GNC CORP
Form 10-Q
November 04, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2005

o **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: 333-116040

GNC CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	***72-1575170***
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
300 Sixth Avenue **Pittsburgh, Pennsylvania**	**15222**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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

As of September 30, 2005, 29,555,288 shares of the registrant s $0.01 par value Common Stock (the Common Stock) were outstanding.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GNC CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2005 (unaudited)	December 31, 2004 *
Current assets:		
Cash and cash equivalents	$ 62,403	$ 85,161
Receivables, net of reserve of $7,942 and $7,214, respectively	71,344	68,148
Inventories, net (Note 3)	280,835	272,254
Deferred tax assets, net	10,825	14,133
Other current assets	32,664	36,382
Total current assets	458,071	476,078
Long-term assets:		
Goodwill (Note 4)	79,439	78,585
Brands (Note 4)	212,000	212,000
Other intangible assets, net (Note 4)	26,505	28,652
Property, plant and equipment, net	181,684	195,409
Deferred financing fees, net	16,809	18,130
Deferred tax assets, net		1,093
Other long-term assets	11,735	21,393
Total long-term assets	528,172	555,262
Total assets	$ 986,243	$ 1,031,340
Current liabilities:		
Accounts payable, includes cash overdraft of $3,076 and $4,144, respectively	$ 82,380	$ 106,557
Accrued payroll and related liabilities	15,978	20,353
Accrued interest (Note 5)	9,164	1,863
Current portion, long-term debt (Note 5)	2,043	3,901
Other current liabilities	58,732	61,325
Total current liabilities	168,297	193,999
Long-term liabilities:		
Long-term debt (Note 5)	471,834	506,474
Deferred tax liabilities, net	1,965	
Other long-term liabilities	10,687	9,866
Total long-term liabilities	484,486	516,340

Total liabilities		652,783		710,339
Cumulative redeemable exchangeable preferred stock, $0.01 par value, 110,000 shares authorized, 100,000 shares issued and outstanding (liquidation preference of $134,342 and $123,815, respectively)		123,360		112,734
Stockholders equity:				
Common stock, 0.01 par value, 100,000,000 shares authorized, 29,555,288 and 29,854,663 shares issued and outstanding, respectively		296		299
Paid-in-capital		177,050		178,245
Retained earnings		31,320		28,924
Treasury stock, at cost, 0 and 100,000 shares, respectively				(364)
Accumulated other comprehensive income		1,434		1,163
Total stockholders equity		210,100		208,267
Total liabilities and stockholders equity	$	986,243	$	1,031,340

* Footnotes summarized from the Audited Financial Statements

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

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GNC CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income
(unaudited)
(in thousands)

	For the three months ended September 30, 2005	For the three months ended September 30, 2004	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Revenue	$ 322,559	$ 323,141	$ 992,341	$ 1,043,424
Cost of sales, including costs of warehousing, distribution and occupancy	222,084	216,818	676,264	690,541
Gross profit	100,475	106,323	316,077	352,883
Compensation and related benefits	58,432	54,034	171,975	172,959
Advertising and promotion	8,639	10,042	36,780	35,252
Other selling, general and administrative	18,536	19,171	56,265	55,831
Foreign currency (gain) loss	(80)	(300)	(137)	118
Other expense (income)		1,330	(2,500)	1,330
Operating income	14,948	22,046	53,694	87,393
Interest expense, net (Note 5)	9,957	8,570	33,233	25,786
Income before income taxes	4,991	13,476	20,461	61,607
Income tax expense	1,816	4,977	7,439	22,513
Net income	3,175	8,499	13,022	39,094
Other comprehensive income	805	747	271	292
Comprehensive income	$ 3,980	$ 9,246	$ 13,293	$ 39,386

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

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GNC CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity
(in thousands, except share data)

	Common Stock Shares	Common Stock Dollars	Paid-in-Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Dollars	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2004	**29,854,663**	**$ 299**	**$ 178,245**	**$ 28,924**	**(100,000)**	**$ (364)**	**$ 1,163**	**$ 208,267**
Retirement of treasury stock	(100,000)	(1)	(363)		100,000	364		
Repurchase and retirement of common stock	(199,375)	(2)	(832)					(834)
Preferred stock dividends				(10,527)				(10,527)
Amortization of preferred stock issuance costs				(99)				(99)
Net income				13,022				13,022
Foreign currency translation adjustments							271	271
Balance at September 30, 2005 (unaudited)	**29,555,288**	**$ 296**	**$ 177,050**	**$ 31,320**		**$**	**$ 1,434**	**$ 210,100**

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

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GNC CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	For the nine months ended September 30, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,022	$ 39,094
Depreciation expense	27,840	24,976
Fixed asset write-off	366	
Deferred fee writedown early debt extinguishment	3,890	
Amortization of intangible assets	2,985	3,011
Amortization of deferred financing fees	2,103	2,058
Increase in provision for inventory losses	5,889	8,470
Increase in provision for losses on accounts receivable	1,894	1,942
Decrease in net deferred taxes	6,368	21,682
Changes in assets and liabilities:		
Increase in receivables	(7,665)	(3,657)
Increase in inventory, net	(13,431)	(7,651)
Decrease in franchise note receivables, net	7,568	8,520
Decrease in other assets	5,805	5,406
Decrease in accounts payable	(23,128)	(19,023)
Decrease in accrued taxes		(438)
Increase in interest payable	7,301	4,674
Decrease in accrued liabilities	(6,153)	(28,532)
Net cash provided by operating activities	34,654	60,532
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(13,819)	(17,865)
Sale of corporate stores to franchisees	23	168
Store acquisition costs	(547)	(522)
Acquisition of General Nutrition Companies, Inc		2,102
Net cash used in investing activities	(14,343)	(16,117)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock		1,581
Repurchase and retirement of common stock	(834)	
Decrease in cash overdrafts	(1,067)	(3,813)
Payments on long-term debt	(186,500)	(2,866)
Proceeds from senior notes issuance	150,000	
Financing fees	(4,672)	(327)
Net cash used in financing activities	(43,073)	(5,425)

