GNC CORP
Form 10-Q
August 04, 2006

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 June 30, 2006**
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 *(State or other jurisdiction of Incorporation or organization)*	**72-1575170** *(I.R.S. Employer Identification No.)*
300 Sixth Avenue **Pittsburgh, Pennsylvania** *(Address of principal executive offices)*	**15222** *(Zip Code)*

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

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

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

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

As of August 1, 2006, 50,563,948 shares of the GNC Corporation s $0.01 par value Common Stock (the Common Stock) were outstanding.

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EXPLANATORY NOTE

On July 27, 2006, the Company filed its Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware. The Second Amended and Restated Certificate of Incorporation authorized each issued and outstanding share of our common stock to be split in a ratio of 1.707 for one (the Stock Split) effective as of July 27, 2006. No fractional shares of common stock will be issued as a result of the Stock Split. Unless otherwise indicated, all references to the number of shares in this report have been adjusted to reflect the stock split on a retroactive basis.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements.*

GNC CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005*
	(In thousands, except share data)	
Current assets:		
Cash and cash equivalents	$ 57,478	$ 86,013
Receivables, net of reserve of $6,249 and $8,898, respectively	84,973	70,630
Inventories, net (Note 3)	300,047	298,166
Deferred tax assets, net	13,862	13,861
Other current assets	30,096	30,826
Total current assets	486,456	499,496
Long-term assets:		
Goodwill (Note 4)	80,977	80,109
Brands (Note 4)	212,000	212,000
Other intangible assets, net (Note 4)	25,260	26,460
Property, plant and equipment, net	172,276	179,482
Deferred financing fees, net	14,647	16,125
Deferred tax assets, net	45	45
Other long-term assets	7,395	10,114
Total long-term assets	512,600	524,335
Total assets	$ 999,056	$ 1,023,831
Current liabilities:		
Accounts payable, includes cash overdraft of $2,962 and $5,063, respectively	$ 90,068	$ 104,595
Accrued payroll and related liabilities	25,202	20,812
Accrued income taxes	5,877	2,280
Accrued interest	7,844	7,877
Current portion, long-term debt	2,147	2,117
Other current liabilities	71,333	64,826
Total current liabilities	202,471	202,507
Long-term liabilities:		
Long-term debt	470,192	471,244

Other long-term liabilities	10,952	10,891
Total long-term liabilities	481,144	482,135
Total liabilities	683,615	684,642
Cumulative redeemable exchangeable preferred stock, $0.01 par value, 110,000 shares authorized, 100,000 shares issued and outstanding (liquidation preference of $144,131 and $136,349, respectively)	134,963	127,115
Stockholders equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized, 50,563,948 and 50,422,054 shares issued and outstanding, respectively	506	504
Paid-in-capital	129,180	177,407
Retained earnings	49,612	32,939
Accumulated other comprehensive income	1,180	1,224
Total stockholders equity	180,478	212,074
Total liabilities and stockholders equity	$ 999,056	$ 1,023,831

* 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

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
	(Unaudited) (In thousands)			
Revenue	$ 382,772	$ 333,347	$ 769,664	$ 669,782
Cost of sales, including costs of warehousing, distribution and occupancy	253,328	223,724	510,200	454,180
Gross profit	129,444	109,623	259,464	215,602
Compensation and related benefits	60,617	56,229	126,469	113,543
Advertising and promotion	14,516	13,540	30,355	28,141
Other selling, general and administrative	23,498	18,814	44,561	37,729
Foreign currency (gain) loss	(114)	48	(702)	(57)
Other income				(2,500)
Operating income	30,927	20,992	58,781	38,746
Interest expense, net (Note 5)	10,121	9,805	19,797	23,276
Income before income taxes	20,806	11,187	38,984	15,470
Income tax expense	7,720	4,076	14,463	5,623
Net income	13,086	7,111	24,521	9,847
Other comprehensive income (loss)	576	(270)	(44)	(534)
Comprehensive income	$ 13,662	$ 6,841	$ 24,477	$ 9,313
Income per share Basic and Diluted:				
Net income	$ 13,086	$ 7,111	$ 24,521	$ 9,847
Cumulative redeemable exchangeable preferred stock dividends and accretion	(3,981)	(3,541)	(7,848)	(6,980)
Net income available to common stockholders	$ 9,105	$ 3,570	$ 16,673	$ 2,867
Earnings per share:				
Basic	$ 0.18	$ 0.07	$ 0.33	$ 0.06
Diluted	$ 0.17	$ 0.07	$ 0.32	$ 0.06
Weighted average shares outstanding:				
Basic	50,525,980	50,629,045	50,485,347	50,707,887

Diluted	52,673,972	51,623,785	52,252,720	51,587,027

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

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GNC CORPORATION AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

