

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark one)

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

**For the quarterly period ended September 30, 2019**

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**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  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  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  No

As of October 18, 2019, there were 84,565,337 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)**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 121,857	\$ 67,224
Receivables, net	111,053	127,317
Inventory (Note 4)	394,763	465,572
Forward contracts for the issuance of convertible preferred stock	—	88,942
Prepaid and other current assets	17,378	55,109
<b>Total current assets</b>	<b>645,051</b>	<b>804,164</b>
<b>Long-term assets:</b>		
Goodwill	79,041	140,764
Brand name	300,720	300,720
Other intangible assets, net	72,710	92,727
Property, plant and equipment, net	89,104	155,095
Right-of-use assets (Note 8)	362,774	—
Equity method investments (Note 6)	99,729	—
Other long-term assets	34,752	34,380
<b>Total long-term assets</b>	<b>1,038,830</b>	<b>723,686</b>
<b>Total assets</b>	<b>\$ 1,683,881</b>	<b>\$ 1,527,850</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 166,527	\$ 148,782
Current portion of long-term debt (Note 5)	152,919	158,756
Current lease liabilities (Note 8)	115,473	—
Deferred revenue and other current liabilities	97,169	120,169
<b>Total current liabilities</b>	<b>532,088</b>	<b>427,707</b>
<b>Long-term liabilities:</b>		
Long-term debt (Note 5)	705,667	993,566
Deferred income taxes	15,223	39,834
Lease liabilities (Note 8)	347,658	—
Other long-term liabilities	47,518	82,249
<b>Total long-term liabilities</b>	<b>1,116,066</b>	<b>1,115,649</b>
<b>Total liabilities</b>	<b>1,648,154</b>	<b>1,543,356</b>
Contingencies (Note 9)		
<b>Mezzanine equity:</b>		
Convertible preferred stock (Note 10)	211,395	98,804
<b>Stockholders' deficit:</b>		
Common stock	130	130
Additional paid-in capital	1,011,857	1,007,827
Retained earnings	552,095	613,637
Treasury stock, at cost	(1,725,349)	(1,725,349)
Accumulated other comprehensive loss	(14,401)	(10,555)
<b>Total stockholders' deficit</b>	<b>(175,668)</b>	<b>(114,310)</b>
<b>Total liabilities, mezzanine equity and stockholders' deficit</b>	<b>\$ 1,683,881</b>	<b>\$ 1,527,850</b>

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Revenue</b> (Note 3)	\$ 499,076	\$ 580,185	\$ 1,597,837	\$ 1,805,662
Cost of sales, including warehousing, distribution and occupancy	336,448	395,483	1,038,374	1,206,351
<b>Gross profit</b>	162,628	184,702	559,463	599,311
Selling, general, and administrative	135,795	149,903	427,938	469,164
Long-lived asset impairments	—	14,556	—	14,556
Loss on net asset exchange for the formation of the joint ventures (Note 6)	—	—	21,293	—
Other loss (income), net	179	282	(622)	357
<b>Operating income</b>	26,654	19,961	110,854	115,234
Interest expense, net (Note 5)	24,456	35,732	82,376	90,448
Gain on convertible debt repurchase	—	—	(3,214)	—
Loss on forward contracts for the issuance of convertible preferred stock	—	—	16,787	—
Loss on debt refinancing	—	—	—	16,740
<b>Income (loss) before income taxes</b>	2,198	(15,771)	14,905	8,046
Income tax expense (benefit) (Note 13)	5,733	(7,181)	20,719	(2,895)
<b>(Loss) income before income from equity method investments</b>	(3,535)	(8,590)	(5,814)	10,941
Income from equity method investments (Note 6)	1,117	—	4,192	—
<b>Net (loss) income</b>	<u>\$ (2,418)</u>	<u>\$ (8,590)</u>	<u>\$ (1,622)</u>	<u>\$ 10,941</u>
<b>(Loss) earnings per share</b> (Note 11):				
Basic	\$ (0.09)	\$ (0.10)	\$ (0.18)	\$ 0.13
Diluted	\$ (0.09)	\$ (0.10)	\$ (0.18)	\$ 0.13
<b>Weighted average common shares outstanding</b> (Note 11):				
Basic	83,823	83,412	83,667	83,326
Diluted	83,823	83,412	83,667	83,431

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Net (loss) income</b>	\$ (2,418)	\$ (8,590)	\$ (1,622)	\$ 10,941
Other comprehensive (loss) gain:				
Net change in interest rate swaps:				
Periodic revaluation of interest rate swap, net of tax <sup>(1)</sup>	(310)	963	(4,605)	(212)
Reclassification adjustment for interest recognized in Consolidated Statement of Operations, net of tax <sup>(2)</sup>	421	610	925	623
Net change in unrecognized gain (loss) on interest rate swaps, net of tax	111	1,573	(3,680)	411
Foreign currency translation (loss) gain	(791)	834	(166)	(962)
Other comprehensive (loss) gain	(680)	2,407	(3,846)	(551)
<b>Comprehensive (loss) income</b>	<u>\$ (3,098)</u>	<u>\$ (6,183)</u>	<u>\$ (5,468)</u>	<u>\$ 10,390</u>

(1) Net of tax benefit of \$0.1 million and tax expense of \$0.4 million, respectively, for the three months ended September 30, 2019 and 2018, and net of tax benefit of \$2.1 million and \$0.1 million, respectively, for the nine months ended September 30, 2019 and 2018.

(2) Net of tax expense of \$0.1 million and \$0.3 million, respectively, for the three months ended September 30, 2019 and 2018, and net of tax expense of \$0.4 million and \$0.3 million, respectively, for the nine months ended September 30, 2019 and 2018.

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

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

	Common Stock		Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Class A						
	Shares	Dollars					
<b>Balance at December 31, 2018</b>	<b>83,886</b>	<b>\$ 130</b>	<b>\$ (1,725,349)</b>	<b>\$ 1,007,827</b>	<b>\$ 613,637</b>	<b>\$ (10,555)</b>	<b>\$ (114,310)</b>
Impact of the adoption of ASC 842	—	—	—	—	(59,936)	—	(59,936)
Comprehensive income	—	—	—	—	(15,262)	(790)	(16,052)
Restricted stock awards	121	—	—	—	—	—	—
Minimum tax withholding requirements	(41)	—	—	(120)	—	—	(120)
Stock-based compensation	—	—	—	1,334	—	—	1,334
<b>Balance at March 31, 2019</b>	<b>83,966</b>	<b>130</b>	<b>(1,725,349)</b>	<b>1,009,041</b>	<b>538,439</b>	<b>(11,345)</b>	<b>(189,084)</b>
Comprehensive income	—	—	—	—	16,058	(2,376)	13,682
Restricted stock awards	628	—	—	—	—	—	—
Minimum tax withholding requirements	(15)	—	—	(28)	—	—	(28)
Stock-based compensation	—	—	—	1,658	—	—	1,658
Repurchase of convertible notes	—	—	—	(80)	—	—	(80)
<b>Balance at June 30, 2019</b>	<b>84,579</b>	<b>130</b>	<b>(1,725,349)</b>	<b>1,010,591</b>	<b>554,497</b>	<b>(13,721)</b>	<b>(173,852)</b>
Comprehensive income	—	—	—	—	(2,418)	(680)	(3,098)
Dividend forfeitures on restricted stock	—	—	—	—	16	—	16
Restricted stock awards	19	—	—	—	—	—	—
Minimum tax withholding requirements	(34)	—	—	(85)	—	—	(85)
Stock-based compensation	—	—	—	1,351	—	—	1,351
<b>Balance at September 30, 2019</b>	<b>84,564</b>	<b>130</b>	<b>(1,725,349)</b>	<b>1,011,857</b>	<b>552,095</b>	<b>(14,401)</b>	<b>(175,668)</b>
<b>Balance at December 31, 2017</b>	<b>83,567</b>	<b>\$ 130</b>	<b>\$ (1,725,349)</b>	<b>\$ 1,001,315</b>	<b>\$ 543,814</b>	<b>\$ (5,831)</b>	<b>\$ (185,921)</b>
Comprehensive income	—	—	—	—	6,190	(846)	5,344
Dividend forfeitures on restricted stock	—	—	—	—	42	—	42
Restricted stock awards	149	—	—	—	—	—	—
Minimum tax withholding requirements	(54)	—	—	(223)	—	—	(223)
Stock-based compensation	—	—	—	1,512	—	—	1,512
<b>Balance at March 31, 2018</b>	<b>83,662</b>	<b>130</b>	<b>(1,725,349)</b>	<b>1,002,604</b>	<b>550,046</b>	<b>(6,677)</b>	<b>(179,246)</b>
Comprehensive income	—	—	—	—	13,341	(2,112)	11,229
Restricted stock awards	229	—	—	—	—	—	—
Minimum tax withholding requirements	(3)	—	—	(3)	—	—	(3)
Stock-based compensation	—	—	—	1,962	—	—	1,962
<b>Balance at June 30, 2018</b>	<b>83,888</b>	<b>130</b>	<b>(1,725,349)</b>	<b>1,004,563</b>	<b>563,387</b>	<b>(8,789)</b>	<b>(166,058)</b>
Comprehensive income	—	—	—	—	(8,590)	2,407	(6,183)
Restricted stock awards	19	—	—	—	—	—	—
Minimum tax withholding requirements	(22)	—	—	(70)	—	—	(70)
Stock-based compensation	—	—	—	1,628	—	—	1,628
<b>Balance at September 30, 2018</b>	<b>83,885</b>	<b>130</b>	<b>(1,725,349)</b>	<b>1,006,121</b>	<b>554,797</b>	<b>(6,382)</b>	<b>\$ (170,683)</b>

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

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

	Nine months ended September 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (1,622)	\$ 10,941
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	27,170	36,002
Income from equity method investments	(4,192)	—
Amortization of debt costs	16,491	14,583
Stock-based compensation	4,343	5,102
Long-lived asset impairments	—	14,556
Loss on forward contracts related to the issuance of convertible preferred stock	16,787	—
Loss on net asset exchange for the formation of the joint ventures	21,293	—
Gain on convertible notes repurchase	(3,214)	—
Gains on refranchising	(440)	(276)
Loss on debt refinancing	—	16,740
Third-party fees associated with refinancing	—	(16,322)
Distributions received from equity method investments	791	—
Changes in assets and liabilities:		
Increase in receivables	(4,933)	(6,080)
Decrease (increase) in inventory	9,718	(5,794)
Increase in prepaid and other current assets	(843)	(6,552)
Increase in accounts payable	48,795	6,860
Decrease in deferred revenue and accrued liabilities	(9,456)	(10,565)
Decrease in net lease liabilities	(25,382)	—
Other operating activities	2,332	(3,506)
<b>Net cash provided by operating activities</b>	<b>97,638</b>	<b>55,689</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(10,933)	(13,355)
Refranchising proceeds, net of store acquisition costs	2,062	1,916
Proceeds from net asset exchange	99,221	—
Capital contribution to the newly formed joint ventures	(13,079)	—
<b>Net cash provided by (used in) investing activities</b>	<b>77,271</b>	<b>(11,439)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under revolving credit facility	22,000	261,500
Payments on revolving credit facility	(22,000)	(261,500)
Proceeds from the issuance of convertible preferred stock	199,950	—
Payments on Tranche B-1 Term Loan	(147,312)	(3,413)
Payments on Tranche B-2 Term Loan	(123,774)	(32,100)
Payments on convertible notes repurchase	(24,708)	—
Original issuance discount and revolving credit facility fees	(10,365)	(35,235)
Fees associated with the issuance of convertible preferred stock	(12,814)	(3,443)
Minimum tax withholding requirements	(233)	(296)
<b>Net cash used in financing activities</b>	<b>(119,256)</b>	<b>(74,487)</b>
Effect of exchange rate changes on cash and cash equivalents	(1,020)	(416)
Net increase (decrease) in cash and cash equivalents	54,633	(30,653)
Beginning balance, cash and cash equivalents	67,224	64,001
Ending balance, cash and cash equivalents	<b>\$ 121,857</b>	<b>\$ 33,348</b>

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

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

	<b>As of September 30,</b>	
	<b>2019</b>	<b>2018</b>
	(in thousands)	
<b>Non-cash investing activities:</b>		
Capital expenditures in current liabilities	\$ 1,050	\$ 1,177
<b>Non-cash financing activities:</b>		
Original issuance discount (Note 5)	\$ —	\$ 13,231

Refer to Note 8, "Leases" for supplemental cash flow information related to the Company's leases.

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

**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 health and wellness brand with a diversified, omni-channel business. The Company's assortment of performance and nutritional supplements, vitamins, herbs and greens, health and beauty, food and drink and other general merchandise features innovative private-label products as well as nationally recognized third-party brands, many of which are exclusive to GNC.

The Company's 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 (refer to Note 12, "Segments" for more information). Corporate retail store operations are located in the United States, Canada, Puerto Rico and Ireland. In addition, the Company offers products on the internet through GNC.com and third-party websites. Franchise locations exist in the United States and approximately 50 other countries. Additionally, the Company licenses the use of its trademarks and trade names.

In February 2019, the Company entered into two joint ventures with Harbin Pharmaceutical Group Co., Ltd ("Harbin") to operate its e-commerce business in China (the "HK JV") and retail business in China (the "China JV"), which will accelerate its presence and maximize the Company's opportunities for growth in the Chinese supplement market. Under the terms of the agreement, the Company contributed its China business and retained 35% equity interest in the HK JV and China JV.

In March 2019, the Company entered into a strategic joint venture with International Vitamin Corporation ("IVC") regarding the Company's manufacturing business (the "Manufacturing JV"), which enables the Company to increase its focus on product innovation while IVC manages manufacturing and integrates with the Company's supply chain thereby driving more efficient usage of capital. Under the terms of the agreement, the Company received \$101 million and contributed its Nutra manufacturing and Anderson facility net assets in exchange for an initial 43% equity interest in the Manufacturing JV. During the second quarter of 2019, the Company recognized a \$1.8 million working capital purchase price adjustment, which was settled in the third quarter of 2019. Over the next four years, GNC expects to receive an additional \$75 million from IVC, adjusted up or down based on the Manufacturing JV's future performance, as IVC's ownership of the joint venture increases to 100%.

**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 ("SEC"), include all adjustments (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, 2018 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, 2018, as filed with the SEC on March 13, 2019 (the "2018 10-K"). Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2019.

**Recently Adopted Accounting Pronouncements*****Adoption of the New Lease Standard***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. In July 2018, the FASB issued ASU 2018-11, which provides companies with the option to apply the new lease standard either at the beginning of the earliest comparative period presented or in the period of adoption. The Company adopted ASU 2016-02 and its related amendments (collectively known as "ASC 842") during the first quarter of fiscal 2019 electing the optional transition relief amendment that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. In transitioning to ASC

842, the Company elected to use the practical expedient package available under the guidance for leases that commenced before the effective date and did not elect to use hindsight. The Company has implemented a new lease management and accounting system and updated its processes and internal controls to comply with the new standard.

The Company leases substantially all of its retail stores in the U.S. and Canada segment, including most of the domestic franchise stores that are leased and subleased to franchisees, its distribution centers in the United States and retail stores in Ireland. In addition, the Company has leased office locations and vehicle and equipment leases to support our store and supply chain operations. All of the Company's leases are classified as operating leases.

The Company determines if a contract contains a lease at inception. The lease liabilities are recognized based on the present value of the future minimum lease payments over the term at the commencement date for leases exceeding 12 months. The lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for maintenance and utilities. The minimum lease payments include only fixed lease components, as well as any variable rate payments that depend on an index, initially measured using the index at the lease commencement date. Lease terms may include options to renew when it is reasonably certain that the Company will exercise an option. The Company estimates its incremental borrowing rate, which was estimated to approximate the interest rate on a collateralized basis with similar terms and payments for each lease, using a portfolio approach. The right-of-use assets recognized are initially equal to the lease liability, adjusted for any lease payments made on or before the commencement dates and lease incentives.

The Company recognized lease liabilities of \$550.2 million on January 1, 2019. A right-of-use asset of \$504.2 million was recognized based on the lease liability, adjusted for the reclassification of deferred rent of \$53.3 million and prepaid rent of \$7.3 million. Additionally, the Company recognized \$79.8 million of right-of-use asset impairment charges related to certain of the Company's stores for which it was previously determined that the carrying value of the stores' assets were not recoverable. The right-of-use asset impairment charges were recorded as a reduction to January 1, 2019 (opening day) retained earnings, net of tax of \$19.8 million. The new lease standard has no impact on the timing or classification of the Company's cash flows as reported in the Consolidated Statement of Cash Flows.

The lease liabilities for the operating leases are amortized using the effective interest method. The right-of-use asset is amortized by taking the difference between total rent expense recorded on straight-line basis and the lease liability amortization. When the right-of-use asset for an operating lease is impaired, lease expense is no longer recognized on a straight-line basis. For impaired leases, the Company continues to amortize the lease liability using the same effective interest method as before the impairment charge and the right-of-use asset is amortized on a straight-line basis.

Refer to Note 8 "Leases" for additional information.

### **Recently Issued Accounting Pronouncements**

In August 2018, the FASB issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-used software. This standard is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of the new standard to have a material impact on its Consolidated Financial Statements.

**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 is 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>U.S. company-owned product sales:</b> <sup>(1)</sup>	(in thousands)			
Protein	\$ 73,103	\$ 76,738	\$ 230,520	\$ 251,480
Performance supplements	70,704	68,809	218,565	217,525
Weight management	22,279	29,575	82,665	108,048
Vitamins	43,107	48,322	135,099	148,188
Herbs / Greens	13,939	15,872	45,348	48,975
Wellness	41,995	46,245	135,565	143,626
Health / Beauty	44,356	43,332	137,279	138,911
Food / Drink	23,806	28,325	78,308	82,394
General merchandise	5,051	5,637	17,370	18,577
<b>Total U.S. company-owned product sales</b>	<b>\$ 338,340</b>	<b>\$ 362,855</b>	<b>\$ 1,080,719</b>	<b>\$ 1,157,724</b>
Wholesale sales to franchisees	55,729	58,199	173,855	176,034
Royalties and franchise fees	7,592	7,939	24,239	25,219
Sublease income	10,508	11,087	31,982	34,485
Cooperative advertising and other franchise support fees	4,558	4,739	14,379	16,245
Other <sup>(2)</sup>	28,007	31,700	84,777	96,543
<b>Total U.S. and Canada revenue</b>	<b>\$ 444,734</b>	<b>\$ 476,519</b>	<b>\$ 1,409,951</b>	<b>\$ 1,506,250</b>

(1) Includes e-commerce sales.

(2) Includes revenue primarily related to operations in Canada and the loyalty programs, myGNC Rewards and PRO Access, as further discussed below.

**International Revenues**

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Wholesale sales to franchisees	\$ 22,965	\$ 32,321	\$ 75,421	\$ 81,266
Royalties and franchise fees	6,792	7,150	19,111	20,347
Other <sup>(1)</sup>	7,183	11,936	22,779	38,494
<b>Total International revenue</b>	<b>\$ 36,940</b>	<b>\$ 51,407</b>	<b>\$ 117,311</b>	<b>\$ 140,107</b>

(1) Includes revenue related to China operations prior to the transfer of the China business to the HK JV and China JV, which was effective February 13, 2019, wholesale sales to the HK JV and China JV, and revenue from company-owned locations in Ireland.

## Manufacturing / Wholesale Revenue

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Third-party contract manufacturing <sup>(1)</sup>	\$ —	\$ 31,212	\$ 15,783	\$ 94,514
Intersegment sales <sup>(1)</sup>	—	63,695	35,505	193,596
Wholesale partner sales	17,402	21,047	54,792	64,791
<b>Total Manufacturing / Wholesale revenue</b>	<b>\$ 17,402</b>	<b>\$ 115,954</b>	<b>\$ 106,080</b>	<b>\$ 352,901</b>

(1) The decrease in third-party contract manufacturing and intersegment sales for the three and nine months ended September 30, 2019 compared to the prior year period is due to the transfer of the Nutra manufacturing business to the newly formed Manufacturing JV effective March 1, 2019.

## Revenue by Geography

The following is a summary of revenue by geography:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
<b>Total revenues by geographic areas<sup>(1)</sup>:</b>				
United States	\$ 477,306	\$ 545,332	\$ 1,526,111	\$ 1,696,887
Foreign	21,770	34,853	71,726	108,775
<b>Total revenues</b>	<b>\$ 499,076</b>	<b>\$ 580,185</b>	<b>\$ 1,597,837</b>	<b>\$ 1,805,662</b>

(1) Geographic areas are defined based on legal entity jurisdiction.

## Balances from Contracts with Customers

Contract assets represent amounts related to the Company's contractual right to consideration for completed performance obligations not yet invoiced. As of December 31, 2018, the Company had contract assets of \$25.5 million for specialty manufacturing recorded within prepaid and other current assets on the Consolidated Balance Sheet (with a corresponding reduction to inventory at cost). Due to the transfer of the Nutra manufacturing net assets to the Manufacturing JV on March 1, 2019, the Company had no contract assets on the Consolidated Balance Sheet as of September 30, 2019.

Contract liabilities include payments received in advance of performance under the contract, and are realized with the associated revenue recognized under the contract. 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.

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

	Nine months ended September 30, 2019			Balance at the End of Period
	Balance at Beginning of Period	Recognition of revenue included in beginning balance	Contract liability, net of revenue, recognized during the period	
	(in thousands)			
Deferred franchise and license fees	\$ 33,464	(7,931)	3,476	\$ 29,009
PRO Access and loyalty program points	24,836	(21,266)	22,562	26,132
Gift card liability	3,416	(1,945)	324	1,795

As of September 30, 2019, the Company had deferred franchise fees with unsatisfied performance obligations extending throughout 2029 of \$29.0 million, of which approximately \$6.3 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:

	September 30, 2019	December 31, 2018
	(in thousands)	
Finished product ready for sale	\$ 394,763	\$ 416,113
Work-in-process, bulk product and raw materials <sup>(1)</sup>	—	46,520
Packaging supplies <sup>(1)</sup>	—	2,939
<b>Inventory</b>	<b>\$ 394,763</b>	<b>\$ 465,572</b>

(1) The decrease in work-in-process, bulk product and raw materials and packaging supplies as of September 30, 2019 compared with December 31, 2018 is due to the transfer of the Nutra manufacturing net assets to the Manufacturing JV effective March 1, 2019.