Effect of exchange rate on cash	4	218
Net (decrease) increase in cash	(22,758)	39,208
Beginning balance, cash	85,161	33,176
Ending balance, cash	$ 62,403	$ 72,384

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

GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. NATURE OF BUSINESS

General Nature of Business. GNC Corporation (the Company), formerly known as General Nutrition Centers Holding Company, a Delaware corporation, is a leading specialty retailer of vitamin, mineral and herbal supplements, diet and sports nutrition products and other wellness products. The Company is also a provider of personal care and other health related products. The Company operates primarily in three business segments: Retail, Franchising and Manufacturing/Wholesale. The Company manufactures the majority of its branded products, and also merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names. The processing, formulation, packaging, labeling and advertising of the Company s products are subject to regulation by one or more federal agencies, including the Food and Drug Administration, Federal Trade Commission, Consumer Product Safety Commission, United States Department of Agriculture and the Environmental Protection Agency. These activities are also regulated by various agencies of the states and localities in which the Company s products are sold.

Acquisition of the Company. On October 16, 2003, the Company entered into a purchase agreement (the Purchase Agreement) with Koninklijke (Royal) Numico N.V. (Numico) and Numico USA, Inc. to acquire 100% of the outstanding equity interest of General Nutrition Companies, Inc. (GNCI) from Numico USA, Inc. on December 5, 2003 (the Acquisition). The purchase equity contribution was made by GNC Investors, LLC (GNC LLC), an affiliate of Apollo Management L.P. (Apollo), together with additional institutional investors and certain management of the Company. The equity contribution from GNC LLC was recorded by the Company. The Company utilized this equity contribution to purchase the investment in General Nutrition Centers, Inc., (Centers). Centers is a wholly owned subsidiary of the Company.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and related footnotes that would normally be required by accounting principles generally accepted in the United States of America for complete financial reporting. These unaudited consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements in the Company s Annual Report on Form 10-K filed for the year ended December 31, 2004 (the Form 10-K).

The accompanying unaudited consolidated financial statements include all adjustments (consisting of a normal and recurring nature) that management considers necessary for a fair statement of financial information for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2005.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Accordingly, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Some of the most significant estimates pertaining to the Company include the valuation of inventories, the allowance for doubtful accounts, income tax valuation allowances and the recoverability of long-lived assets. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates. There have been no material changes to critical estimates since the audited financial statements at December 31, 2004, except as noted in the accounts receivable discussion below.

Cash and Cash Equivalents. The Company considers cash and cash equivalents to include all cash and liquid deposits and investments with a maturity of three months or less. The majority of payments due from banks for third-party credit cards process within 24-48 hours, except for transactions occurring on a Friday, which are generally processed the following Monday. All credit card transactions are classified as cash and the amounts due from these transactions totaled $1.6 million at September 30, 2005 and $1.4 million at December 31, 2004.

Accounts Receivable and Allowance for Doubtful Accounts. The Company sells product to its franchisees and, to a lesser extent, various third parties. To determine the allowance for doubtful accounts, the Company evaluates factors that affect collectibility from the Company s franchisees or customers including but not limited to their financial strength, payment history, reported sales and the overall retail economy. The Company establishes an allowance for doubtful accounts for franchisees based on an assessment of the franchisees operations which includes analysis of their current year to date operating cash flows, retail sales levels, and status of amounts due to the Company, such as rent, interest and advertising. As a result of the increase in franchise store acquisitions in 2005, the Company updated its estimated net reserve balance. The Company calculates the total estimated uncollectible receivables amount for each franchisee and deducts the estimated value of tangible property held by the franchisees that the Company can acquire in lieu of cash payments if the Company elects to convert the store. An allowance for international franchisees is calculated based on unpaid, unsecured amounts associated with their receivable balance. An allowance for receivable balances due from third parties is recorded, if considered necessary, based on facts and circumstances. These allowances are deducted from the related receivables and reflected net in the accompanying financial statements.

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)

Stock Compensation. In accordance with Accounting Principles Board (APB) No. 25, Accounting for Stock issued to Employees , the Company accounts for stock-based employee compensation using the intrinsic value method of accounting. For the three and nine months ended September 30, 2005 and 2004, stock compensation represents shares of the Company s stock issued pursuant to the General Nutrition Centers Holding Company (presently known as GNC Corporation) 2003 Omnibus Stock Incentive Plan. The common stock associated with this plan is not registered or traded on any exchange. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-based Compensation , prescribes that companies utilize the fair value method of valuing stock-based compensation and recognize compensation expense accordingly. SFAS No. 123 did not require that the fair value method be adopted and reflected in the financial statements. However, in December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R) which sets accounting requirements for share-based compensation. It requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation and disallows the use of the intrinsic value method of accounting for stock compensation. This statement is not effective for the Company until the beginning of its fiscal year 2006 and will be adopted prospectively. The Company has adopted the disclosure requirements of SFAS No. 148 Accounting for Stock Based Compensation-Transition and Disclosure-an amendment of SFAS No. 123 by illustrating compensation costs in the following table and will adopt SFAS No. 123(R) beginning January 1, 2006.