	Common Stock Shares	Common Stock Dollars	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity
	(In thousands, except share data)					
Balance at December 31, 2005	50,422,054	$ 504	$ 177,407	$ 32,939	$ 1,224	$ 212,074
Repurchase and retirement of common stock	(28,806)		(68)			(68)
Non-cash stock-based compensation	42,675		1,222			1,222
Exercise of stock options	128,025	2	448			450
Tax benefit from exercise of stock options			105			105
Preferred stock dividends				(7,782)		(7,782)
Amortization of preferred stock issuance costs				(66)		(66)
Net income				24,521		24,521
Restricted payment made by General Nutrition Centers, Inc. to GNC Corporation Common Stockholders			(49,934)			(49,934)
Foreign currency translation adjustments					(44)	(44)
Balance at June 30, 2006 (unaudited)	50,563,948	$ 506	$ 129,180	$ 49,612	$ 1,180	$ 180,478

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 24,521	$ 9,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	17,159	18,372
Deferred fee writedown early debt extinguishment		3,890
Amortization of intangible assets	1,966	1,921
Amortization of deferred financing fees	1,478	1,384
Increase in provision for inventory losses	2,649	3,504
Non-cash stock-based compensation	1,222	
(Decrease) increase in provision for losses on accounts receivable	(1,577)	2,190
Decrease in net deferred taxes		2,404
Changes in assets and liabilities:		
Increase in receivables	(14,612)	(6,178)
Increase in inventory, net	(3,275)	(34,038)
Decrease in franchise note receivables, net	2,354	5,370
Decrease in other assets	116	6,875
Decrease in accounts payable	(12,458)	(1,329)
Increase in accrued taxes	3,598	
(Decrease) increase in interest payable	(34)	5,858
Increase (decrease) in accrued liabilities	10,825	(1,500)
Net cash provided by operating activities	33,932	18,570
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(9,434)	(8,915)
Store acquisition costs	(359)	(1,105)
Net cash used in investing activities	(9,793)	(10,020)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted payment made by General Nutrition Centers, Inc. to GNC Corporation Common Stockholders	(49,934)	
Repurchase and retirement of common stock	(68)	(416)
Proceeds from exercised stock options	450	
Tax benefit from exercise of stock options	105	
(Decrease) increase in cash overdrafts	(2,101)	1,800

Proceeds from senior notes issuance		150,000
Payments on long-term debt	(1,021)	(185,994)
Financing fees		(4,090)
Net cash used in financing activities	(52,569)	(38,700)
Effect of exchange rate on cash	(105)	(111)
Net decrease in cash	(28,535)	(30,261)
Beginning balance, cash	86,013	85,161
Ending balance, cash	$ 57,478	$ 54,900

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 (GNC or the Company) (f/k/a General Nutrition Centers Holding Company), a Delaware corporation, is a leading specialty retailer of nutritional supplements, which include: vitamins, minerals and herbal supplements (VMHS), sports nutrition products, diet products and other wellness products.

The Company s organizational structure is vertically integrated as the operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its Retail, Franchising and Manufacturing/Wholesale segments. The Company operates primarily in three business segments: Retail; Franchising; and Manufacturing/Wholesale. Corporate retail store operations are located in North America and Puerto Rico and in addition the Company offers products domestically through www.gnc.com and drugstore.com. Franchise stores are located in the United States and 43 international markets. The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, Pennsylvania and South Carolina. The Company also operates a smaller manufacturing facility in Australia. The Company manufactures the majority of its branded products, but also merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

The processing, formulation, packaging, labeling and advertising of the Company s products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (FDA), Federal Trade Commission (FTC), 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 V L.P., 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.

As discussed in the Subsequent Events note a stock split of 1.707 for one was effective on July 27, 2006. This stock split has been reflected retroactively for all periods included in these financial statements.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements and footnotes 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, 2005 (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, 2006.

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GNC CORPORATION AND SUBSIDIARIES

SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The equity method of accounting is used for investment ownership ranging from 20% to 50%. Investment ownership of less than 20% is accounted for on the cost method. All material intercompany transactions have been eliminated in consolidation. The Company has no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements, or other contractually narrow or limited purposes.

Use of Estimates. The preparation of financial statements in conformity with 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 regular basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates. There have been no material changes to critical estimates since the audited financial statements at December 31, 2005.

Earnings Per Share. Basic earnings per share is computed by dividing net earnings by the weighted average common shares outstanding for the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of stock options, excluding antidilutive shares, under our stock option plan. See Stock-based Compensation Plans note for additional disclosure. The following table represents the Company s basic and diluted earning per share.

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Numerator:				
Numerator for basic and diluted earnings per share:				
Net income	$ 13,086	$ 7,111	$ 24,521	$ 9,847
Cumulative redeemable exchangeable preferred stock dividends and accretion	(3,981)	(3,541)	(7,848)	(6,980)
Net income available to common stockholders	$ 9,105	$ 3,570	$ 16,673	$ 2,867
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	50,525,980	50,629,045	50,485,347	50,707,887

Effect of dilutive securities:								
Employee stock options		2,147,992		994,740		1,767,373		879,140
Denominator for diluted earnings per share adjusted weighted average		52,673,972		51,623,785		52,252,720		51,587,027
Basic earnings per share	$	0.18	$	0.07	$	0.33	$	0.06
Diluted earnings per share	$	0.17	$	0.07	$	0.32	$	0.06

GNC CORPORATION AND SUBSIDIARIES

SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

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 $1.9 million at June 30, 2006 and $2.6 million at December 31, 2005.

