



To Our Shareholders:

As I write this letter, I have just passed my one year anniversary at the Vitamin Shoppe. My first year was both challenging and exciting. It was also a year of significant accomplishments as we worked to pivot the company to be more relevant to our customers' evolving health and wellness needs. Some of the actions taken were structural, and we had to make some tough calls to streamline our business. We also strengthened the senior management team and added new capabilities. We institutionalized a continuous focus on productivity improvements and opportunities for margin enhancement, of which we are already realizing some of the benefits.

During 2015 our vision for the Vitamin Shoppe's future began to take form, and I am very pleased with the rapid progress we made with our reinvention strategy. We focused on our customer experience and shoppers' journey and developed an integrated plan to enhance our performance, which we call Project Evolve. We gained clarity on the Vitamin Shoppe's core customers and what drives their health and wellness goals. We focused on both short-term growth drivers and the continued build out of capabilities to develop new initiatives positioning the Vitamin Shoppe for long-term growth.

The vitamins, minerals and supplements (VMS) industry continued to face headwinds in 2015, including lack of product innovation, an increase in negative media and increased scrutiny from government and regulatory bodies. As a result, industry growth slowed from historical trends, and the Vitamin Shoppe's sales were at the low end of our expectations. Importantly, our financial position remained strong, which enabled us to continue to invest in new stores and other growth initiatives, as well as, repurchase \$146 million worth of our common shares.

2015 Overview

Our 2015 results were mixed. We reported a total sales increase of 4.4%. Total comparable sales were flat, which was weaker than we originally anticipated, primarily due to product mix changes as sports nutrition, our largest category, experienced slower growth. The lower overall sales performance was partially offset by improving product margins and cost savings. We also incurred certain costs to streamline and position the company for future growth, resulting in net income down year over year.

During fiscal 2015, we invested approximately \$39 million to open 50 new stores and further enhanced our e-commerce business, which also included IT investments at our distribution centers. At year-end we operated 758 stores in 45 states, the District of Columbia, Puerto Rico and Canada.

We recognize that our strategic investments over the past few years have been significant. While we are focused on growing sales and improving margins,

we are also focused on identifying efficiencies to help fund growth initiatives. We have realigned the assortment in the Super Supplements stores to improve supply chain efficiencies and undertook other cost savings initiatives across the organization and have initially identified \$10 million in cost savings to be realized over the next three years.

As we finalized our reinvention strategy and the associated capital investments, we recognized an opportunity to further use our balance sheet and return capital to shareholders. To do so, we issued \$144 million of 2.25% five-year Convertible Senior Notes and used the proceeds to repurchase slightly over \$100 million worth of our common stock. The Board also authorized another \$100 million share repurchase resulting in an aggregate total of \$300 million share repurchase authorizations in an 18-month period. At year-end 2015, there was \$96 million remaining under the buyback authorizations.

2016: The Evolution Continues

The Vitamin Shoppe today is not the same as a decade ago and will be different three years from now. Ten years ago we were a private company growing at an exceptional rate. Today we are a national retailer with close to 800 stores across the United States. We grew and prospered because of our knowledgeable health enthusiasts and broad product selection carried in the stores. The broad product selection represented an attractive and many times the only option for customers looking for VMS products. Our customer research revealed that the retail landscape and today's shoppers' journey have changed, and we need to evolve in order to thrive in this new environment.

Reinventing the customer experience is necessary and challenging. At the same time, we are excited about our plans to accomplish this. Every survey we have conducted indicates that the Vitamin Shoppe continues to resonate with our customers, and we have an opportunity to increase our share of wallet with our target customers as well as win new shoppers. Though we are undertaking a substantial level of change over the next few years, I am confident in our leadership team and their ability to successfully execute our plan.

We will enhance the customer experience and differentiate ourselves from the competition. We plan to introduce new products, categories and services that will build deeper relationships with our target customers. Our digital experience, including a new mobile app, will be a key component of our strategy. Our initiatives reflect the long-term potential we see for the Vitamin Shoppe.

In broad terms, we plan to focus on three key areas:

- **Customer Experience (omni-channel)**
 - More personalization
 - More engagement
 - Improved loyalty program
- **Invest in Health Enthusiasts**
 - More training and tools
 - Improved incentives
 - Greater focus on customer acquisition and relationships
- **Product Assortment/Solutions**
 - Increased private brand offerings
 - Curate existing assortment
 - Additional growth categories

While we are focused on driving top line growth, we also plan to continue to be more efficient in our cost structure. Working with an outside cost consultant, we plan to implement initiatives to drive further improvements in gross margins and reductions in selling, general and administrative expenses.

Our leadership team focused on four key return on invested capital goals as we developed our long-term strategy: increasing revenue growth, enhancing margins, improving the cost structure, and allocating capital wisely, all while putting in place the drivers for long-term earnings growth. You can expect to see continued capital allocation tactics to ensure the capital we deploy delivers strong returns. We will also test some new store concepts and undertake other initiatives that could offer the potential for higher returns. We are committed to returning excess capital to our shareholders.

The final and most important area of distinction for us is our people and our culture. We have highly engaged employees as revealed in our first engagement survey and we are a great place to work. I am very proud that we were recently named to the top 100 of *Forbes* "Best Midsize Companies to Work For" list.

I would like to thank you, our shareholders, for your support and belief in both our company and our vision. I would also like to thank our Board whose counsel continues to shape our strategy and support the initiatives we are pursuing. And, a very appreciative thank you to our Health Enthusiasts for providing an **Inspiring Experience** and **Nourishing Solutions** for our customers, enabling them to **Thrive Every Day**.

Sincerely,



Colin Watts

Chief Executive Officer & Chief Health Enthusiast

April 12, 2016

Forward Looking Statements

Statements in the *Letter to Shareholders* that are not historical facts are "forward looking statements" for the purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended and Section 27A of the Securities Act of 1933, as amended. We caution readers that such "forward looking statements", including without limitation, those relating to the Company's future business prospects, new products, revenue, new stores, wherever they occur are necessarily estimates reflecting the judgment of the Company's senior management and involve a number of risks and uncertainties that could cause the Company's actual results to differ materially from those suggested by the "forward looking statements." You can identify these statements by forward-looking words such as "may", "will", and "intend" and similar words. Such "forward looking statements" should, therefore, be considered in light of the factors set forth throughout the Annual Report on Form 10-K, including Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Except as required by law, we disclaim any intent or obligation to update "forward looking statements" to reflect changed assumptions, the occurrence of unanticipated events, or changes to future operating results over time.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 26, 2015

or

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

for the transition period from _____ to _____.

Commission file number: 001-34507

VITAMIN SHOPPE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

11-3664322
(IRS Employer
Identification No.)

300 Harmon Meadow Blvd.
Secaucus, New Jersey 07094
(Addresses of Principal Executive Offices, including Zip Code)

(201) 868-5959
(Registrant's Telephone Number, Including Area Code)

2101 91st Street
North Bergen, New Jersey 07047
(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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

Title of Class

Name of the exchange on which registered

Common Stock, \$0.01 par value per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant was approximately \$1,135,564,171 as of June 27, 2015, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the common stock on the New York Stock Exchange.

As of January 23, 2016, Vitamin Shoppe, Inc. had 25,787,461 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the Registrant's definitive Proxy Statement to be filed for the 2016 Annual Meeting of the Stockholders.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. Business	4
Item 1A. Risk Factors	16
Item 1B. Unresolved Staff Comments	30
Item 2. Properties	31
Item 3. Legal Proceedings	31
Item 4. Mine Safety Disclosures	31
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
Item 6. Selected Financial Data	34
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	51
Item 8. Financial Statements and Supplementary Data	52
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	52
Item 9A. Controls and Procedures	52
Item 9B. Other Information	52
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	53
Item 11. Executive Compensation	53
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	53
Item 13. Certain Relationships and Related Transactions, and Director Independence	53
Item 14. Principal Accounting Fees and Services	53
PART IV	
Item 15. Exhibits, Financial Statement Schedules	54
EX 3.2	
EX 10.13	
EX 10.29	
EX 10.35	
EX 10.53	
EX 21.1	
EX 23.1	
EX 31.1	
EX 31.2	
EX 32.1	
EX 32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding future financial results and performance, future business prospects, revenue, stores, our ability to implement strategic initiatives and meet market expectations, share repurchases, product offerings, contract manufacturing, supply chain network utilization, intellectual property, confidential information, integration of acquisitions, working capital, liquidity, capital expenditures, capital needs and interest costs, industry based factors, including the level of competition in the vitamin, mineral and supplement industry, continued demand from the primary markets Vitamin Shoppe, Inc. (the “Company” or “we”) serves, consumer perception of our products, the availability of raw materials, as well as economic conditions generally and factors more specific to the Company such as compliance with manufacturing, healthcare, environmental and other regulations, changes in accounting standards, certifications and practices and restrictions imposed by the Company’s revolving credit facility, including financial covenants and limitations on the Company’s ability to incur additional indebtedness and the Company’s future capital requirements, and other risks, uncertainties and factors set forth under Item 1A., entitled “Risk Factors” in this Annual Report on Form 10-K. You can identify these forward-looking statements by the use of words such as “outlook”, “believes”, “expects”, “potential”, “continues”, “may”, “will”, “should”, “seeks”, “predicts”, “intends”, “plans”, “estimates”, “anticipates”, “target”, “could” or the negative version of these words or other comparable words. These statements are subject to various risks and uncertainties, many of which are outside our control, including, among others, product liability claims and recalls, the availability of insurance, the strength of the economy, changes in the overall level of consumer spending, the performance of the Company’s products within the prevailing retail environment, implementation of omni-channel retailing, trade restrictions, international operations, availability of suitable store locations at appropriate terms, new credit card technology, e-commerce relationships, disruptions of manufacturing, warehouse or distribution facilities or information systems, and other specific factors discussed herein and in other SEC filings by us (including our reports on Forms 10-K and 10-Q filed with the SEC).

We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes with certainty and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

Electronic Access to Company Reports

Our investor website can be accessed at www.vitaminshoppe.com under “Investor Relations”. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our investor website under the caption “SEC Filings” promptly after we electronically file those materials with, or furnish those materials to, the SEC. No information contained on any of our websites is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Information relating to corporate governance at our Company, including our Corporate Governance Guidelines, our Standards of Business Conduct for all directors, officers, and employees, and information concerning our directors, Committees of the Board, including Committee charters, and transactions in Company securities by directors and executive officers, is available at our investor website under the captions “Corporate Governance” and “SEC Filings”. Paper copies of these filings and corporate governance documents are available to stockholders free of charge by written request to Investor Relations, Vitamin Shoppe, Inc., 300 Harmon Meadow Blvd., Secaucus, New Jersey 07094. Documents filed with the SEC are also available on the SEC’s website at www.sec.gov.

PART I

Unless the context requires otherwise, references in this Annual Report on Form 10-K to “VSI”, the “Company”, “we”, “us” and “our” collectively refer to Vitamin Shoppe, Inc., its wholly owned subsidiary, Vitamin Shoppe Industries Inc. (“VS Industries”) and the wholly owned subsidiaries of VS Industries. References to “Fiscal” or “Fiscal Year” mean the fifty-two weeks ended December 26, 2015, December 27, 2014 and December 28, 2013 for Fiscal Year 2015, Fiscal Year 2014 and Fiscal Year 2013, respectively, and references to “Fiscal” and “Fiscal Year” for other years are similarly based on a fifty-two week or fifty-three week fiscal year, as applicable.

Item 1. Business

Overview of our Company

We are a multi-channel specialty retailer and contract manufacturer of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products. We market approximately 800 nationally recognized brands as well as our own brands, which include Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare™, Next Step®, Nutri-Force® Sport and Betancourt Nutrition™. We believe we offer one of the largest varieties of products among vitamin, mineral and supplement (“VMS”) retailers with approximately 7,400 stock keeping units (“SKUs”) offered in our typical store and approximately 12,000 additional SKUs available through our e-commerce and other direct sales channels. Our broad product offering enables us to provide our customers with a depth of selection of products that may not be readily available at other specialty retailers or mass merchants, such as discount stores, supermarkets, drugstores and wholesale clubs. We believe our product offering and emphasis on product knowledge and customer service helps us meet the needs of our target customer and serves as a foundation for enhancing customer loyalty.

We sell our products through three operating segments: retail, direct and manufacturing. In our retail segment, which includes Vitamin Shoppe, Super Supplements and Vitapath retail store formats, we have leveraged our store economic model by opening a total of 163 new stores and acquiring 31 stores from the beginning of Fiscal Year 2013 through Fiscal Year 2015. As of December 26, 2015, we operated 758 stores in 45 states, the District of Columbia, Puerto Rico and Ontario, Canada, primarily located in retail centers and stand alone locations. In our direct segment, we sell our products directly to consumers through the internet, primarily at www.vitaminshoppe.com. Our e-commerce sites and our catalog complement our in-store experience by extending our retail product offerings and enable us to access customers outside our retail markets and those who prefer to shop online. Our manufacturing segment provides custom manufacturing and private labeling of VMS products, and develops and markets our own branded products for both sales to third parties and for the VSI product assortment.

During the second quarter of Fiscal 2015, the Company began development of a strategic plan focused on upgrading our customers’ experience across our retail and e-commerce channels, the “reinvention strategy”. The Company has worked with outside consultants to analyze qualitative and quantitative information relevant to our customers’ experience. The reinvention strategy is focused on upgrading the customer experience to inspire our target customers with changes to our product assortment, opportunities to increase private brands penetration, enhancements to the in-store and digital experience, store layout, as well as changes to improve the effectiveness of our loyalty program. The Company expects to incur approximately \$10.0 million to \$15.0 million of selling, general and administrative costs during Fiscal 2016 in connection with the reinvention strategy, and expects to realize improved financial results from the reinvention strategy beginning in Fiscal 2017.

In an on-going effort to identify efficiencies and stream-line processes, the Company has performed a review of certain business operations. As part of this review, the Company is implementing changes to the product assortment and supply chain operations of Super Supplements to more closely align Super Supplements with current processes and assortments in the Vitamin Shoppe retail stores. As a result, costs of \$1.8 million were incurred during the fourth quarter of Fiscal 2015 and \$1.8 million are expected to be incurred during the first

quarter of Fiscal 2016. Annual cost savings resulting from these actions are estimated to be \$1 million to \$2 million. In addition, the Company has evaluated its Canadian operations in order to determine whether to continue investments in the Canadian market and has decided to cease operations at the end of the first quarter of Fiscal 2016. As a result, costs of \$0.9 million were incurred during the fourth quarter of Fiscal 2015 and \$3.7 million are expected to be incurred during the first quarter of Fiscal 2016. The annual cost savings related to ceasing operations in Canada are estimated to be approximately \$1.0 million. Costs for these two initiatives include lease liabilities, markdown charges on inventory and employee severance. The Company plans on engaging a consultant in Fiscal 2016 to further identify other efficiencies and cost reduction opportunities.

On December 9, 2015, the Company closed its offering of \$143.8 million of its 2.25% Convertible Senior Notes due 2020 (the “Convertible Notes”). The Convertible Notes are senior unsecured obligations of the Company. Interest is payable on the Notes on June 1 and December 1 of each year, commencing on June 1, 2016 until their maturity date of December 1, 2020. In connection with the issuance of the Convertible Notes, the Company entered into convertible note hedge transactions for which it paid an aggregate \$26.4 million. In addition, the Company sold warrants for which it received aggregate proceeds of \$13.0 million. The net proceeds from the Convertible Notes of \$125.7 million, net of commissions and offering costs of \$4.6 million, are being used to repurchase shares of our common stock under the Company’s share repurchase programs. For additional information, refer to Note 8., “Credit Arrangements” and Note 11., “Share Repurchase Programs” to our consolidated financial statements included in this Annual Report on Form 10-K.

Segment Information

We operate through three business segments: retail, which includes Vitamin Shoppe, Super Supplements and Vitapath retail store formats, direct, which consists of our e-commerce and catalog formats, and manufacturing, which consists of the Nutri-Force manufacturing operations. For additional information, refer to Note 15, “Segment and Product Data” to our consolidated financial statements included in this Annual Report on Form 10-K.

Retail. Through our retail store formats, we believe we differentiate ourselves in the VMS industry, which has been successful across geographic and demographic markets. What makes us unique is our broad selection of VMS products and our stores are staffed with trained and knowledgeable employees, who we refer to as Health Enthusiasts®, and who are able to inform our customers about product features and assist in product selection.

We continue to pursue new store growth. Since the beginning of Fiscal 2013 through Fiscal 2015, we have opened 163 new stores and acquired 31 stores, expanding our presence in our existing markets as well as entering new markets. In addition, our new stores since the beginning of Fiscal 2013 are approximately 2,900 square feet compared to the average of our total store portfolio of approximately 3,500 square feet.

Direct. We sell our products directly to consumers through the internet, primarily at www.vitaminshoppe.com. Our e-commerce sites and our catalog complement our in-store experience by extending our retail product offerings with approximately 12,000 additional SKUs that are not available in our stores and enable us to access customers outside our retail markets and those who prefer to shop online.

Manufacturing. Through Nutri-Force, we provide custom manufacturing and private labeling of VMS products and develop and market our own branded products for both sales to third parties and for the VSI product assortment.

Industry

The VMS industry is large, approximately \$38 billion according to the Nutrition Business Journal (“NBJ”), we believe is fragmented, and continued growth is expected as health and wellness trends continue. According to the NBJ, the VMS industry is expected to register a CAGR of 6.2% from 2015 to 2020, driven by growth within the sports nutrition, specialty supplements and meal replacement categories and from the e-commerce channel.

Increased focus on healthy diet and nutrition, along with growing fitness and wellness program participation, serves as a positive trend for the nutritional supplements industry. Retailers of VMS products primarily include specialty retailers and mass merchants, such as discount stores, supermarkets, drugstores and wholesale clubs. The specialty retailers typically cater to the more sophisticated VMS customer by focusing on selection and customer service, while the mass merchants generally offer a limited assortment comprised of more mainstream products with less customer service. NBJ anticipates that the specialty retail channel, of which the Vitamin Shoppe is a leading player, will remain the major market driver for supplements through 2020, and the specialty retail channel is expected to add over \$6 billion in new annual sales by that time. Additionally, NBJ forecasts the internet channel to achieve 9.9% compound annual growth from 2015 to 2020.

Although long-term prospects noted above suggest continued growth, recent trends have created volatility in the near term and we expect continued volatility. Recent industry trends have been mixed, driven in part by the prospects of more federal and state involvement in the industry. A lack of clarity on regulation appears to be dissuading manufacturers from investing in and developing new ingredients/products. We believe the lack of such guidance has kept the new product pipeline relatively dry. Additionally, negative publicity about the nutritional supplement industry has increased over the past two years and adds further uncertainty to the fundamental outlook. With product innovation remaining slower than in past years, and negative headlines/media at heightened levels, VMS industry headwinds appear poised to persist over the near term.

Industry and market data contained or incorporated by reference in this Form 10-K were obtained through company research, surveys and studies conducted by third parties and industry and general publications or based on our experience in the industry. We have not independently verified market and industry data from third-party sources.

Competitive Strengths

We believe there is an opportunity to capitalize on the VMS industry dynamics, and we plan to further develop the following competitive strengths as part of the foundation of our reinvention strategy:

Value-Added Customer Service. We believe we offer a high degree of customer service. We place a strong emphasis on employee training and customer service, and view our Health Enthusiasts as a source for health and wellness information while assisting our customers with their product selections.

Product Selection, Including a Strong Assortment of Private-Label Brands. We believe we have a broad merchandise assortment. We complement our assortment with our private-label brands merchandise which accounted for approximately 20% of our net sales in Fiscal 2015.

Highly Refined Real Estate Strategy. We apply demanding criteria to our retail site selection. We locate our stores primarily in attractive stand-alone locations or endcap (corner) positions in retail centers. We believe that the location and visibility of our real estate is an important component of our customer acquisition strategies.

Attractive Customer Base. We have a large base of customers who proactively manage their health and wellness through the use of vitamins and supplements. In Fiscal 2015, 88% of our net sales (excluding Super Supplements and Nutri-Force net sales) were attributable to our Healthy Awards customers. Our no-fee Healthy Awards Program promotes brand loyalty among our customers and allows our customers to earn points redeemable for future purchases, approximately 69% of which were redeemed in Fiscal 2015. We also utilize our Healthy Awards Program database to track customer purchasing patterns across our retail and direct business segments, analyze market and industry trends and create targeted merchandising and marketing strategies. In Fiscal 2016, we announced enhancements to this program, including the issuance of certificates on a quarterly basis.