Had compensation costs for stock options been determined using the fair market value method of SFAS No. 123, the effect on net income for each of the periods presented would have been as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
	2005	2004	2005	2004
	(unaudited) (in thousands)			
Net income as reported	$ 3,175	$ 8,499	$ 13,022	$ 39,094
Less: total stock-based employee compensation costs determined using fair value method, net of related tax effects	(187)	(217)	(582)	(649)
Adjusted net income	$ 2,988	$ 8,282	$ 12,440	$ 38,445

Recently Issued Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Correction a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting and reporting of a change in accounting principle. This statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This statement also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will adopt this standard beginning the first quarter of fiscal year 2006.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) Share-Based Payment: an Amendment of FASB Statements No. 123 and 95 . SFAS No. 123(R) defines accounting requirements for share-based compensation to employees. It requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees and disallows the use of the intrinsic value method of accounting for stock compensation. Originally SFAS No. 123(R) was applicable for all interim and fiscal periods beginning after June 15, 2005. In April 2005, the Securities and Exchange Commission (SEC) announced that it was extending the adoption of SFAS No. 123(R) for public companies to be applicable for all fiscal periods beginning after June 15, 2005. As the Company is not a public entity as defined by SFAS No. 123(R), this statement is not effective for the Company until the beginning of its fiscal year 2006. The Company will adopt this statement prospectively. As the Company is continuing to evaluate the adoption of SFAS No. 123(R), the Company does not expect this statement to have a significant impact on the Company s consolidated financial statements or results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions . The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this statement will be applied prospectively. The Company does not anticipate the adoption of SFAS No. 153 to have a significant impact on the Company s consolidated financial statements or results of operations.

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)

In November 2004, the FASB issued SFAS No. 151, Inventory Costs , an amendment of Accounting Research Bulletin (ARB) No. 43, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal . In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Companies are required to adopt the provisions of this statement for fiscal years beginning after June 15, 2005. The Company will adopt this standard beginning the first quarter of fiscal year 2006 and currently is evaluating the effects of this statement on its consolidated financial statements.

NOTE 3. INVENTORIES, NET

Inventories at each respective period consisted of the following:

	September 30, 2005		
	Gross cost	Reserves	Net Carrying Value
		(unaudited) (in thousands)	
Finished product ready for sale	$ 241,104	$ (9,067)	$ 232,037
Unpackaged bulk product and raw materials	47,724	(3,036)	44,688
Packaging supplies	4,110		4,110
	$ 292,938	$ (12,103)	$ 280,835

	December 31, 2004		
	Gross cost	Reserves	Net Carrying Value
		(in thousands)	
Finished product ready for sale	$ 242,578	$ (11,542)	$ 231,036
Unpackaged bulk product and raw materials	41,607	(3,019)	38,588
Packaging supplies	2,630		2,630
	$ 286,815	$ (14,561)	$ 272,254

NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of acquired entities. In accordance with SFAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Other intangible assets with finite lives are amortized on a straight-line basis over periods not exceeding 20 years. The Company records goodwill upon the acquisition of franchisee stores when the acquisition price exceeds the fair value of the identifiable assets acquired and liabilities assumed of the store. The Company is in the process of finalizing the purchase price allocation including the amount to be attributed to the reacquired franchise right and goodwill. During the nine months ended September 30, 2005 the Company utilized total consideration of $2.6 million for store acquisitions of which $0.5 million was cash.

The following table summarizes the Company s goodwill activity from December 31, 2004 to September 30, 2005.

	Retail	Franchising	Manufacturing/ Wholesale	Total
		(in thousands)		
Goodwill balance at December 31, 2004	$ 17,626	$ 60,520	$ 439	$ 78,585
Additions: Goodwill related to store acquisitions	854			854
Goodwill balance at September 30, 2005 (unaudited)	$ 18,480	$ 60,520	$ 439	$ 79,439

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)

The following table summarizes the Company s intangible asset activity from December 31, 2004 to September 30, 2005.

	Gold Card	Retail Brand	Franchise Brand	Operating Agreements	Franchise Rights	Total
			(in thousands)			
Balance at December 31, 2004	$ 1,413	$ 49,000	$ 163,000	$ 27,239	$	$ 240,652
Additions: Franchise rights					838	838
Amortization expense	(674)			(2,208)	(103)	(2,985)
Balance at September 30, 2005 (unaudited)	$ 739	$ 49,000	$ 163,000	$ 25,031	$ 735	$ 238,505