Recently Issued Accounting Pronouncements

In June 2006, Financial Accounting Standards Board, (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company continues to evaluate the adoption of FIN 48 and its impact on the Company s consolidated financial statements or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (revised 2004) (SFAS No. 123(R)). SFAS No. 123(R) sets accounting requirements for share-based compensation to employees and disallows the use of the intrinsic value method of accounting for stock compensation. The Company is required to account for such transactions using a fair-value method and to recognize compensation expense over the period during which an employee is required to provide services in exchange for the stock options and other equity-based compensation issued to employees. This statement was effective for the Company starting January 1, 2006 and the Company elected to use the modified prospective application method. The impact of this statement on the Company s consolidated financial statements or results of operations has been historically disclosed on a pro-forma basis and is now recognized as compensation expense on a prospective basis. Based on the equity awards outstanding as of June 30, 2006, the Company expects compensation expense, net of tax, of $1.5 million to $2.5 million for the year ended December 31, 2006. Refer to the Stock Based Compensation Plans note for additional disclosure.

NOTE 3. INVENTORIES, NET

Inventories at each respective period consisted of the following:

	June 30, 2006		
	Gross Cost	Reserves	Net Carrying Value
		(Unaudited) (In thousands)	

Finished product ready for sale	$ 257,905	$ (7,955)	$ 249,950
Work-in-process bulk product and raw materials	47,993	(2,308)	45,685
Packaging supplies	4,412		4,412
	$ 310,310	$ (10,263)	$ 300,047

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GNC CORPORATION AND SUBSIDIARIES

SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

	December 31, 2005		
	Gross Cost	Reserves	Net Carrying Value
		(In thousands)	
Finished product ready for sale	$ 257,525	$ (10,025)	$ 247,500
Work-in-process bulk product and raw materials	48,513	(2,128)	46,385
Packaging supplies	4,281		4,281
	$ 310,319	$ (12,153)	$ 298,166

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 Other Intangible Assets (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 15 years.

For the six months ended June 30, 2006, the Company acquired 46 franchise stores. These acquisitions are accounted for utilizing the purchase method of accounting and the Company records the acquired inventory, fixed assets, franchise rights and goodwill, with an applicable reduction to receivables and cash. The total purchase price associated with these acquisitions was $2.5 million, of which $0.4 million was paid in cash. Also as a result of these acquisitions, the Company reclassified $1.8 million of goodwill and $4.9 million of brand intangibles from the Franchise segment to the Retail segment during the six months ended June 30, 2006. The reclassification was determined based on the relative fair value of the acquired franchise stores.

The following table summarizes the Company s goodwill activity from December 31, 2005 to June 30, 2006.

	Retail	Franchising	Manufacturing/ Wholesale	Total
		(In thousands)		
Goodwill at December 31, 2005	$ 22,970	$ 56,693	$ 446	$ 80,109
Additions: Acquired franchise stores	868			868
Reclassification: Due to franchise store acquisitions	1,750	(1,750)		
Goodwill at June 30, 2006 (unaudited)	$ 25,588	$ 54,943	$ 446	$ 80,977

The following table summarizes the Company s intangible asset activity from December 31, 2005 to June 30, 2006.

	Gold Card	Retail Brand	Franchise Brand	Operating Agreements	Franchise Rights	Total
			(In thousands)			
Balance at December 31, 2005	$ 514	$ 59,659	$ 152,341	$ 24,296	$ 1,650	$ 238,460
Additions: Acquired franchise stores					766	766
Reclassification: Due to franchise store acquisitions		4,895	(4,895)			
Amortization expense	(257)			(1,472)	(237)	(1,966)
Balance at June 30, 2006 (unaudited)	$ 257	$ 64,554	$ 147,446	$ 22,824	$ 2,179	$ 237,260

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GNC CORPORATION AND SUBSIDIARIES

SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

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

	Estimated Life in Years	June 30, 2006 Cost	Accumulated Amortization	Carrying Amount	December 31, 2005 Cost	Accumulated Amortization	Carrying Amount
			(Unaudited)				
				(In thousands)			
Brands retail		$ 64,554	$	$ 64,554	$ 59,659	$	$ 59,659
Brands franchise		147,446		147,446	152,341		152,341
Gold card retail	3	2,230	(2,007)	223	2,230	(1,784)	446
Gold card franchise	3	340	(306)	34	340	(272)	68
Retail agreements	5-10	8,500	(3,037)	5,463	8,500	(2,447)	6,053
Franchise agreements	10-15	21,900	(4,539)	17,361	21,900	(3,657)	18,243
Franchise rights	5	2,564	(385)	2,179	1,798	(148)	1,650
		$ 247,534	$ (10,274)	$ 237,260	$ 246,768	$ (8,308)	$ 238,460

The following table represents future estimated amortization expense of other intangible assets, net, with definite lives at June 30, 2006:

Years Ending December 31,	Estimated Amortization Expense (Unaudited) (In thousands)
2006(1)	$ 1,985
2007	3,456
2008	3,407
2009	2,796
2010	2,647
Thereafter	10,969
Total	$ 25,260

(1) This period is a partial year and represents the period from July 1 to December 31, 2006.