Multi-Channel Retailer. We are a multi-channel retailer, distributing products through our retail stores and our e-commerce sites, enabling us to access customers outside our retail markets and those who prefer to shop online. This business model affords us multiple touch points of interaction with our customers, which allows us to gather

data and communicate with them in person, through our call center and via the internet. In addition, we plan on improving our customers' ability to shop across both our retail and direct channels by continuing to implement improved order management systems during Fiscal 2016 and Fiscal 2017.

Experienced Management Team with Proven Track Record. We have assembled a management team across a broad range of disciplines with extensive experience in building leading national specialty retailers.

Business Strategy

We intend to pursue the following key strategies in order to execute our reinvention strategy:

- ***Upgrading our Customers' Shopping Experience*** – To upgrade our customers' shopping experience by executing our reinvention strategy, focusing on enhancing our in-store and digital experience and our store layout, changes to our product assortment and increasing the penetration of private brands;
- ***Store and Comparable Sales Growth*** – To increase sales and profitability of our existing store base as well as continue opening new stores in the future. As part of our reinvention strategy, we are further evaluating changes to our store format in order to enhance our customers' shopping experience;
- ***Increase Emphasis on our Digital Experience*** – To increase sales of our e-commerce business by continuing to enhance the features and functionality of our e-commerce sites and providing our customers with a more personalized shopping experience. We plan to continue to enhance our e-commerce platform attributes for customer tracking and marketing ability, which will allow us, among other things, to better market to our customers;
- ***Continuous Health Enthusiast Education and Training*** – To improve and strengthen Health Enthusiast training in order to deliver a better customer experience. We hold an annual product education conference, attended by our retail store and district managers, and many of our vendors. In addition, we continue to improve and expand our online learning website, Vitamin Shoppe University®, which provides the opportunity for our Health Enthusiasts to expand their knowledge and stay current on new products and developments in our industry; and
- ***Vertical integration*** – The acquisition of the manufacturing operations of Nutri-Force allows us to better control the production and timing of new product introductions, control costs and enhance profitability. We intend to focus on increasing our third party business and continue to transition a portion of the VSI private brands assortment to Nutri-Force in order to leverage capacity.

Store Counts and Locations

We plan to open approximately 30 new stores in Fiscal 2016 and the rate of new store growth and remodeling of existing stores is being further evaluated as part of the reinvention strategy. The following table shows the change in our network of stores for the Fiscal Years 2011 through 2015:

	Fiscal Year				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Store Data:					
Stores open at beginning of year	717	659	579	528	484
Stores opened	50	61	52	54	48
Stores acquired	—	—	31	—	—
Stores closed	<u>(9)</u>	<u>(3)</u>	<u>(3)</u>	<u>(3)</u>	<u>(4)</u>
Stores open at end of year	<u>758</u>	<u>717</u>	<u>659</u>	<u>579</u>	<u>528</u>

New stores have typically required approximately four to five years to mature, generating lower store level sales in the initial years than our mature stores. As a result, new stores generally have a negative impact on our overall operating margin. In addition, our new stores since the beginning of Fiscal 2013 are approximately 2,900 square feet compared to the average of our total store portfolio of approximately 3,500 square feet. Additionally, stores opened in new markets have lower brand awareness compared to stores in existing markets, and as a result initially experience a lower sales volume than stores opened in existing markets. As these stores mature, we expect them to contribute meaningfully to our operating results. The following table reflects our store count by state, as well as the District of Columbia, Puerto Rico and Ontario, Canada, at December 26, 2015:

	<u>Stores Open at December 26, 2015</u>		<u>Stores Open at December 26, 2015</u>
Alabama	4	Nebraska	2
Arizona	13	Nevada	7
Arkansas	2	New Hampshire	6
California	92	New Jersey	33
Colorado	8	New Mexico	3
Connecticut	11	New York	72
Delaware	3	North Carolina	24
District of Columbia	1	Ohio	24
Florida	71	Oklahoma	3
Georgia	23	Oregon	9
Hawaii	7	Pennsylvania	28
Idaho	2	Rhode Island	2
Illinois	40	South Carolina	14
Indiana	13	South Dakota	1
Iowa	3	Tennessee	12
Kansas	3	Texas	54
Kentucky	5	Utah	3
Louisiana	8	Vermont	1
Maine	2	Virginia	26
Maryland	21	Washington	35
Massachusetts	18	Wisconsin	6
Michigan	18		
Minnesota	10		
Missouri	8	Ontario, Canada	3
Mississippi	1	Puerto Rico	3
		Total	<u>758</u>

As of December 26, 2015, we leased the property for all of our 758 stores. Our typical lease terms are ten years, with one or two five-year renewal options. We do not believe that any individual store property is material to our financial condition or results of operations. Of the leases for our stores, 36 expire in Fiscal 2016, 58 expire in Fiscal 2017, 99 expire in Fiscal 2018, 104 expire in Fiscal 2019, 95 expire in Fiscal 2020 and the balance expire in Fiscal 2021 or thereafter. The Company intends to close the Vitapath format stores which are located in Canada at the end of the first quarter of Fiscal 2016. For the majority of our leases, renewal options remain available.

Products

We organize our products by category enabling comparisons between different brands within each product sub-category. In addition, our stores are staffed with experienced and knowledgeable Health Enthusiasts, many of whom are regular and informed VMS consumers. Our Health Enthusiasts are trained to inform our customers about product features and assist our customers in product selection. To further inform our customers, our stores are equipped with Aisle 7[®], an independent source of health and wellness information.

We offer a comprehensive selection of vitamins, minerals, herbs, homeopathic remedies, specialty supplements such as fish oil, probiotics, glucosamine and Co Q10, sports nutrition, weight management, as well as natural bath and beauty products. Our offering includes approximately 19,400 SKUs from approximately 800 brands, including our own brands such as Vitamin Shoppe[®], BodyTech[®], True Athlete[®], Mytrition[®], plnt[®], ProBioCare[™], Next Step[®], Nutri-Force[®] Sport and Betancourt Nutrition[™] brands which include products such as Ultimate Man, Ultimate Woman, Ultimate 10 Probiotic, Whey Tech and Whey Tech Pro 24 Proteins. We also offer a comprehensive assortment from leading national brands such as Optimum Nutrition[®], Cellucor[®], Garden of Life[®], Quest Nutrition[®], Solaray[®], Solgar[®] and Nature's Way[®]. This extensive assortment is designed to provide our customers with a unique selection of available products to help them achieve their health and wellness goals. Sales of our branded products accounted for approximately 20% of our net sales in Fiscal 2015.

Key Product Categories

Below is a comparison of our net merchandise sales by major product category and the respective percentage of our total net merchandise sales for the periods shown (dollars in thousands).

Product Category	Fiscal 2015 (a)		Fiscal 2014 (a)		Fiscal 2013	
	Dollars	%	Dollars	%	Dollars	%
Vitamins, Minerals, Herbs and Homeopathy	\$ 301,520	24%	\$ 285,775	24%	\$ 276,447	26%
Sports Nutrition	432,205	34%	428,845	35%	393,659	36%
Specialty Supplements	308,162	24%	313,025	26%	305,320	28%
Other	222,615	18%	182,352	15%	109,554	10%
Total	1,264,502	100%	1,209,997	100%	1,084,980	100%
Delivery Revenue	2,047		3,049		2,489	
	<u>\$1,266,549</u>		<u>\$1,213,046</u>		<u>\$1,087,469</u>	

(a) In Fiscal 2015 and Fiscal 2014, the "Other" product category includes net merchandise sales to third parties of Nutri-Force of \$56.6 million and \$40.3 million, respectively.

Vitamins, Minerals, Herbs and Homeopathy

Vitamins and minerals are recommended to maintain health, proactively to improve health and in support of specific health conditions. These products help prevent nutrient deficiencies that can occur when diet alone does not provide all the necessary vitamins and minerals our bodies need. The vitamin and mineral product category includes multi-vitamins, which many consider to be a foundation of a healthy regimen, lettered vitamins, such as Vitamins A, C, D, E, and B-complex, along with major and trace minerals such as calcium, magnesium, chromium and zinc. With approximately 3,000 SKUs, a wide range of potency levels and multiple delivery systems, our customers have many choices to fit their individual needs.

Herbs offer a natural remedy to address specific conditions. Certain herbs help support specific body systems, including ginkgo to support brain function and milk thistle to help support liver function, as well as other less common herbs such as black cohosh for menopause support. Herbal products include whole herbs, standardized extracts, herb combination formulas and teas. Homeopathic remedies offer our customers the ability to address health concerns while providing the safety of having no known drug interactions or side effects. With approximately 4,000 SKUs, a wide range of potency levels and multiple delivery systems, our customers have many choices to fit their individual needs.

Sports Nutrition

Our sports nutrition consumers are looking for products to help maintain or supplement a healthy lifestyle. These products are used in conjunction with cardiovascular conditioning, weight training and sports activities. Major categories in sports nutrition include protein and weight gain powders, meal replacements, weight management,

and pre and post-workout supplements to either support energy production or enhance recovery after exercise. Our sports nutrition products are offered in many convenient forms, such as powders, tablets, capsules, soft gels and liquids. Our sports nutrition consumers include the sports enthusiast, weekend warrior, endurance athlete, marathoner, serious bodybuilder, as well as those seeking to maintain a healthy fitness level. We offer approximately 2,000 SKUs in sports nutrition.

Specialty Supplements

Specialty supplements help supply higher levels of nutrients than diet alone can provide, help individuals stay healthy, and support specific conditions and life stages such as childhood, pregnancy, menopause and aging. Categories of specialty supplements include omega fatty acids, probiotics and condition specific formulas. Certain specialty supplements, such as organic greens, psyllium fiber and soy proteins, provide added support during various life stages. Folic acid is specifically useful during pregnancy. Super antioxidants, such as coenzyme Q-10, grapeseed extract and pycnogenol, address specific conditions. High ORAC (oxygen radical absorptive capacity) fruit concentrates such as; gogi, mangosteen, pomegranate and blueberry help prevent oxygen radical damage. Other specialty supplement formulas are targeted to support specific organs, biosystems and body functions. We offer approximately 5,000 SKUs of specialty supplements.

Other

Our “Other” category represents all other product classifications we stock that do not fit within the previously described categories. These products include items such as on the go bars, drinks and snacks, natural beauty and personal care and natural pet food. Our on the go bars, drinks and snacks offer our customers access to an offering of protein, low carb and natural bars, protein, energy and functional beverages and natural snacks. Natural beauty and personal care products offer an alternative to traditional products that often contain synthetic and/or other ingredients that our customers find objectionable. Our customers choose these products over more traditional products because they contain organic and natural ingredients, are free of pesticides or not tested on animals and/or are more closely aligned with the health and wellness goals of our customers. Our natural pet products include nutritionally balanced foods and snacks along with condition specific supplements such as glucosamine for joint health. We offer approximately 5,000 SKUs for our Other category. In Fiscal 2015 and Fiscal 2014, our Other product category includes net merchandise sales to third parties of Nutri-Force of \$56.6 million and \$40.3 million, respectively.

Delivery Revenue

Delivery revenue represents amounts billed to customers for shipping fees.

Access to New Products

One of the many components of customer satisfaction is the introduction of new products. We identify customer and market trends by listening to our customers, Health Enthusiasts, vendors, contract manufacturers and market influencers. We maintain active partnerships with our vendors to stay on top of their product offerings and to bring new products to our customers quickly. In addition, we have a knowledgeable team in-house who focuses on bringing new Vitamin Shoppe branded products to our offering. Each year we launch many new products under our own brands, including the launch in Fiscal 2015 of approximately 75 new products. These include new product expansions into sustained release proteins and flavor expansions in our whey isolate products in our BodyTech® brand. We continued to expand our plnt® brand with the addition of key items such as plant proteins, liquid coconut oil and meal replacements. We also launched new Carnitine Plus products under our Betancourt brand.

Manufacturing

Through Nutri-Force, we provide custom manufacturing and private labeling of VMS products and develop and market our own branded products for both sales to third parties and for the VSI product assortment. Our manufacturing operations, which are located in Miami Lakes, Florida, produce tablets, capsules, soft-gels and

powders. By operating our own manufacturing facilities, we believe we have the ability to better control the production and timing of new product introductions, control costs, maintain high standards of product quality and enhance profitability.

Suppliers and Inventory

The Company had two suppliers from whom we purchased at least 5% of our merchandise during Fiscal 2015 and one supplier from whom we purchased at least 5% of our merchandise during Fiscal 2014 and Fiscal 2013. We purchased approximately 17% of our total merchandise from these suppliers during Fiscal 2015 and approximately 12% during Fiscal 2014 and 10% during Fiscal 2013.

We consider numerous factors in supplier selection, including, but not limited to, quality, price, credit terms, and product offerings. As is customary in our industry, we generally do not have long-term contracts with any supplier and most suppliers may discontinue selling to us at any time.

We strive to maintain sufficient inventory to enable us to provide a high level of service to our customers. Inventory, accounts receivable and accounts payable levels, payment terms and return policies are in accordance with standard business procedures. We maintain a distribution network which we use in conjunction with a just-in-time inventory ordering system that we use to replenish our stores based upon customer demand of a given product or products. Our working capital requirements for merchandise inventory will continue to increase as we continue to open additional stores and expand our distribution network. Currently, our practice is to establish an inventory level of approximately \$155,000 at cost for each of our new stores, the cost of which is partially offset by vendor incentive and allowance programs. Additionally, 30 day payment terms have been extended to us by some of our suppliers allowing us to effectively manage our inventory and working capital. We believe that our buying power enables us to receive favorable pricing terms and enhances our ability to obtain high demand merchandise.

Warehouse and Distribution

We operate our supply chain primarily from three Company operated distribution center facilities. The Company operates distribution centers in North Bergen, New Jersey, Ashland, Virginia and Seattle, Washington. By operating our own facilities we gain greater control over operations and costs. Our products manufactured by Nutri-Force are warehoused and distributed through its Miami Lakes, Florida facilities. We expect to close the Seattle, Washington distribution center in Fiscal 2016.

In Fiscal 2015, the Company began implementation of a new warehouse management system application (“WMS”) at its Ashland, Virginia distribution center in order to realize further productivity improvements and functionality. Implementation of the new WMS is expected to be completed in Fiscal 2016. Additionally, the Company has entered into an agreement with a west coast third-party facility to provide us with warehousing and distribution functions. We began operations with this third-party facility in the fourth quarter of Fiscal 2015. This third-party facility replaces the previous west coast third-party facility which we terminated our relationship with during the first half of Fiscal 2015.

Regulatory and Quality Control

The Food and Drug Administration (“FDA”) is the regulatory authority charged with overseeing the products we offer and the Federal Trade Commission (“FTC”) regulates the advertising of those products.

Our Scientific and Regulatory Affairs (“S&RA”) and Legal departments review all aspects of our Company’s FDA and FTC regulatory processes, ensuring compliance with regulations. We have established processes to review the underlying safety and efficacy of our branded products, including Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare™, Next Step®, Nutri-Force® Sport and Betancourt Nutrition™. These processes include review of the ingredients’ safety information, product formulation, product form,

product labeling, the efficacy and claim support for the product and any marketing materials. All consumer communications that deal with product and health issues must be approved by S&RA prior to being disseminated to the public.

We have standard procedures whereby all potential Vitamin Shoppe contract manufacturers are reviewed and approved before they can supply any of our branded products. In addition, all potential new products are evaluated and approved prior to being accepted into our branded product lines.

Our relationships with manufacturers require that all of our branded products, including Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare™, Next Step®, Nutri-Force® Sport and Betancourt Nutrition™, not be adulterated or misbranded under any provisions of the Federal Food, Drug, and Cosmetic Act (“FDCA”) and the regulations promulgated thereunder. This includes, but is not limited to, compliance with applicable Current Good Manufacturing Practices (“cGMP”). This means that ingredients in our products must be tested for identity, purity, quality, strength, and composition before being incorporated into our branded products, and that our final branded products must again be tested for identity, purity, quality, strength, and composition prior to being released. All of these products require a certificate of analysis, which includes certification to 100% of label claim.

We have established a standard quality control operating procedure that calls for on-site audits of our contract manufacturers’ facilities and processes, and have established an internal team that will audit each of these facilities and work with our contract manufacturers to resolve any noncompliance with dietary supplement cGMP regulations. We require that our manufacturers have certificates of analysis (such as for microbial testing and label testing).

Third party vendors, are also subject to a standard review, must comply with our vendor purchase agreement and are required to carry adequate insurance policies to satisfy our standards. Each new product proposed to be carried by us is reviewed by our S&RA department. They reject those products that they believe may present undue risk or be unsafe.

Healthy Awards Program

Our Healthy Awards Program, which we established over 15 years ago, encourages our customers to make repeat purchases and enables us to enhance customer loyalty. The program is open to Vitamin Shoppe customers and is free of charge to join. Members of the program earn one point for every dollar they spend, starting with the first purchase upon joining the program. Beginning in Fiscal 2016, the Company implemented enhancements to the program, including the issuance of credit certificates on a quarterly basis compared with annual issuances under the previous program. We enrolled approximately 1.9 million new members in Fiscal 2015. The number of active members between retail and online shoppers was approximately 5.9 million as of December 26, 2015. An active member is a customer that has purchased an item within the last twelve months.

We utilize our Healthy Awards Program database to track customer purchasing patterns across our retail and direct business segments, analyze market and industry trends and create targeted merchandising and marketing strategies. In addition, it provides us with customer and demographic data we use to assist us in the selection of future store locations.

Marketing

We believe our high quality real estate is one of our primary marketing tools, as we locate our stores in high-visibility areas. We also conduct targeted marketing efforts by mailing offers and promotional announcements to members of our Healthy Awards Program. We advertise in national magazines, and engage in local advertising via direct mail, radio and television for certain new stores. We continue to develop our social media presence and digital marketing.

We promote our own branded products, including Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare™, Next Step®, Nutri-Force® Sport and Betancourt Nutrition™ through our retail channel by placing the products in strategic and highly visible locations in our stores.

Competition

The U.S. nutritional supplements retail industry is highly competitive and fragmented. Competition is based primarily on quality, product assortment, price, customer service, convenience, marketing support and availability of new products. We compete with publicly and privately owned companies with broad geographical market coverage and product categories. We compete with other specialty and mass market retailers, including Vitamin World®, GNC®, Whole Foods®, Natural Grocers®, Sprouts Farmers Market®, Costco® and Wal-Mart®, drugstore chains including Rite-Aid®, CVS® and Walgreens®, internet and mail order companies, including Amazon.com®, Puritan's Pride®, Vitacost.com®, Bodybuilding.com®, Doctors Trust®, Swanson® and iHerb®, in addition to a variety of independent health and vitamin stores and e-commerce outlets.

Insurance and Risk Management

We purchase insurance to partially offset standard risks in our industry, including policies to cover products liability, travel liability, auto liability and other casualty and property risks. We are self-insured and utilize high deductible programs for certain losses related to our employee medical benefits, workers' compensation and general liability, although we maintain stop-loss coverage with third-party insurers to limit our liability exposure. Our insurance rates are based on our safety record, claims experience and trends in the insurance industry.

We face an inherent risk of exposure to product liability claims if, among other things, the use of our products results in injury. With respect to product liability coverage, we carry insurance coverage typical of our industry and product lines. Our coverage involves self-insured retentions with primary and excess liability coverage above the retention amount. We have the ability to refer certain claims to our contract manufacturers, third-party vendors and their respective insurers to pay the costs associated with any claims arising from those contract manufacturers' or third-party vendors' products. Our insurance covers claims that are not adequately covered by a contract manufacturer's or third-party vendor's insurance and provides for excess secondary coverage above the limits provided by our contract manufacturers or third-party vendors. We believe we have obtained a prudent amount of insurance for the insurable risks associated with our business. Our experience is that our insurance costs have increased in the past, and may increase in the future.