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

	September 30, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Carrying Amount	Cost	Accumulated Amortization	Carrying Amount
			(unaudited) (in thousands)			
Brands retail	$ 49,000	$	$ 49,000	$ 49,000	$	$ 49,000
Brands franchise	163,000		163,000	163,000		163,000
Gold card retail	2,230	(1,589)	641	2,230	(1,004)	1,226
Gold card franchise	340	(242)	98	340	(153)	187
Retail agreements	8,500	(2,152)	6,348	8,500	(1,267)	7,233
Franchise agreements	21,900	(3,217)	18,683	21,900	(1,894)	20,006
Franchise rights	838	(103)	735			
	$ 245,808	$ (7,303)	$ 238,505	$ 244,970	$ (4,318)	$ 240,652

The following table represents future estimated amortization expense of other intangible assets, net, with definite lives at September 30, 2005:

Years ending December 31,	Estimated amortization expense (unaudited) (in thousands)
2005	$ 962

2006		3,625
2007		3,111
2008		3,062
2009		2,451
Thereafter		13,294
Total	$	26,505

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)

NOTE 5. LONG-TERM DEBT / INTEREST

In December 2003, the Company s wholly owned subsidiary, Centers, entered into a senior credit facility with a syndicate of lenders. The senior credit facility consists of a $285.0 million term loan facility and a $75.0 million revolving credit facility. This indebtedness has been guaranteed by the Company and its domestic subsidiaries. All borrowings under the senior credit facility bear interest at a rate per annum equal to either (a) the greater of the prime rate as quoted on the British Banking Association Telerate, and the federal funds effective rate plus 0.5% per annum, plus in each case, additional margins of 2.0% per annum for both the term loan facility and the revolving credit facility, or (b) the Eurodollar rate plus additional margins of 3.0% per annum for both the term loan facility and the revolving credit facility. In addition to paying the above stated interest rates, Centers is also required to pay a commitment fee relating to the unused portion of the revolving credit facility at a rate of 0.5% per annum. The senior credit facility matures on December 5, 2009 and permits Centers to prepay a portion or all of the outstanding balance without incurring penalties. The revolving credit facility matures on December 5, 2008. The revolving credit facility allows for $50.0 million to be used as collateral for outstanding letters of credit, of which $8.0 million was used at September 30, 2005 and December 31, 2004, respectively, leaving $67.0 million, respectively, of this facility available for borrowing on such dates. The term loan facility at September 30, 2005 and December 31, 2004 carried a balance of $96.4 million and $282.2 million, respectively. Interest on the term loan facility is payable at the end of each quarter in arrears and at September 30, 2005 and December 31, 2004, carried an average interest rate of 6.7% and 5.4%, respectively. The Company has complied with its covenant reporting and compliance requirements in all material respects for the three and nine months ended September 30, 2005.

In December 2003, Centers also issued $215.0 million of its 8 1/2% Senior Subordinated Notes due 2010 (the Senior Subordinated Notes). The Senior Subordinated Notes mature on December 1, 2010, and bear interest at the rate of 8 1/2% per annum, which is payable semi-annually in arrears on June 1 and December 1 of each year, which began with the first payment due on June 1, 2004.

In January 2005, Centers issued $150.0 million aggregate principal amount of its 8 5/8% Senior Notes due 2011 (the Senior Notes). Centers used the net proceeds of this offering of $145.6 million, together with $39.4 million of cash on hand, to repay a portion of the indebtedness under the $285.0 million term loan facility. The Senior Notes bear an interest rate of 8 5/8% per annum, which is payable semi-annually in arrears on January 15 and July 15 of each year, beginning with the first payment due on July 15, 2005.

Long-term debt at each respective period consisted of the following:

	September 30, 2005 (unaudited)	December 31, 2004
	(in thousands)	
Mortgage	$ 12,432	$ 13,190
Capital leases	31	35
Senior credit facility	96,414	282,150
8 5/8% Senior Notes	150,000	
8 1/2% Senior Subordinated Notes	215,000	215,000
Less: current maturities	(2,043)	(3,901)
Total	$ 471,834	$ 506,474

At September 30, 2005, the Company s total debt principal maturities are as follows:

Mortgage

Years Ending December 31,	Loan/Capital Leases	Senior Credit Facility	8 5/8% Senior Notes	8 1/2% Senior Subordinated Notes	Total
			(unaudited) (in thousands)		
2005	$ 289	$ 246	$	$	$ 535
2006	1,141	981			2,122
2007	1,195	981			2,176
2008	1,281	981			2,262
2009	1,373	93,225			94,598
Thereafter	7,184		150,000	215,000	372,184
	$ 12,463	$ 96,414	$ 150,000	$ 215,000	$ 473,877

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)

The Company s net interest expense for each respective period is as follows:

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
	(unaudited) (in thousands)			
Composition of interest expense:				
Mortgage	$ 217	$ 236	$ 672	$ 721
Senior credit facility Revolver	160	156	459	397
Senior credit facility Term Loan	1,608	3,262	4,930	9,329
8 5/8% Senior Notes	3,234		9,092	
8 1/2% Senior Subordinated Notes	4,569	4,569	13,706	13,655
Deferred fee writedown early debt extinguishment			3,890	
Deferred financing fees	719	583	2,103	2,129
Interest income other	(550)	(236)	(1,619)	(445)
Interest expense, net	$ 9,957	$ 8,570	$ 33,233	$ 25,786

Accrued interest at each respective period consisted of the following:

	September 30, 2005 (unaudited)	December 31, 2004
	(in thousands)	
Senior credit facility	$ 341	$ 340
8 5/8% Senior Notes	2,731	
8 1/2% Senior Subordinated Notes	6,092	1,523
Total	$ 9,164	$ 1,863