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

Long-term debt consisted of the following:

	September 30, 2019	December 31, 2018
	(in thousands)	
Tranche B-1 Term Loan	\$ —	\$ 147,289
Tranche B-2 Term Loan (net of \$8.5 million and \$17.5 million discount)	440,009	554,760
FILO Term Loan (net of \$8.9 million and \$10.9 million discount)	266,132	264,086
Unpaid original issuance discount	—	11,445
Notes	152,944	175,504
Debt issuance costs	(499)	(762)
<b>Total debt</b>	<b>858,586</b>	<b>1,152,322</b>
Less: current debt	(152,919)	(158,756)
<b>Long-term debt</b>	<b>\$ 705,667</b>	<b>\$ 993,566</b>

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"), which included an extension of the maturity date of a portion of the term loan from March 2019 to March 2021 (the "Tranche B-2 Term Loan"). The remaining term loan continued to have a maturity date of March 2019 ("the Tranche B-1 Term Loan"). In the event that all outstanding amounts under the convertible senior notes exceeding \$50.0 million are not repaid, refinanced, converted or effectively discharged prior to May 2020 ("Springing Maturity Date"), the maturity date of the Tranche B-2 Term Loan will become the Springing Maturity Date, subject to certain adjustments. In connection with the debt refinancing, the Company recognized a loss of \$16.7 million during the first quarter of 2018, which primarily included third-party fees. As of September 30, 2019, the Company had paid off the Tranche B-1 Term Loan and had \$440.0 million outstanding under the Tranche B-2 Term Loan. The Company also entered into a new asset-based credit agreement (the "ABL Credit Agreement"), consisting of:

- 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, should the Springing Maturity Date be triggered); and
- a \$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, should the Springing Maturity Date be triggered). In connection with the transfer of the Nutra manufacturing and Anderson facility net assets to the manufacturing joint venture with IVC, the Revolving Credit Facility commitment was reduced from \$100 million to \$81 million effective March 2019. As of September 30, 2019 there were no borrowings outstanding on the Revolving Credit Facility.

The Tranche B-2 Term Loan requires annual aggregate principal payments of at least \$43 million and bears interest at a rate of, at the Company's option, LIBOR plus a margin of 8.75% per annum subject to change under certain circumstances (with a minimum and maximum margin of 8.25% and 9.25%, respectively, per annum), or prime plus a margin of 7.75% per annum subject to change under certain circumstances (with a minimum and maximum margin of 7.25% and 8.25%, respectively, per annum). Any mandatory repayments as defined in the credit agreement shall be applied to the remaining annual aggregate principal payments in direct order of maturity. As discussed in further detail below, in November 2018 the Company paid \$100 million on the Tranche B-2 Term Loan and elected to use the payment to satisfy the scheduled amortization payments on the Term Loan Facility through December 2020. 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").

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% on the undrawn portion of the Revolving Credit Facility, which is 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.

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) and second the FILO Term Loan (until repaid in full, but only if such prepayment is permitted under the ABL Credit Agreement) 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 payment will be 75% of excess cash flow for each such fiscal year, subject to a reduction to 50% based on the attainment of a certain Consolidated Net First Lien Leverage Ratio, and will be reduced by certain scheduled debt payment amounts. The Company made the first excess cash flow payment in the amount of \$9.8 million in April 2019 with respect to the year ending December 31, 2018. The Company currently expects the excess cash flow payment for the year ending

December 31, 2019, which is required to be paid in the second quarter of 2020, to be between \$25 million and \$35 million at 50%.

At September 30, 2019, the Company's contractual interest rates under the Tranche B-2 Term Loan and the FILO Term Loan were 10.8% and 9.1%, respectively, which consist of LIBOR plus the applicable margin rate. At December 31, 2018, the interest rates under the Tranche B-1 Term Loan, Tranche B-2 Term Loan, and the FILO Term Loan were 5.7%, 11.8%, and 9.5%, respectively. At September 30, 2019, the Company had \$68.2 million available under the Revolving Credit Facility, after giving effect to \$5.7 million utilized to secure letters of credit and a \$7.1 million reduction to borrowing ability as a result of decrease in net collateral.

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. Despite these limitations, the Company has the ability to discharge the liabilities of GNC Holdings, Inc. in the ordinary course of business through a variety of alternatives, including a restricted payment basket, a junior lien debt incurrence basket, and repayment of intercompany debt.

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. If the Company's availability under the Revolving Credit Facility is less than the greater of (i) 12.5% of the borrowing base or (ii) \$12.5M, then the ABL Credit Agreement requires compliance as of the end of each fiscal quarter 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.

The Company utilized proceeds from the investment from Harbin Pharmaceutical Group Co., Ltd ("Harbin") and the Manufacturing JV with IVC to pay down outstanding long-term debt. The \$100 million investment from Harbin received in November 2018 was utilized to pay a portion of the Tranche B-2 Term Loan. The Company elected to use the payment to satisfy the scheduled amortization payments through December 2020. The Company received the remaining \$200 million investment from Harbin and \$101 million from IVC in the first quarter of 2019, the proceeds of which were used to pay down the remaining balance of the Tranche B-1 Term Loan that matured in March 2019. The remaining proceeds, together with cash generated from operating activities, were utilized to pay \$114.0 million of the Tranche B-2 Term Loan and the original issuance discount due to the Tranche B-2 Term Loan lenders at 2% of outstanding balance.

Management believes that cash generated from operations, together with amounts available under the Revolving Credit Facility, will be sufficient to service its debt (including the expected excess cash flow payment), over the next twelve months. While our plan is to refinance our indebtedness by the end of 2019, we make no assurances regarding the likelihood, certainty or exact timing of this refinancing. In the event that a refinancing does not occur before the Springing Maturity Date or the August 2020 maturity date, management believes that the Company will have the ability to repay \$159.1 million of the Notes with projected cash on hand and the Revolving Credit Facility.

### Convertible Debt

As of September 30, 2019, the Company maintains \$159.1 million in principal amount of 1.5% convertible senior notes due in August 2020 (the "Notes"). The Notes consist of the following components:

	September 30, 2019	December 31, 2018
	(in thousands)	
<b>Liability component</b>		
Principal	\$ 159,097	\$ 188,565
Conversion feature	(5,419)	(11,489)
Discount related to debt issuance costs	(734)	(1,572)
<b>Net carrying amount</b>	<b>\$ 152,944</b>	<b>\$ 175,504</b>

During the second quarter of 2019, the Company repurchased \$29.5 million in aggregate principal amount of the Notes for \$24.7 million in cash. The convertible debt repurchase resulted in a gain of \$3.2 million, which included the unamortized conversion feature of \$1.3 million and unamortized discount of \$0.2 million.

### 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 of 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 has scheduled decreases to \$175 million on June 30, 2019, \$125 million on June 30, 2020 and \$75 million on December 31, 2020. The Company designated these instruments as cash flow hedges deemed effective upon initiation. The interest rate swaps are recognized on the balance sheet at fair value. Changes in fair value are recorded within other comprehensive loss on the Consolidated Balance Sheet and reclassified into the Consolidated Statement of Operations as interest expense in the period in which the underlying transaction affects earnings.

The fair values of the derivative financial instruments included in the Consolidated Balance Sheets consisted of the following:

(in thousands, except percentages)

	Notional Amount	Fixed Rate	Balance Sheet Classification	Fair Value at	
				September 30, 2019	December 31, 2018
<b>Accounting cash flow hedges:</b>					
Interest rate swap	\$ 275,000	2.82%	Other long-term liabilities	\$ 6,258	\$ 2,371
Interest rate swap <sup>(1)</sup>	175,000	2.74%	Other long-term liabilities	2,283	839
<b>Net carrying amount</b>	<b>\$ 450,000</b>		<b>Total liabilities</b>	<b>\$ 8,541</b>	<b>\$ 3,210</b>

(1) The notional amount of the \$225 million interest rate swap had decreased to \$175 million on June 30, 2019 as scheduled.

At September 30, 2019, there was a cumulative unrealized loss of \$5.9 million, net of tax, related to these interest rate swaps 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 September 30, 2019, 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 \$3.6 million. Refer to Note 7, "Fair Value Measurements of Financial Instruments" for more information on how the interest rate swaps are valued.

## Interest Expense

Interest expense consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Tranche B-1 Term Loan coupon	\$ —	\$ 1,755	\$ 928	\$ 11,496
Tranche B-2 Term Loan coupon	12,849	20,447	42,271	45,976
FILO Term Loan coupon	6,901	6,901	20,479	15,241
Revolving Credit Facility	97	285	316	655
Terminated revolving credit facility	—	—	—	316
Amortization of discount and debt issuance costs	2,522	3,659	11,087	8,954
<b>Subtotal</b>	<b>22,369</b>	<b>33,047</b>	<b>75,081</b>	<b>82,638</b>
<b>Notes:</b>				
Coupon	597	707	2,033	2,121
Amortization of conversion feature	1,413	1,655	4,725	4,898
Amortization of discount and debt issuance costs	193	244	679	731
<b>Total Notes</b>	<b>2,203</b>	<b>2,606</b>	<b>7,437</b>	<b>7,750</b>
Other	(116)	79	(142)	60
<b>Interest expense, net</b>	<b>\$ 24,456</b>	<b>\$ 35,732</b>	<b>\$ 82,376</b>	<b>\$ 90,448</b>

## NOTE 6. EQUITY METHOD INVESTMENTS

In February 2019, the Company contributed its China business in exchange for 35% ownership of each of the newly formed joint ventures with Harbin, the HK JV and China JV. The HK JV includes the operation of the cross-border China e-commerce business, and has an exclusive right to use the Company's trademarks to manufacture and distribute the Company's products in China (excluding Hong Kong, Taiwan and Macau) via e-commerce channels. The China JV is a retail-focused joint venture to operate GNC's brick-and-mortar retail business in China and it will have an exclusive right to use the Company's trademarks to manufacture and distribute the Company's products in China (excluding Hong Kong, Taiwan and Macau) via retail stores and pharmacies. The HK JV closed in February 2019 and the China JV agreement is expected to be completed in the fourth quarter of 2019 or the first quarter of 2020, following the satisfaction of certain routine regulatory and legal requirements.

In March 2019, the Company received \$101 million, net of a \$1.8 million working capital purchase price adjustment in the second quarter of 2019, from IVC and contributed the net assets of the Nutra manufacturing and Anderson facilities in exchange for an initial 43% equity interest in a newly formed manufacturing joint venture. In addition, the Company made a capital contribution of \$10.7 million to the Manufacturing JV to fund its share of short-term working capital needs. Over the next four years, GNC expects to receive an additional \$75 million from IVC, adjusted up or down based on the Manufacturing JV's future performance, as IVC's ownership of the joint venture increases to 100%. The Manufacturing JV is responsible for the manufacturing of the products previously produced by the Company at the Nutra manufacturing facility.

### Gain (loss) from the net asset exchange

In connection with the formation of the joint ventures effective in the first quarter of 2019, the Company deconsolidated its China business and its Nutra manufacturing business which resulted in a pre-tax gain of \$5.8 million and loss of \$27.1 million, respectively, recorded within loss on net asset exchange for the formation of the joint ventures on the Consolidated Statements of Operations. The \$5.8 million gain from the Harbin transaction was calculated based on the difference between the fair value of the 35% equity interest in the HK JV and China JV, less the carrying value of the contributed China business, including \$2.4 million of cash, and third-party closing fees. The \$27.1 million loss from the Manufacturing JV transaction was calculated based on the fair value of the 43% equity interest retained in the Manufacturing JV and the \$101 million in cash received, net of a \$1.8 million working capital purchase price adjustment in the second quarter of 2019, less the carrying value of the contributed Nutra and Anderson facilities and third-party closing fees.

The Company's interests in the joint ventures are accounted for as equity method investments due to the Company's ability to exercise significant influence over management decisions of the joint ventures. Under the equity method, the Company's share of profits and losses from the joint ventures is recorded within income from equity method investments on the Consolidated Statement of Operations. The following table provides a reconciliation of equity method investments on the Company's Consolidated Balance Sheets:

	<b>September 30, 2019</b>	
	<b>(in thousands)</b>	
Manufacturing JV	\$	75,434
Manufacturing JV capital contribution		10,714
HK JV and China JV		10,180
Income from equity method investments		4,192
Distributions received from equity method investments		(791)
<b>Total Equity method investments</b>	<b>\$</b>	<b>99,729</b>

In connection with the transaction with IVC, the Company entered into a lease for warehouse space within the Anderson facility. Refer to Note 8, "Leases" for more information. Additionally, the Company purchased approximately \$46 million and \$118 million, respectively, of finished goods from the Manufacturing JV during the three and nine months ended September 30, 2019 and had approximately \$10 million accounts payable outstanding as of September 30, 2019. In connection with the HK JV, the Company recognized revenue, primarily from wholesale sales and royalties, of \$3.8 million and \$8.1 million, respectively, for the three and nine months ended September 30, 2019 and had \$6.4 million accounts receivable outstanding as of September 30, 2019.

#### **NOTE 7. 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 value and estimated fair value of the forward contracts for the issuance of convertible preferred stock, the Term Loan Facility, net of discount, Notes (net of the equity component classified in stockholders' equity and discount) and the interest rate swaps were as follows:

	September 30, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
<b>Assets:</b>				
Forward contracts for the issuance of convertible preferred stock	\$ —	\$ —	\$ 88,942	\$ 88,942
<b>Liabilities:</b>				
Tranche B-1 Term Loan	\$ —	\$ —	\$ 147,289	\$ 145,080
Tranche B-2 Term Loan	440,009	418,559	554,760	511,766
FILO Term Loan	266,132	266,417	264,086	260,125
Notes	152,944	142,620	175,504	131,628
Interest rate swaps	8,541	8,541	3,210	3,210

The forward contracts for the issuance of convertible preferred stock were measured at fair value, as of the valuation date, using a single factor binomial lattice model (the "Lattice Model") which incorporates the terms and conditions of the convertible preferred stock and is based on changes in the prices of the underlying common share price over successive periods of time. Key assumptions of the Lattice Model include the current price of the underlying stock and its historical and expected volatility, risk-neutral interest rates and the instrument's remaining term. These assumptions require significant management judgment and are considered Level 3 inputs. The forward contracts were revalued at each reporting period with changes in fair value recognized in the Consolidated Statements of Operations. The forward contracts settled upon issuance on January 2, 2019 and February 13, 2019.

The fair values of the term loans were determined using the instruments' 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 8. LEASES**

The Company has operating leases for retail stores, distribution centers, other leased office locations, vehicles and certain equipment with remaining lease terms of one to 15 years, some of which include options to extend the leases for up to 10 years. As of September 30, 2019, the weighted average remaining lease term was 5.2 years and the weighted average discount rate was 10%. On the Company's Consolidated Balance Sheets as of September 30, 2019, the Company had lease liabilities of \$463.1 million, of which \$115.5 million are classified as current, and right-of-use assets of \$362.8 million.

The Company has elected to apply the short-term lease exemption for all asset classes and excluded them from the balance sheet. Lease payments for short-term leases are recognized on a straight-line basis over the lease term. The short-term rent expense recognized during the three months and nine months ended September 30, 2019 is immaterial. The components of the Company's rent expense, which is recorded within cost of sales on the Consolidated Statements of Operations, was as follows:

	<b>Three months ended September 30, 2019</b>	<b>Nine months ended September 30, 2019</b>
	<b>(in thousands)</b>	
<b>Company-owned and franchise stores:</b>		
Operating leases	\$ 36,833	\$ 107,710
Variable lease costs <sup>(1)</sup>	20,300	62,824
<b>Total company-owned and franchise stores</b>	<b>57,133</b>	<b>170,534</b>
Other	1,822	5,976
<b>Total rent expense</b>	<b>\$ 58,955</b>	<b>\$ 176,510</b>

(1) Includes percent and contingent rent, landlord related taxes and common operating expenses.

Supplemental cash flow information related to leases was as follows:

	<b>Nine months ended September 30, 2019</b>
	<b>(in thousands)</b>
<b>Operating cash flow information:</b>	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 130,374
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 23,829

The Company recorded sublease revenue relating to subleases with its franchisees, which includes rental income and other occupancy related items, within revenue on the Consolidated Statements of Operations, of \$10.5 million and \$32.0 million, respectively, in the three and nine months ended September 30, 2019, and \$11.1 million and \$34.5 million, respectively, in the three and nine months ended September 30, 2018

Maturities of the lease liabilities (undiscounted lease payments, as defined in Note 2 "Basis of Presentation") as of September 30, 2019 were as follows:

	Operating Leases for Company-Owned and Franchise Stores	Operating Leases for Other <sup>(1)</sup>	Total Operating Leases	Sublease Income from Franchisees	Rent on Operating Leases, net of Sublease Revenue
(in thousands)					
2019 (remainder)	\$ 40,348	\$ 1,823	\$ 42,171	\$ (7,641)	\$ 34,530
2020	140,618	6,611	147,229	(27,431)	119,798
2021	111,072	4,739	115,811	(21,938)	93,873
2022	82,612	2,721	85,333	(16,713)	68,620
2023	61,422	1,355	62,777	(12,370)	50,407
Thereafter	137,869	6,703	144,572	(28,900)	115,672
<b>Total future obligations</b>	<b>\$ 573,941</b>	<b>\$ 23,952</b>	<b>\$ 597,893</b>	<b>\$ (114,993)</b>	<b>\$ 482,900</b>
<b>Less amounts representing interest</b>			<b>(134,762)</b>		
<b>Present value of lease obligations</b>			<b>\$ 463,131</b>		

(1) Includes various leases for warehouses, vehicles, and various equipment at the Company's facilities.

As of September 30, 2019, leases that the Company has entered into but have not yet commenced are immaterial.

In connection with the transaction with IVC for the Manufacturing JV effective March 1, 2019, the Company leased warehouse space within the Anderson facility from the Manufacturing JV for a term of one year. The lease was accounted for as a sale leaseback transaction and classified as an operating lease included in the current lease liabilities on the Consolidated Balance Sheet.

#### Disclosures related to periods prior to adoption of ASU 2016-02

The Company adopted ASU 2016-02 using a modified retrospective adoption method at January 1, 2019 as noted in Note 2. "Basis of Presentation." As required, the following disclosure is provided for periods prior to adoption. Minimum future rent obligations for non-cancelable operating leases, excluding optional renewal periods, were as follows for the period ended December 31, 2018 and exclude landlord related taxes, common operating expenses, and percent and contingent rent.

	Operating Leases for Company-Owned and Franchise Stores	Operating Leases for Other <sup>(1)</sup>	Total Operating Leases	Sublease Income from Franchisees	Rent on Operating Leases, net of Sublease Revenue
(in thousands)					
2019	\$ 162,910	\$ 6,071	\$ 168,981	\$ (29,867)	\$ 139,114
2020	126,312	5,574	131,886	(23,631)	108,255
2021	95,000	4,185	99,185	(16,782)	82,403
2022	64,735	2,479	67,214	(10,285)	56,929
2023	39,798	1,290	41,088	(4,717)	36,371
Thereafter	56,200	6,703	62,903	(4,238)	58,665
<b>Total future obligations</b>	<b>\$ 544,955</b>	<b>\$ 26,302</b>	<b>\$ 571,257</b>	<b>\$ (89,520)</b>	<b>\$ 481,737</b>

(1) Includes various leases for warehouses, vehicles, and various equipment at the Company's facilities.

## NOTE 9. 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's contingencies are subject to substantial uncertainties, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement posture of the parties. Consequently, except as otherwise noted below with regard to a particular matter, the Company cannot predict with any reasonable certainty the timing or outcome of the legal matters described below, and the Company is unable to estimate a possible loss or range of loss for such matters. 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, prior to the formation of the Manufacturing JV, 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/ 1,3-dimethylamylamine, or "DMAA," which were recalled from the Company's stores in November 2013, and/or Aegeline, a compound extracted from baobab trees. As of September 30, 2019, the Company was named in 27 personal injury lawsuits involving products containing DMAA and/or Aegeline.

These matters are currently stayed pending final resolution.

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 their insurers.

**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 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. In August 2018, the plaintiff voluntarily dismissed the class action claims alleging overtime violations. As of September 30, 2019, 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. Trial is currently scheduled for January 2020.

**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 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 and the Company filed its appellant's brief on August 27, 2018. Oral argument occurred in April 2019 and the Company awaits the Court's ruling.

**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. Argument occurred in October 2018. On November 2, 2018, the Court affirmed the trial court's decision in part and reversed in part, reversing the denial of Mr. Olive's motion for attorneys' fees and remanding the matter to the trial court for further proceedings regarding his attorneys' fees and costs. On November 16, 2018, the Company filed a motion for reconsideration of the Court's decision. On December 27, 2018, the Court reversed, in part, its November 2, 2018 ruling and held that there was no prevailing party for the purposes of the attorneys' fee award. Olive has filed a petition for review with the Supreme Court of the State of California and the Company has opposed that petition. On April 17, 2019, the California Supreme Court denied Olive's petition for review.

**Oregon Attorney General.** On October 22, 2015, the Attorney General for the State of Oregon sued the Company 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 contested. The Company filed a cross motion for summary judgment on the first claim for relief, which the Oregon Attorney General contested. Following oral argument in August 2018, the Court denied the State's motion for summary judgment and granted in part and denied in part the Company's motion for summary judgment. The parties are in the process of exchanging discovery. Trial is currently scheduled to begin in September 2020.

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.

**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. A tentative agreement was reached in the third quarter of 2017 on many of the key terms of a settlement. In September 2019, the Court granted preliminary approval of the parties' settlement agreement. A final hearing is

scheduled for December 2019. The Company currently expects any settlement to be in a form that does not require the recording of a contingent liability.