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GNC CORPORATION AND SUBSIDIARIES

SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

NOTE 5. INTEREST EXPENSE

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Unaudited) (In thousands)			
Senior credit facility				
Term Loan	$ 1,907	$ 1,488	$ 3,719	$ 3,322
Revolver	161	150	320	299
85/8% Senior Notes	3,234	3,234	6,469	5,858
81/2% Senior Subordinated Notes	4,568	4,568	9,137	9,137
Deferred financing fees	743	700	1,478	1,384
Deferred fee writedown early extinguishment				3,890
Mortgage	194	223	346	455
Interest income other	(686)	(558)	(1,672)	(1,069)
Interest expense, net	$ 10,121	$ 9,805	$ 19,797	$ 23,276

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. 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, including indemnification obligations of third-party manufacturers, and the indemnification provided by Numico under the purchase agreement in connection with the Numico acquisition, 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 the Company, 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. 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

GNC CORPORATION AND SUBSIDIARIES

SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

insurers. The Company may incur material product liability claims, which could increase its costs and adversely affect its reputation, revenues and operating income.

Ephedra (Ephedrine Alkaloids). As of June 30, 2006, the Company has been named as a defendant in 227 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 Cases. The Company is currently defending itself in connection with certain class action lawsuits (the Andro Actions) relating to the sale by GNC of certain nutritional products alleged to contain the ingredients commonly known as Androstenedione, Androstenediol, Norandrostenedione, and Norandrostenediol (collectively Andro Products). In each case, plaintiffs seek to certify a class and obtain damages on behalf of the class representatives and all those similarly-situated who purchased certain nutritional supplements from the Company alleged to contain Andro Products. The original state court proceedings for the Andro Actions include the following:

Harry Rodriguez v. General Nutrition Companies, Inc. (previously pending in the Supreme Court of the State of New York, New York County, New York, Index No. 02/126277). Plaintiffs filed this putative class action on or about July 25, 2002. The Second Amended Complaint, filed thereafter on or about December 6, 2002, alleged claims for unjust enrichment, violation of General Business Law § 349 (misleading and deceptive trade practices), and violation of General Business Law § 350 (false advertising). On July 2, 2003, the Court granted part of the Company s motion to dismiss and dismissed the unjust enrichment cause of action. On January 4, 2006, the court conducted a hearing on the Company s motion for summary judgment and Plaintiffs motion for class certification, both of which remain pending.

Everett Abrams v. General Nutrition Companies, Inc. (previously pending in the Superior Court of New Jersey, Mercer County, New Jersey, Docket No. L-3789-02). Plaintiffs filed this putative class action on or about July 25, 2002. The Second Amended Complaint, filed thereafter on or about December 20, 2002, alleged claims for false and deceptive marketing and omissions and violations of the New Jersey Consumer Fraud Act. On November 18, 2003, the Court signed an order dismissing plaintiff s claims for affirmative misrepresentation and sponsorship with prejudice. The claim for knowing omissions remains pending.

Shawn Brown, Ozan Cirak, Thomas Hannon, and Luke Smith v. General Nutrition Companies, Inc. (previously pending in the 15th Judicial Circuit Court, Palm Beach County, Florida, Index. No. CA-02-14221AB). Plaintiffs filed this putative class action on or about July 25, 2002. The Second Amended Complaint, filed thereafter on or about November 27, 2002, alleged claims for violations of Florida Deceptive and Unfair Trade Practices Act, unjust enrichment, and violation of Florida Civil Remedies for Criminal Practices Act. These claims remain pending.

Abrams, et al. v. General Nutrition Companies, Inc., et al., previously pending in the Common Pleas Court of Philadelphia County, Philadelphia, Class Action No. 02-703886). Plaintiffs filed this putative

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

class action on or about July 25, 2002. The Amended Complaint, filed thereafter on or about April 8, 2003, alleged claims for violations of the Unfair Trade Practices and Consumer Protection Law, and unjust enrichment. The court denied the Plaintiffs motion for class certification, and that order has been affirmed on appeal. Plaintiffs thereafter filed a petition in the Pennsylvania Supreme Court asking that the court consider an appeal of the order denying class certification. The Pennsylvania Supreme Court has not yet ruled on the petition.