NOTE 6. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is engaged in various legal actions, claims and proceedings arising out of the normal course of business, including claims related to breach of contracts, product liabilities, intellectual property matters and employment-related matters resulting from the Company s business activities. As is inherent with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. The Company continues to assess its requirement to account for additional contingencies in accordance with SFAS No. 5, Accounting for Contingencies and believes that it is in compliance with that standard at September 30, 2005. The Company is currently of the opinion that the amount of any potential liability resulting from these actions, when taking into consideration the Company s general and product liability coverage, and the indemnification provided by Numico under the Purchase Agreement, will not have a material adverse impact on its financial position, results of operations or liquidity. However, if the Company is required to make a payment in connection with an adverse outcome in these matters, it could have a material impact on its financial condition and operating results.

As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. Although the effects of these claims to date have not been material to us, it is possible that current and future product liability claims could have a material adverse impact on its financial condition and operating results. The Company currently maintains product liability insurance with a deductible/retention of $1.0 million per claim with an aggregate cap on retained loss of $10.0 million per claim. 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 additional insured under most of such parties insurance policies. The Company is also entitled to indemnification by Numico for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. The Company may incur material products liability claims, which could increase its costs and adversely affect its reputation, revenues and operating income.

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED   CONTINUED)

Ephedra (Ephedrine Alkaloids). As of September 30, 2005, the Company has been named as a defendant in 211 pending cases involving the sale of third-party products that contain ephedra. Of those cases, one involves a proprietary GNC product. Ephedra products have been the subject of adverse publicity and regulatory scrutiny in the United States and other countries relating to alleged harmful effects, including the deaths of several individuals. In early 2003, the Company instructed all of its locations to stop selling products containing ephedra that were manufactured by GNC or one of its affiliates. Subsequently, the Company instructed all of its locations to stop selling any products containing ephedra by June 30, 2003. In April 2004, the FDA banned the sale of products containing ephedra. All claims to date have been tendered to the third-party manufacturer or to the Company insurer and the Company has incurred no expense to date with respect to litigation involving ephedra products. Furthermore, the Company is entitled to indemnification by Numico for certain losses arising from claims related to products containing ephedra sold prior to December 5, 2003. All of the pending cases relate to products sold prior to such time and, accordingly, the Company is entitled to indemnification from Numico for all of the pending cases.

Pro-Hormone/Androstenedione. On July 29, 2001, five substantially identical class action lawsuits were filed in the state courts of the States of Florida, New York, New Jersey, Pennsylvania and Illinois against us and various manufacturers of products containing pro-hormones, including androstenedione:

Brown v. General Nutrition Companies, Inc., Case No. 02-14221-AB, Florida Circuit Court for the 15th Judicial Circuit Court, Palm Beach County;

Rodriguez v. General Nutrition Companies, Inc., Index No. 02/126277, New York Supreme Court, County of New York, Commercial Division;

Abrams v. General Nutrition Companies, Inc., Docket No. L-3789-02, New Jersey Superior Court, Mercer County;

Toth v. Bodyonics, Ltd., Case No. 003886, Pennsylvania Court of Common Pleas, Philadelphia County; and

Pio v. General Nutrition Companies, Inc., Case No. 2-CH-14122, Illinois Circuit Court, Cook County.

On March 20, 2004, a similar lawsuit was filed in California (Guzman v. General Nutrition Companies, Inc., Case No. 04-00283). Plaintiffs allege that the Company has distributed or published periodicals that contain advertisements claiming that the various pro-hormone products promote muscle growth. The complaints allege that the Company knew the advertisements and label claims promoting muscle growth were false, but nonetheless continued to sell the products to consumers. Plaintiffs seek injunctive relief, disgorgement of profits, attorney s fees and the costs of suit. All of the products involved in the cases are third-party products. The Company has tendered these cases to the various manufacturers for defense and indemnification. Based upon the information available to us at the present time, the Company believes that these matters will not have a material adverse effect upon its liquidity, financial condition or results of operations.

Class Action Settlement. Five class action lawsuits were filed against the Company in the state courts of Alabama, California, Illinois and Texas with respect to claims that the labeling, packaging and advertising with respect to a third-party product sold by the Company were misleading and deceptive. The Company denies any wrongdoing and is pursuing indemnification claims against the manufacturer. As a result of mediation, the parties have agreed in principle to a settlement of the lawsuits, which is currently in the process of being finalized. Once finalized, the settlement will be subject to court approval. Pursuant to the settlement, a notice to the class will be published in a one-time mass advertising media publication. Each person that purchased the third-party product and is part of the class will receive a cash reimbursement equal to the retail price paid, net of sales tax, upon presentation to the Company of a cash register receipt as proof of purchase or, if a receipt is not available, return of the actual product. If a person purchased the product, but does not have a cash register receipt or the product itself, such a person may submit a signed affidavit and will then be entitled to receive one or more coupons. The number of coupons will be based on the total amount of purchases of the product subject to a maximum of five coupons per purchaser. Each coupon will have a cash value of $10.00 valid toward any purchase of $25.00 or more at a GNC store. The coupons will not be redeemable by any GNC Gold Card member during Gold Card Week and will not be redeemable for products subject to any other price discount. The coupons are to be redeemed at point of sale and are not mail-in rebates. They will be redeemable for a 90-day period after the settlement is final. The Company will issue a maximum of 5 million certificates with a combined face value of $50.0 million. Based on its experience with coupons, the Company believes that the redemption rate will be approximately 1%. In addition to the cash reimbursements and coupons, as part of the settlement GNC will be required to pay legal fees of $1.0 million.