Tradenames and Other Intellectual Property

We believe trademark protection is particularly important to the maintenance of the recognized proprietary brand names under which we market our products. We own trademarks or trade names that we use in conjunction with the sale of our products, including the Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare™, Next Step®, Nutri-Force® Sport and Betancourt Nutrition™ brand names. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. We protect our intellectual property rights through a variety of methods including trademark and trade secret laws, as well as confidentiality agreements and proprietary information agreements with vendors, employees, consultants and others who have access to our proprietary information. Protection of our intellectual property often affords us the opportunity to enhance our position in the marketplace by precluding our competitors from using or otherwise exploiting our technology and brands. The carrying value of our trademarks and brands, which are primarily indefinite lived intangible assets, was \$79.5 million at December 26, 2015 and \$80.6 million at December 27, 2014.

Sales from International Sources

For each of the last three years, less than 1.0% of our sales have been derived from international sources.

Employees

As of December 26, 2015, we had a total of 4,255 full-time and 1,431 part-time employees, of whom 4,477 were employed in our retail channel and 1,209 were employed in corporate, manufacturing, distribution and direct channel support functions. None of our employees belong to a union or are a party to any collective bargaining or similar agreement except for certain employees at one of our Seattle based stores, who are members of the United Food & Commercial Workers Local No. 367. We consider our relationships with our employees to be good.

Environmental

We are subject to numerous federal, state, local and foreign laws and regulations governing our operations, including the handling, transportation and disposal of our products and our non-hazardous and hazardous substances and wastes, as well as emissions and discharges into the environment, including discharges to air, surface water and groundwater. Failure to comply with those laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities. Changes in environmental laws or the interpretation thereof or the development of new facts could also cause us to incur additional capital and operational expenditures to maintain compliance with environmental laws and regulations. We also are subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties. The presence of contamination from those substances or wastes could also adversely affect our ability to utilize our leased properties. Compliance with environmental laws and regulations has not had a material effect upon our earnings or financial position; however, if we violate any environmental obligation, it could have a material adverse effect on our business or financial performance.

Government Regulation

The formulation, manufacturing, processing, labeling, packaging, advertising and distribution of our products are subject to regulation by various federal agencies, including the FDA, the FTC, the Consumer Product Safety Commission, the U.S. Department of Agriculture (“USDA”) and the Environmental Protection Agency (“EPA”). These activities are also regulated by various agencies of the states and localities in which our products are sold. The FDA, under the Federal Food, Drug, and Cosmetic Act (“FDCA”) regulates the processing, formulation, safety, manufacture, packaging, labeling and distribution of dietary supplements (including vitamins, minerals, and herbs) and cosmetics. The FTC regulates the advertising of these products.

The Dietary Supplement Health and Education Act of 1994 (“DSHEA”) amended the FDCA to establish a new framework governing the composition, safety, labeling and marketing of dietary supplements. “Dietary supplements” are defined as vitamins, minerals, herbs, other botanicals, amino acids and other dietary substances for human use to supplement the diet, as well as concentrates, metabolites, constituents, extracts or combinations of such dietary ingredients. Generally, under DSHEA, dietary ingredients that were on the market prior to October 15, 1994 may be used in dietary supplements without notifying the FDA. New dietary ingredients (i.e., not marketed in the U.S. prior to October 15, 1994) must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been “present in the food supply as an article used for food” without being “chemically altered.” A new dietary ingredient notification must provide the FDA with evidence of a “history of use or other evidence of safety” establishing that use of the dietary ingredient “will reasonably be expected to be safe.” A new dietary ingredient notification must be submitted to the FDA at least 75 days before the initial marketing of the new dietary ingredient. There can be no assurance that the FDA will accept the evidence of safety for any new dietary ingredients that we may want to market, and the FDA’s refusal to accept such evidence could prevent the marketing of such dietary ingredients. In 2011, the FDA issued draft guidance regarding new dietary ingredient notifications, including the scope of the notification requirement and the content of such notifications. While the draft guidance is not enforceable, it may be deemed to represent the FDA’s current point of view. FDA has announced its intention to issue revised draft guidance in 2016. Should the FDA

enforce the draft guidance as currently written, it would have a negative effect on the innovation and continued marketing of dietary supplements. There is no certainty that the FDA will accept any particular evidence of safety for any new dietary ingredient. The FDA's refusal to accept such evidence could prevent the marketing of those dietary ingredients.

DSHEA permits "statements of nutritional support" to be included in labeling for dietary supplements without premarket FDA approval. Such statements must be submitted to the FDA within 30 days of first use in marketing and must be accompanied by a label disclosure that "This statement has not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure, or prevent any disease." Such statements may describe how a particular dietary ingredient affects the structure, function or general well-being of the body, or the mechanism of action by which a dietary ingredient may affect body structure, function or well-being, but may not expressly or implicitly represent that a dietary supplement will diagnose, cure, mitigate, treat, or prevent a disease. Any statement of nutritional support we make in labeling must possess scientific evidence substantiating that the statement is truthful and not misleading. If the FDA were to determine that a particular statement of nutritional support was an unacceptable drug claim or an unauthorized version of a health claim about disease risk reduction for a food product, or if the FDA were to determine that a particular claim was not adequately supported by existing scientific data or was false or misleading, we would be prevented from using that claim. In addition, the FDA deems internet materials as labeling; therefore, our internet materials must comply with FDA requirements and could be the subject of regulatory action by the FDA, or by the FTC if that agency, reviewing the materials as advertising, considers the materials false and misleading.

DSHEA provides that so-called "third-party literature," such as a reprint of a peer-reviewed scientific publication linking a particular dietary ingredient with health benefits, may be used "in connection with the sale of a dietary supplement to consumers" without the literature being subject to regulation as labeling. Such literature must not be false or misleading; the literature may not "promote" a particular manufacturer or brand of dietary supplement; and a balanced view of the available scientific information on the subject matter must be presented. If the literature fails to satisfy each of these requirements, we may be prevented from disseminating such literature with our products, and any dissemination could subject our product to regulatory action as an illegal drug.

In June 2007, the FDA published current Good Manufacturing Practice ("cGMP") regulations that govern the manufacturing, packing and holding of dietary ingredients and dietary supplements. cGMP regulations require dietary supplements to be prepared, packaged and held in compliance with strict rules, and require quality control provisions similar to those in the cGMP regulations for drugs. The FDA could inspect one of our facilities or those of one of our contract manufacturers and determine that the facility was not in compliance with these regulations, and cause affected products made or held in the facility to be subject to FDA enforcement actions. We believe our manufacturing and distribution facilities and practices comply with these rules. In addition, as is common practice in the industry, we rely on our third-party contract manufacturers to ensure that the products they manufacture and sell to us comply with all applicable regulatory requirements and seek representations and warranties in our agreements with these contract manufacturers confirming such compliance.

The FDA has broad authority to enforce the provisions of the FDCA applicable to foods, dietary supplements, and cosmetics, including powers to issue a public warning letter to a company, to publicize information about illegal products, to request a recall of illegal products from the market, and to request the United States Department of Justice to initiate a seizure action, an injunction action, or a criminal prosecution in the U. S. courts.

The FTC exercises jurisdiction over the advertising of foods, dietary supplements and cosmetics. In recent years, the FTC has instituted numerous enforcement actions against dietary supplement companies for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. As a result of our efforts to comply with applicable statutes and regulations, we have from time to time reformulated, eliminated or relabeled certain of our products and revised certain provisions of our sales and marketing

program. The FTC has broad authority to enforce its laws and regulations applicable to foods, dietary supplements and cosmetics, including the ability to institute enforcement actions which often result in consent decrees, injunctions, and the payment of civil penalties by the companies involved. Failure to comply with the FTC's laws and regulations could impair our ability to market our products.

We are also subject to regulation under various state and local laws that include provisions governing, among other things, the registration, formulation, manufacturing, packaging, labeling, advertising and distribution of foods, dietary supplements and cosmetics. In addition, in the future, we may become subject to additional laws or regulations administered by the FDA or by other federal, state, local or foreign regulatory authorities, to the repeal of laws or regulations that we consider favorable, such as DSHEA, or to more stringent interpretations of current laws or regulations. In the future, we believe the dietary supplement industry will likely face increased scrutiny from federal and state regulatory authorities. It is difficult to predict the effect future laws, regulations, repeals or interpretations will have on our business. However, such changes in the regulatory landscape could require the reformulation of certain products, recalls or discontinuance of certain products, additional administrative requirements, revised or additional labeling, increased scientific substantiation or other new requirements. Any such changes could have a material adverse effect on our business or financial performance.

Corporate Information

We were incorporated in Delaware on September 27, 2002. Our principal executive offices are located at 300 Harmon Meadow Blvd., Secaucus, New Jersey 07094.

Item 1A. Risk Factors

You should carefully consider the following factors, in addition to other information in this Annual Report on Form 10-K, in evaluating our Company and our business.

Risks Related to Our Business and Industry

Unfavorable publicity or consumer perception of our products and any similar products distributed by other companies could have a material adverse effect on our reputation, which could result in decreased sales and significant fluctuations in our business, financial condition and results of operations.

We depend significantly on consumer perception regarding the safety and quality of our products, as well as similar products distributed by other companies. Consumer perception of products can be significantly influenced by adverse publicity in the form of published scientific research, national media attention or other publicity, whether or not accurate, that associates consumption of our products or any other similar products with illness or other adverse effects, or questions the benefits of our or similar products or that claims that any such products are ineffective. A new product may initially be received favorably, resulting in high sales of that product, but that sales level may not be sustainable as consumer preferences change. Future scientific research or publicity could be unfavorable to our industry or any of our particular products and may not be consistent with earlier favorable research or publicity. Unfavorable research or publicity could have a material adverse effect on our ability to generate sales.

Our failure to appropriately and timely respond to changing consumer preferences and demand for new products and services could significantly harm our customer relationships and our business, financial condition and results of operations.

Our business is subject to changing consumer trends and preferences. Our failure to accurately predict or react to these trends could negatively impact consumer opinion of us as a source for the latest products, which in turn could harm our customer relationships and cause us to lose market share. The success of our product offerings depends upon a number of factors, including our ability to:

- anticipate customer needs;
- innovate and develop new products;

- successfully introduce new products in a timely manner;
- price our products competitively with retail and online competitors;
- deliver our products in sufficient volumes and in a timely manner; and
- differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our customers in a timely manner, some of our products could be rendered obsolete, which could have a material adverse effect on our sales and other operating results.

We continue to explore new strategic initiatives, including our reinvention strategy, but we may not be able to successfully execute on, or realize the expected benefits from the implementation of, our strategic initiatives, and our pursuit of new strategic initiatives may pose significant costs and risks.

In Fiscal 2015, we began development of our reinvention strategy to refocus our business on market-based opportunities for stronger growth. As part of our reinvention strategy, we are comprehensively reviewing our customer experience. Our reinvention strategy may include initiatives to optimize product assortment, integration of technology and e-commerce, changes to the layout and design of our retail stores, and improvements in service levels provided by our Health Enthusiasts. We will implement our reinvention strategy throughout Fiscal 2016 and beyond. Our strategic initiatives are also focused on, among other things, developing a presence in new international markets through franchise, wholesale and retail distribution opportunities, developing new products, and evaluating acquisitions and joint ventures. Our future operating results are dependent, in part, on our management's success in implementing the reinvention strategy and other strategic initiatives, and as a result could divert management's attention from our existing business as management focuses on developing the initiative and related operations. Also, our short-term operating results could be unfavorably impacted by the opportunity and financial costs associated with the implementation of our strategic plans, such as consulting fees incurred in connection with the reinvention strategy, and we might not realize the benefits from such strategies. In addition, we may not be successful in achieving the intended objectives of the reinvention strategy and other strategic initiatives in a timely manner or at all.

We may experience product recalls, withdrawals or seizures, which could materially and adversely affect our business, financial condition and results of operations.

We may be subject to product recalls, withdrawals or seizures if any of the products we sell or the products that we manufacture for third parties is believed to cause injury or illness or if we are alleged to have violated governmental regulations in the manufacturing, labeling, promotion, sale or distribution of those products. A significant recall, withdrawal or seizure of any of the products we manufacture or sell may require significant management attention, would likely result in substantial and unexpected costs and may materially and adversely affect our business, financial condition or results of operations. Furthermore, a recall, withdrawal or seizure of any of our products may adversely affect consumer confidence in our brands and thus decrease consumer demand for our products. As is common in the VMS industry, except with respect to the products that we manufacture at our manufacturing facility, we rely on our contract manufacturers and suppliers to ensure that the products they manufacture and sell to us comply with all applicable regulatory and legislative requirements. In general, we seek representations and warranties, indemnification and/or insurance from our contract manufacturers and suppliers. However, even with adequate insurance and indemnification, any claims of non-compliance could significantly damage our reputation and consumer confidence in our products. In addition, the failure of those products to comply with applicable regulatory and legislative requirements could prevent us from marketing the products or require us to recall or remove such products from the market, which in certain cases could materially and adversely affect our business, financial condition and results of operations.

Disruptions at our or our contract manufacturers' manufacturing facilities or loss of our or their manufacturing certifications could materially and adversely affect our business, financial condition, results of operations and customer relationships.

Our private-label brands merchandise accounted for approximately 20% of our net sales in Fiscal 2015. Any significant disruption in a contract manufacturers' manufacturing facilities for any reason, including regulatory requirements, an FDA determination that the facility is not in compliance with the cGMP regulations, the loss of certifications, power interruptions, destruction of or damage to facilities, terrorist attacks, civil unrest, war or the perceived threat thereof, fires, hurricanes and other natural disasters could disrupt our contract manufacturers' ability to manufacture products for the Vitamin Shoppe assortment as well as disrupt our ability to manufacture products for our contract manufacturing customers and our own branded products. Any such disruption could have a material adverse effect on our business, financial condition and results of operations. While we do not believe it would be difficult to source our products from other contract manufacturers, a transition period would be required in order to source our own branded products from other contract manufacturers.

Although we expect that our acquisition of Nutri-Force will result in benefits to our business, we may not realize those benefits because of integration difficulties and other challenges.

The success of our acquisition of Nutri-Force will depend in large part on the ability of our management to realize the anticipated benefits from the acquisition of Nutri-Force. To realize these anticipated benefits, the businesses of Nutri-Force must be successfully integrated with the Company. Management may face challenges in consolidating the functions of the Company and Nutri-Force, integrating the technologies, organizations, procedures, policies and operations, as well as addressing the different business cultures at the two companies, and retaining key management, employees and customer relationships of Nutri-Force. If integration is not successful, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected. The integration may also be time consuming and require substantial resources and effort. In addition, there can be no assurance that the transition of business from our existing contract manufacturers to Nutri-Force will be seamless and, oftentimes, this type of transition results in significant operational challenges that can cause financial difficulties. The integration process and other disruptions resulting from the acquisition may disrupt our ongoing businesses or adversely affect relationships with employees, regulators and others with whom we have business or dealings.

Since the acquisition, Nutri-Force has experienced disruption in its ability to optimize production capacity and correspondingly has experienced lower service levels to customers. We have taken steps to improve the operations at Nutri-Force, including the hiring of new leadership and the engagement of third-party manufacturing consultants to implement and improve manufacturing processes. The Company believes this disruption should not impact the long-term opportunity from the Nutri-Force acquisition. However, should financial performance deteriorate further or remain depressed for a prolonged period of time, estimates of future cash flows may be insufficient to support the carrying value of goodwill and intangibles assigned to Nutri-Force, which may result in impairment charges which could have an adverse impact on our results of operations and financial position.

Our customers for whom we contract manufacture may significantly influence our business, financial condition and results of operations.

Our contract manufacturing business is dependent on demand for the products we manufacture for our customers and we have no control or influence over the market demand for those products. Demand for our customers' products can be adversely affected by, among other things, regulatory issues, the loss of patent or other intellectual property rights protection, the emergence of competing products, competition from other contract manufacturers, negative public or consumer perception of those products or our industry and changes in the marketing strategies for such products.

If production volumes of products that we manufacture for third parties and related revenues are not maintained, it may have a material adverse effect on our business, financial condition and results of operations. Additionally, any changes in product mix due to our customers' products may adversely affect our results of operations.

Increases in the price or shortages of supply of key raw materials could materially and adversely affect our business, financial condition and results of operations.

Our products and the products we manufacture for third parties are composed of certain key raw materials. If the prices of these raw materials were to increase significantly, it could result in a significant increase to us in the prices charged to us for our own branded products and third-party products. Raw material prices may increase in the future and we may not be able to pass on those increases to customers who purchase our products. A significant increase in the price of raw materials that cannot be passed on to customers could have a material adverse effect on our business, financial condition and results of operations.

We are reliant upon the supply of raw materials that meet our specifications and the specifications of third parties for which we manufacture. If any raw material is adulterated and does not meet our specifications or third parties' specifications, it could significantly impact our ability to manufacture products and could materially and adversely affect our business, financial condition and results of operations.

In addition, if we are no longer able to obtain products from one or more of our suppliers on terms reasonable to us or at all, our ability to perform under contracts with third parties for whom we manufacture products and our customer relationships could be materially and adversely affected. Events such as terrorist attacks, civil unrest or war, or the perceived threat thereof, may also have a significant adverse effect on raw material availability essential to the manufacturing of our products which could have a material adverse effect on our business, financial condition and results of operations.

The cost of construction materials we use to build and remodel our stores is also subject to significant price volatility based on market and economic conditions. Higher construction material prices would increase the capital expenditures needed to construct a new store or remodel an existing store and could increase the rent payable by the Company under its leases.

We currently rely primarily on two warehouse and distribution facilities to distribute most of the products we sell. Disruptions to these warehouse and distribution facilities could adversely affect our business.

Our primary warehouse and distribution operations are currently concentrated in two locations; in North Bergen, New Jersey and in Ashland, Virginia. Although we added a west coast third-party logistics provider to our operations during 2015 (which replaced our previous west coast third-party logistics provider) to service certain stores on the west coast and in Texas, any significant disruption to our two primary distribution centers operations for any reason, such as a flood, fire or hurricane, could adversely affect our product distributions and sales until we are able to secure an alternative distribution method. Unexpected delays in deliveries or increases in transportation costs (including through increased fuel costs) could significantly decrease our sales and operating results. In addition, labor shortages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business.

Failure to increase the utilization of our supply chain network could have a material adverse effect on our business.

If we fail to increase the utilization of our supply chain network and expand functionality of our information technology systems, we could experience increased costs associated with diminished productivity and operating inefficiencies related to the flow of goods through our supply chain, which could have a material adverse effect on our financial results.

Our existing stores, or any stores we open in the future, may not achieve sales and operating levels consistent with historical results. In addition, our growth strategy includes the addition of a significant number of new stores each year. We may not be able to successfully implement this strategy on a timely basis or at all, and our business could be materially and adversely affected if we are unable to successfully negotiate favorable lease terms.

We continue to pursue new store growth. Since the beginning of Fiscal 2013, we have opened 163 new stores and acquired 31 stores, expanding our presence in our existing markets as well as entering new markets. Historically, our new stores have reached sales that are consistent with our mature stores over the course of approximately four to five years. Our new stores opened since the beginning of Fiscal 2013 average approximately 2,900 square feet compared to the average of our total store portfolio of approximately 3,500 square feet. Existing stores, or any new stores we open in the future, may not achieve sales and operating levels consistent with our historical results. In addition, customer migration from retail stores to e-commerce may also reduce store potential. The failure of our existing stores and new stores to achieve sales and operating levels consistent with our historical results could have a material adverse effect on our financial condition and operating results. As of December 26, 2015, we leased 758 stores along with our corporate headquarters, additional office space and manufacturing and distribution facilities. The store leases are generally for a term of ten years and we have options to extend most leases for a minimum of five years. Our business, financial condition, and operating results could be materially and adversely affected if we are unable to continue to negotiate acceptable lease and renewal terms.

In addition, our growth continues to depend, in part, on our ability to open and operate new stores successfully. The success of this strategy depends upon, among other things, the identification of suitable sites for store locations, the negotiation of acceptable lease terms, the hiring, training and retention of competent sales personnel, and the effective management of inventory to meet the needs of new and existing stores on a timely basis. Our continued expansion will also place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our existing stores. Further, our new store openings may result in reduced net sales volumes in the direct channel, as well as in our existing stores in those markets. We expect to fund our expansion through cash flow from operations and, if necessary, by borrowings under our revolving credit facility. If we experience a decline in performance, we may slow or discontinue store openings. If we fail to successfully implement these strategies, our financial condition and operating results may be materially and adversely affected.