David Pio and Ty Stephens, individually and on behalf of all others similarly situated v. General Nutrition Companies, Inc., previously pending in the Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 02-CH-14122). Plaintiffs filed this putative class action on or about July 25, 2002. The Amended Complaint, filed thereafter on or about April 4, 2004, alleged claims for violations of Illinois Consumer Fraud Act, and unjust enrichment. The motion for class certification was stricken, but the court afforded leave to the Plaintiffs to file another motion. Plaintiffs have not yet filed another motion.

Santiago Guzman, individually, on behalf of all others similarly situated, and on behalf of the general public v. General Nutrition Companies, Inc., previously pending on the California Judicial Counsel Coordination Proceeding No. 4363, Los Angeles County Superior Court). Plaintiffs filed this putative class action on or about February 17, 2004. The Amended Complaint, filed on or about May 26, 2005, alleged claims for violations of the Consumers Legal Remedies Act, violation of the Unfair Competition Act, and unjust enrichment. These claims remain pending.

On April 17 and 18, 2006, the Company filed pleadings seeking to remove each of the Andro Actions to the respective federal district courts for the districts in which the respective Andro Actions are pending. Simultaneously, the Company filed motions seeking to transfer each of the Andro Actions to the United States District Court for the Southern District of New York so that they may be consolidated with the recently-commenced bankruptcy case of MuscleTech Research and Development, Inc. and certain of its affiliates (collectively, MuscleTech), which is currently pending in the Superior Court of Justice, Ontario, Canada under the *Companies Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, Case No. 06-CL-6241, with a related proceeding styled *In re MuscleTech Research and Development, Inc., et al.*, Case No. 06 Civ 538 (JSR) and pending in district court in the Southern District of New York pursuant to chapter 15 of title 11 of the United States Code. The Company believes that the pending Andro Actions are related to MuscleTech s bankruptcy case by virtue of the fact that MuscleTech is contractually obligated to indemnify the Company for certain liabilities arising from the standard product indemnity stated in the Company s purchase order terms and conditions or otherwise under state law. The Company s requests to remove, transfer and consolidate the Andro Actions to federal court are pending before the respective federal district courts.

Based upon the information available to the Company 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. As any liabilities that may arise from this case are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

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 to a national settlement of the lawsuits, which has been preliminarily approved by the court. Notice to the class has been published in mass advertising media publications. In addition, notice has been mailed to approximately 2.4 million GNC Gold Card members. Each person who purchased the third-party product and who 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 or original product packaging as proof of purchase. If a person purchased the product, but does not have a cash register

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

receipt or original product packaging, such a person may submit a signed affidavit and will then be entitled to receive one or more coupons. Register receipts or original product packaging, or signed affidavits, must be presented within a 90-day period after the settlement is approved by the court and the time for an appeal has ended. 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 beginning in the first calendar quarter after the settlement is approved by the court and the time for an appeal has ended. The Company will issue a maximum of 5.0 million certificates with a combined face value of $50.0 million. In addition to the cash reimbursements and coupons, as part of the settlement the Company will be required to pay legal fees of approximately $1.0 million and will incur $0.7 million in 2006 for advertising and postage costs related to the notification letters; as a result $1.7 million was accrued as legal costs at December 31, 2005. No adjustments were recognized during the second quarter 2006. The deadline for class members to opt out of the settlement class or object to the terms of the settlement was July 6, 2006. A final fairness hearing is scheduled to take place on November 6, 2006. As the sales of this product occurred in the late 1990s and early 2000s, the Company cannot reasonably estimate (1) how many of the purchasers of the product will receive notice or see the notice published in mass advertising media publications, (2) the amount of customers that will still have sales receipts or original product packaging for the products and (3) the amount of customers that sign an affidavit in lieu of a register receipt or original product packaging. Due to the uncertainty that exists as to the extent of future sales to the purchasers, the coupons are an incentive for the purchasers to buy products or services from the entity (at a reduced gross margin). Accordingly, the Company will recognize the settlement by reducing revenue in future periods when the purchasers utilize the coupons.

Nutrition 21. On June 23, 2005, General Nutrition Corporation, one of the Company s wholly owned subsidiaries, was sued by Nutrition 21, LLC in the United States District Court for the Eastern District of Texas. Nutrition 21 alleges that the GNC Subsidiary has infringed, and is continuing to infringe, United States Patent No. 5,087,623, United States Patent No. 5,087,624, and United States Patent No. 5,175,156, all of which are entitled Chromic Picolinate Treatment, by offering for sale, selling, marketing, advertising, and promoting finished chromium picolinate products for uses set forth in these patents. Nutrition 21 has requested an injunction prohibiting the GNC subsidiary from infringing these patents and is seeking recovery of unspecified damages resulting from the infringement, including lost profits. Nutrition 21 asserts that lost profits should be trebled due to the GNC subsidiary s alleged willful infringement, together with attorneys fees, interest and costs. The Company disputes the claims and intends to contest this suit vigorously. In its answer and counterclaims, the GNC subsidiary has asserted, and is seeking a declaratory judgment, that these patents are invalid, not infringed, and unenforceable. The GNC subsidiary has also asserted counterclaims in the suit for false patent marking and false advertising. A hearing on claim construction issues was held on April 20, 2006, but the court s claim construction order has not yet been issued. The parties are presently pursuing discovery. The case is set for trial on December 11, 2006.