### **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 Federal Food, Drug and Cosmetic Act (the "FDCA"). Under the agreement, which included 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 own 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**

As part of soil and groundwater remediation conducted at the Nutra manufacturing facility pursuant to an investigation conducted in partnership with the South Carolina Department of Health and Environmental Control (the "DHEC"), we completed additional investigations with the DHEC's approval, including the installation and operation of 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. After an initial monitoring period, in October of 2017 the DHEC approved a work plan for extended monitoring of such system and the contamination into 2021. While the Company contributed the net assets of the Nutra manufacturing and Anderson facilities to the Manufacturing JV in March of 2019 (refer to Note 6 "Equity Method Investments" for additional information), we retained certain liabilities, including historical environmental liabilities, related to the facilities. As such, the Company and the Manufacturing Joint Venture 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 our 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 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, including certain historic liabilities retained by the Company pursuant to the terms of the Manufacturing JV. 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.

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 current or former 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.

#### **NOTE 10. MEZZANINE EQUITY**

Holdings is authorized to issue up to 60.0 million shares of preferred stock, par value \$0.001 per share. On February 13, 2018, the Company entered into a Securities Purchase Agreement (as amended from time to time, the "Securities Purchase Agreement") by and between the Company and Harbin Pharmaceutical Group Holdings Co., Ltd. (the "Investor"), pursuant to which the Company agreed to issue and sell to the Investor, and the Investor agreed to purchase from the Company, 299,950 shares of a newly created series of convertible preferred stock of the Company, designated the "Series A Convertible Preferred Stock" (the "Convertible Preferred Stock"), for a purchase price of \$1,000 per share, or an aggregate of approximately \$300 million (the "Securities Purchase"). The Convertible Preferred Stock is convertible into 56.1 million shares of the Company's Common Stock at an initial conversion price of \$5.35 per share, subject to customary anti-dilution adjustments. On November 7, 2018, The Company entered into an Amendment to the Securities Purchase Agreement with the Investor. Pursuant to the terms of the Securities Purchase Agreement, the Investor assigned its interest in the Securities Purchase Agreement to Harbin and funded the \$300 million investment in three separate tranches. The shares of Convertible Preferred Stock were issued as follows: (i) 100,000 shares of Convertible Preferred Stock issued on November 8, 2018 for a total purchase price of \$100 million (the "Initial Issuance"), (ii) 50,000 shares of Convertible Preferred Stock issued on January 2, 2019 for a total purchase price of \$50 million (the "Second Issuance") and (iii) 149,950 shares of Convertible Preferred Stock issued on February 13, 2019 for a total purchase price of approximately \$150 million (the "Third Issuance").

Holders of shares of Convertible Preferred Stock are entitled to receive cumulative preferential dividends, payable quarterly in arrears, at an annual rate of 6.5% of the stated value of \$1,000 per share, subject to increase in connection with the payment of dividends in kind. Dividends are payable, at the Company's option, in cash from legally available funds or in kind by issuing additional shares of Convertible Preferred Stock with such stated value equal to the amount of payment being made or by increasing the stated value of the outstanding Convertible Preferred Stock by the amount per share of the dividend or in a combination thereof.

As of September 30, 2019, the Company had issued a total of 299,950 shares of Convertible Preferred Stock. The Convertible Preferred Stock was recorded as Mezzanine Equity, net of issuance cost, on the Consolidated Balance Sheets because the shares are redeemable at the option of the holder if a fundamental change occurs, which includes change in control or delisting. The guaranteed Second Issuance and Third Issuance were considered forward contracts that represented an obligation to both parties until the shares were issued. The forward contracts were recorded at fair value on the Consolidated Balance Sheets as of December 31, 2018, with any changes in fair value recorded in earnings in the Consolidated Statements of Operations. The Company recorded a \$16.8 million loss on forward contracts for the issuance of Convertible Preferred Stock during the first quarter of 2019. Upon issuance of the shares associated with the forward contracts, the carrying value of the forward contracts were recorded to Mezzanine Equity.

The Convertible Preferred Stock is not currently redeemable and is only redeemable upon a Fundamental Change at the Stated Value plus any accumulated and unpaid dividends on such shares on the Fundamental Change date. The Company does not believe a fundamental change is considered probable until it occurs. Subsequent adjustment of the amount presented in temporary equity is unnecessary if it is not probable that the instrument will become redeemable. As the Convertible Preferred Stock is only redeemable upon a fundamental change, the occurrence of which is not probable, we will not accrete the Convertible Preferred Stock until a fundamental change becomes probable to occur. As such, the Company will recognize changes in the redemption value to the Convertible Preferred Stock as they occur and adjust the carrying value to the redemption value at the end of each reporting period as if the end of the reporting period were also the redemption date for the Convertible Preferred Stock. As of September 30, 2019, the Stated Value of the Convertible Preferred Stock is \$300.0 million (299,950 shares at \$1,000 per share) and there are accumulated and unpaid dividends on such shares of \$14.7 million.

**NOTE 11. EARNINGS PER SHARE**

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
<b>Basic weighted average shares</b>	83,823	83,412	83,667	83,326
Effect of dilutive stock-based compensation awards	—	—	—	105
<b>Diluted weighted average shares</b>	<u>83,823</u>	<u>83,412</u>	<u>83,667</u>	<u>83,431</u>

For the three months and nine months ended September 30, 2019 and 2018, the following awards were excluded from the computation of diluted (loss) earnings per share because the impact of applying the treasury method was anti-dilutive or because certain conditions have not been met with respect to the Company's performance awards.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
<b>Anti-dilutive:</b>				
Time-based options and restricted stock awards	3,064	3,076	3,064	3,022
Performance-based restricted stock awards	917	1,241	917	1,013
<b>Contingently issuable:</b>				
Performance-based restricted stock awards with a market condition	147	294	147	308
<b>Total stock-based awards excluded from diluted EPS</b>	<u>4,128</u>	<u>4,611</u>	<u>4,128</u>	<u>4,343</u>

All 4.1 million outstanding stock-based awards for the three months and nine months ended September 30, 2019 and all 4.6 million outstanding stock-based awards for the three months ended September 30, 2018 were excluded from the computation of diluted loss per share because the Company was in a net loss position and the inclusion of the awards would have been anti-dilutive. The Company has applied the if-converted method to calculate dilution on the Convertible Preferred Stock and Notes in the three and nine-months ended September 30, 2019, which has resulted in 58.0 million and 52.7 million, respectively, weighted average underlying shares from the Convertible Preferred Stock, which included the cumulative undeclared dividends, and 2.4 million weighted average underlying shares from the Notes being anti-dilutive.

The computations for basic and diluted (loss) earnings per common share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
(in thousands, except per share data)				
<b>(Loss) earnings per common share - Basic</b>				
Net (loss) income	\$ (2,418)	\$ (8,590)	\$ (1,622)	\$ 10,941
Cumulative undeclared convertible preferred stock dividend	5,031	—	13,697	—
Net (loss) income attributable to common shareholders	(7,449)	(8,590)	(15,319)	10,941
Weighted average common shares outstanding - basic	83,823	83,412	83,667	83,326
(Loss) earnings per common share - basic	\$ (0.09)	\$ (0.10)	\$ (0.18)	\$ 0.13
<b>(Loss) earnings per common share - Diluted</b>				
Net (loss) income	\$ (2,418)	\$ (8,590)	\$ (1,622)	\$ 10,941
Cumulative undeclared convertible preferred stock dividends	5,031	—	13,697	—
Net (loss) income attributable to common shareholders	(7,449)	(8,590)	(15,319)	10,941
Weighted average common shares outstanding - diluted	83,823	83,412	83,667	83,431
(Loss) earnings per common share - diluted	\$ (0.09)	\$ (0.10)	\$ (0.18)	\$ 0.13

**NOTE 12. SEGMENTS**

The Company aggregates its operating segments into three reportable segments, which include U.S. and Canada, International and Manufacturing / Wholesale. Warehousing and distribution costs have been allocated to each reportable segment based on estimated utilization and benefit. The Company's chief operating decision maker (its chief executive officer) evaluates segment operating results based primarily on performance indicators, including revenue and operating income. Operating income of each reportable segment excludes certain items that are managed at the consolidated level, such as corporate costs. The Manufacturing / Wholesale segment manufactures and sells product to the U.S. and Canada and International segments at cost with a markup, which is eliminated at consolidation.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
<b>Revenue:</b>				
U.S. and Canada	\$ 444,734	\$ 476,519	\$ 1,409,951	\$ 1,506,250
International	36,940	51,407	117,311	140,107
<b>Manufacturing / Wholesale:</b>				
Intersegment revenues	—	63,695	35,505	193,596
Third-party	17,402	52,259	70,575	159,305
Subtotal Manufacturing / Wholesale	17,402	115,954	106,080	352,901
Total reportable segment revenues	499,076	643,880	1,633,342	1,999,258
Elimination of intersegment revenues	—	(63,695)	(35,505)	(193,596)
<b>Total revenue</b>	<b>\$ 499,076</b>	<b>\$ 580,185</b>	<b>\$ 1,597,837</b>	<b>\$ 1,805,662</b>
<b>Operating income:</b>				
U.S. and Canada	\$ 32,715	\$ 11,466	\$ 134,017	\$ 100,559
International	12,653	16,468	40,972	46,624
Manufacturing / Wholesale	5,052	16,869	32,514	47,722
Total reportable segment operating income	50,420	44,803	207,503	194,905
Corporate costs	(23,766)	(24,732)	(75,106)	(79,511)
Loss on net asset exchange for the formation of the joint ventures	—	—	(21,293)	—
Other	—	(110)	(250)	(160)
Unallocated corporate costs, loss on net asset exchange and other	(23,766)	(24,842)	(96,649)	(79,671)
<b>Total operating income</b>	<b>26,654</b>	<b>19,961</b>	<b>110,854</b>	<b>115,234</b>
Interest expense, net	24,456	35,732	82,376	90,448
Gain on purchase of convertible debt	—	—	(3,214)	—
Loss on forward contracts for the issuance of convertible preferred stock	—	—	16,787	—
Loss on debt refinancing	—	—	—	16,740
<b>Income (loss) before income taxes</b>	<b>\$ 2,198</b>	<b>\$ (15,771)</b>	<b>\$ 14,905</b>	<b>\$ 8,046</b>

Refer to Note 3, "Revenue" for more information on the Company's reportable segments.

### NOTE 13. INCOME TAXES

The Company recognized \$5.7 million of income tax expense during the three months ended September 30, 2019 compared with \$7.2 million of income tax benefit in the prior year quarter. The Company recognized \$20.7 million of income tax expense during the nine months ended September 30, 2019 compared with \$2.9 million of income tax benefit in the same period in 2018. The Company's income tax expense is based on income, statutory tax rates and tax planning opportunities available in the jurisdictions in which it operates. The Company's year-to-date tax provision is calculated by applying the most recent annualized effective tax rate to year-to-date pre-tax ordinary income. The Company's most recent annualized effective tax rate was significantly impacted by a gain for tax purposes resulting from the transfer of the Nutra manufacturing net assets to the Manufacturing JV and the establishment of a partial valuation allowance for attributes generated in the current year that may not be realizable, partially offset by discrete tax benefits associated with the finalization of the Company's 2018 federal income tax return. The tax impacts of unusual or infrequent items are recorded discretely in the interim period in which they occur. The Company discretely recorded the tax impact of the loss on forward contracts for the issuance of Convertible Preferred Stock. This loss was not deductible for income tax purposes.

At September 30, 2019 and December 31, 2018, the Company had \$9.8 million and \$6.9 million of unrecognized tax benefits, respectively, excluding interest and penalties, which if recognized, would affect the effective tax rate. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company accrued \$2.1 million at September 30, 2019 and \$2.0 million at December 31, 2018, for potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to the ultimate settlement of uncertain tax positions, amounts previously accrued will be reversed as a reduction to income tax expense.

Holdings files a consolidated federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local and international jurisdictions in which it and its subsidiaries operate. The statutes of limitation for the Company's U.S. federal income tax returns are closed for years through 2013. The Company has various state and local jurisdiction tax years open to examination (the earliest open period is generally 2011).

## 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" of this Quarterly Report on Form 10-Q. The following information presented for the three and nine months ended September 30, 2019 and 2018 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.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q and any documents incorporated by reference herein or therein includes 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," "expect," "intend," "estimate," "project," "may," "will," "should," "would," "could," "can," the negatives thereof, variations thereon and similar expressions, or by discussions of strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and include various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain and subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. A detailed discussion of risk and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" in our 2018 Annual Report on Form 10-K.

In addition, we operate in a highly competitive and rapidly changing environment; therefore, new risk factors can arise, and it is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statement. 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 as a prediction of actual results. We cannot guarantee future results, events, levels of activity, performance or achievements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made as of the date of this filing. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

### Business Overview

GNC is a global health and wellness brand with a diversified, omni-channel business. Our assortment of performance and nutritional supplements, vitamins, herbs and greens, health and beauty, food and drink and other general merchandise features innovative private-label products as well as nationally recognized third-party brands, many of which are exclusive to GNC. We derive our revenues principally from company-owned retail locations, domestic and international franchise activities, e-commerce, and corporate partnerships. We have approximately 7,800 locations in approximately 50 countries.

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

### Our Current Strategy

Key elements of our business strategy are detailed below:

- **Leading brand of nutritional supplements.** GNC has been in business for more than 80 years and the Company is built on a core foundation as a brand builder of high-quality nutritional supplements. Based on our worldwide network of approximately 7,800 locations and our online channels, we are a leading global brand of health, wellness and performance products.

Our objective is to offer a broad and deep mix of products for consumers interested in living well, whether they are looking to treat a health-related issue, maintain their overall wellness, or improve their performance. Our premium, value-added offerings include both proprietary GNC-branded products and other nationally recognized third-party brands.

We believe our depth of brands, exclusive products and range of merchandise, combined with the customer support and service we offer, differentiate us and allow us to effectively compete against food, drug and mass channel players, specialty stores, independent vitamin, supplement and natural food shops and online retailers.

- **Product development and innovation.** We develop high-quality, innovative nutritional supplement products that can be purchased only through our store locations, GNC.com, our Amazon.com marketplace and our select wholesale partners. Our high quality ingredients are rigorously tested before going into GNC products, undergoing multiple quality checks to ensure that they meet our high standards for identity, strength, purity, composition and limits in contaminants.

We believe our sector-leading innovation capability is a significant competitive advantage. Our strategic partnership with International Vitamin Corporation ("IVC") will allow us to further focus on innovation while IVC drives increased efficiencies in manufacturing. Refer to Note 6. "Equity Method Investments" for more information. GNC has demonstrated strength in developing unique, branded, and scientifically verified products and has a long history of delivering new ingredients and reformulations. We directly employ scientists, nutritionists, formulators, chemists, engineers and quality control experts and have access to a wide range of world-class medical research facilities and consultants.

- **A differentiated retail customer experience.** Our retail strategy is to deliver a compelling experience at every customer touch point. We operate in a highly personalized, aspirational sector and believe that the nutritional supplement consumer often desires and seeks out product expertise and knowledgeable customer service.

We further differentiate ourselves from competitors through development of our well-trained sales associates, who are aided in becoming trusted advisors with regular training that focuses on solution-based selling, and through in-store technology such as tablets, which allow associates to view customers' purchase history and preferences in real time. With that knowledge, and help from sales tools built into the tablet platform, associates can engage customers in conversation, share product information and testimonials before and after pictures, recommend solutions and help customers add complimentary products and build wellness regimens.

Our loyalty programs allow us to develop and maintain a large and loyal customer base, provide targeted offers and information, and connect with our customers on a regular basis. We harness data generated by these programs to better understand customers' buying behaviors and needs, so we can deliver a stronger experience, bring like-minded consumers into the channel and make well-informed decisions about the business.

- **Omni-channel development.** We believe our diversified, omni-channel model, which includes company-owned stores, domestic and international franchise locations, wholesale locations and e-commerce channels, differentiates us from online-only competitors. Our strategy is to give consumers a seamless, integrated experience across digital, mobile and store channels and in every interaction they have with GNC.

Through GNC.com and our Amazon.com storefront, customers can research and purchase our products online. We believe our store base is a competitive advantage, allowing customers to experience our products and get expert advice from our associates.

Our omni-channel model can enhance the customer experience and increase the lifetime value of a GNC customer, and we are implementing strategies to blend our digital, online and in-store platforms. These initiatives include increased cross-channel marketing, online and in-store subscription services, giving customers the option of picking up online purchases in GNC stores, shipping products purchased via e-commerce directly from stores, and providing additional educational content, information and advice on GNC.com.

- International growth. We see opportunity to expand internationally within the large global supplement market, which is expected to continue to grow. In particular, our partnership with Harbin Pharmaceutical Group Co., Ltd. ("Harbin") allows us to further expand our business in China. Harbin's expertise in distribution and regulation is the ideal match for our highly valued brand and assortment of products in the China market. Refer to Note 6. "Equity Method Investments" for more information.
- Driving constructive industry dialogue. We remain focused on continuously raising the bar on transparency and quality throughout the dietary supplement industry. We believe that over time the implementation of higher standards and more stringent industry self-regulation regarding manufacturing practices, ingredient traceability and product transparency will prove beneficial for the industry and lead to improved dialogue with regulators, stronger consumer trust and greater confidence in our industry.

## Key Performance Indicators

The primary key performance indicators that senior management focus on include revenue and operating income for each segment, which are discussed in detail within the section titled "Results of Operations", as well as same store sales growth.

The table below presents the key components of U.S Company-owned same store sales:

	2019			2018		
	Q1 3/31	Q2 6/30	Q3 9/30	Q1 3/31	Q2 6/30	Q3 9/30
<b>Contribution to same store sales</b>						
Domestic Retail same store sales	(1.9)%	(3.9)%	(4.4)%	(1.2)%	(4.2)%	(3.4)%
GNC.com contribution to same store sales	0.3 %	(0.7)%	1.6 %	1.7 %	3.8 %	1.3 %
<b>Total Same Store Sales</b>	<b>(1.6)%</b>	<b>(4.6)%</b>	<b>(2.8)%</b>	<b>0.5 %</b>	<b>(0.4)%</b>	<b>(2.1)%</b>

Same store sales include point-of-sale retail sales from all our company-owned domestic stores that have been operating for twelve full months following the opening day and retail sales from GNC.com. We are an omni-channel retailer with capabilities that allow a customer to use more than one channel when making a purchase, including in-store and e-commerce channels. Our e-commerce channels include our wholly-owned website GNC.com and third-party websites, including Amazon (the sales from which are included in the GNC.com business unit), where product assortment and price are controlled by us and purchases are fulfilled by direct shipment to the customer from one of our distribution facilities or from third-party e-commerce vendors. In-store sales are reduced by sales originally consummated online or through mobile devices and subsequently returned in-store. Sales of membership programs, including the PRO Access loyalty program and the net change in the deferred points liability associated with the myGNC Rewards program, are excluded from same store sales.

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. 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. Corporate stores are included in same store sales after the thirteenth month following a relocation or conversion to a company-owned store.

We also provide retail comparable same stores sales of our franchisees as well as our Canada business if meaningful to current results. While retail sales of franchisees are not included in the Consolidated Financial Statements, the metric serves as a key performance indicator of our franchisees, which ultimately impacts wholesale sales and royalties and fees received from franchisees. We compute same store sales for our franchisees and Canada business consistent with the description of corporate same store sales above. Same store sales for international franchisees and Canada exclude the impact of foreign exchange rate changes relative to the U.S. dollar.

## Non-GAAP Measures

We have included non-GAAP financial measures below, which have been adjusted to exclude the impact of certain transactions, because we believe such measures represent an effective supplemental means by which to measure our operating performance. We believe that (i) net (loss) income, (ii) diluted earnings per share ("EPS") and

(iii) EBITDA, each on an as adjusted basis to exclude certain items, and (iv) free cash flow are useful metrics to investors and enable management and our investors to evaluate and compare our results from operations in a more meaningful and consistent manner by excluding specific items that are not reflective of ongoing operating results. However, these metrics are not a measurement of our operating performance under GAAP and should not be considered as an alternative to earnings per share, net (loss) income, or any other performance measures derived in accordance with GAAP, or as an alternative to GAAP cash flow from operating activities, or as a measure of our profitability or liquidity.

**Reconciliation of Net (Loss) Income and Diluted EPS to Adjusted Net Income and Adjusted Diluted EPS**  
(in thousands, except per share data)

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	Net (Loss) Income	Diluted EPS <sup>(1)</sup>	Net (Loss) Income	Diluted EPS	Net (Loss) Income	Diluted EPS <sup>(2)</sup>	Net Income	Diluted EPS
	(unaudited)							
<b>Reported</b>	\$ (2,418)	\$ (0.09)	\$ (8,590)	\$ (0.10)	\$ (1,622)	\$ (0.18)	\$ 10,941	\$ 0.13
Loss on net asset exchange for equity method investments	—	—	—	—	21,293	0.16	—	—
Gain on convertible notes repurchase	—	—	—	—	(3,214)	(0.02)	—	—
Amortization of discount in connection with early debt payment	—	—	—	—	3,119	0.02	—	—
Loss on forward contract related to the issuance of convertible preferred stock	—	—	—	—	16,787	0.12	—	—
Loss on debt refinancing	—	—	—	—	—	—	16,740	0.20
Long-lived asset impairments	—	—	14,556	0.17	—	—	14,556	0.17
Other <sup>(3)</sup>	825	0.01	3,689	0.05	2,002	0.01	7,152	0.08
Tax effect <sup>(4)</sup>	4,675	0.06	(4,010)	(0.06)	2,058	0.02	(6,721)	(0.07)
Discrete tax benefit <sup>(5)</sup>	—	—	(3,583)	(0.04)	—	—	(3,583)	(0.04)
<b>Adjusted</b>	<u>\$ 3,082</u>	<u>\$ (0.02)</u>	<u>\$ 2,062</u>	<u>\$ 0.02</u>	<u>\$ 40,423</u>	<u>\$ 0.30</u>	<u>\$ 39,085</u>	<u>\$ 0.47</u>
<b>Weighted average diluted common shares outstanding</b>	83,823		83,515		136,589		83,431	

**Reconciliation of Net (Loss) Income to Adjusted EBITDA**  
(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
<b>Net (loss) income</b>	\$ (2,418)	\$ (8,590)	\$ (1,622)	\$ 10,941
Income tax expense	5,733	(7,181)	20,719	(2,895)
Interest expense, net	24,456	35,732	82,376	90,448
Loss on debt refinancing	—	—	—	16,740
Depreciation and amortization	8,466	11,896	27,170	36,002
Loss on net asset exchange for equity method investments	—	—	21,293	—
Gain on convertible notes repurchase	—	—	(3,214)	—
Loss on forward contracts related to the issuance of convertible preferred stock	—	—	16,787	—
Long-lived asset impairments	—	14,556	—	14,556
Other <sup>(3)</sup>	825	3,689	2,002	7,152
<b>Adjusted EBITDA</b>	<b>\$ 37,062</b>	<b>\$ 50,102</b>	<b>\$ 165,511</b>	<b>\$ 172,944</b>

(1) The Company applies the if-converted method to calculate dilution impact of the convertible senior notes and the convertible preferred stock. For reported and adjusted diluted EPS for the three months ended September 30, 2019, the underlying shares of the convertible preferred stock and the convertible senior notes are anti-dilutive. Therefore, the diluted EPS included a reduction to net income for the cumulative undeclared dividends of \$5.0 million.