Some of our new stores may be located in areas where we have little or no presence or brand awareness. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in our existing markets. Alternatively, many of our new stores will be located in areas where we have existing stores. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

We operate in a highly competitive industry and our failure to compete effectively could materially and adversely affect our sales and growth prospects.

The U.S. nutritional supplements retail industry is a large and highly fragmented industry. We compete primarily against other specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations and e-commerce companies. This market is highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. As certain products become more mainstream, with broader distribution, we experience increased competition for those products. For example, as the trend in favor of low carb products developed, we experienced increased competition for our low carb products from supermarkets, drug stores, mass merchants and other food companies. Increased competition from companies that distribute through retail, e-commerce or wholesale channels could have a material adverse effect on our financial condition and results of operations. Certain of our competitors may have significantly greater financial, technical and

marketing resources than we do. In addition, our competitors may be more effective and efficient in introducing new products. Furthermore, if we fail to increase the utilization of our supply chain network, fail to maximize the efficiency of our ship direct to customers strategy, or fail to provide our customers with an attractive omni-channel experience, our business and results of operations could be materially and adversely affected. We may not be able to compete effectively, and any of the factors listed above may cause price reductions, reduced margins and losses of our market share.

The loss of key management could negatively affect our business.

Our success largely depends on the efforts and abilities of our senior executive group and key personnel. The loss of the services of one or more of our key executives or personnel, or the increased demands placed on our key executives and personnel by our continued growth could adversely affect our financial performance and our ability to execute our strategies. Our continued success also depends on our ability to attract and retain qualified team members to meet our future growth needs. We may not be able to attract and retain necessary team members to operate our business.

Our inability to attract, train and retain highly qualified Health Enthusiasts could adversely impact our business, financial condition and results of operations.

Our success depends on the continued contributions of our Health Enthusiasts, and the loss of these contributions could have a material adverse effect on our business. We must attract, train and retain a large and growing number of qualified Health Enthusiasts, while controlling related labor costs and maintaining our core values. Our ability to control labor and benefit costs is subject to numerous external factors, including regulatory changes, prevailing wage rates, and healthcare and other insurance costs. We compete with other retail and non-retail businesses for these Health Enthusiasts and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain qualified Health Enthusiasts in the future, which could have a material adverse effect on our business, financial condition and results of operations.

If we fail to protect our brand names, competitors may adopt tradenames that dilute the value of our brand names.

We may be unable or unwilling to strictly enforce our tradenames in each jurisdiction in which we do business. In addition, because of the differences in foreign trademark laws concerning proprietary rights, our trademarks may not receive the same degree of protection in foreign countries as they do in the U.S. Also, we may not always be able to successfully enforce our trademarks against competitors or against challenges by others. Our failure to successfully protect our trademarks could diminish the value and efficacy of our past and future marketing efforts, and could cause customer confusion, which could, in turn, materially and adversely affect our sales and profitability.

Disruptions in our information systems could damage our reputation, be expensive to remedy and have a material adverse effect on our business and results of operations.

We rely extensively on information systems for point-of-sale processing in our stores, our e-commerce business, supply chain, manufacturing operations, financial reporting, human resources and various other processes and transactions. Our information systems, including those provided and maintained by third-party service providers, are subject to damage or interruption from power outages or other types of damage, including those due to computer and telecommunications failures, natural events including hurricanes, fires, floods, earthquakes, tornadoes, high winds and other severe weather, and from events caused by humans, including computer viruses, physical or electronic break-ins and acts of war or terrorism. Any of these events could cause system interruptions, delays and loss of critical data, and could prevent us from accepting and fulfilling customer orders, process and receive shipments of products, process financial and credit card transactions and providing services, which could make our product offerings less attractive and subject us to liability as well as result in lost customer confidence. Additionally, changes in technology could cause our information systems to become obsolete and it may be necessary to incur additional costs to upgrade such systems, and if our information systems prove

inadequate to handle our growth, we could lose customers, which could have a material adverse effect on our business, financial condition and results of operations. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, we may have inadequate insurance coverage to compensate for any related losses. Any of these events could damage our reputation, be expensive to remedy and have a material adverse effect on our business and results of operations.

If we fail to protect the integrity and security of customer-related and other confidential information, we could be exposed to litigation, increased costs and reputational damage, and our business, results of operations and financial condition could be materially and adversely affected.

The use of individually identifiable data by us, our customers, our Health Enthusiasts and others is regulated at the state, federal and international levels. Privacy and information security laws and regulations change from time to time, and increasing costs of compliance with those laws and regulations and related technology investments could materially and adversely affect our business and results of operations. Additionally, the success of our e-commerce operations depends upon the secure transmission of confidential information over public networks, including the use of cashless payments, and we use computers in substantially all other aspects of our business operations, including for point-of-sale processing in our stores. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. While we have taken significant steps to protect customers' personal information, consumer preferences and credit card information, and other confidential information including our employees' private information and financial and strategic data about the Company and our business partners, the intentional or negligent actions of Health Enthusiasts, our suppliers or others may undermine our security measures. As a result, unauthorized parties may obtain access to our data systems and misappropriate confidential data. Furthermore, because the methods used to obtain unauthorized access change frequently and may not be immediately detected, we may be unable to anticipate these methods or implement preventative measures, and our incident response efforts may not be entirely effective. Any preventative measures we implement may have the potential to negatively affect our relations with our customers or decrease activity on our websites by making them less user-friendly. If our data security is compromised, it could have a material adverse effect on our reputation, results of operations and financial condition, materially increase the costs we incur to protect against those events in the future and subject us to additional legal risk and a competitive disadvantage. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop shopping at our stores or online. The loss of confidence from a data security breach involving Health Enthusiasts could hurt our, and their, reputation and as a result cause Health Enthusiast recruiting and retention challenges.

The timing and implementation of new credit card technology could adversely affect our business, financial condition and results of operations.

Credit card companies have mandated new technology in order to process chip enabled credit card transactions and that such technology be implemented as of October 2015. The Company is actively working to deploy this technology. Since the new technology has not been fully deployed, the Company may bear liability for certain fraudulent transactions which could adversely affect our business, financial condition and results of operations.

Natural disasters and unusually adverse weather conditions could cause permanent or temporary damage to our distribution centers or stores, impair our ability to purchase, receive or replenish inventory or cause customer traffic to decline, all of which could result in lost sales and otherwise materially and adversely affect our results of operations.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods, earthquakes, tornadoes, high winds and other severe weather, could materially and adversely affect our operations and results of operations. To the extent these events result in the closure of our distribution centers, our corporate headquarters, or a significant number of our stores, or to the extent they adversely affect one or more of our key suppliers, our operations and results of operations could be materially and adversely affected through an inability to make

deliveries to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from suppliers, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption to our information systems, as noted above. These events also could have indirect consequences, such as increases in the cost of insurance, if they were to result in significant loss of property or other insurable damage.

Our e-commerce business is dependent on certain third parties. Changes in business practices or terms by such third parties could have a material adverse effect on our results of operations.

Our e-commerce business has several third-party relationships that contribute to our ability to generate revenue from a variety of online sources. These relationships may be dependent upon third-party tools, such as search engines, or established business terms negotiated by the Company. If the economics of these relationships or the use of the third-party tools used to drive revenue change materially, this could affect our decision to maintain these relationships, and could result in lost sales and otherwise materially and adversely affect our financial performance.

If we do not successfully develop and maintain a relevant omni-channel experience for our customers, our business and results of operations could be materially and adversely affected.

Omni-channel retailing is rapidly evolving, and we must keep pace with changing customer expectations and new developments by our competitors. Our customers are increasingly using computers, tablets, mobile phones, and other devices to shop online. As part of our omni-channel strategy, we are making technology investments. If we are unable to make, improve, or develop relevant customer-facing technology in a timely manner, our ability to compete and our business and results of operations could be materially and adversely affected. In addition, if our e-commerce businesses or our other customer-facing technology systems do not function as designed, we may experience a loss of customer confidence, lost sales, or data security breaches, any of which could materially and adversely affect our business and results of operations.

We have significant lease obligations, which may require us to continue paying rent for store locations that we no longer operate.

Our stores are leased. We are subject to risks associated with our current and future real estate leases. Our costs could increase because of changes in the real estate markets and supply or demand for real estate sites. We generally cannot cancel our leases, so if we decide to close or relocate a location, we may nonetheless be committed to perform our obligations under the applicable lease including paying the base rent for the remaining lease term. As each lease expires, we may fail to negotiate renewals, either on commercially acceptable terms or any terms at all and may not be able to find replacement locations that will provide for the same success as current store locations. Of the current leases for our stores, 36 expire in Fiscal 2016, 58 expire in Fiscal 2017, 99 expire in Fiscal 2018, 104 expire in Fiscal 2019, 95 expire in Fiscal 2020 and the balance expire in Fiscal 2021 or thereafter.

Our international operations may result in additional market risks, which may harm our business.

As of December 26, 2015, we had 4 international franchise stores in Panama and 1 in Guatemala, and also distribute products to other countries and manufacture products for third parties in other countries. In addition, if the opportunity arises, we may expand our operations into new and high-growth international markets. However, we are subject to risks associated with international operations, including but not limited to: (i) fluctuations in currency exchange rates; (ii) changes in international staffing and employment issues; (iii) tariff and other trade barriers; (iv) greater difficulty in using and enforcing our intellectual property rights; (v) failure to understand the local culture and market; (vi) inconsistent product regulation or sudden policy changes by foreign agencies or governments; (vii) compliance with U.S. laws applicable to international operations, including the Foreign

Corrupt Practices Act and regulations promulgated by the Office of Foreign Asset Control; (viii) compliance with foreign laws, including tax laws and financial accounting standards; and (ix) political and economic instability and developments. Any of these risks could have a material adverse effect on our international operations and our growth strategy.

In addition, there is no assurance that we will expand our operations in new international markets. To expand our operations into new international markets, we may enter into business combination transactions, make acquisitions or enter into strategic partnerships, joint ventures or alliances, any of which may be material. We may enter into these transactions to acquire other businesses or products to expand our products or take advantage of new developments and potential changes in the industry. Our lack of experience operating in new international markets and our lack of familiarity with local economic, political and regulatory systems could prevent us from achieving the results that we expect on our anticipated time frame or at all. If we are unsuccessful in expanding into new or high-growth international markets, it could adversely affect our operating results and financial condition.

Legal and Regulatory Risks

We may incur material product liability claims, which could increase our costs and adversely affect our reputation with our customers, which in turn could materially adversely affect our business, financial condition and results of operations.

As a retailer, direct marketer and manufacturer of products designed for human consumption, we are subject to product liability claims if the use of our products or the products that we manufacture for third parties is alleged to have resulted in injury or to include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. Most of our products and the products that we manufacture for third parties are vitamins, minerals, herbs and other ingredients that are classified as foods or dietary supplements and are not subject to pre-market regulatory approval in the U. S. Our products or the products that we manufacture for third parties could contain contaminated substances, and some of our products and the products that we manufacture for third parties contain ingredients that do not have long histories of human consumption. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. In addition, third-party manufacturers produce many of the products we sell. We rely on these manufacturers to ensure the integrity of their ingredients and formulations. As a distributor of products manufactured by third parties, we may also be liable for various product liability claims for products we do not manufacture. While we attempt to manage these risks by obtaining indemnification agreements from the manufacturers of products that we sell (other than our own branded products) and insurance, third parties may not satisfy their indemnification obligations to us and/or our insurance policies may not be sufficient or available. A product liability claim against us, whether with respect to products of a third party that we sell, our branded products or products that we manufacture for third parties, could result in increased costs and could adversely affect our reputation with our customers, which in turn could materially adversely affect our business, financial condition and results of operations.

We may not be able to obtain insurance coverage in the future at current rates, or we may experience unfavorable claims.

While we believe we will be able to obtain liability insurance in the future, because of increased selectivity by insurance providers we may only be able to obtain such insurance at increased rates and/or with reduced coverage levels. Additionally, we may experience unfavorable claims. Changes in insurance rates, reduced coverage levels, or unfavorable claims could reduce our income from operations.

Compliance with governmental regulations could increase our costs significantly and adversely affect our operating income.

The processing, formulation, manufacturing, packaging, labeling, advertising and distribution of our products and the products that we manufacture for third parties are subject to federal laws and regulation by one or more federal agencies, including the FDA, the FTC, the USDA and the EPA. These activities are also regulated by various state, local and international laws and agencies of the states and localities in which our products and the products that we manufacture for third parties are sold. Regulations may prevent or delay the introduction, or require the reformulation, of our products or the products that we manufacture for third parties, which could result in lost sales and increased costs to us. A regulatory agency may not accept the evidence of safety for any new ingredients that we may want to market, may determine that a particular product or product ingredient presents an unacceptable health risk, may determine that a particular statement of nutritional support on our products or that parties use on the products we manufacture for them, or that we want to use on our products or that third parties want to use on the products we manufacture for them, is an unacceptable drug claim or an unauthorized version of a food “health claim.” A regulatory agency may determine that particular claims are not adequately supported by available scientific evidence. Any such regulatory determination would prevent us or third parties, as applicable, from marketing particular products or using certain statements on those products, or force us to recall a particular product, which could adversely affect our sales of those products

We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs or restrict our operations in the future.

Our operations are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate. These laws and regulations govern, among other things, air emissions, wastewater discharges, the handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. We are also subject to laws and regulations governing the handling and disposal of raw materials, non-compliant products and waste, the handling of regulated material that is included in our products or products that we manufacture for third parties and the disposal of products at the end of their useful life. These laws and regulations have increasingly become more stringent, and we may incur additional expenses to ensure compliance with existing or new requirements in the future. Any failure by us to comply with environmental, health and safety requirements could result in the limitation or suspension of our operations, including operations at our manufacturing facility. We also could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup or other costs as a result of violations of or liabilities under such requirements. In addition, compliance with environmental, health and safety requirements could restrict our ability to expand our facilities or require us to acquire costly pollution control equipment, incur other significant expenses or modify our manufacturing processes.

Our manufacturing facilities use, store and dispose of hazardous substances in connection with the manufacturing processes. It is possible that these facilities may expose us to environmental liabilities associated with historical site conditions that have not yet been discovered. Some environmental laws impose liability for contamination on current and former owners and operators of affected sites, regardless of fault. If remediation costs or potential claims for personal injury or property or natural resource damages resulting from contamination arise, they may be material and may not be recoverable under any contractual indemnity or otherwise from prior owners or operators or any insurance policy. Additionally, we may not be able to successfully enforce any such indemnity or insurance policy in the future. In the event that new or previously unknown contamination is discovered or new cleanup obligations are otherwise imposed at any of our currently or previously owned or operated facilities, we may be required to take additional, unplanned remedial measures and record charges for which no reserves have been recorded.

Congress and/or regulatory agencies may impose additional laws or regulations or change current laws or regulations, and state attorneys general may increase enforcement of existing or new laws, and compliance with new or changed governmental regulations, or any state attorney proceeding, could increase our costs significantly and materially and adversely affect our business, financial condition and results of operations.

From time to time, Congress, the FDA, the FTC, or other federal, state, local or foreign legislative and regulatory authorities may impose additional laws or regulations that apply to us, repeal laws or regulations that we consider favorable to us or impose more stringent interpretations of current laws or regulations. We are not able to predict the nature of such future laws, regulations, repeals or interpretations or to predict the effect that additional governmental regulation, when and if it occurs, would have on our business in the future. Those developments could require reformulation of certain products to meet new standards, recalls or discontinuance of certain products (including products that we sell and products that we manufacture for third parties) not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of certain products, additional or different labeling, additional scientific substantiation, adverse event reporting or other new requirements. Any developments of this nature could increase our costs significantly and could have a material adverse effect on our business, financial condition and results of operations.

On July 5, 2011, the FDA issued draft guidance governing the notification of new dietary ingredients (“NDIs”). We believe that the draft guidance, if implemented as proposed, would have a material impact on our operations. FDA enforcement of the NDI guidance as written could require us to incur additional expenses, which could be significant, and negatively affect our business in several ways, including, but not limited to, the detention and refusal of admission of imported products, the injunction of manufacturing of any dietary ingredients or dietary supplements until the FDA determines that those ingredients or products are in compliance, and the potential imposition of penalties for non-compliance.

Our failure to comply with FTC regulations could result in substantial monetary penalties and could adversely affect our operating results.

The FTC exercises jurisdiction over the advertising of dietary supplements and has instituted numerous enforcement actions against dietary supplement companies, including us, for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. Failure by us to comply with applicable regulations could result in substantial monetary penalties, which could have a material adverse effect on our financial condition or results of operations.

We may be subject to intellectual property litigation and infringement claims by others.

We may be subject to intellectual property litigation and infringement claims initiated by others, other competitors or entities may assert rights in, or ownership of, our trademarks and other intellectual property rights or in marks that are similar to ours, and we may not be able to successfully resolve these types of conflicts to our satisfaction. Claims and litigation of this nature could cause us to incur significant expenses or prevent us from manufacturing, selling or using some of our products or the products that we manufacture for third parties, which could, in turn, adversely affect our sales and profitability.

Changes in accounting standards and estimates could have a material adverse effect on our results of operations and financial position.

Generally accepted accounting principles and the related authoritative guidance for many aspects of our business, including revenue recognition, inventories, goodwill and intangible assets, leases, income taxes and stock-based compensation, are complex and involve subjective judgments. Changes in these rules or changes in the underlying estimates, assumptions or judgments by our management could have a material adverse effect on our results of operations. For example, proposed authoritative guidance for lease accounting, once finalized and enacted, could have a material adverse effect on our results of operations and financial position.

The accounting method for our convertible debt securities that may be settled in cash could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (including our Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the Company's economic interest cost. The effect of ASC 470-20 on the accounting for the Convertible Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes. As a result, we are required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Convertible Notes to their face amount over the term of the Convertible Notes. We report lower net income in our financial results because ASC 470-20 requires interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results and the trading price of our common stock.

In addition, under certain circumstances, convertible debt instruments (including the Convertible Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected.

Risks Related to our Capital Structure

Our debt, and potential future additional indebtedness, could adversely affect our results of operations and financial condition and otherwise adversely impact our operating income and growth prospects.

As of December 26, 2015, our total consolidated indebtedness was \$123.5 million, consisting of borrowings under our Convertible Senior Notes and our credit facility.

Our current and potential future debt financing could:

- increase our vulnerability to general adverse economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, new store growth and other capital expenditures, research and development efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

Restrictions in the agreements governing our existing and future indebtedness may prevent us from taking actions that we believe would be in the best interest of our business.

The agreements governing our existing indebtedness contain, and the agreements governing our future indebtedness will likely contain, customary restrictions on us or our subsidiaries, including covenants that restrict us or our subsidiaries, as the case may be, from incurring additional indebtedness, granting liens on our assets, making investments, consolidating or merging with another business, selling or otherwise disposing of our assets, paying dividends and entering into transactions with our affiliates.

Our ability to comply with these covenants and other provisions of our Revolving Credit Facility may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events beyond our control. The breach of any of these covenants could result in a default under our debt, which could cause those and other obligations to become immediately due and payable. In addition, these restrictions may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted.

Our ability to continue to access credit on the terms previously obtained for the funding of our operations and capital projects may be limited due to changes in credit markets.

In the past, the credit markets and the financial services industry have experienced disruption characterized by the bankruptcy, failure, collapse or sale of various financial institutions, increased volatility in securities prices, diminished liquidity and credit availability and intervention from the U.S. and other governments. Continued concerns about the systemic impact of potential long-term or widespread downturn, energy costs, geopolitical issues, the availability and cost of credit, the global commercial and residential real estate markets and related mortgage markets and reduced consumer confidence have contributed to increased market volatility. The cost and availability of credit has been and may continue to be adversely affected by these conditions. We cannot be certain that funding for our capital needs will be available from our existing financial institutions and the credit markets if needed, and if available, to the extent required and on acceptable terms. The Revolving Credit Facility matures in 2018, and the Convertible Notes mature in 2020. If we cannot renew or refinance this facility and our notes upon their maturities or, more generally, obtain funding when needed, in each case on acceptable terms, we may be unable to continue our current rate of growth and store expansion, which may have an adverse effect on our revenues and results of operations.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Convertible Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Despite our current debt levels, we may still incur substantially more debt or take other actions which would intensify the risks discussed above.

