costs, which are recognized as cost of sales as revenue is recognized. Services for specialty manufacturing contracts typically have an expected duration of less than one year.

Balances from Contracts with Customers

Contract assets relating to specialty manufacturing include amounts related to the Company's contractual right to consideration for completed performance obligations not yet invoiced, and were $27.6 million and $24.3 million at June 30, 2018 and December 31, 2017, respectively, recorded within prepaid and other current assets on the accompanying Consolidated Balance Sheets (with a corresponding reduction to inventory at cost). Contract liabilities include payments received in advance of performance under the contract.

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

	Three months ended June 30, 2018			
	Balance at Beginning of Period	Additions	Deductions	Balance at the End of Period
	(in thousands)			
Deferred franchise and license fees	$36,896	1,341	(2,449)	$35,788
PRO Access and loyalty program points	26,271	18,480	(17,412)	27,339
Gift card liability	2,641	726	(1,166)	2,201

	Six months ended June 30, 2018			
	Balance at Beginning of Period	Additions	Deductions	Balance at the End of Period
	(in thousands)			
Deferred franchise and license fees	$38,011	2,783	(5,006)	$35,788
PRO Access and loyalty program points	24,464	35,629	(32,754)	27,339
Gift card liability	4,172	1,694	(3,665)	2,201

The Company's PRO Access and loyalty program points are recorded within deferred revenue and other current liabilities on the Consolidated Balance Sheets. Deferred franchise and license fees are recorded within deferred revenue and other current liabilities and other long-term liabilities on the Consolidated Balance Sheets. As of June 30, 2018, the Company had deferred franchise and license fees with unsatisfied performance obligations extending throughout 2028 of $35.8 million, of which $7.6 million is expected to be recognized over the next 12 months. The Company has elected to use the practical expedient allowed under the rules of adoption to not disclose the duration of the remaining unsatisfied performance obligations for contracts with an original expected length of one year or less.

NOTE 4. INVENTORY

The net realizable value of inventory consisted of the following:

	June 30, 2018	December 31, 2017 (*)
	(in thousands)	
Finished product ready for sale	$429,744	$432,092
Work-in-process, bulk product and raw materials	57,966	51,225
Packaging supplies	5,943	2,415
Inventory	$493,653	$485,732

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

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NOTE 5. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt consisted of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Tranche B-1 Term Loan (net of $0.1 million and $0.9 million discount)	$149,516	$1,130,320
Tranche B-2 Term Loan (net of $27.4 million discount)	655,493	—
FILO Term Loan (net of $12.3 million discount)	262,721	—
Unpaid original issuance discount	13,231	—
Notes	171,701	167,988
Debt issuance costs	(976)	(1,285)
Total debt	1,251,686	1,297,023
Less: current debt	(205,617)	—
Long-term debt	$1,046,069	$1,297,023

Refinancing of Senior Credit Facility

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

After the effectiveness of the Amendment, the remaining term loan of $151.9 million as of February 28, 2018 continues to have a maturity date of March 2019 (the "Tranche B-1 Term Loan"). The Tranche B-2 Term Loan requires annual aggregate principal payments of at least $43 million and bears interest at a rate of LIBOR plus a margin of 8.75% per annum subject to change under certain circumstances (with a minimum and maximum possible interest rate of LIBOR plus a margin of 8.25% and 9.25%, respectively, per annum). Payments and interest associated with the Tranche B-1 Term Loan are consistent with past terms. The Term Loan Agreement is secured by a (i) first lien on certain assets of the Company primarily consisting of capital stock issued by General Nutrition Centers, Inc. ("Centers") and its subsidiaries, intellectual property and equipment (“Term Priority Collateral”) and (ii) second lien on certain assets of the Company primarily consisting of inventory and accounts receivable (“ABL Priority Collateral”). The Term Loan Agreement is guaranteed by all material, wholly-owned domestic subsidiaries of the Company (the “U.S. Guarantors”) and by General Nutrition Centres Company, an unlimited liability company organized under the laws of Nova Scotia (together with the U.S. Guarantors, the “Guarantors”).