(2) For reported diluted EPS for the nine months ended September 30, 2019, the underlying shares of the convertible preferred stock and the convertible senior notes are anti-dilutive. Therefore, the diluted EPS included a reduction to net income for the cumulative undeclared dividends of \$13.7 million. For the adjusted EPS for the nine months ended September 30, 2019, the underlying shares of the convertible preferred stock is dilutive and the convertible senior notes are anti-dilutive. As a result of the difference in the calculation for reported diluted EPS and adjusted diluted EPS, amounts do not sum.

(3) The three months ended September 30, 2019 included retention of \$0.5 million, severance expense of \$0.4 million, and immaterial refranchising gains. The three months ended September 30, 2018 included retention of \$2.1 million, a legal-related charge of \$1.3 million, long-lived asset impairments of \$14.6 million, China joint venture start-up costs of \$0.3 million and immaterial refranchising gains. The nine months ended September 30, 2019 included retention of \$1.9 million, severance expense of \$0.4 million and immaterial refranchising gains. The nine months ended September 30, 2018 included retention of \$5.2 million, a legal related charge of \$1.3 million, long-lived asset impairments of \$14.6 million, China joint venture start-up costs of \$1.0 million and immaterial refranchising gains. The retention expense recognized in 2019 and 2018 relates to an incentive program to retain senior executives and certain other key personnel who are critical to the execution and success of the Company's strategy. The total amount awarded was approximately \$10 million, of which approximately \$1 million has been forfeited as of September 30, 2019, which vests in four installments of 25% each on November 2018, February 2019, August 2019 and February 2020.

(4) The Company generally utilizes a blended federal rate plus a net state rate that excludes the impact of certain state net operating losses, state credits and valuation allowance to calculate the impact of adjusted items. In connection with the transfer of the Nutra manufacturing net assets to the newly formed manufacturing joint venture in the first quarter of 2019, the Company recorded a gain for tax purposes which was treated as ordinary and impacts the Company's annual effective tax rate. Therefore, for adjusted diluted EPS, the tax effect for the impact of the loss on net asset exchange for equity method investments related to the manufacturing joint venture transaction was adjusted consistent with the annual treatment for tax purposes. For the three and nine months ended September 30, 2018, the Company utilized an annual effective tax rate, adjusted to exclude discrete items and the tax impact of loss on debt financing.

(5) Relates to discrete tax benefits associated with finalization of the Company's 2017 federal income tax return.

**GNC HOLDINGS, INC. AND SUBSIDIARIES**  
**Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow**  
**(in thousands)**

	<b>Nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	
<b>Net cash provided by operating activities</b>	\$ 97,638	\$ 55,689
Capital expenditures	(10,933)	(13,355)
<b>Free cash flow</b>	<b>\$ 86,705</b>	<b>\$ 42,334</b>

## Results of Operations

(Calculated as a percentage of consolidated revenue unless indicated otherwise)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Revenues:</b>				
U.S. and Canada	89.1 %	82.1 %	88.2 %	83.4 %
International	7.4 %	8.9 %	7.3 %	7.8 %
<b>Manufacturing / Wholesale:</b>				
Intersegment revenues	— %	11.0 %	2.2 %	10.7 %
Third-party	3.5 %	9.0 %	4.5 %	8.8 %
Subtotal Manufacturing / Wholesale	3.5 %	20.0 %	6.7 %	19.5 %
Elimination of intersegment revenue	— %	(11.0)%	(2.2)%	(10.7)%
<b>Total net revenues</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>Operating expenses:</b>				
Cost of sales, including warehousing, distribution and occupancy	67.4 %	68.2 %	65.0 %	66.8 %
<b>Gross profit</b>	<b>32.6 %</b>	<b>31.8 %</b>	<b>35.0 %</b>	<b>33.2 %</b>
Selling, general and administrative	27.2 %	25.8 %	26.8 %	26.0 %
Long-lived asset impairments	— %	2.5 %	— %	0.8 %
Loss on net asset exchange for the formation of the joint ventures	— %	— %	1.3 %	— %
Other income, net	— %	— %	(0.1)%	— %
<b>Total operating expenses</b>	<b>94.6 %</b>	<b>96.5 %</b>	<b>93.0 %</b>	<b>93.6 %</b>
<b>Operating income:</b>				
U.S. and Canada (*)	7.4 %	2.4 %	9.5 %	6.7 %
International (*)	34.3 %	32.0 %	34.9 %	33.3 %
Manufacturing / Wholesale (*)	29.0 %	14.5 %	30.7 %	13.5 %
<b>Unallocated corporate costs and other</b>				
Corporate costs	(4.8)%	(4.3)%	(4.7)%	(4.4)%
Loss on net asset exchange for the formation of the joint ventures	— %	— %	(1.3)%	— %
Other	— %	— %	— %	— %
Subtotal unallocated corporate, loss on net asset exchange and other costs	(4.8)%	(4.3)%	(6.0)%	(4.4)%
<b>Total operating income</b>	<b>5.3 %</b>	<b>3.4 %</b>	<b>6.9 %</b>	<b>6.4 %</b>
Interest expense, net	4.9 %	6.2 %	5.2 %	5.0 %
Gain on purchase of convertible debt	— %	— %	(0.2)%	— %
Loss on forward contracts for the issuance of convertible preferred stock	— %	— %	1.1 %	— %
Loss on debt refinancing	— %	— %	— %	0.9 %
<b>Income (loss) before income taxes</b>	<b>0.4 %</b>	<b>(2.7)%</b>	<b>0.8 %</b>	<b>0.4 %</b>
Income tax expense (benefits)	1.1 %	(1.2)%	1.3 %	(0.2)%
<b>Net (loss) income before income from equity method investments</b>	<b>(0.7)%</b>	<b>(1.5)%</b>	<b>(0.5)%</b>	<b>0.6 %</b>
Income from equity method investments	0.2 %	— %	0.3 %	— %
<b>Net (loss) income</b>	<b>(0.5)%</b>	<b>(1.5)%</b>	<b>(0.2)%</b>	<b>0.6 %</b>

(\*) Calculated as a percentage of segment revenue.

The following table summarizes the number of our locations for the periods indicated:

	Nine months ended September 30,	
	2019	2018
<b>U.S. &amp; Canada</b>		
<b>Company-owned<sup>(a)</sup>:</b>		
Beginning of period balance	3,206	3,423
Openings	21	18
Acquired franchise locations <sup>(b)</sup>	21	20
Franchise conversions <sup>(c)</sup>	(5)	(4)
Closings	(244)	(174)
End of period balance	2,999	3,283
<b>Domestic Franchise:</b>		
Beginning of period balance	1,037	1,099
Openings	6	10
Acquired franchise locations <sup>(b)</sup>	(21)	(20)
Franchise conversions <sup>(c)</sup>	5	4
Closings	(40)	(45)
End of period balance	987	1,048
<b>International<sup>(d)</sup>:</b>		
Beginning of period balance	1,957	2,015
Openings	63	42
Closings	(94)	(89)
China locations contributed to the China joint venture	(5)	—
End of period balance	1,921	1,968
<b>Store-within-a-store (Rite Aid):</b>		
Beginning of period balance	2,183	2,418
Openings	31	42
Closings	(342)	(218)
End of period balance	1,872	2,242
<b>Total Locations</b>	<b>7,779</b>	<b>8,541</b>

(a) Includes Canada.

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

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

(d) Includes franchise locations in approximately 50 countries (including distribution centers where sales are made and store-within-a-store) and company-owned locations in Ireland. Prior year also includes company-owned locations in China.

## Comparison of the Three Months Ended September 30, 2019 (current quarter) and 2018 (prior year quarter)

### Revenues

Our consolidated net revenues decreased \$81.1 million, or 14.0%, to \$499.1 million for the three months ended September 30, 2019 compared with \$580.2 million for the same period in 2018. The decrease in revenue was largely due to the transfer of the Nutra manufacturing and China businesses to the newly formed joint ventures, the closure of company-owned stores under our store portfolio optimization strategy, U.S. and Canada negative same store sales of 2.8% and lower International franchise revenue.

*U.S. and Canada.* Revenues in our U.S. and Canada segment decreased \$31.8 million, or 6.7%, to \$444.7 million for the three months ended September 30, 2019 compared with \$476.5 million in the prior year quarter. The \$31.8 million decrease was primarily due to the following:

- The decrease in the number of corporate stores from 3,283 at September 30, 2018 to 2,999 at September 30, 2019 from our store portfolio optimization strategy contributed a \$14.8 million decrease to revenue;
- A decrease in U.S. company-owned same store sales of 2.8%, which includes GNC.com sales, resulted in a \$9.7 million decrease to revenue. GNC.com contributed an increase of 1.6% to the same store sales. E-commerce sales comprised 8.6% of U.S. and Canada revenue in the current quarter compared with 7.2% in the prior year quarter;
- A decrease in Canada company-owned store revenue of \$3.5 million primarily due to a decrease in same store sales of 6.3%; and
- A decrease in domestic franchise revenue of \$2.6 million due to a decrease in same store sales of 0.8% and decrease in number of franchise stores from 1,048 at September 30, 2018 to 987 at September 30, 2019.

*International.* Revenues in our International segment decreased \$14.5 million, or 28.1%, to \$36.9 million in the current quarter compared with \$51.4 million in the prior year quarter. Revenue from our international franchisees decreased by \$9.1 million in the current quarter compared with the prior year quarter primarily due to lower sales in Hong Kong and other temporary challenges in Saudi Arabia and South Korea. The decrease in revenue from our China business is due to the transfer of the China business to the newly formed joint ventures effective February 13, 2019 (the "HK JV" and "China JV").

*Manufacturing / Wholesale.* Revenues in our Manufacturing / Wholesale segment, excluding intersegment sales, decreased \$34.9 million, or 66.7%, to \$17.4 million for the three months ended September 30, 2019 compared with \$52.3 million in the prior year quarter primarily due to the transfer of the Nutra manufacturing business to the newly formed manufacturing joint venture (the "Manufacturing JV") with International Vitamin Corporation ("IVC"), effective March 1, 2019. Sales to our wholesale partners decreased \$3.6 million, or 17.3%, from \$21.0 million in the prior year quarter to \$17.4 million in the current quarter primarily due to the termination of the consignment agreement with Rite Aid in the fourth quarter of 2018. There were no intersegment sales in the current quarter compared to \$63.7 million in the prior year quarter.

### Cost of Sales and Gross Profit

Cost of sales, which includes product costs, warehousing, distribution and occupancy costs, decreased \$59.1 million to \$336.4 million for the three months ended September 30, 2019 compared with \$395.5 million in the prior year quarter. Gross profit decreased \$22.1 million from \$184.7 million in the prior year quarter to \$162.6 million in the current quarter, but increased as a percentage of revenue from 31.8% in the prior year quarter to 32.6% in the current quarter. The increase in gross profit rate was due to the transfer of the Nutra manufacturing business to the Manufacturing JV and lower occupancy expense as a result of the adoption of the new lease standard, store closures and rent reductions associated with our store portfolio optimization strategy.

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

SG&A expense, including compensation and related benefits, advertising and other expenses, decreased \$14.1 million, or 9.4%, from \$149.9 million in the prior year quarter to \$135.8 million in the current quarter. SG&A expense, as a percentage of revenue, was 27.2% and 25.8% for the three months ended September 30, 2019 and 2018, respectively.

During the three months ended September 30, 2019 and 2018, we recognized \$0.5 million and \$2.1 million, respectively, related to a retention program adopted in the first quarter of 2018 to retain senior executives and certain other key personnel who are critical to the execution and success of our strategy. The total amount awarded was approximately \$10 million, of which approximately \$1 million has been forfeited as of September 30, 2019, which vests in four installments of 25% each over two years through February 2020. We also incurred \$0.4 million in severance expenses during the current quarter associated with our organizational realignment to more effectively align the structure in support of the key growth areas of the Company. During the prior year quarter, we recorded \$0.3 million related to China joint venture start-up costs and \$1.3 million in legal-related charges.

Excluding the impact of these items, SG&A expense decreased \$11.2 million in the current quarter compared with the prior year quarter, and, as a percentage of revenue, was 27.0% and 25.2% for the three months ended September 30, 2019 and 2018, respectively. The decrease in SG&A expense was primarily due to lower salaries and benefits associated with the store portfolio optimization and cost saving initiatives, cost reduction realized in connection with the newly formed strategic joint ventures and lower consignment commissions as a result of the termination of the consignment agreement with Rite Aid in the fourth quarter of 2018. The increase in SG&A expense as a percentage of revenue was primarily driven by deleverage in salaries and benefits associated with a decrease in sales and to a lesser extent an increase in consulting fees.

### **Long-lived Asset Impairments**

We recorded long-lived asset impairment and other store closing charges totaling \$14.6 million for the three months ended September 30, 2018 associated with our store portfolio optimization strategy. The charges primarily related to certain of our corporate stores for which estimated future undiscounted cash flows could not support the carrying values of property and equipment.

### **Other Loss (Income), net**

Other loss, net, of \$0.2 million and \$0.3 million in the current quarter and prior year quarter, respectively, included foreign currency losses partially offset by franchising gains.

### **Operating Income**

As a result of the foregoing, consolidated operating income increased \$6.7 million, or 33.5%, to \$26.7 million for the three months ended September 30, 2019 compared with \$20.0 million in the prior year quarter, and as a percentage of revenue, was 5.3% and 3.4% for the three months ended September 30, 2019 and 2018, respectively. Operating income in the prior year quarter was significantly impacted by the \$14.6 million long-lived asset impairment and other store closing charges.

*U.S. and Canada.* Operating income increased \$21.2 million to \$32.7 million for the three months ended September 30, 2019 compared with \$11.5 million for the same period in 2018. Operating income was 7.4% of segment revenue in the current quarter compared with 2.4% in the prior year quarter. Excluding the long-lived asset impairment charge and other store closing costs of \$14.6 million recorded in the prior year quarter, and immaterial gains on franchising in the current quarter and prior year quarter, operating income was \$32.7 million, or 7.3% of segment revenue, in the current quarter compared with \$26.0 million, or 5.4% of segment revenue, for the three months ended September 30, 2018. The increase in operating income percentage in the current quarter compared to the prior year quarter was primarily due to lower occupancy and salaries and benefits.

*International.* Operating income decreased \$3.8 million, or 23.2%, to \$12.7 million for the three months ended September 30, 2019 compared with \$16.5 million in the prior year quarter. Operating income was 34.3% of segment revenue in the current quarter compared with 32.0% in the prior year quarter. The prior year quarter included \$1.0 million related to China joint venture start-up costs, of which \$0.6 million were related to costs incurred in the first six months of 2018 within corporate costs which were reclassified into International in the prior year quarter. Excluding the China joint venture start-up costs, operating income in the prior year quarter was \$17.4 million, or 33.9% of segment revenue. The increase in operating income percentage in the current quarter compared to the prior year quarter was primarily a result of the transfer of the China business to the HK JV and China JV.

*Manufacturing / Wholesale.* Operating income decreased \$11.8 million, or 70.1%, to \$5.1 million for the three months ended September 30, 2019 compared with \$16.9 million in the prior year quarter. Operating income as a percentage of segment revenue increased from 14.5% in the prior year quarter to 29.0% in the current quarter. Revenue decreased as a result of the transfer of the Nutra manufacturing business to the Manufacturing JV as described above, however, operating income margins were positively impacted as the Manufacturing / Wholesale segment recognized profit margin that resulted from maintaining consistent pricing to what was charged to our other operating segments

prior to the inception of the Manufacturing JV, and recorded profit on intersegment sales associated with inventory produced prior to the transfer of the Nutra manufacturing business to the Manufacturing JV.

*Corporate costs.* Corporate costs decreased \$0.9 million to \$23.8 million for the three months ended September 30, 2019 compared with \$24.7 million in the prior year quarter. As explained above, the current year quarter included retention of \$0.5 million and severance expense of \$0.4 million, and the prior year quarter included retention of \$2.1 million and a \$1.3 million legal-related charge. Additionally, \$0.6 million related to China joint venture start-up costs incurred in the first six month of 2018 was reclassified from Corporate costs into International in the prior year quarter. Excluding these charges, corporate costs increased \$1.0 million in the current quarter compared with the prior year quarter.

#### ***Interest Expense, net***

Interest expense was \$24.5 million for the three months ended September 30, 2019 compared with \$35.7 million for the three months ended September 30, 2018 primarily as a result of the reduction in long-term debt of approximately \$298 million during the first half of 2019.

#### ***Income Tax Expense (Benefit)***

We recognized \$5.7 million of income tax expense during the three months ended September 30, 2019 compared with \$7.2 million of income tax benefit for the same period in 2018. The Company's annualized effective tax rate for the three months ended September 30, 2019 increased over the prior year period as a result of a gain for tax purposes resulting from the transfer of the Nutra manufacturing business to the Manufacturing JV, as well as the establishment of a partial valuation allowance for attributes generated in the current year period that may not be realizable.

#### ***Income from Equity Method Investments***

We recognized \$1.1 million of income from equity method investments during the three months ended September 30, 2019 in connection with the Manufacturing JV and HK JV. Refer to Item 1, "Financial Statements," Note 6, "Equity Method Investments" for more information.

#### ***Net Loss***

As a result of the foregoing, consolidated net loss was \$2.4 million for the three months ended September 30, 2019 compared with net loss of \$8.6 million for the same period in 2018. Excluding certain expenses as reconciled in the table above, under the caption "Reconciliation of Net Income and Diluted EPS to Adjusted Net Income and Adjusted Diluted EPS", adjusted net income was \$3.1 million for the current quarter compared with adjusted net income of \$2.1 million for the same period in 2018.

#### ***Diluted (Loss) Earnings Per Share***

Diluted loss per share was \$0.09 for the three months ended September 30, 2019 compared with \$0.10 for the same period in 2018. The current quarter diluted loss per share included an increase to net loss for the cumulative undeclared dividends of \$5.0 million. Excluding certain expenses as reconciled in the table above, under the caption "Reconciliation of Net Income and Diluted EPS to Adjusted Net Income and Adjusted Diluted EPS", adjusted diluted loss per share was \$0.02 for the current quarter compared with diluted EPS of \$0.02 for the same period in 2018.

#### **Comparison of the Nine Months Ended September 30, 2019 (current year period) and 2018 (prior year period)**

##### ***Revenues***

Our consolidated net revenues decreased \$207.9 million, or 11.5%, to \$1,597.8 million for the nine months ended September 30, 2019 compared with \$1,805.7 million for the same period in 2018. The decrease in revenue was largely due to the transfer of the Nutra manufacturing and China e-commerce businesses to the newly formed joint ventures, the closure of company-owned stores under our store portfolio optimization strategy, and negative same store sales of 3.0%.

*U.S. and Canada.* Revenues in our U.S. and Canada segment decreased \$96.3 million, or 6.4%, to \$1,410.0 million for the nine months ended September 30, 2019 compared with \$1,506.3 million in the prior year period. The \$96.3 million decrease was primarily due to the following:

- The decrease in the number of corporate stores from 3,283 at September 30, 2018 to 2,999 at September 30, 2019 from our store portfolio optimization strategy which contributed a \$44.0 million decrease to revenue;
- A decrease in U.S. company-owned same store sales of 3.0%, which includes GNC.com sales, resulted in a \$33.4 million decrease to revenue. GNC.com contributed an increase of 0.4% to the same store sales. E-commerce sales as a percentage of U.S. and Canada revenue was 8.0% in the current period compared with 7.5% in the prior year period;
- A decrease in Canada company-owned stores revenue of \$9.6 million primarily due to a decrease in same store sales of 5.1%; and
- A decrease in domestic franchise revenue of \$6.8 million due to a decrease in same store sales of 0.7% and decrease in number of franchise stores from 1,048 at September 30, 2018 to 987 at September 30, 2019.

*International.* Revenues in our International segment decreased \$22.8 million, or 16.3%, to \$117.3 million in the nine months ended September 30, 2019 compared with \$140.1 million in the prior year period mostly due to the transfer of the China business effective February 13, 2019 to the HK JV and China JV. Revenue from our international franchisees decreased by \$3.8 million in the current year period compared with the prior year period primarily due to lower sales in Hong Kong and other temporary challenges in Saudi Arabia and South Korea.

*Manufacturing / Wholesale.* Revenues in our Manufacturing / Wholesale segment, excluding intersegment sales, decreased \$88.7 million, or 55.7%, to \$70.6 million for the nine months ended September 30, 2019 compared with \$159.3 million in the prior year period primarily due to the transfer of the Nutra manufacturing business for the Manufacturing JV with IVC effective in March 2019. As a result, third-party contract manufacturing sales decreased \$78.7 million to \$15.8 million for the nine months ended September 30, 2019 compared with \$94.5 million in the prior year period. Sales to our wholesale partners decreased \$10.0 million, or 15.4%, from \$64.8 million in the prior year period to \$54.8 million in the current year period primarily due to the termination of the consignment agreement with Rite Aid in the fourth quarter of 2018. Intersegment sales were \$193.6 million in the prior year period compared with \$35.5 million in the current year period.