Despite our current consolidated debt levels, we and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in Revolving Credit Facility. We will not be restricted under the terms of the indenture governing the Convertible Notes from incurring additional debt, securing

existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the Convertible Notes. Our Revolving Credit Facility restricts our ability to incur additional indebtedness, including secured indebtedness, but if the facility matures or is repaid, we may not be subject to such restrictions under the terms of any subsequent indebtedness.

In December 2015, we issued \$143.8 million of 2.25% Convertible Senior Notes due 2020, which could dilute our existing stockholders' equity and lower our reported earnings per share.

We issued \$143.8 million of indebtedness in December 2015 in the form of 2.25% Convertible Senior Notes due 2020. The issuance of the Convertible Notes substantially increased our principal payment obligations. The holders of the Convertible Notes are entitled to convert the Convertible Notes into shares of our common stock under certain circumstances which would dilute our existing stockholders and lower our reported per share earnings.

In addition, in the event the conditional conversion feature of the Convertible Notes is triggered, holders of Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The convertible notes hedge and warrant transactions we entered into in connection with the issuance of the Convertible Notes may affect the value of the Convertible Notes and our common stock.

In connection with the pricing of the Convertible Notes, we entered into convertible note hedge transactions with the option counterparties. The convertible note hedge transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Convertible Notes, as the case may be. We also entered into warrant transactions with the option counterparties. However, the warrant transactions could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants.

In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Convertible Notes (and are likely to do so during any observation period related to a conversion of the Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes, which could affect the noteholders' ability to convert the Convertible Notes and, to the extent the activity occurs during any observation period related to a conversion of the Convertible Notes, it could affect the number of shares and value of the consideration that the holders will receive upon conversion of the Convertible Notes.

In addition, if any such convertible note hedge and warrant transactions fail to become effective, the option counterparties may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock and the value of the Convertible Notes.

Hedging instruments often involve counterparty risks.

We will be subject to risk with respect to our counterparties to the convertible notes hedge transactions. Counterparty risk is the risk that the other party in a derivative transaction will not fulfill its contractual obligation. Changes in the credit quality of our counterparties with respect to their derivative transactions may affect the value of those instruments. By entering into derivatives, we assume the risk that these counterparties could experience financial hardships that could call into question their continued ability to perform their obligations.

If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, it is likely to result in a default under such derivative contract, unless such default is cured. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits, leaving us with unsecured exposure and force us to cover our resale commitments, if any, at the then current market price. It may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure our shareholders that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses.

Furthermore, upon the bankruptcy of a counterparty, we may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative transaction and these claims are unsecured, we will be treated as general creditors of such counterparty, and will not have any claim with respect to the underlying security. We may obtain only a limited recovery or may obtain no recovery in such circumstances and the enforceability of agreements for hedging transactions may depend on compliance with applicable statutory and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements.

Our failure to meet market expectations could adversely affect the market price and volatility of our stock.

We believe that the price of our stock generally reflects market expectations for our future operating results. Any failure to meet, or delay in meeting, these expectations, including our comparable store sales growth rates, gross margin, earnings and earnings per share or new store openings, could cause the market price of our stock to decline, as could changes in our stock repurchase policies.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

As of December 26, 2015, there were 758 Vitamin Shoppe, Super Supplements and Vitapath retail stores open in the United States, Puerto Rico and Ontario, Canada. See “Item 1—Business—Store Counts and Locations” for additional information on the growth in our network of stores for Fiscal 2011 through 2015 and the location of our stores as of December 26, 2015. As of December 26, 2015, we leased the property for all of our stores. We do not believe that any individual store property is material to our financial condition or results of operation, however, more highly populated geographic areas may have a higher concentration of store locations. Of the leases for our stores as of December 26, 2015, 36 expire in Fiscal 2016, 58 expire in Fiscal 2017, 99 expire in Fiscal 2018, 104 expire in Fiscal 2019, 95 expire in Fiscal 2020 and the balance expire in Fiscal 2021 or thereafter. We have options to extend most of these leases for a minimum of five years.

Our leased properties also include the following:

<u>Location</u>	<u>Description</u>	<u>Square Footage</u>	<u>Lease Termination Year</u>	<u>Renewal Options</u>
North Bergen, New Jersey	Warehouse, Distribution Center and Corporate Offices	230,000	2017	One Five-Year Renewal Option
Ashland, Virginia	Warehousing and Distribution Center	312,000	2028	Three Five-Year Renewal Options
Secaucus, New Jersey	Corporate Headquarters	56,000	2029	Two Five-Year Renewal Options
Seattle, Washington	Warehousing and Distribution Center	60,000	2017	Two Five-Year Renewal Options
Miami Lakes, Florida	Manufacturing Facilities	212,000	2016 and 2018	Three Five-Year Renewal Options

The Company intends to close its three stores in Ontario, Canada at the end of the first quarter of Fiscal 2016. In addition, we expect to close the Seattle, Washington distribution center in Fiscal 2016.

Additionally, the Company has entered into an agreement with a west coast third-party facility to provide us with warehousing and distribution functions. We began operations with this third-party facility in the fourth quarter of Fiscal 2015.

We believe that all of our current facilities are in good condition.

Item 3. *Legal Proceedings*

The Company is party to various lawsuits arising from time to time in the normal course of business, many of which are covered by insurance. As of December 26, 2015, the Company was not party to any material legal proceedings. Although the impact of the final resolution of these matters on the Company’s financial condition, results of operations or cash flows is not known, management does not believe that the resolution of these lawsuits will have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Since October 28, 2009, our common stock has been traded on the New York Stock Exchange (“NYSE”) under the trading symbol “VSI”. At December 26, 2015, there were 25,873,581 common shares outstanding, and the closing sale price of our common stock was \$33.51. Also as of that date, we had approximately 183 common shareholders of record. The table below sets forth the high and low sale prices of our common stock for the periods indicated:

<u>Fiscal period</u>	<u>High</u>	<u>Low</u>
2015 Quarter ended:		
March	\$48.85	\$39.64
June	44.54	37.57
September	38.87	32.73
December	34.41	26.57
2014 Quarter ended:		
March	\$52.47	\$40.57
June	49.83	40.42
September	46.78	36.90
December	49.04	40.35

Issuer Purchases of Equity Securities

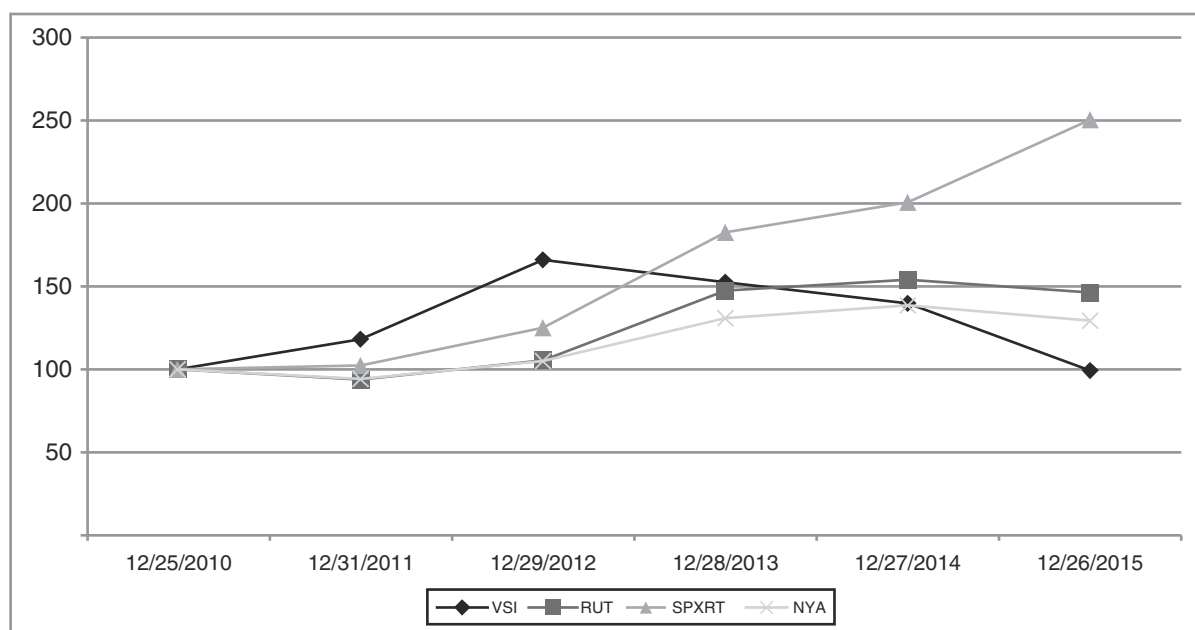
The following table summarizes the Company’s purchases of shares of common stock during the quarter ended December 26, 2015:

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased (1)</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in thousands) (2)</u>
September 27, 2015 through October 24, 2015	—	\$ —	—	\$104,221
October 25, 2015 through November 21, 2015	201,717	\$31.00	201,637	\$ 97,970
November 22, 2015 through December 26, 2015	3,057,823	\$33.33	3,056,740	\$ 96,078
Totals	<u>3,259,540</u>		<u>3,258,377</u>	

- (1) Includes 1,163 shares withheld to cover required tax payments on behalf of employees as their restricted shares vest.
- (2) On August 5, 2014, May 6, 2015 and November 23, 2015, the Company’s board of directors approved share repurchase programs that enable the Company to purchase up to an aggregate of \$300 million of its shares of common stock from time to time over three year periods ending on August 4, 2017, May 5, 2018 and November 22, 2018, respectively.

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on the Company's common stock with the Russell 2000 Index (RUT), S&P Retail Index (SPXRT) and the NYSE Composite Index (NYA) for the five year period from December 25, 2010 through December 26, 2015. The graph assumes an investment of \$100 made at the closing of trading on December 23, 2010, in (i) the Company's common stock, (ii) the stocks comprising the RUT, (iii) the stocks comprising the SPXRT and (iv) the stocks comprising the NYA. All values assume reinvestment of the full amount of all dividends, if any, into additional shares of the same class of equity securities at the frequency with which dividends are paid on those securities during the applicable time period.



	12/25/2010	12/31/2011	12/29/2012	12/28/2013	12/27/2014	12/26/2015
Vitamin Shoppe, Inc.	100.00	118.20	165.92	152.46	139.80	99.32
Russell 2000 Index	100.00	93.91	105.47	147.17	154.03	146.36
S&P Retail Index	100.00	102.22	124.95	182.52	200.64	250.37
NYSE Composite Index	100.00	94.34	104.93	130.63	138.61	129.44

This graph and the accompanying table are not “soliciting material”, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Share Repurchase Programs

On August 5, 2014, May 6, 2015 and November 23, 2015, the Company's board of directors approved share repurchase programs that enable the Company to purchase up to an aggregate of \$300 million of its shares of common stock from time to time over three year periods ending on August 4, 2017, May 5, 2018 and November 22, 2018, respectively. As of December 26, 2015, 5,511,769 shares have been repurchased for a total of \$203.9 million. The shares were retired upon repurchase. For additional information, refer to Note 11., “Share Repurchase Program”, to our consolidated financial statements included in this Annual Report on Form 10-K.

Dividends

We have not paid cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future.

Item 6. Selected Financial Data

We have derived the selected financial data presented below from our consolidated financial statements for the Fiscal Years ended December 26, 2015, December 27, 2014, December 28, 2013, December 29, 2012 and December 31, 2011. Financial results for all fiscal years presented are based on a 52-week period, with the exception of financial results for the Fiscal Year ended December 31, 2011 which are based on a 53-week period, unless otherwise stated. The selected financial data for the Fiscal Years ended December 26, 2015, December 27, 2014 and December 28, 2013 presented below, should be read in conjunction with such consolidated financial statements and notes included herein and in conjunction with Item 7., “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

	Fiscal Year Ended				
	December 26, 2015	December 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011
	(data presented in thousands, except for share, per share data, number of stores and average store square footage)				
Statement of Operations Data:					
Net sales	\$ 1,266,549	\$ 1,213,046	\$ 1,087,469	\$ 950,902	\$ 856,586
Cost of goods sold	847,634	808,787	709,823	617,920	563,627
Gross profit	418,915	404,259	377,646	332,982	292,959
Selling, general and administrative expenses	329,922	301,603	267,354	233,610	216,125
Income from operations	88,993	102,656	110,292	99,372	76,834
Loss on extinguishment of debt and other (1)	—	—	—	—	635
Interest expense, net	1,105	495	495	659	2,325
Income before provision for income taxes	87,888	102,161	109,797	98,713	73,874
Provision for income taxes	34,717	40,920	43,251	37,888	29,010
Net income	<u>\$ 53,171</u>	<u>\$ 61,241</u>	<u>\$ 66,546</u>	<u>\$ 60,825</u>	<u>\$ 44,864</u>
Weighted average shares outstanding:					
Basic	28,954,804	30,239,183	29,992,620	29,473,711	28,802,103
Diluted	29,203,429	30,664,105	30,541,057	30,110,237	29,556,024
Net income per share:					
Basic	\$ 1.84	\$ 2.03	\$ 2.22	\$ 2.06	\$ 1.56
Diluted	\$ 1.82	\$ 2.00	\$ 2.18	\$ 2.02	\$ 1.52
Other Financial Data:					
Depreciation and amortization of fixed and intangible assets	\$ 38,495	\$ 34,219	\$ 28,026	\$ 23,076	\$ 20,300
Acquisition and integration related costs (2)	\$ 1,874	\$ 10,242	\$ 4,336	\$ 1,281	\$ —
Operating Data:					
Number of stores at end of period	758	717	659	579	528
Total retail square feet at end of period	2,662	2,568	2,390	2,130	1,969
Average store square footage at end of period	3,511	3,582	3,627	3,679	3,730
Net sales per store (3)	\$ 1,426	\$ 1,453	\$ 1,471	\$ 1,468	\$ 1,451
Comparable store sales growth (4)	0.1%	2.8%	3.5%	8.2%	7.4%
E-commerce sales growth (5)	-0.6%	12.0%	19.4%	16.4%	11.3%
Balance Sheet Data:					
Working capital	\$ 157,089	\$ 125,382	\$ 172,341	\$ 153,453	\$ 69,343
Total assets	748,691	722,391	682,064	586,285	487,830
Total debt, including capital lease obligations	123,525	8,195	347	168	956
Stockholders’ equity	475,301	551,934	528,340	447,418	355,803

- (1) For Fiscal 2011, loss on extinguishment of debt includes \$0.6 million for the write-off of unamortized deferred financing fees related to the repurchase of the remaining portion of our floating rate notes in February 2011 and \$0.1 million for the write-off of unamortized deferred financing fees related to the early termination of our term loan in October 2011.

- (2) For Fiscal 2015, these amounts represent costs incurred related to the integration of Nutri-Force. In Fiscal 2014, these amounts related to acquisition costs of \$3.4 million and integration costs of \$1.4 million (\$0.6 million for Nutri-Force and \$0.8 million for Super Supplements), charges to cost of goods sold for the inventory valuation step-up of \$4.5 million and the contingent consideration adjustment for the Nutri-Force acquisition of \$1.0 million. In Fiscal 2013 and 2012, these amounts represent costs incurred related to the acquisition and integration of Super Supplements.
- (3) Net sales per store are calculated by dividing retail net sales by the number of stores open at the end of the period.
- (4) A new retail store is included in comparable store sales after 410 days of operation, and acquired retail stores from the Super Supplements acquisition are included in comparable store sales after 365 days. For Fiscal 2011, comparable store sales growth is based on a 52-week period.
- (5) E-commerce sales growth is based on a 52-week period. Fiscal 2015, Fiscal 2014 and Fiscal 2013 sales growth includes sales of the acquired Super Supplements e-commerce business.

For additional information on certain costs included in our operating results, refer to Note 17., “Selected Quarterly Financial Information (unaudited)” to our consolidated financial statements included in this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and notes thereto included as part of this Annual Report on Form 10-K. The discussion in this section contains forward-looking statements that are based upon current information and expectations. We sometimes identify forward-looking statements with such words as "may", "expect", "intend", "anticipate", "plan", "believe", "seek", "should", "estimate", "outlook", "trends", "future benefits", "strategies", "goals" and similar words. The forward-looking statements contained herein, include, without limitation, statements concerning future revenue sources and concentration, gross profit margins, selling and marketing expenses, general and administrative expenses, capital resources, liquidity, capital expenditures, new stores, integration of acquisitions, retail inflation, additional financings or borrowings and are subject to risks and uncertainties including, but not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K that could cause actual results to differ materially from the results contemplated by these forward-looking statements. We also urge you to carefully review the risk factors set forth in Item 1A. – "Risk Factors". See also "Forward-Looking Statements" for additional information regarding forward-looking statements.

References to "Fiscal" or "Fiscal Year" mean the fifty-two weeks ended December 26, 2015, December 27, 2014 and December 28, 2013 for Fiscal Year 2015, Fiscal Year 2014 and Fiscal Year 2013, respectively.

Overview

We are a multi-channel specialty retailer and contract manufacturer of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products. We market approximately 800 nationally recognized brands as well as our own brands, which include Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare™, Next Step®, Nutri-Force® Sport and Betancourt Nutrition™. We believe we offer one of the largest varieties of products among VMS retailers with approximately 7,400 SKUs offered in our typical store and approximately 12,000 additional SKUs available through our e-commerce and other direct sales channels. Our broad product offering enables us to provide our customers with a depth of selection of products that may not be readily available at other specialty retailers or mass merchants, such as discount stores, supermarkets, drugstores and wholesale clubs. We believe our product offering and emphasis on product knowledge and customer service helps us meet the needs of our target customer and serves as a foundation for enhancing strong customer loyalty.

During the second quarter of Fiscal 2015, the Company began development of a strategic plan focused on upgrading our customers' experience across our retail and e-commerce channels, the "reinvention strategy". The Company has worked with outside consultants to analyze qualitative and quantitative information relevant to our customers' experience. The reinvention strategy is focused on upgrading the customer experience to inspire our target customers with changes to our product assortment, opportunities to increase private brands penetration, enhancements to the in-store and digital experience, store layout, as well as changes to improve the effectiveness of our loyalty program. In Fiscal 2015, the Company incurred \$2.7 million of professional fees related to the development of the reinvention strategy. The Company expects to incur approximately \$10.0 million to \$15.0 million of selling, general and administrative costs during Fiscal 2016 in connection with the reinvention strategy, and expects to realize improved financial results from the reinvention strategy beginning in Fiscal 2017.

In an on-going effort to identify efficiencies and stream-line processes, the Company has performed a review of certain business operations. As part of this review, the Company is implementing changes to the product assortment and supply chain operations of Super Supplements to more closely align Super Supplements with current processes and assortments in the Vitamin Shoppe retail stores. As a result, costs of \$1.8 million were incurred during the fourth quarter of Fiscal 2015 and \$1.8 million are expected to be incurred during the first quarter of Fiscal 2016. Annual cost savings resulting from these actions are estimated to be \$1 million to \$2 million. In addition, the Company has evaluated its Canadian operations in order to determine whether to continue investments in the Canadian market and has decided to cease operations at the end of the first quarter of

Fiscal 2016. As a result, costs of \$0.9 million were incurred during the fourth quarter of Fiscal 2015 and \$3.7 million are expected to be incurred during the first quarter of Fiscal 2016. The annual cost savings related to ceasing operations in Canada are estimated to be approximately \$1.0 million. Costs for these two initiatives include lease liabilities, markdown charges on inventory and employee severance. The Company plans on engaging a consultant in Fiscal 2016 to further identify other efficiencies and cost reduction opportunities.

On December 9, 2015, the Company completed an offering of \$143.8 million of its 2.25% Convertible Senior Notes due 2020 (the “Convertible Notes”). The Convertible Notes are senior unsecured obligations of the Company. Interest is payable on the Notes on June 1 and December 1 of each year, commencing on June 1, 2016 until their maturity date of December 1, 2020. In connection with the issuance of the Convertible Notes, the Company entered into convertible note hedge transactions for which it paid an aggregate \$26.4 million. In addition, the Company sold warrants for which it received aggregate proceeds of \$13.0 million. The net proceeds from the Convertible Notes of \$125.7 million, net of commissions and offering costs of \$4.6 million, are being used to repurchase shares of our common stock under the Company’s share repurchase programs. For additional information, refer to Note 8., “Credit Arrangements” and Note 11., “Share Repurchase Programs” to our consolidated financial statements included in this Annual Report on Form 10-K.