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

•a new $100 million asset-based Revolving Credit Facility (the "Revolving Credit Facility") with a maturity date of August 2022 (which maturity date will become May 2020, subject to certain adjustments, if the Existing Indenture Discharge has not occurred); and

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

There are no scheduled amortization payments associated with the FILO Term Loan, which bears interest at a rate of LIBOR plus a margin of 7.00% per annum subject to decrease under certain circumstances (with a minimum possible interest rate of LIBOR plus a margin of 6.50% per annum). Outstanding borrowings under the Revolving Credit Facility bear interest at a rate of LIBOR plus 1.75% (subject to an increase or decrease of 0.25% based on the amount available to be drawn under the Revolving Credit Facility). The Company is also required to pay an annual fee to revolving lenders equal to a maximum of 2.0% (subject to adjustment based on the amount available to be drawn under the Revolving Credit Facility) on outstanding letters of credit and an annual commitment fee of 0.375%

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on the undrawn portion of the Revolving Credit Facility subject to an increase to 0.5% based on the amount available to draw under the Revolving Credit Facility. The FILO Term Loan and Revolving Credit Facility are secured by a (i) first lien on ABL Priority Collateral and (ii) second lien on Term Priority Collateral. The FILO Term Loan and Revolving Credit Facility are guaranteed by the Guarantors.

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

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

At June 30, 2018, the contractual interest rates under the Tranche B-1 Term Loan, Tranche B-2 Term Loan, and the FILO Term Loan were 4.6%, 10.9% and 9.1%, respectively, which consist of LIBOR plus the applicable margin rate. At December 31, 2017, the contractual interest rate under the Tranche B-1 Term Loan was 4.1%. At June 30, 2018, the Company had $90.9 million available under the Revolving Credit Facility, after giving effect to $9.1 million utilized to secure letters of credit. See below under "Interest Rate Swaps" for discussion of the interest rate swaps, which will impact the Company's interest expense in future periods.

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

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Convertible Debt

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Liability component		
Principal	$188,565	$188,565
Conversion feature	(14,822)	(18,065)
Discount related to debt issuance costs	(2,042)	(2,512)
Net carrying amount	$171,701	$167,988

Interest Rate Swaps

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

At June 30, 2018, the fair value of the interest rate swaps was a liability of $1.7 million included within other long-term liabilities in the Company's accompanying Consolidated Balance Sheet with a corresponding cumulative unrealized loss of $1.2 million, net of tax, included in accumulated other comprehensive loss. This loss would be immediately recognized in the Consolidated Statement of Operations if these instruments fail to meet certain cash flow hedge requirements. As of June 30, 2018, the amount included in accumulated other comprehensive loss related to the interest rate swaps to be reclassified into earnings during the next 12 months is not material. Refer to Note 6, "Fair Value Measurements of Financial Instruments" for more information on how the interest rate swaps are valued.

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Interest Expense

Interest expense consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Tranche B-1 Term Loan coupon	$1,683	$10,188	$9,741	$19,706
Tranche B-2 Term Loan coupon	18,705	—	25,529	—
FILO Term Loan coupon	6,218	—	8,340	—
Revolving Credit Facility	238	—	370	—
Terminated revolving credit facility	—	1,505	316	2,794
Amortization of discount and debt issuance costs	3,540	625	5,295	1,250
Subtotal	30,384	12,318	49,591	23,750
Notes:				
Coupon	707	1,054	1,414	2,132
Amortization of conversion feature	1,633	2,377	3,243	4,734
Amortization of discount and debt issuance costs	243	311	487	617
Total Notes	2,583	3,742	5,144	7,483
Other	(24)	7	(19)	728
Interest expense, net	$32,943	$16,067	$54,716	$31,961

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NOTE 6. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Tranche B-1 Term Loan	$149,516	$143,535	$1,130,320	$930,592
Tranche B-2 Term Loan	655,493	634,189	—	—
FILO Term Loan	262,721	271,916	—	—
Notes	171,701	126,887	167,988	85,044
Interest rate swaps	1,683	1,683	—	—

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

NOTE 7. CONTINGENCIES

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

The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability.

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

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regard to a particular matter, the Company cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and the Company is unable to estimate a possible loss or range of loss. If the Company ultimately is required to make any payments in connection with an adverse outcome in any of the matters discussed below, it is possible that it could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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

Litigation

DMAA / Aegeline Claims. Prior to December 2013, the Company sold products manufactured by third parties that contained derivatives from geranium known as 1.3-dimethylpentylamine/ dimethylamylamine/ 13-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 June 30, 2018, the Company was named in 29 personal injury lawsuits involving products containing DMAA and/or Aegeline.