Franklin Publications. On October 26, 2005, General Nutrition Corporation, a wholly owned subsidiary of the Company was sued in the Common Pleas Court of Franklin County, Ohio by Franklin Publications, Inc. (Franklin). The case was subsequently removed to the United States District Court for the Southern District of Ohio, Eastern Division. 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

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

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. As any liabilities that may arise from this case are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

Visa/MasterCard Antitrust Litigation. The terms of a significant portion of the Visa/MasterCard antitrust litigation settlement were finalized during 2005. Accordingly, the Company recognized a $1.2 million gain in December 2005 for its expected portion of the proceeds and expects to collect this settlement in the second half of 2006.

Product Claim Settlement. In March 2005, an individual purchased a nutritional supplement containing whey at one of the Company s stores and, within minutes after preparing the mix, went into anaphylactic shock, allegedly as a result of an allergy to dairy products, and subsequently died. A pre-litigation complaint was presented to the Company alleging wrongful death among other claims. The product was labeled in accordance with FDA regulations in effect at the time. On July 18, 2006, the Company entered into a settlement agreement with the individual s estate pursuant to which the Company did not admit liability, but agreed to pay approximately $1.3 million to the estate, which includes a $100,000 payment to a bona fide insurer on behalf of the individual s sister in exchange for full general releases in favor of the Company. Under the applicable insurance policy covering the claim, the Company has a retention of $1.0 million, and the Company s insurance carrier will fund the balance of the settlement.

Pennsylvania Claim. The Commonwealth of Pennsylvania has conducted an unclaimed property audit of General Nutrition, Inc., a wholly owned subsidiary of the Company for the period January 1, 1992 to December 31, 1997 generally and January 1, 1992 to December 31, 1999 for payroll and wages. As a result of the audit, the Pennsylvania Treasury Department has made an assessment of an alleged unclaimed property liability of the subsidiary in the amount of $4.1 million. The subsidiary regularly records normal course liabilities for actual unclaimed properties and does not agree with the assessment. The subsidiary filed an appeal, is currently involved in discussions with the Pennsylvania Department of Treasury staff and continues to vigorously defend against the assessment.

NOTE 7. STOCK-BASED COMPENSATION PLANS

On December 5, 2003 the Board of Directors of the Company (the Board) approved and adopted the GNC Corporation (f/k/a General Nutrition Centers Holding Company) 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, directors, consultants or advisors as determined by the administering committee of the Board. The total number of shares of Common Stock reserved and available for the Plan is 6.8 million shares. Stock options under the Plan generally are granted at fair market value, vest over a four-year vesting schedule and expire after seven years from date of grant. If stock options are granted at an exercise price that is less than fair market value at the date of grant, compensation expense is recognized immediately for the intrinsic value. As of June 30, 2006 there were 4.8 million outstanding stock options under the Plan. No stock appreciation rights, restricted stock, deferred stock or performance shares were granted under the Plan as of June 30, 2006.

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The following table outlines total stock options activity under the Plan:

	Total Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2005	4,706,403	$ 3.52	
Granted	485,641	5.65	
Exercised	(128,025)	3.52	
Forfeited	(253,129)	5.23	
Outstanding at June 30, 2006 (unaudited)	4,810,890	3.64	$ 60,755
Exercisable at June 30, 2006 (unaudited)	2,341,531	$ 3.56	$ 29,851

The Company adopted SFAS No. 123(R), effective January 1, 2006. The Company selected the modified prospective method, which does not require adjustment to prior period financial statements and measures expected future compensation cost for stock-based awards at fair value on grant date. The Company utilizes the Black-Scholes model to calculate the fair value of options under SFAS No. 123(R), which is consistent with disclosures previously included in prior year financial statements under SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123) and SFAS No. 148 Accounting for Stock Based Compensation-Transition and Disclosure (SFAS No. 148). The resulting compensation cost is recognized in the Company s financial statements over the option vesting period. As of the date of adoption of SFAS No 123(R), the net unrecognized compensation cost, after taking into consideration estimated forfeitures, related to options outstanding was $4.4 million and at June 30, 2006 was $4.9 million and is expected to be recognized over a weighted average period of approximately 2.2 years. The amount of cash received from the exercise of stock options during the six months ended June 30, 2006 was $0.5 million and the related tax benefit was $0.1 million. The total intrinsic value of options exercised during the six months ended June 30, 2006 was $0.3 million.

As of June 30, 2006, the weighted average remaining contractual life of outstanding options was 5.9 years and the weighted average remaining contractual life of exercisable options was 5.6 years. The weighted average fair value of options granted during the six months ended June 30, 2006 and 2005 was $3.22 and $2.40, respectively.