On August 5, 2014, May 6, 2015 and November 23, 2015, the Company’s board of directors approved share repurchase programs that enable the Company to purchase up to an aggregate of \$300 million of its shares of common stock from time to time over three year periods ending on August 4, 2017, May 5, 2018 and November 22, 2018, respectively. As of December 26, 2015, 5,511,769 shares have been repurchased for a total of \$203.9 million. The shares were retired upon repurchase. For additional information, refer to Note 11., “Share Repurchase Program”, to our consolidated financial statements included in this Annual Report on Form 10-K.

On June 6, 2014, the Company acquired all of the outstanding equity interests of Nutri-Force, a company which provides custom manufacturing and private labeling of vitamins, dietary supplements, nutraceuticals and nutritional supplements, as well as, develops and markets its own branded products. The total purchase price was \$86.1 million in cash. For additional information, refer to Note 3., “Acquisitions”, to our consolidated financial statements included in this Annual Report on Form 10-K. During Fiscal 2015, we incurred \$1.9 million of integration costs primarily related to professional fees. We do not anticipate incurring additional costs related to the integration of Nutri-Force. In addition, we incurred a \$1.4 million charge in Fiscal 2015 to increase the allowance for doubtful accounts for Nutri-Force, related to one wholesale customer that abruptly ceased operations.

On February 14, 2013, the Company acquired substantially all of the assets and assumed certain liabilities of Super Supplements, a specialty retailer of vitamins, minerals, specialty supplements and sports nutrition, including 31 retail locations, a distribution center and an e-commerce business in the Pacific Northwest. The total purchase price was \$50.5 million in cash and the assumption of certain liabilities. For additional information, refer to Note 3., “Acquisitions”, to our consolidated financial statements included in this Annual Report on Form 10-K. We do not anticipate incurring significant additional costs related to the integration of Super Supplements, however, we continue to evaluate further integration initiatives.

Trends and Other Factors Affecting Our Business

The Company initiated a reinvention strategy in Fiscal 2015 which includes a comprehensive review of the customer experience. This work is expected to continue into Fiscal 2016. The results of this work include initiatives to optimize the product assortment, integration of technology and e-commerce, the layout and design of the retail store and the service levels provided by the Health Enthusiast. The implementation of these initiatives may require incremental costs or investments to be incurred in Fiscal 2016 and subsequent years.

Our performance is affected by industry trends including, among others, demographic, health and lifestyle preferences, as well as other factors, such as industry media coverage and governmental actions. For example, our industry is subject to potential regulatory activity and other legal matters that could affect the credibility of a

given product or category of products. Consumer trends, such as those described in the following paragraph, the overall impact on consumer spending, which may be affected heavily by current economic conditions, and limited product innovation and introductions in the VMS industry can dramatically affect purchasing patterns. Even though our business model allows us to respond to changing industry trends by introducing new products and adjusting our product mix and sales incentives, such actions may not offset adverse trends. Additionally, our performance is affected by competitive trends such as the entry of new competitors, changes in promotional strategies or expansion of product assortment by various competitors.

Sales of weight management products are generally more sensitive to consumer trends, such as increased demand for products recommended by the media, resulting in higher volatility than our other products. Due to the volatility of the weight management sector, we typically launch new weight management products on an ongoing basis in response to prevailing market conditions and consumer demands. In Fiscal 2015, weight management product sales declined significantly, whereas Fiscal 2014 weight management sales growth was relatively flat. This change in trend negatively impacted the overall sales growth rate for Fiscal 2015. We expect continued volatility in the demand for weight management products.

In addition to the weight management product lines, we intend to continue our focus in meeting the demands of a rapidly growing health conscious public.

The acquisition of Nutri-Force has affected our operating results. Historically Nutri-Force generates lower margins on its third-party sales than our retail and direct operations. However, as we transition more of the VSI private label assortment to Nutri-Force, we expect an improvement in overall gross margin. Since the acquisition, Nutri-Force has experienced disruption in its ability to optimize production capacity and correspondingly has experienced lower service levels to customers. We have taken steps to improve the operations at Nutri-Force, including the hiring of new leadership and the engagement of third-party manufacturing consultants to implement and improve manufacturing processes. The Company believes this disruption should not impact the long-term opportunity from the Nutri-Force acquisition. However, should financial performance deteriorate further or remain depressed for a prolonged period of time, estimates of future cash flows may be insufficient to support the carrying value of goodwill and intangibles assigned to Nutri-Force, which may result in impairment charges.

Our historical results have also been significantly influenced by our new store openings. Since the beginning of Fiscal 2013, we have opened 163 stores, acquired 31 stores and as of December 26, 2015 operate 758 stores located in 45 states, the District of Columbia, Puerto Rico and Ontario, Canada.

New stores have typically required approximately four to five years to mature, generating lower store level sales in the initial years than our mature stores. As a result, new stores generally have a negative impact on our overall operating margin. In addition, our new stores since the beginning of Fiscal 2013 are approximately 2,900 square feet compared to the average of our total store portfolio of approximately 3,500 square feet. Additionally, stores opened in new markets have lower brand awareness compared to stores in existing markets, and as a result initially experience a lower sales volume than stores opened in existing markets. As these stores mature, we expect them to contribute meaningfully to our operating results.

In Fiscal 2015, the Company has begun implementation of a new warehouse management system application (“WMS”) at its Ashland, Virginia distribution center in order to realize further productivity improvements and functionality. Implementation of the new WMS is expected to be completed in Fiscal 2016. Additionally, the Company has entered into an agreement with a west coast third-party facility (which replaced our previous west coast third-party facility) to provide us with warehousing and distribution functions. We began operations with this third-party facility in the fourth quarter of Fiscal 2015.

Critical Accounting Policies

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 that 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 revenue and expenses during the reporting period. Critical accounting policies are those that are the most important portrayal of our financial condition and results of operations, and require our most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. While our significant accounting policies are described in more detail in the notes to our consolidated financial statements, our most critical accounting policies, discussed below, pertain to revenue recognition, inventories, vendor allowances, impairment of long-lived assets, goodwill and other intangible assets, deferred sales for our Healthy Awards Program, and income taxes. In applying such policies, we must use some amounts that are based upon our informed judgments and best estimates. Estimates, by their nature, are based on judgments and available information. The estimates that we make are based upon historical factors, current circumstances and the experience and judgment of management. We evaluate our assumptions and estimates on an ongoing basis.

Revenue Recognition. We recognize revenue upon sale of our products when merchandise is sold “at point of sale” in retail stores or upon delivery to a direct customer. Wholesale revenue is recognized when risk of loss, title and insurable risks have transferred to the customer. All revenue is recognized net of sales returns. In addition, we classify amounts billed to customers that represent shipping fees as sales. To arrive at net sales, gross sales are reduced by deferred sales, customer discounts, actual customer returns, and a provision for estimated future customer returns, which is based on management’s review of historical and current customer returns. Sales taxes collected from customers are presented on a net basis and as such are excluded from revenue.

Inventories. Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average method. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing the product to its existing condition and location. Finished goods inventory includes costs on freight on internally transferred merchandise, and costs associated with our buying department, distribution facilities, and manufacturing overhead, which are capitalized into inventory and then expensed as merchandise is sold. In addition, the cost of inventory is reduced by purchase discounts and other allowances received from certain of our vendors. We adjust our inventory to reflect situations in which the cost of inventory is not expected to be recovered. We regularly review our inventory, including when a product is close to expiration and not expected to be sold, when a product has reached its expiration date, or when a product is not expected to be saleable. In determining the reserves for these products we consider factors such as the amount of inventory on hand and its remaining shelf life, and current and expected market conditions, including management forecasts and levels of competition. In addition, we have established a reserve for estimated inventory shrinkage between physical inventories. Physical inventories and cycle counts are taken on a regular basis, and inventory is adjusted accordingly. For each reporting period, we estimate inventory shrinkage based on a historical trend analysis. We have evaluated the current level of inventory considering historical trends and other factors, and based on our evaluation, have recorded adjustments to reflect inventory at net realizable value. These adjustments are estimates, which could vary significantly from actual results if future economic conditions, customer demand or competition differ from expectations. These estimates require us to make assessments about the future demand for our products in order to identify such inventory items as slow moving, expiring, obsolete or in excess of need. These future estimates are subject to the ongoing accuracy of management’s forecasts of market conditions, industry trends and competition. We are also subject to volatile changes in specific product demand as a result of unfavorable publicity, government regulation and rapid changes in demand for new and improved products or services. Inventory reserves were \$4.9 million and \$3.1 million at December 26, 2015 and December 27, 2014, respectively.

Vendor Allowances. Vendor allowances include discounts, allowances and rebates received from vendors and are based on various contract terms. Vendor allowances are recognized as either purchase discounts which represent a reduction of product cost, funding which is capitalized into inventory and recognized in the statement of income as the merchandise is sold, or direct offset which represents funding subject to immediate recognition in the statement of income, depending on the nature of the allowance.

Long-Lived Assets. We evaluate long-lived assets, including fixed assets and intangible assets with finite useful lives, periodically for impairment whenever events or changes in circumstances indicate that the carrying amount

of any such asset may not be recoverable. If the sum of our estimated undiscounted future cash flows is less than the asset's carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. These estimates of cash flow require significant management judgment and certain assumptions about future sales and expense growth rates, devaluation and inflation. As such, these estimates may differ from actual cash flows. The Company recognized impairment charges of \$1.2 million during Fiscal 2015 on fixed assets related to five of its underperforming retail locations still in use in the Company's operations and three retail locations in Ontario, Canada which the Company expects to close during the second quarter of Fiscal 2016. The Company recognized impairment charges of \$0.4 million during Fiscal 2014 on fixed assets related to three of its underperforming retail locations still in use in the Company's operations. Impairment charges are included in selling, general and administrative expenses in the consolidated statements of income.

Goodwill and Other Intangible Assets. On an annual basis, or whenever impairment indicators exist, we perform an evaluation of goodwill and indefinite-lived intangible assets. In the absence of any impairment indicators, goodwill and other indefinite-lived intangible assets are tested in the fourth quarter of each fiscal year. With regards to goodwill, our evaluations are based on our three reporting units. The evaluations of goodwill and indefinite-lived intangible assets may first consider qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is less than its carrying value. A quantitative evaluation is performed if the qualitative evaluation results in a more likely than not determination or if a qualitative evaluation is not performed. Our quantitative evaluation for goodwill utilizes the discounted cash flow method, based on operating projections, as well as the market multiples method. For indefinite-lived tradenames, we utilize the royalty relief method in our quantitative evaluations. For those intangible assets which have definite lives, we amortize their cost on a straight-line basis over their estimated useful lives, the periods of which vary based on their particular contractual terms.

Our annual impairment review requires extensive use of accounting judgment and financial estimates. Judgments regarding the existence of impairment indicators are based on market conditions and operational performance of the business. Future events could cause us to conclude that impairment indicators exist, and therefore that goodwill and other intangible assets may be impaired. The valuation of goodwill and indefinite-lived intangible assets is affected by, among other things, our business plan for the future and estimated results of future operations. Changes in the business plan, operating results, or application of alternative assumptions that are different than the estimates used to develop the valuation of the assets may materially impact their valuation.

In Fiscal 2015, the Company performed a quantitative analysis of its retail, direct and manufacturing reporting units and determined that the fair value of these reporting units was greater than their respective carrying values. As a result, the Company believes the fair values of each of the Company's reporting units and indefinite-lived tradenames substantially exceeds their respective carrying values, with the exception of the manufacturing reporting unit.

Since the acquisition, Nutri-Force has experienced disruption in its ability to optimize production capacity and correspondingly has experienced lower service levels to customers.

As of the annual testing date, the fair value of the manufacturing reporting unit exceeded the carrying value by approximately 5%. Goodwill for the manufacturing reporting unit is \$32.6 million. The assumptions which impact the estimated fair value include management projections, the weighted average cost of capital percentage including the company specific risk premium and the selection of comparable companies. The uncertainty associated with the key assumptions relates primarily to the performance of Nutri-Force in comparison to management projections, which includes improvements in operating efficiencies, the ability to transition additional Vitamin Shoppe branded products and increase sales to third parties.

We have taken steps to improve the operations at Nutri-Force, including the hiring of new leadership and the engagement of third-party manufacturing consultants to implement and improve manufacturing processes. The Company believes the disruption noted above should not impact the long-term opportunity from the Nutri-Force

acquisition. However, should financial performance deteriorate further or remain depressed for a prolonged period of time, estimates of future cash flows may be insufficient to support the carrying value of goodwill and intangibles assigned to Nutri-Force, which may result in impairment charges.

Deferred Sales. Deferred sales primarily consists of the liability pertaining to our Healthy Awards Program. The Healthy Awards Program allows customers to earn points toward free merchandise based on the volume of purchases. Points are earned each year under the Healthy Awards Program and are redeemable within the first three months of the following year or they expire. We defer sales as points are earned, based on historical redemption data as well as marketing data within the current period, and record a liability for points earned based on the value of points that are expected to be redeemed. The balances for the deferred sales liability were \$20.5 million and \$22.5 million at December 26, 2015 and December 27, 2014, respectively. A hypothetical 1% increase in the redemption rate would result in an increase of \$0.3 million in the deferred sales liability.

Income Taxes. Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, we consider future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realization of deferred tax assets in future years, we would adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

We account for our tax positions based on the provisions of the accounting literature related to accounting for uncertainty in income tax positions. That literature provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For tax positions that are not more likely than not sustainable upon audit, we recognize the largest amount of the benefit that is more likely than not to be sustained. We make estimates of the potential liability based on our assessment of all potential tax exposures. In addition, we use factors such as applicable tax laws and regulations, current information and past experience with similar issues to make these adjustments. The tax positions are analyzed regularly and adjustments are made as events occur that warrant adjustments for those positions. We record interest expense and penalties payable to relevant tax authorities as income tax expense. See Note 9., "Income Taxes", to our consolidated financial statements for more information.

General Definitions for Operating Results

Net Sales consist of sales, net of sales returns, deferred sales, customer incentives and a provision for estimated future returns, from comparable and non comparable sales. Total comparable net sales include sales generated by retail stores after 410 days of operation, e-commerce sales, and sales generated by acquired retail stores from the Super Supplements acquisition after 365 days. Sales to third parties of manufactured products generated by Nutri-Force are considered non-comparable sales.

Cost of goods sold includes the cost of inventory sold, costs of warehousing, distribution, manufacturing and store occupancy costs and excludes depreciation and amortization related to the retail and direct segments that is included within selling, general and administrative expenses. Warehousing, distribution and manufacturing costs, which are capitalized into inventory and then expensed as merchandise is sold, include freight to transfer merchandise, costs associated with our buying department, distribution facilities and manufacturing overhead. Store occupancy costs include rent, common area maintenance, real estate taxes and utilities.

Gross profit is net sales minus cost of goods sold.

Selling, general and administrative expenses consist of depreciation and amortization of fixed and intangible assets, operating payroll and related benefits, advertising and promotion expense, and other selling, general and administrative expenses.

Income from operations consists of gross profit minus selling, general and administrative expenses.

Interest expense, net includes interest on our revolving credit facility and convertible notes, letters of credit fees, interest on our capital leases, as well as amortization of financing costs, offset with interest income earned from highly liquid investments (investments purchased with an original maturity of three months or less).

Key Performance Indicators and Statistics

We use a number of key indicators of financial condition and operating results to evaluate the performance of our business, including the following (in thousands):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net sales	\$1,266,549	\$1,213,046	\$1,087,469
Increase in total comparable net sales (1)	0.0%	3.7%	4.6%
Increase in comparable store net sales	0.1%	2.8%	3.5%
Increase (Decrease) in e-commerce comparable net sales	(0.6%)	11.2%	14.4%
Gross profit as a percent of net sales	33.1%	33.3%	34.7%
Income from operations	\$ 88,993	\$ 102,656	\$ 110,292

(1) Total comparable net sales are comprised of comparable retail store sales and e-commerce sales.

The following table shows the growth in our network of stores for Fiscal 2015, 2014 and 2013:

	Fiscal Year		
	2015	2014	2013
Stores open at beginning of year	717	659	579
Stores opened	50	61	52
Stores acquired	—	—	31
Stores closed	(9)	(3)	(3)
Stores open at end of year	758	717	659

Results of Operations

The information presented below is for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013 and was derived from our audited consolidated financial statements, which, in the opinion of management, includes all adjustments necessary for a fair presentation of our financial position and operating results for such periods and as of such dates. The following table summarizes our results of operations for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013 as a percentage of net sales:

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	66.9%	66.7%	65.3%
Gross profit	33.1%	33.3%	34.7%
Selling, general and administrative expenses	26.0%	24.9%	24.6%
Income from operations	7.0%	8.5%	10.1%
Interest expense, net	0.1%	0.0%	0.0%
Income before provision for income taxes	6.9%	8.4%	10.1%
Provision for income taxes	2.7%	3.4%	4.0%
Net income	4.2%	5.0%	6.1%

Figures may not sum due to rounding.

The results of operations presented for the Fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013 are each based on a 52-week period (“Fiscal 2015”, “Fiscal 2014” and “Fiscal 2013”).

Fiscal 2015 Compared to Fiscal 2014

2015 Financial Highlights:

- Net sales increased 4.4%
- Total comparable net sales were flat
- Comparable store net sales increased 0.1%
- E-commerce sales decreased 0.6%
- Opened 50 retail stores
- Issued \$143.8 million of Convertible Notes
- Fully diluted earnings per share of \$1.82

Outlook for 2016, management expects on a 53-week basis:

- Total comparable net sales to be flat to positive low single digits
- To open approximately 30 new stores
- Capital expenditures of approximately \$40 million

The following tables summarize our results of operations for Fiscal 2015 and Fiscal 2014 (in thousands):

	Fiscal Years Ended		\$ Change	% Change
	December 26, 2015	December 27, 2014		
Net sales	\$1,266,549	\$1,213,046	\$ 53,503	4.4%
Cost of goods sold	847,634	808,787	38,847	4.8%
<i>Cost of goods sold as % of net sales</i>	66.9%	66.7%		
Gross profit	418,915	404,259	14,656	3.6%
<i>Gross profit as % of net sales</i>	33.1%	33.3%		
Selling, general and administrative expenses	329,922	301,603	28,319	9.4%
<i>SG&A expenses as % of net sales</i>	26.0%	24.9%		
Income from operations	88,993	102,656	(13,663)	(13.3)%
<i>Income from operations as % of net sales</i>	7.0%	8.5%		
Interest expense, net	1,105	495	610	123.2%
Income before provision for income taxes	87,888	102,161	(14,273)	(14.0)%
Provision for income taxes	34,717	40,920	(6,203)	(15.2)%
Net income	<u>\$ 53,171</u>	<u>\$ 61,241</u>	<u>\$ (8,070)</u>	(13.2)%

The results of Nutri-Force, included in the Company’s results of operations, reflect a full year for Fiscal 2015 and the period from June 6, 2014 through December 27, 2014 for Fiscal 2014.

Net Sales

The increase in net sales was the result of an increase in our total non-comparable net sales of \$53.8 million, which includes an increase in Nutri-Force net sales of \$16.3 million to third parties. Sales increased \$24.0 million

in the Other product category (which includes on the go bars, drinks and snacks, as well as natural beauty and personal care products). Sales in the Sports Nutrition category (which includes sports and performance nutrition and weight management products) were relatively flat with the increase in sales of sports and performance nutrition products substantially offset by the decrease in sales of weight management products. In addition, the growth rate in sales of sports and performance nutrition products is below historical trends.