Franklin Publications. After the end of the current period, on October 26, 2005, a wholly owned subsidiary of the Company was sued in the Common Pleas Court of Franklin County, Ohio by Franklin Publications, Inc. (Franklin). The lawsuit is based upon the GNC subsidiary s termination, effective as of December 31, 2005, of two contracts for the publication of two monthly magazines mailed to certain GNC customers. Franklin is seeking a declaratory judgment as to its rights and obligations under the contracts and monetary damages for the GNC subsidiary s alleged breach of the contracts. Franklin also alleges that the GNC subsidiary has interfered with Franklin s business relationships with the advertisers in the publications, who are primarily GNC vendors, and has been unjustly enriched. Franklin does not specify the amount of damages sought, only that they are in excess of $25,000. The Company disputes the claims and intends to vigorously defend the lawsuit. The Company believes that the lawsuit will not have a material adverse effect on its liquidity, financial condition or results of operations.

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)
NOTE 7. STOCK-BASED COMPENSATION PLANS
Stock Options

On December 5, 2003, the board of directors of the Company (the Board) approved and adopted the General Nutrition Centers Holding Company (presently known as GNC Corporation) 2003 Omnibus Stock Incentive Plan (the Plan). The purpose of the Plan is to enable the Company to attract and retain highly qualified personnel who will contribute to the success of the Company. The Plan provides for the granting of stock options, stock appreciation rights, restricted stock, deferred stock and performance shares. The Plan is available to certain eligible employees as determined by the Board. The total number of shares of common stock reserved and available for the Plan is 4.0 million shares. The stock options carry a four year vesting schedule and expire after seven years from date of grant. As of September 30, 2005 the number of stock options outstanding was approximately 2.7 million. No stock appreciation rights, restricted stock, deferred stock or performance shares were granted under the Plan as of September 30, 2005. The weighted average Black-Scholes value of cumulative options granted and outstanding under the Plan at September 30, 2005 is $1.66 per share.

The following table outlines the total stock options granted:

	Total Options	Weighted Average Exercise Price	Weighted Average Black-Scholes Value
Outstanding at December 31, 2004	2,435,393	$ 6.00	
Granted March 2005	294,573	6.00	$ 0.28
Granted June 2005	450,000	6.00	0.27
Forfeited	(498,374)		
Outstanding at September 30, 2005 (unaudited)	2,681,592	6.00	1.66

The Company has adopted the disclosure requirements of SFAS No. 148, but has elected to continue to measure compensation expense using the intrinsic value method for accounting for stock-based compensation as outlined by APB No. 25. In accordance with SFAS No. 148, pro forma information regarding net income is required to be disclosed as if the Company had accounted for its employee stock options using the fair value method of SFAS No. 123. See the Basis of Presentation note for this disclosure. There were 821,279 options vested under the Plan at September 30, 2005.

Fair value information for the Plan was estimated using the Black-Scholes option-pricing model based on the following assumptions for the options granted:

	September 30, 2005 (unaudited)	December 31, 2004
Dividend yield	0.00%	0.00%
Expected option life	5 years	5 years
Volatility factor percentage of market price	24.00%	40.00%
Discount rate	4.18%	3.63%

Because the Black-Scholes option valuation model utilizes certain estimates and assumptions, the existing models do not necessarily represent the definitive fair value of options for future periods.

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)
NOTE 8. SEGMENTS

The following reporting segments represent identifiable components of the Company for which separate financial information is available. This information is utilized by management to assess performance and allocate assets accordingly. The Company s management evaluates segment operating results based on several indicators. The primary key performance indicators are sales and operating income or loss for each segment. Operating income or loss, as evaluated by management, excludes certain items that are managed at the consolidated level, such as warehousing and distribution costs and corporate costs. The following table represents key financial information for each of the Company s business segments, identifiable by the distinct operations and management of each: Retail, Franchising, and Manufacturing/Wholesale. The Retail segment includes the Company s corporate store operations in the United States and Canada. The Franchise segment represents the Company s franchise operations, both domestically and internationally. The Manufacturing/Wholesale segment represents the Company s manufacturing operations in South Carolina and Australia and the wholesale sales business. This segment supplies the Retail and Franchise segments, along with various third parties, with finished products for sale. The Warehousing and Distribution costs, Corporate costs, and Other Unallocated Costs represent the Company s administrative expenses. The accounting policies of the segments are the same as those described in Basis of Presentation and Summary of Significant Accounting Policies , which is included in the Form 10-K.