SFAS No. 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. Stock-based compensation expense for the three and six months ended June 30, 2006 includes $0.6 million and $1.0 million, respectively, of stock option expense recorded as a result of the adoption of SFAS No. 123(R).

As stated above, SFAS 123(R) established a fair-value-based method of accounting for generally all share-based payment transactions. The Company utilizes the Black-Scholes valuation method to establish fair value of all awards.

The Black-Scholes model utilizes the following assumptions in determining a fair value: price of underlying stock, option exercise price, expected option term, risk- free interest rate, expected dividend yield, and expected stock price volatility over the option s expected term. As the Company has had minimal exercises of stock options through June 30, 2006, the expected option term has been estimated by considering both the vesting period, which is typically four years, and the contractual term of seven years. As the Company s underlying stock is not publicly traded on an open market, the Company utilized a historical

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

industry average to estimate the expected volatility. The assumptions used in the Company s Black-Scholes valuation related to stock option grants made as of June 30, 2006 and 2005 were as follows:

	June 30, 2006	June 30, 2005
	(Unaudited)	
Dividend yield	0.00%	0.00%
Expected option life	5 years	5 years
Volatility factor percentage of market price	22.00%	24.00%
Discount rate	5.10%	3.84%

As 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.

Prior to the adoption of SFAS No. 123(R) and as permitted under SFAS No. 123 the Company measured compensation expense related to stock options in accordance with Accounting Principles Board (APB) No. 25 and related interpretations which use the intrinsic value method. If compensation expense were determined based on the estimated fair value of options granted, consistent with the fair market value method in SFAS No. 123, its net income for the three and six months ended June 30, 2005 would be reduced to the pro forma amounts indicated below:

	Three Months Ended 2005	Six Months Ended 2005
	(Unaudited) (In thousands)	
Net income available to common stockholders, as reported	$ 3,570	$ 2,867
Less: total stock-based employee compensation costs determined using fair value method, net of tax	(182)	(360)
Adjusted net income	$ 3,388	$ 2,507
Income Per Share Basic and Diluted		
Basic income per share		
as reported	$ 0.07	$ 0.06
pro forma	$ 0.07	$ 0.05
Diluted income per share		

as reported	$ 0.07	$ 0.06
pro forma	$ 0.07	$ 0.05
Weighted average common shares outstanding:		
basic	50,629,045	50,707,887
diluted	51,623,785	51,587,027

NOTE 8. SEGMENTS

The following operating 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.

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

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 other corporate costs. The following table represents key financial information for each of the Company s operating 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 and the sales generated through www.gnc.com. 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 the Basis of Presentation and Summary of Significant Accounting Policies included in our Annual Report on Form 10-K.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Unaudited) (In thousands)			
Revenue:				
Retail	$ 284,760	$ 250,277	$ 579,650	$ 505,529
Franchise	59,277	57,754	119,614	110,381
Manufacturing/Wholesale:				
Intersegment(1)	41,799	41,003	85,730	86,052
Third Party	38,735	25,316	70,400	53,872
Sub total Manufacturing/Wholesale	80,534	66,319	156,130	139,924
Sub total segment revenues	424,571	374,350	855,394	755,834
Intersegment elimination(1)	(41,799)	(41,003)	(85,730)	(86,052)
Total revenue	$ 382,772	$ 333,347	$ 769,664	$ 669,782

(1) Intersegment revenues are eliminated from consolidated revenue.

Operating income:				
Retail	$ 33,646	$ 21,200	$ 68,909	$ 39,106
Franchise	15,010	12,124	31,098	22,967
Manufacturing/Wholesale	13,351	12,551	24,510	24,610
Unallocated corporate and other (costs) income:				
Warehousing and distribution costs	(12,475)	(12,211)	(25,321)	(24,870)
Corporate costs	(18,605)	(12,672)	(40,415)	(25,567)

Other income				2,500
Sub total unallocated corporate and other (costs) income	(31,080)	(24,883)	(65,736)	(47,937)
Total operating income	$ 30,927	$ 20,992	$ 58,781	$ 38,746

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

	June 30, 2006	December 31, 2005
	(In thousands)	
	(Unaudited)	
Total assets:		
Retail	$ 458,595	$ 441,364
Franchise	284,265	290,092
Manufacturing / Wholesale	152,092	148,445
Corporate / Other	104,104	143,930
Total assets	$ 999,056	$ 1,023,831

NOTE 9. SUPPLEMENTAL GUARANTOR INFORMATION

As of June 30, 2006 and December 31, 2005, the Company s debt included 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 June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005. 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

June 30, 2006	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(Unaudited) (In thousands)			
Current assets						