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

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

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

Pennsylvania Fluctuating Workweek. On September 18, 2013, Tawny Chevalier and Andrew Hiller commenced a class action in the Court of Common Pleas of Allegheny County, Pennsylvania. Plaintiff asserted a claim against the Company for a purported violation of the Pennsylvania Minimum Wage Act ("PMWA"), challenging the Company's utilization of the "fluctuating workweek" method to calculate overtime compensation, on behalf of all employees who worked for the Company in Pennsylvania and who were paid according to the fluctuating workweek method. In October 2014, the Court entered an order holding that the use of the fluctuating workweek method violated the PMWA. In September 2016, the Court entered judgment in favor of Plaintiffs and the class in an immaterial amount, which has been recorded as a charge in the accompanying Consolidated Financial Statements. Plaintiffs subsequently filed a petition for an award of attorney's fees, costs and incentive payment. The court awarded an immaterial amount in legal fees. The Company appealed from the adverse judgment and the award of attorney's fees. On December 22, 2017, the Pennsylvania Superior Court held that the Company correctly determined the "regular rate" by dividing weekly compensation by all hours worked (rather than 40), but held that the regular rate must be multiplied by 1.5 (rather than 0.5) to determine the amount of overtime owed. Taking accumulated interest into account, the net result of the Superior Court's decision was to reduce the Company's liability by an immaterial amount, which has been reflected in the accompanying Consolidated Financial Statements. The Company filed a petition for appeal to the Pennsylvania Supreme Court on January 22, 2018. The Pennsylvania Supreme Court accepted the Company's petition for appeal on July 16, 2018 and has issued a briefing schedule to the parties.

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

Oregon Attorney General. On October 22, 2015, the Attorney General for the State of Oregon sued GNC in Multnomah County Circuit Court for alleged violations of Oregon's Unlawful Trade Practices Act, in connection with its sale in Oregon of certain third-party products. The Company is vigorously defending itself against these allegations. Along with its Amended Answer and Affirmative Defenses, the Company filed a counterclaim for declaratory relief, asking the court to make certain rulings in favor of the Company, and adding USPlabs, LLC and SK Laboratories as counterclaim defendants. In March 2018, the Oregon Attorney General filed a motion for summary judgment relating to its first claim for relief, which the Company is contesting. The Company filed a cross motion for summary judgment on the first claim for relief, which the Oregon Attorney General is contesting. Both motions are scheduled for argument in August 2018. The parties are in the process of exchanging discovery. There is no trial date currently set.

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

Holland and Barrett License Litigation. On September 18, 2014, the Company's wholly-owned affiliate General Nutrition Investment Company ("GNIC") commenced proceedings in the U.K. High Court to determine if the license agreement from March 2003 between GNIC and Holland & Barrett International Ltd and Health and Diet Centers Ltd. ("Defendants") was validly terminated. GNIC alleged that termination of the entire agreement was warranted due to several material breaches by Defendants, and that the agreement should be terminated related to five licensed GNC trademarks for lack of use for more than five years. On April 7, 2017, the Court issued its judgment that found that GNIC's notice of termination was invalid and while there were several breaches of the agreement, none were sufficiently material to justify termination. Under U.K. procedural rules, GNIC is required to pay some portion of Defendant's legal costs. As a result, the Company recorded a charge of $2.1 million in the first quarter of 2017 and subsequently reached an agreement with the Defendants in relation to costs. The Defendants appealed part of the Court's judgment concerning findings in relation to the licensed GNIC trademarks, and that appeal was heard at the U.K.'s Court of Appeal in June 2018. In July 2018, the Court found in favor of the Defendants and GNIC was ordered to pay an immaterial amount for Defendants' costs related to the appeal.

E-Commerce Pricing Matters. In April 2016, Jenna Kaskorkis, et al. filed a complaint against General Nutrition Centers, Inc. followed by similar cases brought forth by Ashley Gennock in May 2016 and Kenneth Harrison in December 2016. Plaintiffs allege that the Company's promotional pricing on its website was misleading and did not fairly represent promotions based on average retail prices over a trended period of time being consistent with prices advertised as promotional. The Company attended a mediation with counsel for all plaintiffs and has reached a tentative agreement in the third quarter of 2017 on many of the key terms of a settlement. The matters have been effectively stayed while the parties remain in discussions. The Company currently expects any settlement to be in a form that does not require the recording of a contingent liability, except an immaterial amount the Company has accrued in the accompanying Consolidated Financial Statements.