	Three months ended September 30,		**Nine months ended September 30,**	
	2005	**2004**	**2005**	**2004**
	(unaudited) (in thousands)			
Revenues:				
Retail	$ 239,172	$ 235,054	$ 744,701	$ 776,050
Franchise	53,144	57,588	163,525	180,616
Manufacturing/Wholesale:				
Intersegment [(1)]	45,749	37,322	150,467	136,600
Third Party	30,243	30,499	84,115	86,758
Sub total Manufacturing/Wholesale	75,992	67,821	234,582	223,358
Sub total segment revenues	368,308	360,463	1,142,808	1,180,024
Intersegment elimination [(1)]	(45,749)	(37,322)	(150,467)	(136,600)
Total revenues	322,559	323,141	992,341	1,043,424
Operating income:				
Retail	16,431	20,965	55,537	86,948
Franchise	14,640	16,084	37,607	49,691
Manufacturing/Wholesale	11,477	10,099	36,087	28,152
Unallocated corporate and other (costs) income:				
Warehousing and distribution costs	(12,565)	(12,083)	(37,435)	(37,110)
Corporate costs	(15,035)	(11,689)	(40,602)	(38,958)
Other (expense) income		(1,330)	2,500	(1,330)
Sub total unallocated corporate and other (costs) income	(27,600)	(25,102)	(75,537)	(77,398)
Total operating income	14,948	22,046	53,694	87,393

Interest expense, net	9,957	8,570	33,233	25,786
Income before income taxes	4,991	13,476	20,461	61,607
Income tax expense	1,816	4,977	7,439	22,513
Net income	$ 3,175	$ 8,499	$ 13,022	$ 39,094

(1) Intersegment revenues are eliminated from consolidated revenue.

	September 30, 2005	December 31, 2004
	(in thousands)	
	(unaudited)	
Total assets:		
Retail	$ 400,400	$ 418,136
Franchise	308,691	314,836
Manufacturing / Wholesale	148,466	143,151
Corporate / Other	128,686	155,217
Total assets	$ 986,243	$ 1,031,340

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)
NOTE 9. SUPPLEMENTAL GUARANTOR INFORMATION

As of September 30, 2005, the Company s debt includes Centers senior credit facility, its Senior Notes and its Senior Subordinated Notes. The senior credit facility has been guaranteed by the Company and its domestic subsidiaries. The Senior Notes are general unsecured obligations of Centers and rank secondary to Centers senior credit facility and are senior in right of payment to all existing and future subordinated obligations of Centers, including Centers Senior Subordinated Notes. The Senior Notes are unconditionally guaranteed on an unsecured basis by all of Centers existing and future material domestic subsidiaries. The Senior Subordinated Notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of Centers domestic subsidiaries and rank secondary to Center s senior credit facility and Senior Notes. Guarantor subsidiaries include the Company s direct and indirect domestic subsidiaries as of the respective balance sheet dates. Non-guarantor subsidiaries include the remaining direct and indirect foreign subsidiaries. The subsidiary guarantors are wholly owned by the Company. The guarantees are full and unconditional and joint and several.

Presented below are condensed consolidated financial statements of the Company, Centers as the issuer, and the combined guarantor and non-guarantor subsidiaries as of, and for the three and nine months ended September 30, 2005 and 2004. The guarantor and non-guarantor subsidiaries are presented in a combined format as their individual operations are not material to the Company s consolidated financial statements. Investments in subsidiaries are either consolidated or accounted for under the equity method of accounting. Intercompany balances and transactions have been eliminated.

Supplemental Condensed Consolidating Balance Sheets

September 30, 2005	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(unaudited) (in thousands)			
Current assets						
Cash and cash equivalents	$	$	$ 59,922	$ 2,481	$	$ 62,403
Receivables, net			70,371	973		71,344
Intercompany receivables		1,570	34,709		(36,279)	
Inventories, net			264,941	15,894		280,835
Other current assets	74	2,962	35,897	4,556		43,489
Total current assets	74	4,532	465,840	23,904	(36,279)	458,071
Goodwill, net			78,497	942		79,439
Brands, net			209,000	3,000		212,000
Property, plant and equipment, net			160,672	21,012		181,684
Investment in subsidiaries	335,013	802,114	5,631		(1,142,758)	
Other assets		17,015	46,738	76	(8,780)	55,049
Total assets	$ 335,087	$ 823,661	$ 966,378	$ 48,934	$ (1,187,817)	$ 986,243
Current liabilities						
Current liabilities	$ 57	$ 10,146	$ 151,649	$ 6,445	$	$ 168,297
Intercompany payables	1,570	18,069		16,640	(36,279)	

Total current liabilities	1,627	28,215	151,649	23,085	(36,279)	168,297
Long-term debt		460,433		20,181	(8,780)	471,834
Other long-term liabilities			12,615	37		12,652
Total liabilities	1,627	488,648	164,264	43,303	(45,059)	652,783
Cumulative redeemable exchangeable preferred stock	123,360					123,360
Total stockholders equity (deficit)	210,100	335,013	802,114	5,631	(1,142,758)	210,100
Total liabilities and stockholders equity (deficit)	$ 335,087	$ 823,661	$ 966,378	$ 48,934	$ (1,187,817)	$ 986,243

GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)
Supplemental Condensed Consolidating Balance Sheets