#### **Cost of Sales and Gross Profit**

Cost of sales, which includes product costs, warehousing, distribution and occupancy costs, decreased \$168.0 million to \$1,038.4 million for the nine months ended September 30, 2019 compared with \$1,206.4 million in the prior year period. Gross profit decreased \$39.8 million from \$599.3 million in the prior year period to \$559.5 million in the current year period, but increased as a percentage of revenue from 33.2% in the prior year period to 35.0% in the current year period. The increase in gross profit rate was due to the transfer of the Nutra manufacturing business to the Manufacturing JV and lower occupancy expense as a result of the adoption of the new lease standard, store closures and rent reductions associated with the store portfolio optimization strategy.

#### **Selling, General and Administrative Expense**

SG&A expense, including compensation and related benefits, advertising and other expenses, decreased \$41.3 million, or 8.8%, from \$469.2 million in the prior year period to \$427.9 million in the current year period. SG&A expense, as a percentage of revenue, was 26.8% and 26.0% for the nine months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019, we recognized \$1.9 million related to the aforementioned retention program and \$0.4 million of severance expense. During the nine months ended September 30, 2018, we recognized \$5.2 million related to the retention program, \$1.0 million related to China joint venture start-up costs and a legal-related charge of \$1.3 million.

Excluding the impact of these items, SG&A expense decreased \$36.2 million in the current year period compared to the prior year period and, as a percentage of revenue, was 26.6% for the nine months ended September 30, 2019 compared with 25.6% for the same period in 2018. The decrease in SG&A expense was primarily due to lower salaries and benefits associated with the store portfolio optimization and cost savings initiatives, cost reduction realized in connection with the newly formed strategic joint ventures, more normalized marketing expense and lower consignment commissions as a result of the termination of the consignment agreement with Rite Aid in the fourth quarter of 2018. The increase in SG&A expense as a percentage of revenue was primarily driven by deleverage in salaries and benefits associated with a decrease in sales.

### **Long-lived Asset Impairments**

We recorded long-lived asset impairment and other store closing charges totaling \$14.6 million for the nine months ended September 30, 2018 associated with the store portfolio optimization. The charges primarily relate to certain of our corporate stores for which estimated future undiscounted cash flows could not support the carrying values of property and equipment.

### **Loss on net asset exchange for the formation of the joint ventures.**

We contributed our China business in exchange for 35% equity interest in each of the new HK JV and China JV. In addition, we contributed our Nutra manufacturing and Anderson facility net assets to the Manufacturing JV in exchange for \$101 million and an initial 43% equity interest in the Manufacturing JV during the first quarter of 2019. During the second quarter of 2019, we made a \$1.8 million working capital purchase price adjustment related to the Manufacturing JV. As a result of the joint venture transactions, we recognized a pre-tax loss for the nine months ended September 30, 2019 of \$21.3 million.

### **Other Income (Loss), net**

Other income, net, of \$0.6 million in the current year period includes gains on franchising and foreign currency gains. Other loss, net, of \$0.4 million in the prior year period includes foreign currency losses partially offset by a franchising gain.

### **Operating Income**

As a result of the foregoing, consolidated operating income decreased \$4.3 million, or 3.8%, to \$110.9 million for the nine months ended September 30, 2019 compared with \$115.2 million in the prior year period, and as a percentage of revenue, was 6.9% and 6.4% for the nine months ended September 30, 2019 and 2018, respectively. Operating income in the current year period was significantly impacted by the \$21.3 million loss on net asset exchange for the formation of the joint ventures. Operating income in the prior year period was significantly impacted by the \$14.6 million long-lived asset impairment and other store closing charges.

*U.S. and Canada.* Operating income increased \$33.4 million to \$134.0 million for the nine months ended September 30, 2019 compared with \$100.6 million for the same period in 2018. As a percentage of segment revenue, operating income was 9.5% in the current year period compared with 6.7% in the prior year period. Excluding long-lived asset impairment and other store closing charges of \$14.6 million in the prior year period and immaterial franchising gains in the current year and prior year periods, operating income was 9.5% in the current year period compared with 7.6% in the prior year period. The increase in operating income was primarily due to lower occupancy, salaries and benefits, marketing, and distribution and transportation costs as compared to the same period in 2018. The increase in operating income as a percentage of segment revenue was driven by the lower occupancy expense.

*International.* Operating income decreased \$5.6 million, or 12.1%, to \$41.0 million for the nine months ended September 30, 2019 compared with \$46.6 million in the prior year period. Operating income was 34.9% of segment revenue in the current year period compared with 33.3% in the prior year period. The increase in operating income percentage was primarily a result of the transfer of the China business to the HK JV and China JV.

*Manufacturing / Wholesale.* Operating income decreased \$15.2 million, or 31.9%, to \$32.5 million for the nine months ended September 30, 2019 compared with \$47.7 million in the prior year period. Operating income as a percentage of segment revenue increased from 13.5% in the prior year period to 30.7% in the current year period. Revenue decreased as a result of the transfer of the Nutra manufacturing business to the Manufacturing JV as described above, however, operating income margins were positively impacted as the Manufacturing / Wholesale segment recognized profit margin that resulted from maintaining consistent pricing to what was charged to our other operating segments prior to the inception of the Manufacturing JV, and recorded profit on intersegment sales associated with inventory produced prior to the transfer of the Nutra manufacturing business to the joint venture.

*Corporate costs.* Corporate costs decreased \$4.4 million to \$75.1 million for the nine months ended September 30, 2019 compared with \$79.5 million in the prior year period. Excluding the retention and severance expenses as explained above in the current year period and the retention and a legal-related charge in the prior year period, corporate costs in the current year period were flat compared to the prior year period.

### ***Interest Expense, net***

Interest expense was \$82.4 million in the nine months ended September 30, 2019 compared with \$90.4 million in the nine months ended September 30, 2018. The decrease in interest expense is primarily due to the reduction in long-term debt of approximately \$298 million during the first half of 2019, partially offset by higher interest rates on the the FILO Term Loan and the amortization of original issuance discount in connection with the early payment on the Tranche B-2 Term Loan.

### ***Gain on Convertible Debt Repurchase***

In the second quarter of 2019, the Company repurchased \$29.5 million in aggregate principle amount of the Notes for \$24.7 million in cash. The convertible debt repurchase resulted in a gain of \$3.2 million in the nine months ended September 30, 2019, which included the unamortized conversion feature of \$1.3 million and unamortized discount of \$0.2 million. Refer to Note 5. "Long-term Debt / Interest Expense" for more information.

### ***Loss on Forward Contracts for the Issuance of Convertible Preferred Stock***

A loss of \$16.8 million was recorded in the nine months ended September 30, 2019 for the change in fair value of the forward contracts related to the issuance of the convertible preferred stock. Refer to Note 10. "Mezzanine Equity" for more information.

### ***Loss on Debt Refinancing***

In connection with the refinancing of the Senior Credit Facility during the nine months ended September 30, 2018, we recorded a loss of \$16.7 million, which primarily included third-party fees relating to the Tranche B-2 Term Loan and the FILO Term Loan.

### ***Income Tax Expense (Benefit)***

We recognized \$20.7 million of income tax expense during the nine months ended September 30, 2019 compared with \$2.9 million of income benefit for the same period in 2018. The Company's annualized effective tax rate for the nine months ended September 30, 2019 increased over the prior year period as a result of a gain for tax purposes resulting from the transfer of the Nutra manufacturing business to the Manufacturing JV, as well as the establishment of a partial valuation allowance for attributes generated in the current year period that may not be realizable.

### ***Income from Equity Method Investments***

We recognized \$4.2 million income from equity method investments during the nine months ended September 30, 2019 in connection with the newly formed joint ventures effective in the first quarter of 2019. Refer to Note 6, "Equity Method Investments" for more information.

### ***Net (Loss) Income***

As a result of the foregoing, consolidated net loss was \$1.6 million for the nine months ended September 30, 2019 compared with net income of \$10.9 million for the same period in 2018. Excluding certain expenses as reconciled in the table above, under the caption "Reconciliation of Net Income and Diluted EPS to Adjusted Net Income and Adjusted Diluted EPS", adjusted net income of \$40.4 million in the nine months ended September 30, 2019 increased \$1.3 million compared with adjusted net income of \$39.1 million for the same period in 2018.

### ***Diluted (Loss) Earnings Per Share***

For the first nine months of 2019, diluted EPS was a loss of \$0.18, compared with diluted EPS of \$0.13 for the same period in 2018. Excluding certain expenses as reconciled in the table above, under the caption "Reconciliation of Net Income and Diluted EPS to Adjusted Net Income and Adjusted Diluted EPS", adjusted diluted EPS was \$0.30 for the three months ended September 30, 2019 compared with \$0.47 for the same period in 2018.

## Liquidity and Capital Resources

As of September 30, 2019, we had \$68.2 million available under the Revolving Credit Facility, after giving effect to \$5.7 million utilized to secure letters of credit and \$7.1 million reduction to borrowing ability as a result of a decrease in net collateral. Our ability to make scheduled payments of principal on, to pay interest on or to refinance our debt and to satisfy our other debt obligations will depend on our future operating performance, which will be affected by general economic, financial and other factors beyond our control. We expect to make an excess cash flow payment between \$25 million and \$35 million at 50% with respect to the year ending December 31, 2019, which is expected to be paid in the second quarter of 2020.

We currently anticipate that cash generated from operations, together with amounts available under the Revolving Credit Facility, will be sufficient to service our debt (including the expected excess cash flow payment), meet our operating expenses and fund capital expenditures over the next 12 months. While our plan is to refinance the majority of our indebtedness by the end of 2019, we make no assurances regarding the likelihood, certainty or exact timing of this refinancing. In the event that all outstanding amounts under the Notes in excess of \$50.0 million are not repaid, refinanced, converted or effectively discharged prior to the Springing Maturity Date, the maturity date of the Tranche B-2 becomes the Springing Maturity Date, subject to certain adjustments. In the event that the aforementioned refinancing does not occur before the Springing Maturity Date or the August 2020 maturity date, management believes that the Company will have the ability to repay the outstanding balance on the Notes of \$159.1 million with projected cash on hand and the Revolving Credit Facility. We are currently in compliance with our debt covenant reporting and compliance obligations under our Credit Facilities and expect to remain in compliance over the next twelve months.

### ***Cash Provided by Operating Activities***

Cash provided by operating activities increased by \$41.9 million from \$55.7 million for the nine months ended September 30, 2018 to \$97.6 million for the nine months ended September 30, 2019 driven primarily by an increase in accounts payable as a result of the Company's cash management efforts as well as the establishment of payables associated with the Manufacturing JV.

### ***Cash Provided by (Used in) Investing Activities***

Cash provided by investing activities was \$77.3 million for the nine months ended September 30, 2019 compared with cash used in investing activities of \$11.4 million for the same period in 2018 primarily due to the \$101 million cash proceeds received from IVC, net of \$1.8 million working capital purchase price adjustment, in exchange for their 57% ownership in the Manufacturing JV. In addition, we made a capital contribution of \$10.7 million to the Manufacturing JV for our share of short-term working capital needs and contributed \$2.4 million from our China business to the HK JV and China JV. Capital expenditures for the nine months ended September 30, 2019 was \$10.9 million compared with \$13.4 million for the same period in 2018.

We expect capital expenditures to be approximately \$15 million to \$20 million in 2019, which includes investments for store development, IT infrastructure and maintenance. We anticipate funding our 2019 capital requirements with cash flows from operations and, if necessary, borrowings under the Revolving Credit Facility.

### ***Cash Used in Financing Activities***

For the nine months ended September 30, 2019, cash used in financing activities was \$119.3 million, primarily consisting of \$147.3 million in payments on the Tranche B-1 Term Loan, \$123.8 million in payments on the Tranche B-2 Term Loan, \$24.7 million payments for the repurchase of Notes, \$12.8 million in fees paid for the issuance of the Convertible Preferred Stock and a \$10.4 million original issuance discount ("OID") paid to the Tranche B-2 Term Loan lender at 2% of the outstanding balance, partially offset by approximately \$200 million of proceeds from the issuance of the Convertible Preferred Stock.

For the nine months ended September 30, 2018, cash used in financing activities was \$74.5 million, primarily consisting of \$35.2 million in an OID paid to lenders and fees associated with our new Revolving Credit Facility associated with the debt refinancing. In addition, we made \$35.5 million in amortization payments on our term loan balances. The OID on the Tranche B-2 Term Loan included \$13.2 million which was included in Item 1, "Financial Statements," as a non-cash financing activity within the "Supplemental Cash Flow Information" of the Consolidated Statement of Cash Flows.

## Contractual Obligations

There have been no material changes in our contractual obligations as disclosed in the 2018 10-K.

## Critical Accounting Estimates

We adopted ASU 2016-02, Leases, during the first quarter of fiscal 2019 and elected the optional transition relief amendment that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. We revised our accounting policy on leases in conjunction with the adoption of the new lease standard. Refer to Note 2. "Basis of Presentation" for more information.

In February 2019, we contributed our China business in exchange for 35% ownership of each of the newly formed HK JV and China JV. In March 2019, we received \$101 million from IVC and contributed the net assets of the Nutra manufacturing and Anderson facilities in exchange for an initial 43% equity interest in the newly formed Manufacturing JV. Our interest in the joint ventures are accounted for as equity method investments. Refer to Note 6. "Equity Method Investments" for more information. The equity method is applied in situations where we have the ability to exercise significant influence, but not control, over the management decisions of the joint ventures. We evaluate the equity investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment is not recoverable. A significant amount of judgment is involved in determining whether an indicator of impairment has occurred. Factors that may trigger an impairment review include significant, sustained declines in an investee's revenue, earnings, and cash flow trends; adverse market conditions; the investee's ability to continue operations measures by several items, including liquidity; and other factors. Once an impairment indicator is identified, we use considerable judgment to determine if the impairment is other than temporary, in which case the equity investment is written down to its estimated fair value. An impairment that is other than temporary could significantly and adversely impact reported results of operations.

Except as discussed above, there have been no material changes to the application of critical accounting policies and significant judgments and estimates as disclosed in our 2018 10-K.

## Recent Accounting Pronouncements

Refer to Note 2. "Basis of Presentation," which is incorporated herein by reference.

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

There have been no significant changes to our market risk since December 31, 2018. For a discussion of our exposure to market risk, refer to Part II, Item 7A "Quantitative and Qualitative Disclosures About Market Risk" of our 2018 10-K.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and

15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that, as of September 30, 2019, our disclosure controls and procedures are effective at the reasonable assurance level.

### Changes in Internal Control over Financial Reporting

There are no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ending September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are engaged in various legal actions, claims and proceedings arising in the normal course of business, some of which are covered by insurance for which we have rights of indemnification. These actions, claims and proceedings are of the sort that are commonly encountered in the nutritional supplement retail industry, including claims related to breach of contracts, products liabilities, intellectual property matters and employment-related matters resulting from our business activities. Although the impact of the final resolution of these matters on the Company's financial condition, results of operations or cash flows is not known, management does not believe that the resolution of these lawsuits will have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

**DMAA/Aegeline Claims.** As disclosed in prior Annual Reports on Form 10-K and Quarterly Reports on Forms 10-Q, prior to December 2013, we sold products manufactured by third parties that contained derivatives from geranium known as 1.3-dimethylpentylamine/dimethylamylamine/ 13-dimethylamylamine, or "DMAA," which were recalled from our stores in November 2013, and/or Aegeline, a compound extracted from bael trees. As of September 30, 2019, individuals (on their own behalf or on behalf of minors or estates) have filed 27 personal injury lawsuits involving products containing DMAA and/or Aegeline, where we (or one of our wholly-owned subsidiaries) along with the third-party vendor, have been named as parties:

- Case No. 140502403, filed May 20, 2014 in Common Pleas Court of Philadelphia County, Pennsylvania
- Case No. 15-1-0847-05, filed May 1, 2015, in the first Circuit Court, State of Hawaii
- Cases filed in the District Court for the District of Hawaii as follows:

- Case No. 3-00639 DMK, filed November 21, 2013
- Case No. CV 14-00030, filed January 23, 2013
- Case No. CV 14-00032, filed January 23, 2014
- Case No. 14-cv-00364 filed October 24, 2014
- Case No. CV14-00366 filed August 15, 2014
- Case No. CV-15-00228, filed June 17, 2016
- Case No. CV 14-00029, filed January 23, 2014
- Case No. CV 14-00031, filed January 23, 2014
- Case No. CV14-00029, filed January 23, 2014
- Case No. CV14-00365 filed October 24, 2014
- Case No. 14-cv-00367 filed October 24, 2014

- Cases filed in the Superior Court of California as follows:

Orange County:

- Case No. 2014-00740258 filed August 18, 2014
- Case No. 30-2015-00776749, filed March 12, 2015
- Case No. 30-2015-00783256-CU-PL-CXC, filed April 16, 2015

San Diego County:

- Case No. 37-2015-00008404, filed March 13, 2015
- Case No. 37-2014-110924, filed September 8, 2014
- Case No. 37-2013-00074052-CU-PL-CTL, filed November 1, 2013

Los Angeles County:

- Case No. BC559542, filed October 6, 2014
- Case No. BC575264, filed March 13, 2015
- Case No. BC575262, filed March 13, 2015
- Case No. BC534065, filed January 23, 2014

Monterey County:

- Case No. M131321, filed March 13, 2015
- Case No. M131322, filed March 13, 2015

Santa Clara County:

- Case No. 115CV78045, filed March 13, 2015
- Case No. CV-14-0037, filed January 24, 2014

These matters are currently stayed pending final resolution.

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

**Other Legal Proceedings.** For additional information regarding certain legal proceedings to which we are a party, see Item 1 "Financial Statements" Note 9, "Contingencies."

**Item 1A. Risk Factors**

There have been no material changes to the disclosures relating to this item from those set forth under Part I, Item 1A "Risk Factors" in the 2018 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

The following table sets forth information regarding Holdings' purchases of shares of common stock during the quarter ended September 30, 2019:

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(3)</sup>	Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
July 1 to July 31, 2019	—	\$ —	—	\$ 197,795,011
August 1 to August 31, 2019	—	\$ —	—	\$ 197,795,011
September 1 to September 30, 2019	32,191	\$ —	—	\$ 197,795,011
<b>Total</b>	<b>32,191</b>	<b>\$ —</b>	<b>—</b>	

(1) Other than as set forth in the table above, we made no purchases of shares of Class A common stock during the quarter ended September 30, 2019.

(2) Includes 32,191 shares withheld from employees to satisfy minimum tax withholding obligations associated with the vesting of restricted stock during the period.

(3) In August 2015, the Board approved a \$500.0 million multi-year repurchase program in addition to the \$500.0 million multi-year program approved in August 2014, bringing the aggregate share repurchase program to \$1.0 billion of the Company's common stock. The Company has utilized \$802.2 million of the current repurchase program. As of September 30, 2019, \$197.8 million remains available for purchase under the program.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

**Item 6. Exhibits**

<u>Exhibit</u> <u>No.</u>	Description
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.1*	Amended and Restated Stock Holders Agreement, dated February 13, 2019
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

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\* Filed herewith.

**SIGNATURES**

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

GNC HOLDINGS, INC.  
(Registrant)

/s/ Tricia K. Tolivar

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Tricia K. Tolivar  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 25, 2019

**GNC HOLDINGS, INC.**

**AMENDED AND RESTATED STOCKHOLDERS AGREEMENT**

Dated as of February 13, 2019

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## AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

This Amended and Restated Stockholders Agreement, dated as of February 13, 2019, by and between GNC Holdings, Inc., a Delaware corporation (the “**Company**”), and Harbin Pharmaceutical Group Co., Ltd., a company incorporated in the People’s Republic of China (“**Investor**”).

### BACKGROUND:

WHEREAS, Investor and the Company are party to that certain Securities Purchase Agreement (as defined below), pursuant to which, among other things, Investor agreed to purchase from the Company, and the Company has agreed to issue and sell to Investor, shares of Convertible Preferred Stock (as defined below), subject to the terms and conditions set forth in the Securities Purchase Agreement;

WHEREAS, concurrently with the Closing, the Company and Investor entered into the Stockholders Agreement, dated as of November 7, 2018 (the “**Current Agreement**”) and a Registration Rights Agreement, dated as of November 7, 2018 (the “**Registration Rights Agreement**”), providing for certain registration rights which the Company has granted to Investor;

WHEREAS, the execution and delivery of this Agreement is a condition of the Investor and the Company to the Second Subsequent Closing;

WHEREAS, in connection with the transactions contemplated by the Securities Purchase Agreement, the Company and Investor wish to amend and restate the Current Agreement in its entirety in order to set forth certain understandings between such parties, including with respect to certain governance matters; and

WHEREAS, the Company and Investor have agreed that the rights and obligations set forth herein shall become automatically effective simultaneously with the Second Subsequent Closing.

NOW, THEREFORE, in consideration of the foregoing, and the representations, warranties, covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

### ARTICLE I INTRODUCTORY MATTERS

1.1 **Defined Terms.** In addition to the terms defined elsewhere herein, the following terms have the following meanings when used herein with initial capital letters:

“**10% Stockholder**” means, in connection with a proposed Transfer of Equity Securities of the Company, any Person or Group that has filed a statement of beneficial ownership report on Schedule 13D or Schedule 13G with the SEC which reports such Person’s or Group’s

Beneficial Ownership of ten percent (10%) or more of the total issued and outstanding Common Stock at the time of such proposed Transfer.