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Government Regulation

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

Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the "DHEC") requested that the Company investigate contamination associated with historical activities at its South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from the facility. The Company entered into a Voluntary Cleanup Contract with the DHEC regarding the matter on September 24, 2012. Pursuant to such contract, the Company has completed additional investigations with the DHEC's approval. The Company installed and began operating a pilot vapor extraction system under a portion of the facility in the second half of 2016, which was an immaterial cost to the Company, with DHEC's approval to assess the effectiveness of such a remedial system. After an initial period of monitoring, in October of 2017, the DHEC approved a work plan for extended monitoring of such system and the contamination into 2021. The Company will continue to consult with the DHEC on the next steps in the work after their review of the results of the extended monitoring is complete. At this stage of the investigation, however, it is not possible to estimate the timing and extent of any additional remedial action that may be required, the ultimate cost of remediation, or the amount of the Company's potential liability. Therefore, no liability has been recorded in the Company's Consolidated Financial Statements.

In addition to the foregoing, the Company is subject to numerous federal, state, local and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation and disposal of the Company's non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its operations into the environment, including discharges to air, surface water and groundwater. Failure to comply with such laws and regulations could result in costs for remedial actions, penalties or the imposition of other liabilities. New laws, changes in existing laws or the interpretation thereof, or the development of new facts or changes in their processes could also cause the Company to incur additional capital and operating expenditures to maintain compliance with environmental laws and regulations and environmental permits. The Company is also subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or for properties to which substances or wastes that were sent in connection with current or former operations at its facilities. The presence of contamination from such substances or wastes could also adversely affect the Company's ability to sell or lease its properties, or to use them as collateral for financing. From time to time, the Company has incurred costs and obligations for correcting environmental and health and safety noncompliance matters and for remediation at or relating to certain of the Company's properties or properties at which the Company's waste has been disposed. However, compliance with the provisions of national, state and local environmental laws and regulations has not had a material effect upon the Company's capital expenditures, earnings, financial position, liquidity or competitive position. The Company believes it has complied with, and is currently complying with, its environmental obligations pursuant to environmental and health and safety laws and regulations and that any liabilities for noncompliance will not have a material adverse effect on its business, financial performance or cash flows. However, it is difficult to predict future liabilities and obligations, which could be material.

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NOTE 8. EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Basic weighted average shares	83,332	68,287	83,282	68,267
Effect of dilutive stock-based compensation awards	77	75	107	64
Diluted weighted average shares	83,409	68,362	83,389	68,331

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 awards.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Antidilutive:				
Time-based options and restricted stock awards	2,934	2,540	3,070	2,078
Performance-based restricted stock awards	1,283	—	909	—
Contingently issuable:				
Performance-based restricted stock awards	—	63	—	70
Performance-based restricted stock awards with a market condition	315	399	315	431
Total stock-based awards excluded from diluted EPS	4,532	3,002	4,294	2,579

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

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NOTE 9. SEGMENTS

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue:				
U.S. and Canada	$517,317	$527,814	$1,029,731	$1,064,435
International	48,635	43,813	88,700	83,564
Manufacturing / Wholesale:				
Intersegment revenues	65,238	56,000	129,901	117,298
Third party	51,992	55,997	107,046	111,831
Subtotal Manufacturing / Wholesale	117,230	111,997	236,947	229,129
Total reportable segment revenues	683,182	683,624	1,355,378	1,377,128
Other	—	22,614	—	45,356
Elimination of intersegment revenues	(65,238)	(56,000)	(129,901)	(117,298)
Total revenue	$617,944	$650,238	$1,225,477	$1,305,186
Operating income:				
U.S. and Canada	$45,603	$52,490	$89,093	$102,980
International	15,692	15,787	30,156	30,656
Manufacturing / Wholesale	15,889	18,637	30,853	35,904
Total reportable segment operating income	77,184	86,914	150,102	169,540
Corporate costs	(28,300)	(26,207)	(54,779)	(54,281)
Other	—			