Cash and cash equivalents	$	$	$ 54,089	$ 3,389	$	$ 57,478
Receivables, net			83,602	1,371		84,973
Intercompany receivables		2,035	31,031		(33,066)	
Inventories, net			283,034	17,013		300,047
Other current assets	165	293	37,976	5,524		43,958
Total current assets	165	2,328	489,732	27,297	(33,066)	486,456

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

June 30, 2006	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(Unaudited) (In thousands)			
Goodwill			80,035	942		80,977
Brands			209,000	3,000		212,000
Property, plant and equipment, net			151,953	20,323		172,276
Investment in subsidiaries	317,254	787,358	9,834		(1,114,446)	
Other assets		14,853	41,200	74	(8,780)	47,347
Total assets	$ 317,419	$ 804,539	$ 981,754	$ 51,636	$ (1,156,292)	$ 999,056
Current liabilities						
Current liabilities	$ (57)	$ 7,715	$ 183,480	$ 11,333	$	$ 202,471
Intercompany payables	2,035	19,873		11,158	(33,066)	
Total current liabilities	1,978	27,588	183,480	22,491	(33,066)	202,471
Long-term debt		459,697		19,275	(8,780)	470,192
Other long-term liabilities			10,916	36		10,952
Total liabilities	1,978	487,285	194,396	41,802	(41,846)	683,615
Cumulative redeemable exchangeable preferred stock	134,963					134,963
Total stockholders equity (deficit)	180,478	317,254	787,358	9,834	(1,114,446)	180,478
Total liabilities and stockholders equity (deficit)	$ 317,419	$ 804,539	$ 981,754	$ 51,636	$ (1,156,292)	$ 999,056

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

Supplemental Condensed Consolidating Balance Sheets

December 31, 2005	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(In thousands)			
Current assets						
Cash and cash equivalents	$	$	$ 83,143	$ 2,870	$	$ 86,013
Receivables, net			69,518	1,112		70,630
Intercompany receivables		1,809	33,079		(34,888)	
Inventories, net			283,511	14,655		298,166
Other current assets		97	39,825	4,765		44,687
Total current assets		1,906	509,076	23,402	(34,888)	499,496
Goodwill			79,167	942		80,109
Brands			209,000	3,000		212,000
Property, plant and equipment, net			158,877	20,605		179,482
Investment in subsidiaries	340,880	809,105	7,081		(1,157,066)	
Other assets		16,331	45,120	73	(8,780)	52,744
Total assets	$ 340,880	$ 827,342	$ 1,008,321	$ 48,022	$ (1,200,734)	$ 1,023,831
Current liabilities Current liabilities	$ (118)	$ 5,801	$ 188,362	$ 8,462	$	$ 202,507
Intercompany payables	1,809	20,474		12,605	(34,888)	
Total current liabilities	1,691	26,275	188,362	21,067	(34,888)	202,507
Long-term debt		460,187		19,837	(8,780)	471,244
Other long-term liabilities			10,854	37		10,891
Total liabilities	1,691	486,462	199,216	40,941	(43,668)	684,642
Cumulative redeemable exchangeable preferred stock	127,115					127,115
Total stockholders equity (deficit)	212,074	340,880	809,105	7,081	(1,157,066)	212,074
Total liabilities and stockholders equity (deficit)	$ 340,880	$ 827,342	$ 1,008,321	$ 48,022	$ (1,200,734)	$ 1,023,831

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SUMMARIZED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited Continued)

Supplemental Condensed Consolidating Statements of Operations

Three Months Ended June 30, 2006	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(Unaudited) (In thousands)			
Revenue	$	$	$ 364,219	$ 21,311	$ (2,758)	$ 382,772
Cost of sales, including costs of warehousing, distribution and occupancy			240,657	15,429	(2,758)	253,328
Gross profit			123,562	5,882		129,444
Compensation and related benefits			57,233	3,384		60,617
Advertising and promotion			14,217	299		14,516
Other selling, general and administrative	103	481	22,594	320		23,498
Subsidiary (income) loss	(13,150)	(13,919)	(1,199)		28,268	
Other income			(39)	(75)		(114)
Operating income (loss)	13,047	13,438	30,756	1,954	(28,268)	30,927
Interest expense, net		742	9,047	332		10,121
Income (loss) before income taxes	13,047	12,696	21,709	1,622	(28,268)	20,806
Income tax (benefit) expense	(39)	(454)	7,790	423		7,720
Net income (loss)	$ 13,086	$ 13,150	$ 13,919	$ 1,199	$ (28,268)	$ 13,086

Supplemental Condensed Consolidating Statements of Operations

Six Months Ended June 30, 2006	Parent	Issuer	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(Unaudited) (In thousands)			
Revenue	$	$	$ 733,383	$ 42,207	$ (5,926)	$ 769,664
Cost of sales, including costs of warehousing, distribution and			485,783	30,343	(5,926)	510,200

occupancy						
Gross profit			247,600	11,864		259,464
Compensation and related benefits			119,833	6,636		126,469
Advertising and promotion			29,962	393		30,355
Other selling, general and administrative	195	1,510	42,008	848		