“**Acquisition**” means any transaction or series of related transactions involving: (i) any merger,

consolidation, share exchange, business combination, recapitalization, reorganization, or other transaction that would result in the stockholders of the Company immediately preceding such transaction Beneficially Owning less than thirty-five percent (35%) of the total outstanding Equity Securities in the surviving or resulting entity of such transaction (measured by voting power or economic interest), (ii) any transaction, including any direct or indirect acquisition or any tender offer, exchange offer or other secondary acquisition, that would result in any Person or Group Beneficially Owning more than thirty-five percent (35%) of the total outstanding Equity Securities of the Company (measured by voting power or economic interest), or (iii) any sale, lease, license or other disposition, directly or indirectly, of all or substantially all of the consolidated assets of the Company.

“**Acquisition Proposal**” means any proposal, offer, inquiry, indication of interest or expression of intent (whether binding or non-binding, and whether communicated to the Company, the Board or publicly announced to the Company’s stockholders or otherwise) by any Person or Group relating to an Acquisition.

“**Affiliate**” means, as to any Person, any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control (meaning holding over 50% of the voting rights) with, the first-mentioned Person. The parties agree that no Governmental Entity shall be deemed to be an “Affiliate” of either party.

“**Affiliated Investor Designee**” means any Investor Designee that is not an Independent Investor Designee.

“**Agreement**” means this Stockholders Agreement, as the same may be amended, supplemented, restated or otherwise modified from time to time in accordance with the terms hereof.

“**As-Converted Basis**” means on an as-converted-to-Common Stock basis (disregarding for such purpose any conversion limitations thereon).

“**Beneficially Own**” (including its correlative meanings, “**Beneficial Owner**” and “**Beneficial Ownership**”) has the meaning set forth in Rule 13d-3 promulgated under the Exchange Act; provided, however, that, notwithstanding anything in Rule 13d-3(d)(1)(i) to the contrary, the determination of “Beneficial Ownership” of a Person shall be made after giving effect to the conversion of all options, warrants, rights and convertible or other similar securities outstanding as of any date in question that are held by such Person, irrespective of any conversion or vesting requirement of any such security.

“**Board**” means the board of directors of the Company.

“**Business Day**” means a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York, are authorized by Law to close prior to 5 p.m. New York City Time or remain closed.

“**Cash Offer Trigger Event**” means any of (i) the issuance after the Second Subsequent Closing by the Company’s auditors of an opinion containing a going concern qualification for the Company with respect to the any full fiscal year of the Company, (ii) the Company being in material breach (which is not cured or waived) after the Second Subsequent Closing of any financial maintenance covenant in any of its debt instruments or (iii) the eighteen (18) month anniversary of the Closing.

“**CEO Designee**” has the meaning set forth in Section 2.1(c).

“**Certificate of Designations**” means that certain Certificate of Designations of the Company

establishing the Convertible Preferred Stock, as the same may be amended from time to time.

“**Closing**” has the meaning set forth in the Securities Purchase Agreement.

“**Common Stock**” means the shares of Class A common stock, \$0.001 par value per share, of the Company, and any other capital stock of the Company into which such common stock is reclassified or reconstituted.

“**Company**” has the meaning set forth in the Preamble.

“**Company Charter**” means the Amended and Restated Certificate of Incorporation of the Company, as amended.

“**Company Designees**” means (i) the Directors duly designated and appointed to the Board as of the date hereof, in each case pursuant to Section 5.18 of the Securities Purchase Agreement, and (ii) the individuals nominated by the Independent Company Designees pursuant to Section 2.1(d).

“**Confidentiality Agreement**” has the meaning set forth in Section 4.4.

“**Contested Election**” means an election in which the Secretary of the Company determines in good faith that the number of Director nominees is greater than the number of Directors to be elected.

“**Control**” (including its correlative meanings, “**Controlled**” and “**Controlled by**”) means possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise) of a Person.

“**Conversion Price**” has the meaning set forth in the Certificate of Designations.

“**Convertible Notes**” means the Company’s 1.5% Convertible Senior Notes, issued on August 10, 2015 pursuant to the Convertible Notes Indenture, in an original aggregate principal amount of \$287,500,000, due in 2020.

“**Convertible Notes Indenture**” means that certain Indenture, dated as of August 10, 2015, by and among the Company, the Subsidiary guarantors party thereto and Bank of New York Mellon Trust Company, N.A., as Trustee.

“**Convertible Preferred Stock**” means the shall mean the class of preferred stock of the Company titled the “Series A Convertible Preferred Stock.”

“**Current Agreement**” has the meaning set forth in the Recitals.

“**Designee Qualifications**” has the meaning set forth in Section 2.2(a)(viii). “**Director**” means any director of the Company.

“**Director Confidentiality Agreement**” means a Confidentiality Agreement, substantially in the form attached as Exhibit A to this Agreement (as it may be modified from time to time by the Nominating and Corporate Governance Committee), which each Director that is not an employee of the Company shall be required to execute as a condition to such Director’s election or nomination for election and any subsequent nomination for election as a Director.

“**Equity Securities**” means any and all (i) shares, interests, participations or other equivalents (however designated) of capital stock or other voting securities of a corporation, any and all equivalent or analogous ownership (or profit) or voting interests in a Person (other than a corporation), (ii) securities convertible into or exchangeable for shares, interests, participations or other equivalents (however designated) of capital stock or voting securities of (or other ownership or profit or voting interests in) such Person, and

(iii) any and all warrants, rights or options to purchase any of the foregoing, whether voting or nonvoting, and, in each case, whether or not such shares, interests, participations, equivalents, securities, warrants, options, rights or other interests are authorized or otherwise existing on any date of determination.

“**Exchange**” shall mean the New York Stock Exchange LLC or any other exchange on which the Common Stock is listed.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as the same may be amended from time to time.

“**Exempted Person**” has the meaning set forth in Section 4.6.

“**Governmental Entity**” means any national, federal, state, county, municipal, local or foreign government, or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory, taxing, administrative or prosecutorial functions of or pertaining to government.

“**Group**” has the meaning assigned to it in Section 13(d)(3) of the Exchange Act and Rule 13d-5 thereunder.

“**Indebtedness**” means, of any Person and as of any time, the aggregate amount of the following, without duplication: (a) the outstanding principal amount of any indebtedness for borrowed money; (b) all other obligations evidenced by bonds, debentures, notes or similar

instruments of indebtedness; (c) all capitalized lease obligations that are classified as a balance sheet liability in accordance with GAAP; (d) all letters of credit, performance bonds, surety bonds, banker’s acceptances or similar obligations issued for the account of such Person; (e) all guarantees and keepwell arrangements issued by such Person; (f) to the extent not otherwise included, all indebtedness of another Person secured by a lien on any asset owned by such first Person, whether or not such indebtedness is assumed by such first Person; (g) all obligations due and payable under any interest rate swap agreements or interest rate hedge agreements and similar agreements to which any such Person is a party; (h) all obligations issued or assumed as the deferred purchase price of property or services with respect to which any Person is liable, contingent or otherwise (including conditional sale obligations and “earn-out” obligations but excluding trade payables arising in the ordinary course of business); and (i) any interest owed with respect to the indebtedness referred to above and prepayment penalties, premiums, breakage or fees and expenses due and payable with respect thereto.

“**Independent Company Designee**” means a Company Designee who qualifies as an “independent” director under the rules of the Exchange and any guidelines adopted by the Board or the Nominating and Corporate Governance Committee that are applicable to all Directors, as determined in good faith by the Nominating and Corporate Governance Committee.

“**Independent Investor Designee**” means an Investor Designee that (A) at no time during the three (3) year period prior to his or her election or appointment to the Board, nor during his or her service as a Director, has been or is an employee, director, officer of, or consultant or other service provider to, any of the Investor Entities, or has received or is receiving compensation from any of the Investor Entities and (B) qualifies as an “independent” director under the rules of the Exchange and any guidelines adopted by the Board or the Nominating and Corporate Governance Committee that are applicable to all Directors, as determined in good faith by the Nominating and Corporate Governance Committee.

“**Initial Investor Designees**” means the individuals duly designated by the Investor as “Investor Designees” (as such term is defined in the Securities Purchase Agreement) and appointed to the Board as of

the date hereof, in each case pursuant to Section 5.18 of the Securities Purchase Agreement.

“**Investor**” has the meaning set forth in the Preamble.

“**Investor Acquisition**” means any Acquisition in which an Investor Entity is the acquiror.

“**Investor Designee**” has the meaning set forth in Section 2.1(b). “**Investor Entities**” means Investor and its Affiliates.

“**Investor Parties**” means (i) Investor and (ii) any Investor Permitted Transferee that becomes a party to this Agreement by executing a joinder agreement substantially in the form attached as Exhibit D to this Agreement.

“**Investor Permitted Transferee**” has the meaning set forth in Section 4.1(b)(ii).

“**Issuance Notice**” has the meaning set forth in Section 4.2(a).

“**Law**” means any applicable national, provincial, state, municipal and local laws, statutes, ordinances, decrees, rules, regulations or Orders of any Governmental Entity, in each case, having the force of law.

“**Material Terms**” has the meaning set forth in Section 2.1(b). “**New Issuance**” has the meaning set forth in Section 4.2(a).

“**New Issuance Closing**” has the meaning set forth in Section 4.2(c).

“**New Securities**” means (A) any shares of Common Stock, (B) any shares of preferred securities or (C) any preferred or debt securities that are convertible into or exchangeable for shares of Common Stock, other than, in each case, any shares of Common Stock or such other securities that are: (i) issued to employees, officers or directors of, or consultants to, the Company or any of its Affiliates pursuant to any plan, agreement or arrangement approved by the Board (or a committee thereof); (ii) issued as consideration in connection with the acquisition by the Company (or any of its Affiliates) of any business, assets or property of any third party, by merger, sale of assets, sale of stock or otherwise; (iii) issued upon conversion or exercise of the Convertible Preferred Stock or the Convertible Notes; (iv) distributed or set aside ratably to all holders of Common Stock on a per share equivalent basis; (v) in connection with the *bona fide* sale by the Company or any of its Subsidiaries of all or substantially all of the Equity Securities of one or more Subsidiaries of the Company; or (vi) issued as an “equity kicker” in connection with any debt financing from a financial institution or other equipment or real property loan or leasing arrangement.

“**Nominating and Corporate Governance Committee**” means the nominating and corporate governance committee of the Board, or another committee performing the functions of nominating or selecting Persons for election or appointment to the Board.

“**Observer**” has the meaning set forth in Section 2.1(h).

“**Order**” means any judgment, order, decision, writ, injunction, decree or arbitration award.

“**Per Security Offering Price**” has the meaning set forth in Section 4.2(a).

“**Percentage Interest**” means, with respect to any stockholder(s) of the Company, the Total Share Ownership of such stockholder(s) divided by the total issued and outstanding shares of Common Stock, including Convertible Preferred Stock on an As-Converted Basis and any other shares of Common Stock, in each case, deemed to be Beneficially Owned by such stockholder that are not yet issued and outstanding, expressed as a percentage.

“**Permitted Transfer**” has the meaning set forth in Section 4.1(b).

“**Person**” means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or Group.

“**Registration Rights Agreement**” has the meaning set forth in the Recitals.

“**Restricted Entity**” means a Person principally engaged in the business of owning, operating, managing, franchising or branding retail nutrition supplement stores, or developing or manufacturing nutritional supplements, that, in each case, competes with the Company and is listed on Exhibit B attached hereto, as such list may be amended by the Company acting reasonably and in good faith from time to time, but not more than once every twelve (12) months, by delivery of written notice to Investor no less than one-hundred and twenty (120) days prior to such amendment; provided that in no event shall Exhibit B contain more than fifteen (15) such Persons at any one time; provided, further, for the avoidance of doubt, “Restricted Entity” shall not include any Investor Entity as of the date hereof.

“**Restricted Period**” means the period commencing on the Closing and ending on the second (2<sup>nd</sup>) anniversary of the Second Subsequent Closing.

“**SEC**” means the U.S. Securities and Exchange Commission or any successor agency.

“**Second Subsequent Closing**” has the meaning set forth in the Securities Purchase Agreement.

“**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as the same may be amended from time to time.

“**Securities Purchase Agreement**” means that certain Securities Purchase Agreement, dated as of February 13, 2018, as amended as of November 7, 2018, by and between Investor (as assignee of Harbin Pharmaceutical Group Holdings Co., Ltd.) and the Company.

“**Subsidiary**” of Investor, the Company or any other Person means any corporation, partnership, joint venture or other legal entity of which Investor, the Company or such other Person, as the case may be (either alone or through or together with any other Subsidiary), owns, directly or indirectly, a majority of the capital stock or other Equity Securities the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation, limited liability company, partnership, joint venture or other legal entity, or otherwise owns, directly or indirectly, such capital stock or other Equity Securities that would confer Control of any such corporation, limited liability company, partnership, joint venture or other legal entity, or any Person that would otherwise be deemed a “subsidiary” under Rule 12b-2 promulgated under the Exchange Act.

“**Sunset Date**” means the date that the aggregate Percentage Interest of the Investor Entities is less than fifteen percent (15%).

“**Total Number of Directors**” means the total number of authorized Directors comprising the entire Board.

“**Total Share Ownership**” means, as of any applicable date hereunder, and with respect to any Person, the total number of shares of Common Stock (including Convertible Preferred Stock on an As-Converted Basis) both (i) Beneficially Owned by such Person and (ii) in which such Person has the pecuniary interest. For the avoidance of doubt, a Person shall not be deemed

to have ownership of a share of Common Stock, for purposes of calculating Total Share Ownership, if such Person has Beneficial Ownership of such share of Common Stock but does not also have the pecuniary interest in such share or, conversely, if such Person has the pecuniary interest in such share of Common Stock but does not also have Beneficial Ownership of such share.

“**Transfer**” (including its correlative meaning, “**Transferred**”) shall mean, with respect to any Equity Security, directly or indirectly, by operation of Law, contract or otherwise, (i) to sell, contract to sell, give, assign, hypothecate, pledge, encumber, grant a security interest in, offer, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any economic, voting or other rights in or to such Equity Security, (ii) to engage in any hedging, swap, forward contract or other similar transaction that is designed to or which reasonably could be expected to lead to or result in a sale or disposition of Beneficial Ownership of, or pecuniary interest in, such Equity Security, including any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to such Equity Security, or (iii) to enter into a short sale of, or trade in, derivative securities representing the right to vote or economic benefits of, such Equity Security. When used as a noun, “**Transfer**” shall have such correlative meaning as the context may require.

“**Two-Thirds Majority Vote**” means a vote of the Board wherein two-thirds or more of the Total Number of Directors approve the matter, including, for so long as the Percentage Interest of the Investor Entities is at least 25%, at least one Affiliated Investor Designee entitled to vote on the matter; provided, however, that the Total Number of Directors shall be determined without regard to the number of Directors who have recused themselves from voting on such matter, or otherwise is not entitled to vote on a matter, in each case as a result of such Director’s conflict of interest with respect to such matter.

“**Voting Securities**” means shares of Common Stock, Convertible Preferred Stock and any other securities of the Company entitled to vote generally in the election of Directors.

1.2 **Construction.** The words “hereof”, “herein” and “hereunder” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof. References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein shall have the meaning as defined in this Agreement. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”, whether or not they are in fact followed by those words or words of like import. “Writing”, “written” and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms thereof. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. References to “law,” “laws” or to any applicable Law shall be deemed to refer to such law or applicable Law as amended from time to time, except as otherwise specified herein, and to any rules or regulations promulgated thereunder. All references to “days” shall mean calendar days unless otherwise indicated. The parties have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties and no presumption or burden of proof

shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

## ARTICLE II

### CORPORATE GOVERNANCE MATTERS

#### 2.1. Composition of the Board.

(a) Pursuant to the Securities Purchase Agreement and in each case effective as of the Second Subsequent Closing:

(i) the Board shall take all necessary corporate action to increase the Total Number of Directors to eleven (11), comprised of the five (5) Initial Investor Designees, five (5) Company Designees and the Company's chief executive officer;

(ii) the Company shall use commercially reasonable efforts to cause the resignations of two (2) individuals who are directors of the Company immediately prior to the Second Subsequent Closing (other than the Company Designees and the Company's chief executive officer); and

(iii) the Company shall take all necessary corporate action to appoint the Initial Investor Designees to the Board.

(b) From and after the Second Subsequent Closing until the Sunset Date, subject to the terms and conditions of this Article II, Investor shall have the right (but not the obligation) to designate, and the individuals nominated for election as Directors by or at the direction of the Board or a duly-authorized committee thereof shall include, up to five (5) individuals that meet the Designee Qualifications to serve as Directors (each such individual whom Investor shall actually designate pursuant to this Section 2.1 and who qualifies to serve and is thereafter elected as a Director shall be referred to herein as an "**Investor Designee**"); provided, that, at all times, at least two (2) of the Investor Designees shall be Independent Investor Designees (except, if, Investor is only entitled to nominate four (4) Investor Designees, only one (1) of the Investor Designees shall be required to be an Independent Investor Designee, and, if, Investor is only entitled to nominate three (3) or fewer Investor Designees, no Investor Designees shall be required to be an Independent Investor Designee). Notwithstanding the foregoing provisions of this Section 2.1(b), the number of individuals that Investor shall be entitled to designate to serve as Directors pursuant to this Section 2.1(b) shall be adjusted, as applicable, immediately after any Transfer of Equity Securities of the Company by an Investor Entity and otherwise at each

record date established by the Board with respect to any meeting of stockholders of the Company involving the election of Directors, to a number equal to the Percentage Interest of the Investor Entities multiplied by the Total Number of Directors at such time, rounded up to the nearest whole number; provided, that, (i) the number of Investor Designees shall not exceed five (5) individuals and (ii) on and after the Sunset Date, or the earlier date on which any Investor Entity intentionally breaches Article III, Section 4.1 or Section 4.3 of this Agreement (the "**Material Terms**") in any material respect and such breach continues after written notice from the Company and a ten (10) Business Day opportunity to cure, the Investor shall not be entitled to designate any individuals to serve as Directors, and no Investor Designee shall be entitled to serve as Director, in each case pursuant to this Agreement.

(c) From and after the Closing until the Sunset Date, the chief executive officer of the Company shall be entitled to be nominated by the Board for election as a Director (except as otherwise determined by

the approval of a majority of the independent directors, including a majority of the Independent Company Designees entitled to vote on such matter) (such Person, the “**CEO Designee**”).

(d) From and after the Closing until the Sunset Date, the Independent Company Designees shall have the exclusive right to nominate persons on behalf of the Board for election at annual stockholders meetings for, or to fill vacancies in, all Director positions, other than (i) the Investor Designees and (ii) the CEO Designee; provided, that, at all times, the Company Designees shall be Independent Company Designees, unless otherwise determined by the Board (including, for so long as the Percentage Interest of the Investor Entities is at least 25%, at least a majority of the Investor Designees entitled to vote on such matter).

(e) If at any time Investor has designated fewer than the total number of individuals that Investor is then entitled to designate pursuant to Section 2.1(b), Investor shall have the right (but not the obligation) to designate such number of additional individuals who meet the Designee Qualifications that Investor is entitled to so designate, in which case, any individuals nominated by or at the direction of the Board or any duly-authorized committee thereof for election as Directors to fill any vacancy or newly created directorships on the Board shall include such designees, and the Company shall use its reasonable best efforts to (i) effect the election of such additional designees, whether by increasing the size of the Board or otherwise, and (ii) cause the election of such additional designees to fill any such newly-created vacancies or to fill any other existing vacancies.

(f) Subject to Section 2.3, in the event that a vacancy is created at any time by the death, disability, retirement, removal or resignation of any Investor Designee, any individual nominated or appointed by or at the direction of the Board or any duly-authorized committee thereof to fill such vacancy shall be, and the Company shall use its reasonable best efforts to cause such vacancy to be filled by, a new designee of Investor who meets the Designee Qualifications, and the Company and the Board shall use reasonable best efforts, to the fullest extent permitted by Law, at any time and from time to time, to accomplish the same as soon as possible following such designation.

(g) For any designation pursuant to this Section 2.1 that occurs after the Second Subsequent Closing, in connection with an election of Directors by the stockholders of the Company, Investor shall identify its designees by written notice to the Company no less than ninety (90) days prior to the date of the meeting of stockholders of the Company called for the purpose of electing Directors or if later, prior to the 10<sup>th</sup> day after the public announcement of the meeting date. So long as an individual designated by Investor pursuant to this Section 2.1 meets the Designee Qualifications, the Company shall, to the fullest extent permitted by Law, include such individual in the slate of nominees recommended by the Board at any meeting of stockholders called for the purpose of electing Directors, and use its reasonable best efforts to cause the election of such individual to the Board, including nominating such individual to be elected as a Director as provided herein, recommending such individual’s election, soliciting proxies or consents in favor thereof.

(h) The Company shall at all times provide each Investor Designee (in his or her capacity as a member of the Board) with the same rights to indemnification, advancement of expenses and exculpation that it provides to other Directors. Each Investor Designee shall be entitled to receive from the Company and its Subsidiaries, if applicable, the same insurance coverage in connection with his or her service as a member of the Board or any committee thereof as is provided to other Directors. Such insurance coverage shall be provided through customary director and officer indemnity insurance on commercially reasonable terms. The Company shall at all times provide each Investor Designee with compensation, benefits and reimbursement (including of travel expenses) that it provides to the Company Designees.

(i) From the date hereof until the Sunset Date, Investor may designate one (1) individual as an observer (the “**Observer**”) to attend each meeting of the Board and its committees in a non-voting capacity, subject to such individual’s prior execution and delivery to the Company of a customary confidentiality agreement in the form attached hereto as Exhibit C (as it may be reasonably modified from time to time by the Nominating and Corporate Governance Committee) and except when such attendance would present an actual or potential conflict of interest (in the good faith determination of the Board or any committee thereof, as applicable).