December 31, 2004	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)			
Current assets						
Cash and cash equivalents	$	$	$ 82,722	$ 2,439	$	$ 85,161
Receivables, net			66,821	1,327		68,148
Intercompany receivables		17,752	16,848		(34,600)	
Inventories, net			258,085	14,169		272,254
Other current assets	607	257	45,731	3,920		50,515
Total current assets	607	18,009	470,207	21,855	(34,600)	476,078
Property, plant and equipment, net			172,813	22,596		195,409
Investment in subsidiaries	322,422	784,710	3,951		(1,111,083)	
Goodwill, net			77,643	942		78,585
Brands, net			209,000	3,000		212,000
Other assets		18,336	59,339	373	(8,780)	69,268
Total assets	$ 323,029	$ 821,055	$ 992,953	$ 48,766	$ (1,154,463)	$ 1,031,340
Current liabilities						
Current liabilities	$ 163	$ 4,333	$ 182,490	$ 7,013	$	$ 193,999
Intercompany payables	1,865		15,887	16,848	(34,600)	
Total current liabilities	2,028	4,333	198,377	23,861	(34,600)	193,999
Long-term debt		494,300		20,954	(8,780)	506,474
Other long-term liabilities			9,866			9,866
Total liabilities	2,028	498,633	208,243	44,815	(43,380)	710,339
Cumulative redeemable exchangeable preferred stock	112,734					112,734
Total stockholders equity (deficit)	208,267	322,422	784,710	3,951	(1,111,083)	208,267
Total liabilities and stockholders equity (deficit)	$ 323,029	$ 821,055	$ 992,953	$ 48,766	$ (1,154,463)	$ 1,031,340

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)
Supplemental Condensed Consolidating Statements of Operations

Three months ended September 30, 2005	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(unaudited) (in thousands)			
Revenue	$	$	$ 307,427	$ 17,696	$ (2,564)	$ 322,559
Cost of sales, including costs of warehousing, distribution and occupancy			211,586	13,062	(2,564)	222,084
Gross profit			95,841	4,634		100,475
Compensation and related benefits			55,370	3,062		58,432
Advertising and promotion			8,501	138		8,639
Other selling, general and administrative	41	522	16,667	1,306		18,536
Subsidiary (income) loss	(3,202)	(3,990)	204		6,988	
Other income			(22)	(58)		(80)
Operating income (loss)	3,161	3,468	15,121	186	(6,988)	14,948
Interest expense, net		719	8,868	370		9,957
Income (loss) before income taxes	3,161	2,749	6,253	(184)	(6,988)	4,991
Income tax (benefit) expense	(14)	(453)	2,263	20		1,816
Net income (loss)	$ 3,175	$ 3,202	$ 3,990	$ (204)	$ (6,988)	$ 3,175

Supplemental Condensed Consolidating Statements of Operations

Nine months ended September 30, 2005	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(unaudited) (in thousands)			
Revenue	$	$	$ 947,920	$ 53,196	$ (8,775)	$ 992,341
Cost of sales, including costs of warehousing, distribution and occupancy			645,974	39,065	(8,775)	676,264
Gross profit			301,946	14,131		316,077
Compensation and related benefits			163,009	8,966		171,975

Advertising and promotion			36,365	415		36,780
Other selling, general and administrative	206	1,536	52,106	2,417		56,265
Subsidiary (income) loss	(13,154)	(17,967)	(1,350)		32,471	
Other income			(2,492)	(145)		(2,637)
Operating income (loss)	12,948	16,431	54,308	2,478	(32,471)	53,694
Interest expense, net		5,993	26,169	1,071		33,233
Income (loss) before income taxes	12,948	10,438	28,139	1,407	(32,471)	20,461
Income tax (benefit) expense	(74)	(2,716)	10,172	57		7,439
Net income (loss)	$ 13,022	$ 13,154	$ 17,967	$ 1,350	$ (32,471)	$ 13,022

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GNC CORPORATION AND SUBSIDIARIES
SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED CONTINUED)
Supplemental Condensed Consolidating Statements of Operations

Three months ended September 30, 2004	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(unaudited) (in thousands)			
Revenue	$	$	$ 308,195	$ 17,327	$ (2,381)	$ 323,141
Cost of sales, including costs of warehousing, distribution and occupancy			206,855	12,344	(2,381)	216,818
Gross profit			101,340	4,983		106,323
Compensation and related benefits			51,157	2,877		54,034
Advertising and promotion			9,972	70		10,042
Other selling, general and administrative	1,369	438	18,032	662		20,501
Subsidiary (income) loss	(9,380)	(9,657)	(1,190)		20,227	
Other (income) expense			(58)	(242)		(300)
Operating income (loss)	8,011	9,219	23,427	1,616	(20,227)	22,046
Interest expense, net	14		8,159	397		8,570
Income (loss) before income taxes	7,997	9,219	15,268	1,219	(20,227)	13,476
Income tax (benefit) expense	(502)	(161)	5,611	29		4,977
Net income (loss)	$ 8,499	$ 9,380	$ 9,657	$ 1,190	$ (20,227)	$ 8,499

Supplemental Condensed Consolidating Statements of Operations

Nine months ended September 30, 2004	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(unaudited) (in thousands)			
Revenue	$	$	$ 995,711	$ 54,935	$ (7,222)	$ 1,043,424
Cost of sales, including costs of warehousing, distribution and occupancy			658,266	39,497	(7,222)	690,541
Gross profit			337,445	15,438		352,883
Compensation and related benefits			164,075	8,884		172,959

Advertising and promotion			35,030	222		35,252
Other selling, general and administrative	1,412	1,297	52,990	1,462		57,161
Subsidiary (income) loss	(40,045)	(40,868)	(3,514)		84,427	
Other (income) expense			7	111		118
Operating income (loss)	38,633	39,571	88,857	4,759	(84,427)	87,393
Interest expense, net	82		24,517	1,1		