Net sales for our three business segments, as well as a discussion of the changes in each segment's net sales from the comparable prior year period, are provided below (in thousands):

	Fiscal Years Ended		\$ Change	% Change
	December 26, 2015	December 27, 2014		
Net Sales:				
Retail (a)	\$1,081,123	\$1,042,054	\$ 39,069	3.7%
Direct (b)	128,825	130,644	(1,819)	(1.4)%
Manufacturing (c)	91,159	48,102	43,057	89.5%
Segment net sales	1,301,107	1,220,800	80,307	6.6%
Elimination of intersegment revenues	(34,558)	(7,754)	(26,804)	345.7%
Total net sales	<u>\$1,266,549</u>	<u>\$1,213,046</u>	<u>\$ 53,503</u>	4.4%

- (a) The change in retail sales resulted from an increase in non-comparable store sales of \$38.5 million and in comparable store sales of \$0.6 million, or 0.1%. The increase in comparable store sales was driven by average transaction value substantially offset by a decrease in customer traffic.
- (b) Direct sales declined due to a decrease in catalog sales of \$1.0 million and a decrease in e-commerce sales of \$0.8 million, or 0.6%.
- (c) Manufacturing sales reflect an increase of \$26.8 million in product manufactured for the Vitamin Shoppe assortment and an increase of \$16.3 million in product manufactured for third parties.

Cost of Goods Sold

The dollar increase of cost of goods sold was primarily due to an increase in sales. The increase of cost of goods sold as a percentage of net sales was primarily due to 0.5% of deleverage of retail occupancy costs partially offset by 0.2% related to Nutri-Force. Cost of goods sold for Fiscal 2015 includes a \$1.3 million charge for the write-off of USPlabs[®] products which the Company ceased selling and for Fiscal 2014 includes a \$4.5 million charge from adjusting Nutri-Force inventory to fair value as part of purchase accounting.

Selling, General and Administrative Expenses

	Fiscal Years Ended		\$ Change	% Change
	December 26, 2015	December 27, 2014		
SG&A Expenses (in thousands):				
Payroll and Benefits (a)	\$128,217	\$119,499	\$ 8,718	7.3%
<i>Payroll & benefit as % of net sales</i>	<i>10.1%</i>	<i>9.9%</i>		
Advertising and Promotion (b)	21,621	19,290	2,331	12.1%
<i>Advertising & promotion as % of net sales</i>	<i>1.7%</i>	<i>1.6%</i>		
Other SG&A (c)	180,084	162,814	17,270	10.6%
<i>Other SG&A as % of net sales</i>	<i>14.2%</i>	<i>13.4%</i>		
Total SG&A Expenses	<u>\$329,922</u>	<u>\$301,603</u>	<u>\$28,319</u>	9.4%

- (a) Payroll and benefits increased primarily due to the increase in head count added to operate new stores and higher medical benefits costs.

- (b) Advertising and promotion increased with the addition of Nutri-Force of \$1.7 million and an increase in digital advertising of \$0.8 million partially offset by lower retail expenditures of \$0.2 million.
- (c) Other SG&A expenses include an increase in costs related to Nutri-Force of \$5.8 million and increased depreciation and amortization expenses of \$4.0 million. In addition, other SG&A increased as a result of management realignment charges of \$3.4 million, reinvention costs of \$2.7 million, a charge to increase the allowance for doubtful accounts for Nutri-Force of \$1.4 million and a net reduction in acquisition related costs of \$2.9 million.

Income from Operations

Operating income (loss) for our three business segments are provided below (in thousands):

	Fiscal Years Ended		\$ Change	% Change
	December 26, 2015	December 27, 2014		
Income from operations:				
Retail (a)	\$ 192,598	\$ 194,864	\$ (2,266)	(1.2)%
<i>% of net sales</i>	<i>17.8%</i>	<i>18.7%</i>		
Direct (b)	20,904	22,755	(1,851)	(8.1)%
<i>% of net sales</i>	<i>16.2%</i>	<i>17.4%</i>		
Manufacturing (c)	(1,977)	(1,830)	(147)	8.0%
<i>% of net sales</i>	<i>(2.2%)</i>	<i>(3.8%)</i>		
Corporate costs (d)	(122,532)	(113,133)	(9,399)	8.3%
<i>% of net sales</i>	<i>(9.7%)</i>	<i>(9.3%)</i>		
Income from operations	<u>\$ 88,993</u>	<u>\$ 102,656</u>	<u>\$(13,663)</u>	<u>(13.3)%</u>

- (a) Decrease in retail income from operations as a percentage of net sales is due to 0.5% related to occupancy costs and 0.4% from payroll and benefits costs.
- (b) Decrease in direct income from operations as a percentage of net sales is due to 0.7% related to advertising and promotion expenses and 0.4% related to product margin.
- (c) During the period ended December 26, 2015, the manufacturing segment recognized an increase in costs as compared to the prior year due to operational inefficiencies, and includes a \$1.4 million charge for accounts receivable for one wholesale customer which were deemed uncollectible. The period ended December 27, 2014 includes a \$4.5 million charge from adjusting Nutri-Force inventory to fair value as part of purchase accounting.
- (d) The increase in corporate costs includes an increase in depreciation and amortization expenses of \$4.0 million. In addition, corporate costs increased as a result of management realignment charges of \$3.4 million, reinvention costs of \$2.7 million and a net reduction in acquisition related costs of \$2.9 million.

In addition to the items noted above, income from operations includes \$1.8 million of Super Supplements conversion costs and \$0.9 million of closing costs for the stores in Canada.

Provision for Income Taxes

The effective tax rate for Fiscal 2015 was 39.5%, compared to 40.1% for Fiscal 2014. The effective tax rate decreased primarily due to a decrease in permanent non-deductible items during Fiscal 2015 as compared to Fiscal 2014.

Fiscal 2014 Compared To Fiscal 2013

The following tables summarize our results of operations for Fiscal 2014 and Fiscal 2013 (in thousands):

	Fiscal Years Ended		\$ Change	% Change
	December 27, 2014	December 28, 2013		
Net sales	\$1,213,046	\$1,087,469	\$125,577	11.5%
Cost of goods sold	808,787	709,823	98,964	13.9%
<i>Cost of goods sold as % of net sales</i>	66.7%	65.3%		
Gross profit	404,259	377,646	26,613	7.0%
<i>Gross profit as % of net sales</i>	33.3%	34.7%		
Selling, general and administrative expenses	301,603	267,354	34,249	12.8%
<i>SG&A expenses as % of net sales</i>	24.9%	24.6%		
Income from operations	102,656	110,292	(7,636)	(6.9)%
<i>Income from operations as % of net sales</i>	8.5%	10.1%		
Interest expense, net	495	495	—	0.0%
Income before provision for income taxes	102,161	109,797	(7,636)	(7.0)%
Provision for income taxes	40,920	43,251	(2,331)	(5.4)%
Net income	<u>\$ 61,241</u>	<u>\$ 66,546</u>	<u>\$ (5,305)</u>	<u>(8.0)%</u>

Net Sales

The increase in net sales was the result of an increase in our total comparable net sales of \$39.7 million, or 3.7%, as well as an increase in our non-comparable sales of \$85.9 million, which includes \$40.3 million from Nutri-Force. Sales increased primarily in the Sports Nutrition category which increased \$35.2 million and in the Other category which increased \$32.5 million (excluding Nutri-Force) primarily due to new product introductions.

Net sales for our three business segments, as well as a discussion of the changes in each segment's net sales from the comparable prior year period, are provided below (in thousands):

	Fiscal Years Ended		\$ Change	% Change
	December 27, 2014	December 28, 2013		
Net Sales:				
Retail (a)	\$1,042,054	\$ 969,610	\$ 72,444	7.5%
Direct (b)	130,644	117,859	12,785	10.8%
Manufacturing (c)	48,102	—	48,102	—
Segment net sales	1,220,800	1,087,469	133,331	12.3%
Elimination of intersegment revenues	(7,754)	—	(7,754)	—
Total net sales	<u>\$1,213,046</u>	<u>\$1,087,469</u>	<u>\$125,577</u>	<u>11.5%</u>

- (a) The change in retail sales resulted from an increase in non-comparable store sales of \$45.6 million and in comparable store sales of \$26.8 million, or 2.8%. The increase in comparable store sales was driven by customer traffic.
- (b) The increase in direct sales was due to an increase in e-commerce sales of 12.0% which was offset in part by a decrease in catalog sales. The increase in e-commerce sales was largely due to retention marketing programs.
- (c) Net sales to third party manufacturing customers were \$40.3 million for Fiscal 2014, representing net sales since the date of the acquisition of Nutri-Force.

Cost of Goods Sold

Cost of goods sold, which includes product, warehouse, distribution, manufacturing and occupancy costs, increased \$99.0 million, or 13.9%, to \$808.8 million for Fiscal 2014 compared to \$709.8 million for Fiscal 2013. The dollar increase was primarily due to an increase in sales, as well as \$35.0 million from the addition of Nutri-Force. Cost of goods sold as a percentage of net sales increased to 66.7% for the year ended December 27, 2014, compared to 65.3% for the year ended December 28, 2013. The increase of cost of goods sold as a percentage of net sales was primarily due to 0.7% resulting from the acquired manufacturing operations of Nutri-Force and 0.5% due to higher supply chain costs.

	Fiscal Years Ended		\$ Change	% Change
	December 27, 2014	December 28, 2013		
SG&A Expenses (in thousands):				
Payroll and Benefits (a)	\$119,499	\$107,723	\$11,776	10.9%
<i>Payroll & benefit as % of net sales</i>	<i>9.9%</i>	<i>9.9%</i>		
Advertising and Promotion (b)	19,290	16,533	2,757	16.7%
<i>Advertising & promotion as % of net sales</i>	<i>1.6%</i>	<i>1.5%</i>		
Other SG&A (c)	162,814	143,098	19,716	13.8%
<i>Other SG&A as % of net sales</i>	<i>13.4%</i>	<i>13.2%</i>		
Total SG&A Expenses	<u>\$301,603</u>	<u>\$267,354</u>	<u>\$34,249</u>	12.8%

- (a) Payroll and benefits increased primarily due to the increase in head count added to operate new stores and an increase in the average wage rates.
- (b) Advertising and promotion increased primarily due to an increase in digital advertising.
- (c) The increase in other SG&A expenses was primarily due to an increase in depreciation and amortization expense of \$5.9 million, costs related to the addition of Nutri-Force of \$5.8 million, acquisition and integration expenses of \$4.8 million and additional contingent consideration for the acquisition of Nutri-Force of \$1.0 million. Fiscal 2013 included proceeds from insurance recoveries of \$1.1 million and costs related to the acquisition and integration of Super Supplements of \$4.3 million.

Income from Operations

Operating income (loss) for our three business segments are provided below (in thousands):

	Fiscal Years Ended		\$ Change	% Change
	December 27, 2014	December 28, 2013		
Income from operations:				
Retail (a)	\$ 194,864	\$ 192,439	\$ 2,425	1.3%
<i>% of net sales</i>	<i>18.7%</i>	<i>19.8%</i>		
Direct (b)	22,755	21,930	825	3.8%
<i>% of net sales</i>	<i>17.4%</i>	<i>18.6%</i>		
Manufacturing (c)	(1,830)	—	(1,830)	—
<i>% of net sales</i>	<i>(3.8%)</i>	<i>0.0%</i>		
Corporate costs (d)	(113,133)	(104,077)	(9,056)	8.7%
<i>% of net sales</i>	<i>(9.3%)</i>	<i>(9.6%)</i>		
Income from operations	<u>\$ 102,656</u>	<u>\$ 110,292</u>	<u>\$(7,636)</u>	(6.9)%

- (a) Decrease in retail income from operations as a percentage of net sales is primarily due to supply chain costs of 0.6% and payroll related benefits costs of 0.3% as a percentage of net sales.

- (b) Decrease in direct income from operations as a percentage of net sales is primarily due to advertising and promotion expenses of 0.6% and general operating expenses of 0.5% as a percentage of net sales.
- (c) Loss from operations for the manufacturing segment was \$1.8 million for Fiscal 2014, and includes depreciation and amortization expense of \$0.9 million. Excluding \$4.5 million in charges related to the inventory valuation step up for inventory sold subsequent to the acquisition of Nutri-Force, income from operations for the manufacturing segment was \$2.7 million, or 6.6% of net sales for the manufacturing segment
- (d) The increase in corporate costs was primarily due to an increase in depreciation and amortization expense of \$4.9 million, acquisition and integration costs of \$4.8 million and additional contingent consideration for the acquisition of Nutri-Force of \$1.0 million. Fiscal 2013 included proceeds from insurance recoveries of \$1.1 million and costs related to the acquisition and integration of Super Supplements of \$4.3 million.

Provision for Income Taxes

The effective tax rate for the year ended December 27, 2014 was 40.1%, compared to 39.4% for the year ended December 28, 2013. The effective tax rate increased primarily due to an increase in permanent non-deductible items during Fiscal 2014 as compared to Fiscal 2013 and a benefit in Fiscal 2013 from the reversal of charges previously recorded relating to uncertain tax positions due to the expiration of the applicable statutes of limitations that did not recur in Fiscal 2014.

Key Indicators of Liquidity and Capital Resources

The following table provides key indicators of our liquidity and capital resources (in thousands):

	<u>December 26, 2015</u>	<u>December 27, 2014</u>	
Balance Sheet Data:			
Cash and cash equivalents	\$ 15,104	\$ 12,166	
Working capital	157,089	125,382	
Total assets	748,691	722,391	
Total debt, including capital lease obligations	123,525	8,195	
			Fiscal Year Ended
	<u>December 26, 2015</u>	<u>December 27, 2014</u>	<u>December 28, 2013</u>
Other Information:			
Depreciation and amortization (1)	\$ 38,495	\$ 34,219	\$ 28,026
Cash Flows Provided By (Used In):			
Operating activities	\$ 60,667	\$ 100,147	\$ 81,122
Investing activities	(39,430)	(125,184)	(93,650)
Financing activities	(18,428)	(36,877)	5,463
Effect of exchange rate changes on cash and cash equivalents	129	44	(67)
Net (decrease) increase in cash and cash equivalents	<u>\$ 2,938</u>	<u>\$ (61,870)</u>	<u>\$ (7,132)</u>

- (1) Excludes amortization of deferred financing fees.

Liquidity and Capital Resources

Our primary uses of cash have been to fund working capital, operating expenses and capital expenditures related primarily to the build-out of new stores, the remodeling of existing stores and information technology investments as well as to repurchase shares of our common stock. Historically, we have financed our requirements predominately through internally generated cash flow, supplemented with short-term financing. In

Fiscal 2015, we issued \$143.8 million of Convertible Notes to fund the repurchase of shares of our common stock. Refer to Note 8., “Credit Arrangements”, to our consolidated financial statements included in this Annual Report on Form 10-K for additional information. We believe that the cash generated by operations and cash and cash equivalents, together with the borrowing availability under our revolving credit facility, will be sufficient to meet our working capital needs for the next twelve months, our store growth plans, systems development, store improvements and interest payments on the Convertible Notes, as well as the repurchase of shares of our common stock from time to time.

We purchased \$146.1 million of common stock under our \$300.0 million share repurchase programs during Fiscal 2015. Refer to Note 11., “Share Repurchase Programs”, to our consolidated financial statements included in this Annual Report on Form 10-K for additional information. We invested \$39.4 million in capital expenditures during Fiscal 2015, most of which pertains to new stores, the remodeling of existing stores and information technology investments. During Fiscal 2016 we plan to spend approximately \$40 million in capital expenditures, including costs for building new stores, remodeling existing stores and information technology. We opened 50 new stores and closed 9 stores during Fiscal 2015. We plan to open approximately 30 new stores in Fiscal 2016. Our working capital requirements for merchandise inventory will continue to increase as we continue to open additional stores. Currently, our practice is to establish an inventory level of approximately \$155,000 at cost for each of our stores, the cost of which is partially offset by vendor incentive and allowance programs. Additionally, 30 day payment terms have been extended to us by some of our suppliers allowing us to effectively manage our inventory and working capital.

The Company is subject to concentrations of credit risk associated with cash and cash equivalents, and at times holds cash balances in excess of Federal Deposit Insurance Corporation limits. Currently, the Company’s cash management practice is to hold cash balances in quality institutions and invest in highly liquid and secure investments.

We were in compliance with all debt covenants relating to our Revolving Credit Facility and Convertible Notes as of December 26, 2015. We expect to be in compliance with these same debt covenants during Fiscal 2016 as well.

Cash Provided by Operating Activities

Net cash provided by operating activities was \$60.7 million and \$100.1 million during Fiscal 2015 and Fiscal 2014, respectively. The \$39.5 million decrease in net cash flows from operating activities is primarily due to an increase in inventory purchases to support activities including the transition to a new third-party warehouse and the transition of products to our manufacturing facility.

Net cash provided by operating activities was \$100.1 million and \$81.1 million during Fiscal 2014 and Fiscal 2013, respectively. The \$19.0 million increase in net cash flows from operating activities is primarily due to reductions in prepaid taxes and inventory purchases.

Cash Used in Investing Activities

Net cash used in investing activities was \$39.4 million during Fiscal 2015 as compared to \$125.2 million during Fiscal 2014. The \$85.8 million decrease in cash used in investing activities is primarily due to the \$81.5 million for the acquisition of Nutri-Force in Fiscal 2014.

Net cash used in investing activities was \$125.2 million during Fiscal 2014 as compared to \$93.7 million during Fiscal 2013. The \$31.5 million increase in cash used in investing activities is primarily due to the \$81.5 million for the acquisition of Nutri-Force in Fiscal 2014 partially offset by the \$50.5 million for the acquisition of Super Supplements.

Cash Used in and Provided by Financing Activities

Net cash used in financing activities was \$18.4 million in Fiscal 2015 as compared to \$36.9 million in Fiscal 2014. The \$18.4 million decrease in cash used in financing activities was primarily due to purchases of common stock under the Company's share repurchase programs of \$146.1 million in Fiscal 2015 and \$57.8 million in Fiscal 2014 partially offset by the net proceeds from the issuance of Convertible Notes of \$125.7 million in Fiscal 2015 and by net borrowings under the Company's revolving credit facility of \$8.0 million in Fiscal 2014. In addition, proceeds from exercises of stock options decreased \$8.0 million in Fiscal 2015 as compared to Fiscal 2014.

Net cash used in financing activities was \$36.9 million in Fiscal 2014 as compared to net cash provided by financing activities of \$5.5 million in Fiscal 2013. The \$42.3 million increase in cash used in financing activities was primarily due to purchases of common stock under the Company's share repurchase program of \$57.8 million and an increase in purchases of treasury stock of \$2.1 million partially offset by net borrowings under the Company's revolving credit facility of \$8.0 million, an increase in the proceeds from exercises of stock options of \$5.9 million and an increase in the tax benefits on exercises of stock options of \$3.3 million.

Revolving Credit Facility

The terms of our Revolving Credit Facility extend through October 11, 2018, and allow the Company to borrow up to \$90.0 million, subject to the terms of the facility, with a Company option to increase the facility up to a total of \$150.0 million. For information regarding the terms of our Revolving Credit Facility, refer to Note 8., "Credit Arrangements", to our consolidated financial statements included in this Annual Report on Form 10-K. As of December 26, 2015, the Company had \$8.0 million of borrowings outstanding on its Revolving Credit Facility. The largest amount borrowed at any given point during Fiscal 2015 was \$28.0 million. The unused available line of credit under the Revolving Credit Facility at December 26, 2015 was \$79.1 million.

Convertible Notes

On December 9, 2015, the Company closed its offering of \$143.8 million of its 2.25% Convertible Notes. The Convertible Notes are senior unsecured obligations of the Company. Interest is payable on the Notes on June 1 and December 1 of each year, commencing on June 1, 2016 until their maturity date of December 1, 2020. For additional information regarding the terms of our Convertible Notes, refer to Note 8., "Credit Arrangements", to our consolidated financial statements included in this Annual Report on Form 10-K.

Contractual Obligations and Commercial Commitments

As of December 26, 2015, our lease commitments and contractual obligations were as follows (in thousands):

Fiscal year ending	Total	Operating Leases Real Estate (1)	Convertible Notes	Interest on Convertible Notes	Operating Leases Equipment	Capital Lease Obligations
2016	\$123,817	\$119,983	\$ —	\$ 3,173	\$571	\$ 90
2017	116,478	112,965	—	3,234	254	25
2018	102,073	98,839	—	3,234	—	—
2019	84,871	81,637	—	3,234	—	—
2020	213,366	66,382	143,750	3,234	—	—
Thereafter	195,019	195,019	—	—	—	—
	<u>\$835,624</u>	<u>\$674,825</u>	<u>\$143,750</u>	<u>\$16,109</u>	<u>\$825</u>	<u>\$115</u>

- (1) Store operating leases included in the above table do not include contingent rent based upon sales volume. Operating leases do not include common area maintenance costs or real estate taxes that are paid to the landlord during the year, which combined represented approximately 17.5% of our minimum lease obligations for Fiscal 2015. In addition, not included are variable activity based fees associated with our west coast logistics facilities, which were approximately \$0.6 million during Fiscal 2015 and are expected to be approximately \$5.0 million during Fiscal 2016.