## 2.2. Qualification of Investor Designees.

(a) Each Investor Designee shall, as determined by the Nominating and Corporate Governance Committee, acting reasonably and in good faith and in a manner consistent with the fiduciary duties of each Director, the rules of the Exchange and applicable Law, at the time of his or her nomination or appointment as a Director and at all times thereafter until such individual ceases to serve as a Director:

(i) meet and comply in all material respects with any and all policies, procedures, processes, codes, rules, standards and guidelines of the Company applicable to all non-employee Board members, including the Company’s code of business conduct and ethics, securities trading policies and corporate governance guidelines;

(ii) meet and comply in all material respects with any and all applicable qualifications, standards and other requirements for service as a Director as set forth in the Exchange’s rules;

(iii) not be involved, during the ten (10) year period prior to his or her nomination or appointment as a Director, in any of the events enumerated in Item 2(d) or Item 2(e) of Schedule 13D under the Exchange Act or Item 401(f) of Regulation S-K;

(iv) not be subject to any Order of any Governmental Entity prohibiting service as a director of any public company;

(v) not be an employee, officer, or director of, or consultant to, or be receiving any compensation or benefits from, any Restricted Entity (unless otherwise agreed to by the Nominating and Corporate Governance Committee);

(vi) have demonstrated in all material respects good judgment, character and integrity in his or her personal and professional dealings and have relevant financial, investment, management, international business and/or other business experience, qualification and background for purposes of serving as a Director;

(vii) have demonstrated proficiency and financial literacy in the English language for purposes of serving as a Director, including with respect to the reading, comprehension and analysis of English language materials (including financial materials) furnished in advance of and in connection with meetings of the Board (and committees thereof) and the ability to participate on a conversant basis in the English language meetings of the Board (and committees thereof) and the topics covered therein, including financial discussions; and

(viii) if such Investor Designee is an Independent Investor Designee, meet the criteria set forth in the definition of “Independent Investor Designee” in Article I (the requirements set forth in this Section 2.2(a), Section 2.2(b) and Section 2.2(c) being referred to, collectively, as the “**Designee Qualifications**”).

(b) As a condition an Investor Designee's election or nomination for election and any subsequent nomination for election as a Director, such Investor Designee shall have executed and delivered to the Company a Director Confidentiality Agreement and shall have executed and delivered a consent in the same form as the other non-employee directors to be named as a nominee in any proxy statement or similar materials for any annual meeting or special meeting of stockholders and to serve as a Director if so elected.

(c) Each Investor Designee, as a condition to his or her appointment or election to the Board must be willing to be interviewed by the Nominating and Corporate Governance Committee on the same basis as any other new candidate for appointment or election to the Board and must be reasonably satisfactory to the Nominating and Corporate Governance Committee acting in good faith. Investor, in its capacity as a stockholder of the Company on behalf of itself and other Investor Entities, and each Investor Designee, shall deliver such questionnaires and otherwise provide such information as are reasonably requested by the Company in connection with assessing qualification, independence and other criteria applicable to Directors, or required to be or customarily provided by directors, candidates for director, and their Affiliates and representatives for inclusion in a proxy statement or other filing required by applicable Law and the rules of the Exchange, in each case to substantially the same extent

requested or required of other candidates for appointment or election to the Board after the date hereof.

2.3. Resignations. Notwithstanding anything to the contrary in this Agreement, if, at any time, the number of Investor Designees is greater than the number of Directors that Investor has the right to designate pursuant to Section 2.1, Investor shall cause, to the fullest extent permitted by applicable Law, that certain number of Investor Designees to promptly tender his, her or their resignations from the Board and any applicable committee of the Board, such that the number of Investor Designees serving on the Board corresponds with the number of Directors that the Investor Designee has the right to designate pursuant to Section 2.1. If the Investor is required to cause, to the fullest extent permitted by applicable Law, an Investor Designee to tender his or her resignation from the Board and such Investor Designee does not promptly tender his or her resignation from the Board, such Investor Designee shall not thereafter be entitled to participate in any meetings, deliberations, votes or other actions as a member of any committee of the Board or as a Director of the Board.

2.4. Board Approval Standards.

(a) Notwithstanding the foregoing, from the date hereof until the Sunset Date, Board action to approve or recommend the matters set forth below shall require a Two-Thirds Majority Vote:

(i) any alteration, amendment or repeal (whether by merger, consolidation, operation of law or otherwise) of any provision of the Company Charter or other Company organizational documents, including the bylaws, in a manner inconsistent with this Agreement;

(ii) any creation of a committee of the Board, or the delegation of authority to any committee of the Board (other than a committee constituted of independent directors formed with respect to a matter for which one or more Directors has recused themselves due to a conflict of interest);

(iii) any extraordinary purchase, repurchase or redemption of capital stock;

(iv) any appointment or removal of any Director, otherwise than in accordance with the Company's organizational documents and this Agreement;

(v) any increase or decrease of the Total Number of Directors;

(vi) any payment of any extraordinary dividend or other extraordinary distributions by the Company;

(vii) the acceptance of any Acquisition, other than with respect to a sale of 100% of the Equity Securities of the Company to a third party in a transaction in which all stockholders of the Company receive the same per share consideration;

(viii) (A) any amendment or modification of the Convertible Notes Indenture that would result in a reduction in the "Conversion Price" or an increase in the "Conversion Rate", each as defined therein, for the Convertible Notes causing a conversion price per share of Common Stock that is less than the Conversion Price for the Convertible Preferred Stock or (B) any conversion of the Convertible Notes into Common Stock, or repurchase or redemption of the Convertible Notes in exchange for Common Stock, at a conversion or purchase price per share of Common Stock that is less than the Conversion Price for the Convertible Preferred Stock;

(ix) any issuance of any Equity Security senior to or *pari passu* with the Convertible Preferred Stock; or

(x) the commencement of bankruptcy or receivership proceedings, or the adoption of a plan of complete or partial liquidation or resolutions providing for a complete or partial liquidation, dissolution, or winding up of the Company.

(b) Notwithstanding the foregoing, for a period of three years after the Closing Date, Board action to approve the matters set forth below shall require a Two-Thirds Majority Vote:

(i) the removal or replacement of the chief executive officer, president, chief financial officer, secretary, treasurer or any other executive officer;

(ii) the incurrence of Indebtedness in excess of \$10,000,000 in respect of any single transaction or in a series of related transactions; or

(iii) any New Issuance of New Securities in excess of \$10,000,000 in respect of any single transaction or in a series of related transactions (except as set forth in Section 2.4(a)(viii) and Section 2.4(a)(ix) herein).

2.5. Affiliate Transactions. Until the Sunset Date, any transaction, agreement, contract or other arrangement by and among the Company or any of its Subsidiaries, on the one hand, and any of the Investor or its Affiliates, on the other hand, shall require the approval of a majority of the independent and disinterested Directors. The Investor shall notify and fully inform the full Board of any actual or potential conflict of interest that arises due to any such proposed transaction, agreement, contract or other arrangement. Notwithstanding anything to the contrary, the foregoing provision shall not apply to any transactions contemplated by this Agreement or any of the Transaction Documents (as defined in the Securities Purchase Agreement).

### ARTICLE III VOTING MATTERS

3.1. Voting in Elections. Until the Sunset Date, at any meeting of stockholders of the Company involving the election of Directors (or if action is taken by written consent of stockholders of the Company in lieu of a meeting in respect of an election of Directors), the Investor Parties shall vote, or cause to be voted (including, if applicable, by written consent), all Voting Securities Beneficially Owned by the Investor Entities (a) affirmatively in favor of the election of each Investor Designee nominated to serve as a Director in accordance with this Agreement, (b) except in a Contested Election, affirmatively in favor of the election of each

Company Designee and the CEO Designee nominated to serve as a Director in accordance with this Agreement, and (c) in a Contested Election, either, at the election of such Investor Entities,

(i) consistent with the recommendations of the Board or (ii) in the same proportion as the Voting Securities not Beneficially Owned by Investor Entities are voted (including, if applicable, by written consent, or by voting by ballot or by submitting any alternative proxy card necessary to accomplish the proportionate voting contemplated by this Article III) affirmatively for or against, or to withhold authority with respect to, as applicable, the election of each Company Designee and the CEO Designee nominated to serve as a Director in accordance with this Agreement (it being understood that the Investor Parties must elect to vote as contemplated by this Section 3.1 and cannot elect not to vote or to vote in any other manner).

3.2. Voting with respect to Acquisitions.

(a) Until the Sunset Date, at any meeting of stockholders of the Company at which an Acquisition (and any other related matter the approval of which is required to consummate such Acquisition) is submitted to a vote of the stockholders of the Company (or if action is taken with respect to such matter(s) by written consent of stockholders of the Company in lieu of a meeting), the Investor Entities shall be permitted to vote or cause to be voted (including by abstaining or, if applicable, taking action by written consent), all Voting Securities Beneficially Owned by Investor Entities either, at the election of such Investor Entities, (i) consistent with the recommendation of the Board or (ii) in the same proportion as the Voting Securities not Beneficially Owned by Investor Entities are voted (including by written consent) for or against, or abstain with respect to, such Acquisition (and such related matter(s)); provided, that, with respect to any meeting of stockholders of the Company occurring prior to the first (1<sup>st</sup>) anniversary of the Closing at which an Acquisition (and any other related matter the approval of which is required to consummate such Acquisition) in which the consideration per share of Common Stock is less than \$5.35 is submitted to a vote of the stockholders of the Company (or if action is taken with respect to such matter(s) by written consent of stockholders of the Company in lieu of a meeting), the Investor Parties shall be permitted to vote or cause to be voted (including by abstaining or, if applicable, taking action by written consent) all Voting Securities Beneficially Owned by Investor Entities, in their sole discretion. For the avoidance of doubt, in calculating the voting requirements of the Investor Parties under this Section 3.2, all broker non-votes and all Voting Securities that are not present or represented at the applicable stockholder meeting shall not be considered for quorum or voting purposes.

(b) Until the Sunset Date and in the event an Acquisition by a Person other than an Investor Entity is to be effected by means of a tender or exchange offer, the Investor Entities shall tender the shares of Voting Securities Beneficially Owned by Investor Entities consistent with the recommendation of the Board or in the same manner such Investor Entities would be required to vote such Voting Securities pursuant to Section 3.2(a) if such Acquisition were submitted to a vote of the stockholders of the Company.

3.3. Voting with respect to Other Matters. Until the Sunset Date, at any meeting of stockholders of the Company at which any matter, other than matters that are subject to Section 3.1 and Section 3.2, is submitted to a vote of the stockholders of the Company (or if action is taken with respect thereto by written consent of stockholders in lieu of a meeting), the Investor Parties shall vote or cause to be voted (including by abstaining or, if applicable, taking

action by written consent) all Voting Securities Beneficially Owned by Investor Entities either, at the election of such Investor Entities, (i) consistent with the recommendation of the Board or (ii) in the same proportion as the Voting Securities not Beneficially Owned by Investor Entities are voted (including, if applicable, by written consent, or by voting by ballot or by submitting any alternative proxy card necessary to accomplish the proportionate voting contemplated by this Article III), it being understood that the Investor Parties must elect to vote as contemplated by this Section 3.3 and cannot elect not to vote (unless the Board recommends an abstention) or to vote in any other manner.

3.4. Quorum. Until the Sunset Date, at each meeting of stockholders, the Investor Entities shall cause all of the Voting Securities Beneficially Owned by Investor Entities to be present in person or by proxy for quorum purposes, and shall ensure that its broker-designees, if any, have the authority to vote on at least one “routine” matter at a meeting of stockholders sufficient to be counted as present for quorum purposes.

#### ARTICLE IV ADDITIONAL COVENANTS

##### 4.1. Transfer Restrictions.

(a) During the Restricted Period, no Investor Party shall Transfer any shares of Convertible Preferred Stock or Common Stock, other than pursuant to a Permitted Transfer.

(b) **“Permitted Transfer”** means:

(i) a Transfer that has been approved in advance by a majority of the independent and disinterested members of the Board;

(ii) a Transfer to any Investor Entity that is not a Restricted Entity (any such Investor Entity, an **“Investor Permitted Transferee”**), if such Investor Permitted Transferee shall have agreed in writing to be bound to the same extent as Investor by the obligations of this Agreement by executing a joinder agreement substantially in the form attached as Exhibit D to this Agreement;

(iii) a Transfer to the Company in connection with a Fundamental Change (as defined in the Certificate of Designations) or redemption pursuant to the Certificate of Designations;

(iv) a Transfer in connection with any Acquisition approved by the Board or a duly-authorized committee thereof (including if the Board or such committee recommends that the Company’s stockholders tender in response to a tender or exchange offer that, if consummated, would constitute an Acquisition); or

(v) a Transfer that constitutes a tender into a tender or exchange offer commenced by the Company or any of its Affiliates.

(c) Following the Restricted Period, each Investor Party shall be free to Transfer any shares of Common Stock or Convertible Preferred Stock; provided, that (i) with respect to any Transfer, other than a Permitted Transfer or an underwritten public offering or an underwritten block trade, the Investor Parties shall not Transfer any shares of Common Stock or Convertible Preferred Stock to (A) any Restricted Entity or (B) any Person or Group that is a 10% Stockholder or that would become a 10% Stockholder as a result of the Transfer, (ii) with respect to any Transfer, other than a Permitted Transfer, that is an underwritten public offering or an underwritten block trade, such Investor Party shall request that the managing underwriter(s) or broker(s) not to Transfer any shares of Common Stock to any Person or Group that is a 10% Stockholder

or that would become a 10% Stockholder as a result of the Transfer (unless, in each case, the identity of the Person purchasing the shares of Common Stock is not known to the managing underwriter(s) or broker(s)), *provided*, that, the Investor Parties shall not have any liability for a failure by the managing underwriter(s) or broker to follow such request, and (iii) with respect to a Transfer, other than a Permitted Transfer, that is an underwritten block trade, such Investor Party shall request that the broker(s) not to Transfer any shares of Common Stock to a Restricted Entity (unless the identity of the Person purchasing the shares of Common Stock is not known to such Investor Party or broker(s)), *provided*, that the Investor Parties shall not have any liability for a failure by the broker(s) to follow such request. For purposes of this Section 4.1(c), the total number of shares of Common Stock issued and outstanding at any time shall be the number specified in the most recent SEC filing of the Company disclosing the total number of shares of Common Stock issued and outstanding.

(d) Any Transfer or attempted Transfer of Equity Securities of the Company in violation of this Section 4.1 shall, to the fullest extent permitted by applicable Law, be null and void *ab initio*, and the Company shall not, and shall instruct its transfer agent and other third parties not to, record or recognize any such purported transaction on the books of the Company.

(e) The Company shall use reasonable efforts to have the shares of Convertible Preferred Stock purchased pursuant to the Securities Purchase Agreement (and any shares of Common Stock issued upon the conversion of such Convertible Preferred Stock) registered directly on the books and records of the transfer agent in the name of the applicable Investor Party and maintained in book entries directly on the books and records of the transfer agent in the name of the applicable Investor Party. Any certificates for shares of Convertible Preferred Stock held by an Investor Party as of the Second Subsequent Closing Date shall bear a legend or legends (and appropriate comparable notations or other arrangements will be made with respect to shares maintained in the form of book entries) referencing restrictions on Transfer of such shares under the Securities Act and under this Agreement which legend shall state in substance:

“THIS SECURITY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) PURSUANT TO ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, (II) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT

UNDER THE SECURITIES ACT, OR (III) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, IN EACH OF CASES (I) THROUGH (III) IN ACCORDANCE WITH THE SECURITIES ACT AND ANY OTHER APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND (B) THE HOLDER WILL NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. THE COMPANY MAY REQUIRE THE DELIVERY OF A WRITTEN OPINION OF COUNSEL, CERTIFICATIONS AND/OR ANY OTHER INFORMATION IT REASONABLY REQUIRES TO CONFIRM THE SECURITIES ACT EXEMPTION FOR SUCH TRANSACTION.

THIS SECURITY IS SUBJECT TO RESTRICTIONS ON TRANSFER SET FORTH IN A STOCKHOLDERS AGREEMENT, DATED NOVEMBER 7, 2018 (AS IT MAY BE AMENDED FROM TIME TO TIME), BY AND AMONG THE COMPANY AND CERTAIN OTHER PARTIES THERETO, COPIES OF WHICH ARE PUBLICLY FILED OR ON FILE WITH THE SECRETARY OF THE ISSUER.”

Notwithstanding the foregoing, upon the request of the applicable Investor Party, (i) in connection with any Transfer of Common Stock or Convertible Preferred Stock in accordance with the terms of this Agreement (other than Section 4.1(b)(ii)), the Company shall promptly cause the second paragraph of the legend (or notation) to be removed upon such Transfer if such restrictions would not be applicable following such Transfer, (ii) following receipt by the Company of an opinion of counsel reasonably satisfactory to the Company to the effect that such legend (or notation) may be lifted in connection with the Transfer of Common Stock or Convertible Preferred Stock, the Company shall promptly cause the first paragraph of the legend (or notation) to be removed from any Common Stock to be Transferred in accordance with the terms of this Agreement, and (iii) to the extent the first and second paragraph of the legend (or notation) would be removed pursuant to this paragraph in connection with any Transfer of Common Stock, the Company shall use reasonable efforts to cause such Common Stock to be registered in the name of The Depository Trust Company's nominee.

#### 4.2. Right of First Refusal.

(a) If the Company, at any time or from time to time following the Closing and prior to the Sunset Date, proposes to issue (a "**New Issuance**") any New Securities, the Company shall provide Investor with written notice (an "**Issuance Notice**") of such New Issuance at least fifteen

(15) Business Days prior to the proposed issuance of such New Securities. The Issuance Notice shall set forth the material terms and conditions of the New Issuance, including (i) the proposed number of New Securities if known or, if not known, an estimate thereof, (ii) a description of the New Securities and proposed manner of sale, (iii) the purchase price per New Security (or conversion price or premium in the event of an offering of convertible debt) (the "**Per Security Offering Price**") if known or, if not known, an estimate thereof, and (iv) the proposed issuance date if known or, if not known, an estimate thereof. Investor shall be entitled to purchase (either directly or through any other Investor Parties or Investor Permitted Transferees), at the Per Security Offering Price and on the other terms and conditions specified in the Issuance Notice, any portion of such New Securities that does not exceed the Percentage Interest of the Investor Entities immediately prior to such New Issuance. The Company shall use its reasonable best efforts in accordance with the DGCL, the Exchange, the Company Charter and the Company

Bylaws, to obtain the approval of the stockholders of the Company for any issuance of New Securities to Investor; provided, however, that no such approval shall delay the issuance of New Securities to any Person other than Investor.

(b) Investor may exercise its rights under this Section 4.2 by delivering written notice of its election to purchase (either directly or through any other Investor Parties or their Investor Permitted Transferees) such New Securities to the Company within ten (10) Business Days after receipt of the Issuance Notice, which notice shall specify the number of New Securities requested to be purchased by Investor. Delivery of such notice shall constitute a binding commitment of Investor to purchase (either directly or through any other Investor Parties or their Investor Permitted Transferees) the amount of New Securities so specified at the Per Security Offering Price and on the terms and conditions specified in the Issuance Notice. If, at the termination of such ten (10) Business Day period, Investor has not exercised its right to purchase any such New Securities, Investor shall be deemed to have waived its rights under this Section 4.2 with respect to, and only with respect to, the purchase of the New Securities specified in the applicable Issuance Notice.

(c) The closing of any sale of New Securities to Investor, any other Investor Parties or Investor Permitted Transferees pursuant to this Section 4.2 shall take place concurrently with the consummation of the sale of the New Securities on the terms set forth in the Issuance Notice to all other Persons purchasing such New Securities (the "**New Issuance Closing**").

(d) If the Company issues, at the New Issuance Closing, less than all of the New Securities described in the Issuance Notice, then the number of New Securities that Investor (and any other Investor Parties and Investor Permitted Transferees) shall be entitled to purchase in connection with such New Issuance pursuant to this Section 4.2 shall be reduced proportionately and Investor's notice delivered pursuant to Section 4.2(b) shall be deemed amended to reflect such reduction. If the number of New Securities is reduced as contemplated by this Section 4.2(d), the Company shall not issue or sell the remainder of the New Securities described in the Issuance Notice without again complying with the provisions of this Section 4.2. If the Company issues, at the New Issuance Closing, more than the New Securities described in the Issuance Notice, then the number of New Securities that Investor (and any other Investor Parties and Investor Permitted Transferees) shall be entitled to purchase in connection with such New Issuance pursuant to this Section 4.2 shall be increased proportionately and Investor's notice delivered pursuant to Section 4.2(b) shall be deemed amended to reflect such increase.

(e) If the New Issuance Closing (other than any over-allotment closing) does not occur within ninety (90) days after the date of the Issuance Notice, the Company shall not issue or sell the New Securities described in the Issuance Notice without again complying with the provisions of this Section 4.2.

(f) Investor (or any other Investor Parties or Investor Permitted Transferees) shall, prior to the closing of any offering pursuant to Rule 144A (or a successor rule) under the Securities Act in which any of them has elected to purchase New Securities pursuant to this Section 4.2, execute and deliver all such documents and instruments as are customarily required in connection with such an offering and are reasonably requested by the Company, including, without limitation, customary investment representations and representations as to its status as the type of offeree to whom a private sale may be made pursuant to the Securities Act, and any failure to deliver or enter into any such documents and instruments at or prior to such closing shall constitute a waiver of the right of first refusal set forth in this Section 4.2 with respect to such New Issuance.

(g) Notwithstanding the foregoing provisions of this Section 4.2, this Section 4.2 shall not apply and the Investor Entities shall have no rights under this Section 4.2 if, at any time, any Investor Entity intentionally breaches any of the terms of this Agreement or the Confidentiality Agreement in any material respect and such breach continues after written notice from the Company and a ten (10) Business Day opportunity to cure.

#### 4.3. Standstill.

(a) Subject to Section 4.3(b), on and after the Closing until the Sunset Date, Investor and the Investor Parties shall not, shall cause their respective Affiliates not to, and shall cause the Investor Parties and their respective Affiliates acting at their direction not to, in any manner, directly or indirectly, without the prior written consent of, or waiver by, the Company:

(i) acquire, offer to acquire, agree to acquire, or solicit an offer to sell, by purchase or otherwise, Beneficial Ownership of any Equity Securities of the Company (including any rights, options or other derivative securities or contracts or instruments to acquire such ownership that derives its value (in whole or in part) from such Equity Securities (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combinations of the foregoing)) other than: (A) as a result of any stock split, stock dividend or distribution, subdivision, reorganization, reclassification or similar capital transaction involving Equity Securities of the Company; (B) pursuant to Section 4.1(b)(ii) or Section 4.2; or (C) a Transfer between Investor

Parties; provided, that no Investor Party shall be in breach of this Section 4.3(a)(i) as a result of the acquisition by any Investor Designee of any Equity Securities of the Company pursuant to (x) the grant or vesting of any equity compensation awards granted by the Company to any Investor Designee, or (y) the exercise of any stock options, restricted stock units, or similar awards relating to any Equity Securities of the Company granted by the Company to any Investor Designee;

(ii) make any public announcement or public offer with respect to any merger, business combination, tender or exchange offer, recapitalization, reorganization, restructuring, liquidation, change of Control or other similar extraordinary transaction involving the Company or any of its Subsidiaries or any acquisition of all or substantially all the assets of the Company (unless such transaction is approved or affirmatively recommended by the Board);

(iii) make, knowingly encourage or in any way participate in, any “solicitation” of “proxies” (as such terms are used in the proxy rules of the SEC promulgated pursuant to Section 14 of the Exchange Act) to vote any Voting Securities, or seek to advise or influence any Person with respect to the voting of, any Voting Securities (other than, in each case, in a manner that is consistent with the Board’s recommendation in connection with a matter);

(iv) seek election to, or seek to place a representative on, the Board or seek removal of any member of the Board or otherwise act, alone or in concert with others, to seek representation or to control or influence the management, the Board or policies of the Company (other than (A) with respect to the election or removal of an Investor Designee or (B) to vote in accordance with the requirements of Article III);

(v) call, or seek to call, a meeting of the stockholders of the Company or initiate any stockholder proposal for action by stockholders of the Company;

(vi) form, join or in any way participate in a Group with respect to Equity Securities (other than a Group consisting solely of Investor Parties);

(vii) otherwise act, alone or in concert with others, to seek to control, advise, change or influence the management or the policies of the Company (for the avoidance of doubt, excluding any such act in their capacity as a commercial counterparty, customer, supplier, industry participant or the like);

(viii) advise or knowingly assist or encourage or enter into any discussions, negotiations, agreements or arrangements with any other Persons in connection with any of the foregoing activities;

(ix) publicly disclose any intention, plan, proposal or arrangement inconsistent with any of the foregoing activities;

(x) arrange, or in any way provide, directly or indirectly, any financing for the purchase by any Person or Group of any Equity Securities or assets of the Company, other than debt financing for (A) the purchase of assets then being offered for sale by the Company and approved by the disinterested Directors, (B) the Transfer of any shares of Common Stock to an Investor Party or an Investor Permitted Transferee, (C) purchases of any Equity Securities of the Company by an Investor Entity that are permitted by this Agreement and (D) an Investor Acquisition;

(xi) take any action that Investor or an Investor Party knows, or would reasonably be expected to know, after consultation with outside legal counsel, would require the Company to make a public announcement regarding the possibility of an Acquisition or any of the foregoing activities;

(xii) deposit any Equity Securities of the Company into a voting trust or subject any Equity Securities to any agreement or arrangement (including by granting any proxies with respect to the Equity Securities to any third party with respect to the voting of such Equity Securities with any third party) other than (A) to provide for voting solely in accordance with this Agreement or (B) pursuant to any agreement or arrangement of the Investor set forth in the organizational or governance documents of the Investor existing on the date hereof; or

(xiii) contest the validity of this Section 4.3(a) or initiate or participate in any judicial proceeding to amend, waive, terminate or seek a release of the restrictions contained herein, it being understood and agreed that (A) this Section 4.3 shall not limit

(x) the activities of any Investor Designee taken in good faith in his or her capacity as a Director or (y) the participation of any Investor Designee in any Board (or committee of the Board, as applicable) discussions, deliberations, negotiations or determinations, and

(B) Investor shall be responsible for any breach of this Section 4.3 caused by any action taken by any Investor Entity or by a representative of an Investor Entity acting at the direction of any Investor Entity.

(b) Notwithstanding anything to the contrary in Section 4.3(a), on and after the date hereof, no Investor Party shall be prohibited or restricted from: (i) initiating and engaging in private discussions with, and/or making and submitting to, the Company and/or the Board a non- public, confidential Acquisition Proposal so long as such Investor Party does not know, and would not be reasonably expected to know, after consultation with outside legal counsel, that such actions would be reasonably likely to require Investor, the Company or any other Person to make a public announcement regarding such Acquisition Proposal; or (ii) from and after a public announcement of a definitive agreement with respect to an Acquisition entered into between the Company and any Person other than an Investor Entity and until the earlier of (A) the closing of such Acquisition and (B) thirty (30) days after the termination of such definitive agreement, making and submitting to the Company, the Board, and/or the Company's stockholders, an alternative Acquisition Proposal on a publicly disclosed and announced basis for all outstanding shares of Common Stock, which, if a tender or exchange offer, shall be on the same terms for all such shares and include a non-waivable condition that a majority of outstanding shares of Common Stock not Beneficially Owned by any Investor Entity are tendered into such offer. For the avoidance of doubt, Section 3.3 and Section 4.3(a) shall continue to apply except to the extent such provisions would prevent an Investor Party from taking the actions expressly permitted by Section 4.3(b)(i) or Section 4.3(b)(ii).

(c) Notwithstanding anything to the contrary in Section 4.3(a) or Section 4.3(b), upon the first occurrence of any Cash Offer Trigger Event, an Investor Party shall be permitted to make a public Acquisition Proposal to the Company's stockholders to acquire one-hundred (100%) of the outstanding shares of Common Stock of the Company in an all-cash tender offer; provided that (i) such Investor Party has engaged in confidential negotiations in good faith with the Board (or a special committee thereof formed for such purpose) for a period of not less than twenty (20) days with respect to such Acquisition Proposal and (ii) such Acquisition Proposal is expressly subject to and conditioned upon the approval of either (x) a majority of the Voting Securities, on an as converted basis, outstanding, other than those Voting Securities held by the Investor Entities, or (y) a duly constituted and properly authorized special committee of the Board formed for such purpose and composed solely of independent and disinterested Directors.

4.4. Information and Access Rights. Until the Sunset Date, the Company shall, and shall cause its Subsidiaries to, (i) upon reasonable notice to the Company and at such reasonable times as the Investor Parties may reasonably request, (A) afford the Investor Parties and their respective representatives access to

its officers, properties, offices and other facilities and to its books and records, and (B) afford the Investor Parties and their respective representatives with the opportunity to consult with its officers from time to time as the Investor Parties may reasonably request regarding the affairs, finances and accounts of the Company and its Subsidiaries, (ii) to the extent otherwise prepared by the Company and provided to the Board, provide annual operating and capital expenditure budgets and periodic information packages

relating to the operations and cash flows of the Company and its Subsidiaries, (iii) provide audited annual and unaudited quarterly financial statements and (iv) subject to applicable Law, provide any additional information regarding the affairs, finances and accounts of the Company and its Subsidiaries that is reasonably requested by the Investor Parties from time to time (it being acknowledged that the Company may reasonably withhold information that constitutes a trade secret or other competitively sensitive intellectual property or is subject to attorney-client privilege). Investor hereby agrees that, notwithstanding any other provision of this Agreement to the contrary, Investor and its Affiliates shall be provided confidential information in accordance with and subject to the terms of a Confidentiality Agreement in the form attached hereto as Exhibit E, which such Confidentiality Agreement shall be executed and delivered concurrently with the Closing (the “**Confidentiality Agreement**”).

4.5. Public Announcements. The initial press release with respect to this Agreement shall be a joint press release to be reasonably agreed upon by Investor and the Company. Thereafter, Investor and the Company shall consult with each other before issuing any press release, or other public announcement with respect to this Agreement or the matters contemplated hereby and, except in respect of any such press release or other public announcement as may be required by applicable Law or any applicable rule of any securities exchange or association, shall not issue any such press release or other public announcement prior to such consultation. Investor shall not and shall cause their respective Affiliates and representatives not to, and shall cause the Investor Parties and their respective Affiliates acting at their direction not to, in any manner, disparage or cause to be disparaged the Company or its Affiliates or any of its or their respective current or former directors or executive officers, and the Company shall not, shall cause its Affiliates not to, and shall cause its representatives and the representatives of its Affiliates acting at their direction not to, in any manner disparage or cause to be disparaged any of the Investor Parties or any of their respective Affiliates, or any of its or their respective current or former directors, managers or executive officers.

4.6. Waiver of Corporate Opportunity.

(a) To the fullest extent permitted by applicable Law, the Company hereby agrees that the Exempted Persons shall not have any obligation to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as the Company or any of its Subsidiaries. To the fullest extent permitted by applicable Law, the Company, on behalf of itself and its Subsidiaries, renounces any interest or expectancy of the Company and its Subsidiaries in, or in being offered an opportunity to participate in, business opportunities that are from time to time available to the Exempted Persons, even if the opportunity is one that the Company or its Subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so. The Company hereby further agrees that, subject to Section 4.6(b), each Exempted Person shall have no duty to communicate or offer such business opportunity to the Company (and that there shall be no restriction on the Exempted Persons using the general knowledge and understanding of the Company and the industry in which the Company operates that it has gained as an Exempted Person in considering and pursuing such opportunities or in making investment, voting, monitoring, governance or other decisions relating to other entities or securities) and, to the fullest extent permitted by applicable Law, shall not be liable to the Company or any of its Subsidiaries or stockholders for breach of any fiduciary or other duty, as a director or officer or otherwise, solely by reason of the fact that

such Exempted Person pursues or acquires such business opportunity, directs such business opportunity to

another person or fails to present such business opportunity, or information regarding such business opportunity, to the Company or its Subsidiaries, or uses such knowledge and understanding in the manner described herein. The parties specifically agree that each Exempted Person is an intended third-party beneficiary of this Section 4.6 and is entitled to rely upon and enforce the rights and obligations granted herein. “**Exempted Person**” shall mean the Investor Designees, the Investor, its Affiliates and each of their respective partners, principals, directors, officers, members, managers, managing directors, operating partners and/or employees, as applicable. In addition to and notwithstanding the foregoing, a corporate opportunity shall not be deemed to belong to the Company if it is a business opportunity that the Company is not financially able or contractually permitted or legally able to undertake, or that is, from its nature, not in the line of the Company’s business or is of no practical advantage to it or that is one in which the Company has no interest or reasonable expectancy. The Company hereby covenants and agrees that it shall not take any action, or adopt any resolution, inconsistent with the provisions of this Section 4.6.

(b) Notwithstanding anything to the contrary in this Section 4.6, the Company does not renounce its interest in, and the provisions of Section 4.6(a) shall not apply to, any corporate or business opportunity offered to any Investor Designee if such opportunity is offered to such person in his or her capacity as a director or officer of the Company.

## **ARTICLE V REPRESENTATIONS AND WARRANTIES**

5.1. Representations and Warranties of the Company. The Company hereby represents and warrants to Investor as follows as of the Second Subsequent Closing:

(a) The Company is a corporation, duly incorporated, validly existing and in good standing under the Laws of the State of Delaware. The Company has all requisite power and authority to execute and deliver this Agreement and to perform its obligations under the Agreement.

(b) The execution and delivery by the Company of this Agreement and the performance of the obligations of the Company under this Agreement do not and will not conflict with or violate any provision of, or require the consent or approval of any Person (except for any such consents or approvals which have been obtained) under, (x) applicable Law, (y) the organizational documents of the Company, or (z) any contract or agreement to which the Company is a party.

(c) The execution and delivery by the Company of this Agreement and the performance of the obligations of the Company under this Agreement have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Investor, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency and other Laws of general applicability relating to or affecting creditors’ rights and to general principles of equity.

5.2. Representations and Warranties of Investor. Investor hereby represents and warrants to the Company as follows as of the Second Subsequent Closing:

(a) Investor is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization. Investor has all requisite power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement.

(b) The execution and delivery by Investor of this Agreement and the performance by Investor of its obligations under this Agreement do not and will not conflict with or violate any provision of, or require the consent or approval of any Person (except for any such consents or approvals which have been obtained) under, (x) applicable Law, (y) its organizational documents, or (z) any contract or agreement to which it is a party.

(c) The execution and delivery by Investor of this Agreement and the performance by Investor of its obligations under this Agreement have been duly authorized by all necessary corporate or other analogous action on its part. This Agreement has been duly executed and delivered by Investor and, assuming the due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Investor, enforceable against it in accordance with its terms, subject to bankruptcy, insolvency and other Laws of general applicability relating to or affecting creditors' rights and to general principles of equity.

5.3. No Other Representations or Warranties. Each of Investor and the Company hereby acknowledges and agrees that except for the express representations and warranties set forth in this Article V, the Securities Purchase Agreement and the Registration Rights Agreement, neither party hereto nor any Person acting on its behalf is making any representation or warranty of any kind, express or implied, in connection with the negotiation, execution or performance of this Agreement, the Securities Purchase Agreement, the Registration Rights Agreement or the transactions contemplated hereby and thereby.

## ARTICLE VI GENERAL PROVISIONS

6.1. Termination. Unless otherwise specified herein, this Agreement shall automatically terminate on the date on which the aggregate Percentage Interest of the Investor Entities is less than ten percent (10%); provided, that, Section 6.2, Section 6.3, Section 6.6, Section 6.7, Section 6.8, Section 6.9, and Section 6.10 shall survive the termination of this Agreement indefinitely, or as specified therein.

6.2. Notices. Any notices or other communications required or permitted under, or otherwise given in connection with, this Agreement shall be in writing and shall be deemed to have been duly given (a) when delivered or sent if delivered in Person or sent by facsimile transmission (provided confirmation of facsimile transmission is obtained), provided that any notice received by facsimile transmission or otherwise at the addressee's location on any Business Day after 5:00 p.m. (addressee's local time) shall be deemed to have been received at 9:00 a.m. (addressee's local time) on the next Business Day (b) on the fifth Business Day after dispatch by registered or certified mail (provided, that such form of notice may only be used if dispatched from the country in which the recipient is located), (c) on the next Business Day if transmitted by national or international overnight courier or (d) on the date delivered if sent by email (provided confirmation of email receipt is obtained), provided that any notice received by email at the addressee's location on any Business Day after 5:00 p.m. (addressee's local time) shall be deemed to have been received at 9:00 a.m. (addressee's local time) on the next Business Day, in each case, as follows (or to such other Persons or addressees as may be designated in writing by the party to receive such notice):

if to the Company:

GNC Holdings, Inc. 300 Sixth Avenue

Pittsburgh, Pennsylvania 15222  
Tel: (412) 288-4600  
Fax: (412) 288-4764  
Attention: Kenneth A. Martindale Tricia Tolivar  
Email: ken-martindale@gnc-hq.com; tricia-tolivar@gnc-hq.com  
with a copy (not constituting notice) to: Latham & Watkins LLP  
330 N. Wabash Ave., Suite 2800  
Chicago, IL 60611 USA  
Attention: Bradley C. Faris  
Jason Morelli  
Fax: +1 (312) 993-9767  
Email: Bradley.Faris@lw.com;

Jason.Morelli@lw.com if to Investor:

Harbin Pharmaceutical Group Co., Ltd.  
No.68, Limin West Fourth Street, Limin Development Zone  
Harbin, People's Republic of China Attn: Chris Chow  
Email: zhoux@hayao.com

with a copy (not constituting notice) to: Ropes & Gray LLP

1211 Avenue of the Americas New York, NY 10036  
Tel: (212) 596-9160  
Attention: Michael R. Littenberg Daniel Yeh  
Email: Michael.Littenberg@ropesgray.com Daniel.Yeh@ropesgray.com

6.3. Amendment; Waiver. This Agreement may be amended, supplemented or otherwise modified, and the observance of any term hereof may be waived, only by a written instrument executed by (i) the Company and (ii) Investor. Neither the failure nor delay on the part of any party hereto to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver. Any amendment, supplement or modification to this Agreement and any waiver of any term hereof effected in accordance with this Section 6.3 shall be binding on each party hereto and all of such party's successors and permitted assigns, whether or not such party, successor or permitted assign entered into or approved such amendment, supplement or modification.

6.4. Further Assurances. Each party hereto shall sign such further documents and do and perform and cause to be done such further acts and things as any other party hereto may reasonably request to the extent necessary to carry out the intent and accomplish the purposes of this Agreement.

6.5. Assignment. This Agreement will inure to the benefit of and be binding on the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned, except by any Investor Party to any Investor Permitted Transferee that has executed a joinder agreement substantially in the form attached as Exhibit D to this Agreement, without the express prior written consent of the other parties hereto, and any attempted assignment, without such consent, will be null and void.

6.6. Third Parties. Except as set forth in Section 4.6, this Agreement does not create any rights, claims or benefits inuring to any person that is not a party hereto nor create or establish any third party beneficiary hereto.

6.7. Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware, without regard to principles of conflicts of Laws thereof.

6.8. Jurisdiction; Waiver of Jury Trial. In any judicial proceeding involving any dispute, controversy or claim between the parties hereto arising out of or relating to this Agreement, each of the parties hereto, by execution and delivery of this Agreement, unconditionally accepts and consents to the exclusive jurisdiction and venue of the Delaware

Court of Chancery and any state appellate court to which orders and judgments thereof may be appealed within the State of Delaware (or, if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter, any state or federal court within the State of Delaware), including but not limited to the *in personam* and subject matter jurisdiction of those courts, or if jurisdiction over the matter is vested exclusively in federal courts, the United States District Court for the District of Delaware, and the appellate courts to which orders and judgments thereof may be appealed, waives any objections to such jurisdiction on the grounds of venue or *forum non conveniens*, the absence of *in personam* or subject matter jurisdiction and any similar grounds or any other manner permitted by Law, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. In any such judicial proceeding, the parties agree that in addition to any method for the service of process permitted or required by such courts, to the fullest extent permitted by Law, service of process may be made by delivery provided pursuant to the directions in Section 6.2. EACH OF THE PARTIES HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING ANY DISPUTE, CONTROVERSY OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

6.9. Specific Performance. Each party hereto acknowledges and agrees that in the event of any breach of this Agreement by any of them, the other parties hereto would be irreparably harmed and could not be made whole by monetary damages. Each party accordingly agrees to waive the defense in any action for specific performance that a remedy at law would be adequate and agrees that the parties, in addition to any other remedy to which they may be entitled at law or in equity, shall be entitled to specific performance of this Agreement without the posting of bond.

6.10. Entire Agreement. This Agreement, the Securities Purchase Agreement, the Registration Rights Agreement, the Confidentiality Agreement and any Director Confidentiality Agreement with an Investor Designee set forth the entire understanding of the parties hereto with respect to the subject matter hereof. There are no agreements, representations, warranties, covenants or understandings with respect to the subject matter hereof other than those expressly set forth herein or in the Confidentiality Agreement or any such Director Confidentiality Agreement. This Agreement, the Confidentiality Agreement and any such Director

Confidentiality Agreement supersede all other prior agreements and understandings between the parties with respect to such subject matter, other than, with respect to the confidentiality and non-use restrictions set forth in that certain letter agreement regarding confidentiality, dated July 18, 2017, by and between General Nutrition Centers, Inc. and CITIC Capital Partners Management Limited and that certain letter agreement regarding confidentiality, dated October 11, 2017, by and between the General Nutrition Centers, Inc. and Harbin Pharmaceutical Group Holding Co., Ltd., with respect to information disclosed thereunder prior to the Second Subsequent Closing, but only to the extent such information is not otherwise subject to the confidentiality and non-use restrictions set forth in the Confidentiality Agreement or Director Confidentiality Agreement (it being understood that such letter agreement shall remain in full force and effect in accordance with its terms with respect to the confidentiality and non-use restrictions set forth therein with respect to such information disclosed thereunder prior to the Second Subsequent Closing).

6.11. Severability. If any provision of this Agreement, or the application of such provision to any Person or circumstance or in any jurisdiction, shall be held to be invalid or unenforceable to any extent, (a) the remainder of this Agreement shall not be affected thereby, and each other provision hereof shall be valid and enforceable to the fullest extent permitted by Law, (b) as to such Person or circumstance or in such jurisdiction such provision shall be reformed to be valid and enforceable to the fullest extent permitted by Law and (c) the application of such provision to other Persons or circumstances or in other jurisdictions shall not be affected thereby.

6.12. Table of Contents, Headings and Captions. The table of contents, headings, subheadings and captions contained in this Agreement are included for convenience of reference only, and in no way define, limit or describe the scope of this Agreement or the intent of any provision hereof.

6.13. Counterparts. This Agreement and any amendment hereto may be signed in any number of separate counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one Agreement (or amendment, as applicable).

*[Remainder Of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

**GNC HOLDINGS, INC.**

By: /s/ Kevin G. Nowe

Name: Kevin G. Nowe

Title: Senior Vice President and Chief Legal and

Compliance Officer

**HARBIN PHARMACEUTICAL GROUP CO., LTD.**

By: /s/ Hsing Chow  
Name: Hsing Chow  
Title: Authorized Signatory

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth A. Martindale, certify that:

1. I have reviewed this Form 10-Q of GNC Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ Kenneth A. Martindale

Kenneth A. Martindale

Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**  
**PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Tricia K. Tolivar, certify that:

1. I have reviewed this Form 10-Q of GNC Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ Tricia K. Tolivar  
\_\_\_\_\_  
Tricia K. Tolivar  
Chief Financial Officer  
(Principal Financial Officer)

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of GNC Holdings, Inc. (the "Company"), for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth A. Martindale, as Chief Executive Officer of the Company, and Tricia K. Tolivar, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth A. Martindale

Name: Kenneth A. Martindale  
Title: Chief Executive Officer  
(Principal Executive Officer)

Date: October 25, 2019

/s/ Tricia K. Tolivar

Name: Tricia K. Tolivar  
Title: Chief Financial Officer  
(Principal Financial Officer)

Date: October 25, 2019

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.