We are not party to any long-term purchase commitments. Our typical merchandise purchase orders are generally performed upon within a four to six week period. However, as of December 26, 2015, we have an obligation, excluded from the above commitments, of approximately \$18.0 million to purchase an agreed upon supply of our own branded merchandise and raw materials during Fiscal 2016 which has been produced by, and resides with, the applicable vendors.

In addition to the contractual obligations set forth in the table above, we have employment agreements with certain of our executives and an executive severance policy for all our officers that provide for compensation and certain other benefits. Under certain circumstances, these agreements and the policy provide for severance or other payments.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any off-balance sheet arrangements or relationships with entities that are not consolidated into our financial statements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources. The Company has commitments for its operating leases, primarily related to its stores as well as its manufacturing and corporate facilities, which are not reflected on our balance sheet.

Effects of Inflation

We do not believe that our sales or operating results have been materially affected by inflation during the periods presented in our financial statements. During Fiscal 2015, retail price inflation was approximately 1%. During Fiscal 2016, we anticipate retail inflation to be in line with the Fiscal 2015 rate. Additionally, we may experience increased cost pressure from our suppliers which could have an adverse effect on our gross profit results in the future.

Recent Accounting Pronouncements

Except as discussed in Note 2., “Summary of Significant Accounting Policies”, to our consolidated financial statements included in this Annual Report on Form 10-K, we have considered all new accounting pronouncements and have concluded that there are no new pronouncements that may have a material impact on our results of operations, financial condition, or cash flows, based on current information.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

The Company’s market risks relate primarily to changes in interest rates. Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows.

Our Revolving Credit Facility carries a floating interest rate and, therefore, our statements of income and our cash flows are exposed to changes in interest rates. As of December 26, 2015, there was \$8.0 million of borrowings outstanding on our Revolving Credit Facility. At December 26, 2015, a hypothetical 10% change in the floating interest rate would have a de minimis impact on our consolidated financial statements.

Foreign Currency Risk

The Company is minimally exposed to foreign currency exchange risk. We lease and operate three stores in Canada. Sales made from the Canadian stores are made in Canadian dollars. The Company does not currently hedge against the risk of exchange rate fluctuations. At December 26, 2015, a hypothetical 10% change in value of the U.S. dollar relative to the Canadian dollar would have a de minimis impact on our consolidated financial statements.

Item 8. *Financial Statements and Supplementary Data*

The response to this item is incorporated herein by reference to the financial statements and supplementary financial data in Item 15. “*Exhibits and Financial Statement Schedules*” appearing at the end of this Annual Report on Form 10-K.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, who are our principal executive officer and principal financial officer, respectively, of the design and operation of our disclosure controls and procedures as such term is defined in Rules 13a-15(e) and 15d – 15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”) as of December 26, 2015, pursuant to Exchange Act Rule 13a-15 and 15d-15. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 26, 2015.

Management’s Report on Internal Control Over Financial Reporting

See Item 15. “*Exhibits and Financial Statement Schedules*” appearing at the end of this Annual Report on Form 10-K for Management’s Report on Internal Control Over Financial Reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 26, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Information with respect to this Item will be included in the Company's Proxy Statement to be filed in April 2016, which is incorporated herein by reference under the captions "Proposal Two – Election of Directors", "Corporate Governance", "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance".

Item 11. *Executive Compensation*

Information with respect to this Item will be included in the Company's Proxy Statement to be filed in April 2016, which is incorporated herein by reference under the captions, "Director Compensation", "Compensation Discussion and Analysis" and "Executive Compensation".

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information with respect to this Item will be included in the Company's Proxy Statement to be filed in April 2016, which is incorporated herein by reference under the captions "Security Ownership" and "Equity Compensation Plan Information".

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information with respect to this Item will be included in the Company's Proxy Statement to be filed in April 2016, which is incorporated herein by reference under the captions "Corporate Governance – Director Independence", "Corporate Governance – Policies with Respect to Transactions with Related Persons" and "Certain Relationships and Related Party Transactions, and Director Independence".

Item 14. *Principal Accounting Fees and Services*

Information with respect to this Item will be included in the Company's Proxy Statement to be filed in April 2016, which is incorporated herein by reference under the caption "Principal Accountant Fees and Services".

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a) The following documents are filed as part of this annual report on Form 10-K:
1. The following consolidated financial statements listed below are filed as a separate section of this annual report on Form 10-K:

Management's Reports and Reports of Independent Registered Public Accounting Firm – Deloitte & Touche LLP.

Consolidated Balance Sheets as of December 26, 2015 and December 27, 2014.

Consolidated Statements of Income for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013.

Consolidated Statements of Comprehensive Income for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013.

Consolidated Statements of Stockholders' Equity for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013.

Consolidated Statements of Cash Flows for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013.

Notes to Consolidated Financial Statements for the Fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013.

2. Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Asset Purchase Agreement, dated as of December 17, 2012, by and among Super Supplements, Inc., John Wurts, Vitamin Shoppe Mariner, Inc. and, solely for certain specified provisions thereof, Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on December 18, 2012 (File No. 001-34507))
2.2	Amendment No. 1 to Asset Purchase Agreement, dated as of December 30, 2012, by and among Super Supplements, Inc., John Wurts, Vitamin Shoppe Mariner, Inc. and Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on January 2, 2013 (File No. 001-34507))
2.3	LLC Interest Purchase Agreement, dated as of June 6, 2014, by and among VS Hercules LLC, FDC Vitamins, LLC, MBF/FDC Acquisition, LLC, FDC Management, LLC, FDC Limited II, LLC, Nutri-Force Nutrition, Inc., the individuals listed therein and, solely for certain specified provisions thereof, Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 2.1 in our Current report on Form 8-K filed on June 9, 2014 (File No. 001-34507))
3.1	Amended and Restated Certificate of Incorporation of Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 3.1 in Amendment No. 1 to our Form 10-Q filed on November 13, 2009 (File No. 001-34507))
3.2	Fourth Amended and Restated By-laws of Vitamin Shoppe Inc. (Filed herewith)
4.1	Specimen certificate for shares of common stock, \$0.01 par value, of Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 4.4 in Amendment No. 4 to our Registration Statement No. 333-160756 on Form S-1 filed on October 14, 2009 (File No. 333-160756))
4.2	Indenture, dated as of December 9, 2015, by and between Vitamin Shoppe, Inc. and Wilmington Trust, National Association. (Incorporated by reference to Exhibit 4.1 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))

<u>Exhibit No.</u>	<u>Description</u>
10.1	Base Convertible Bond Hedge Confirmation, dated as of December 3, 2015, by and between Vitamin Shoppe, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.2	Base Convertible Bond Hedge Confirmation, dated as of December 3, 2015, by and between Vitamin Shoppe, Inc. and J.P. Morgan Chase Bank, National Association, London Branch. (Incorporated by reference to Exhibit 10.3 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.3	Base Warrant Confirmation, dated as of December 3, 2015, by and between Vitamin Shoppe, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.4 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.4	Base Warrant Confirmation, dated as of December 3, 2015, by and between Vitamin Shoppe, Inc. and J.P. Morgan Chase Bank, National Association, London Branch. (Incorporated by reference to Exhibit 10.5 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.5	Additional Convertible Bond Hedge Confirmation, dated as of December 8, 2015, by and between Vitamin Shoppe, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.6 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.6	Additional Convertible Bond Hedge Confirmation, dated as of December 8, 2015, by and between Vitamin Shoppe, Inc. and J.P. Morgan Chase Bank, National Association, London Branch. (Incorporated by reference to Exhibit 10.7 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.7	Additional Warrant Confirmation, dated as of December 8, 2015, by and between Vitamin Shoppe, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.8 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.8	Additional Warrant Confirmation, dated as of December 8, 2015, by and between Vitamin Shoppe, Inc. and J.P. Morgan Chase Bank, National Association, London Branch. (Incorporated by reference to Exhibit 10.9 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.9	Amended and Restated Loan and Security Agreement, dated as of January 20, 2011, by and among Vitamin Shoppe Industries Inc. and VS Direct Inc., as Borrowers, Vitamin Shoppe, Inc., as Guarantor, the Lenders and Issuing Bank from time to time party thereto, and JPMorgan Chase Bank, N.A. as Administrative Agent. (Incorporated by reference to Exhibit 10.2 in our Annual Report on Form 10-K filed on March 9, 2011 (File No. 001-34507))
10.10	First Amendment to Amended and Restated Loan and Security Agreement, dated as of January 10, 2013, by and among Vitamin Shoppe Industries Inc., VS Direct Inc. and Vitamin Shoppe Mariner, Inc., as Borrowers, each guarantor party thereto, the lenders party thereto, and JPMorgan Chase Bank, N.A., as Agent, the Issuing Bank and a Lender. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))
10.11	Second Amendment to Amended and Restated Loan and Security Agreement and First Amendment to Existing Guarantees, dated as of October 11, 2013, by and among Vitamin Shoppe Industries Inc., VS Direct Inc., Vitamin Shoppe Mariner, Inc., and Vitamin Shoppe Global, Inc., as Borrowers, each guarantor party thereto, and JPMorgan Chase Bank, N.A., as Agent. (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))

<u>Exhibit No.</u>	<u>Description</u>
10.12	Third Amendment to Amended and Restated Loan and Security Agreement, dated as of December 2, 2015, by and among Vitamin Shoppe Industries Inc., VS Direct Inc., Vitamin Shoppe Mariner, Inc., and Vitamin Shoppe Global, Inc., VS Hercules LLC, FDC Vitamins LLC, Betancourt Sports Nutrition, LLC, Vitamin Shoppe Procurement Services, Inc., as Borrowers, the guarantors parties thereto, the lenders parties thereto, and JPMorgan Chase Bank, N.A., as Agent. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))
10.13	Fourth Amendment to Amended and Restated Loan and Security Agreement, dated as of January 29, 2016, by and among Vitamin Shoppe Industries Inc., VS Direct Inc., Vitamin Shoppe Mariner, Inc., and Vitamin Shoppe Global, Inc., VS Hercules LLC, FDC Vitamins LLC, Betancourt Sports Nutrition, LLC, Vitamin Shoppe Procurement Services, Inc., as Borrowers, the guarantors parties thereto, the lenders parties thereto, and JPMorgan Chase Bank, N.A., as Agent. (Filed herewith)
10.14	Intellectual Property Security Agreement, dated as of September 25, 2009, by and among Vitamin Shoppe Industries Inc., VS Direct Inc. and Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to Exhibit 99.5 in our Current Report on Form 8-K filed on September 30, 2009 (File No. 333-134983-02))
10.15	Second Amended and Restated Intellectual Property Security Agreement, dated as of October 6, 2014, by and between Vitamin Shoppe Industries Inc., as Grantor and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on October 10, 2014 (File No. 001-34507))
10.16	Stock Pledge Agreement, dated as of September 25, 2009, by and between Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.), as Pledgor, and JPMorgan Chase Bank, N.A., as Pledgee. (Incorporated by reference to Exhibit 99.6 in our Current Report on Form 8-K filed on September 30, 2009 (File No. 333-134983-02))
10.17	Amended and Restated Stock Pledge Agreement, dated as of October 11, 2013, by and between Vitamin Shoppe Industries Inc., as Pledgor, and JPMorgan Chase Bank, N.A., as Pledgee. (Incorporated by reference to Exhibit 10.3 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))
10.18	Stock Pledge Agreement, dated as of August 21, 2014, by and between Vitamin Shoppe Global, Inc., as Pledgor, and JPMorgan Chase Bank, N.A., as Pledgee. (Incorporated by reference to Exhibit 10.3 in our Current Report on Form 8-K filed on August 27, 2014 (File No. 001-34507))
10.19	Stock Pledge Agreement, dated as of August 21, 2014, by and between VS Hercules LLC, as Pledgor, and JPMorgan Chase Bank, N.A., as Pledgee. (Incorporated by reference to Exhibit 10.4 in our Current Report on Form 8-K filed on August 27, 2014 (File No. 001-34507))
10.20	Stock Pledge Agreement, dated as of August 21, 2014, by and between FDC Vitamins, LLC, as Pledgor, and JPMorgan Chase Bank, N.A., as Pledgee. (Incorporated by reference to Exhibit 10.5 in our Current Report on Form 8-K filed on August 27, 2014 (File No. 001-34507))
10.21	Guarantee of Vitamin Shoppe Industries Inc. and Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.), dated as of September 25, 2009, of obligations of VS Direct Inc. under the Amended and Restated Loan and Security Agreement, as amended. (Incorporated by reference to Exhibit 99.8 in our Current Report on Form 8-K filed on September 30, 2009 (File No. 333-134983-02))
10.22	Guarantee of VS Direct Inc. and Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.), dated as of September 25, 2009, of obligations of Vitamin Shoppe Industries Inc. under the Amended and Restated Loan and Security Agreement, as amended. (Incorporated by reference to Exhibit 99.9 in our Current Report on Form 8-K filed on September 30, 2009 (File No. 333-134983-02))

<u>Exhibit No.</u>	<u>Description</u>
10.23	Guarantee of Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and VS Direct Inc., dated as of January 10, 2013, of obligations of Vitamin Shoppe Mariner, Inc. under the Amended and Restated Loan Agreement, as amended. (Incorporated by reference to Exhibit 10.5 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))
10.24	Guarantee of Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc., VS Direct Inc. and Vitamin Shoppe Mariner, Inc., dated as of October 11, 2013, of the obligations of Vitamin Shoppe Global, Inc. under the Amended and Restated Loan Agreement, as amended. (Incorporated by reference to Exhibit 10.7 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))
10.25	Guarantee, dated as of August 21, 2014, by Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc., VS Direct Inc., Vitamin Shoppe Mariner, Inc., Vitamin Shoppe Global, Inc., VS Hercules LLC, FDC Vitamins, LLC and Betancourt Sports Nutrition, LLC, of the obligations of one another under the Amended and Restated Loan Agreement, as amended. (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on August 27, 2014 (File No. 001-34507))
10.26	Joinder Agreement, dated as of January 10, 2013, by and between Vitamin Shoppe Mariner, Inc., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.4 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))
10.27	Joinder Agreement, dated as of October 11, 2013, by and between Vitamin Shoppe Global, Inc., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.6 in our Current Report on Form 8-K filed on October 16, 2013 (File No. 001-34507))
10.28	Joinder Agreement, dated as of August 21, 2014, by and between VS Hercules LLC, FDC Vitamins, LLC, Betancourt Sports Nutrition, LLC, and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on August 27, 2014 (File No. 001-34507))
10.29	Joinder Agreement, dated as of March 20, 2015 by and between Vitamin Shoppe Procurement Services and JPMorgan Chase Bank, N.A. (Filed herewith)
10.30	Form of Indemnification Agreement by and among executive officer, Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.29 in Amendment No. 4 to our Registration Statement No. 333-160756 on Form S-1 filed on October 14, 2009 (File No. 333-160756))
10.31	Form of Indemnification Agreement by and among director, Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.30 in Amendment No. 4 to our Registration Statement No. 333-160756 on Form S-1 filed on October 14, 2009 (File No. 333-160756))
10.32	VS Parent, Inc. 2006 Stock Option Plan. * (Incorporated by reference to Exhibit 10.27 in Amendment No. 5 to our Registration Statement No. 333-160756 on Form S-1 filed on October 22, 2009 (File No. 333-160756))
10.33	2009 Vitamin Shoppe Equity Incentive Plan. * (Incorporated by reference to Exhibit 10.27 in Amendment No. 2 to our Registration Statement No. 333-160756 on Form S-1 filed on September 22, 2009 (File No. 333-160756))
10.34	Vitamin Shoppe 2010 Employee Stock Purchase Plan. * (Incorporated by reference to Exhibit 10.16 in our Annual Report on Form 10-K filed on March 17, 2010 (File No. 001-34507))
10.35	Vitamin Shoppe, Inc. Executive Severance Pay Policy, amended and restated effective as of October 29, 2014. (Filed herewith)
10.36	Director Compensation Plan and Stock Ownership Guidelines.* (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on January 4, 2016 (File No. 001-34507))

<u>Exhibit No.</u>	<u>Description</u>
10.37	Employment and Non-Competition Agreement, dated as of September 9, 2009, among Richard Markee, VS Parent, Inc., VS Direct, Inc. Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.26 in Amendment No. 2 to our Registration Statement No. 333-160756 on Form S-1 filed on September 22, 2009 (File No. 333-160756))
10.38	Amendment No. 1 to Employment and Non-Competition Agreement, dated as of February 28, 2011, by and among Richard Markee, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.32 in our Annual Report on Form 10-K filed on March 9, 2011 (File No. 001-34507))
10.39	Amendment No. 2 to Employment and Non-Competition Agreement, dated as of March 29, 2012, by and among Richard Markee, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on April 2, 2012 (File No. 001-34507))
10.40	Employment Agreement, effective January 1, 2015, by and between Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. and Richard Markee. * (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on January 7, 2015 (File No. 001-34507))
10.41	Letter Agreement, dated as of December 31, 2015, among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Richard Markee. * (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on January 4, 2016 (File No. 001-34507))
10.42	Employment and Non-Competition Agreement, dated as of March 3, 2015, among Colin Watts and Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and all of their subsidiaries and affiliates. * (Incorporated by reference to Exhibit 99.2 in our Current Report on Form 8-K filed on March 4, 2015 (File No. 001-34507))
10.43	Amended and Restated Employment and Non-Competition Agreement, dated as of June 12, 2006, by and among Anthony Truesdale, VS Parent, Inc., Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.17 in Amendment No. 1 to our Registration Statement No. 333-134983 on Form S-4 filed on June 14, 2006 (File No. 333-134983-02))
10.44	Amendment to Amended and Restated Employment and Non-Competition Agreement, dated as of December 28, 2007, by and among Anthony Truesdale, VS Parent, Inc., Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.36 in our Annual Report on Form 10-K filed on March 28, 2008 (File No. 333-134983-02))
10.45	Amendment No. 2 to Employment and Non-Competition Agreement, dated as of September 25, 2009 by and among Anthony Truesdale, VS Parent, Inc., Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 99.2 in our Current Report on Form 8-K filed on September 30, 2009 (File No. 333-134983-02))
10.46	Amendment No. 3 to Employment and Non-Competition Agreement, dated as of February 28, 2011, by and among Anthony Truesdale, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.31 in our Annual Report on Form 10-K filed on March 9, 2011 (File No. 001-34507))
10.47	Amendment No. 4 to Employment and Non-Competition Agreement, dated as of March 29, 2012, by and among Anthony Truesdale, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on April 2, 2012 (File No. 001-34507))

<u>Exhibit No.</u>	<u>Description</u>
10.48	Letter Agreement, dated as of March 31, 2015, by and between Vitamin Shoppe, Inc. and Anthony Truesdale. * (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on April 7, 2015 (File No. 001-34507))
10.49	Employment and Non-Competition Agreement, dated as of January 15, 2007, by and among Louis H. Weiss, VS Parent, Inc., VS Direct, Inc., Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries, Inc. * (Incorporated by reference to Exhibit 10.29 in our Current Report on Form 8-K filed on January 16, 2007 (File No. 333-134983-02))
10.50	Amendment to Employment and Non-Competition Agreement, dated as of December 28, 2007, by and among Louis H. Weiss, VS Parent, Inc., VS Direct, Inc., Vitamin Shoppe, Inc. (f/k/a VS Holdings, Inc.) and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.33 in our Annual Report on Form 10-K filed on March 28, 2008 (File No. 333-134983-02))
10.51	Amendment No. 2 to Employment and Non-Competition Agreement, dated as of March 29, 2012, by and among Louis H. Weiss, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.4 in our Current Report on Form 8-K filed on April 2, 2012 (File No. 001-34507))
10.52	Amendment No. 3 to Employment and Non-Competition Agreement, dated as of March 27, 2015, by and among Louis H. Weiss, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on March 30, 2015 (File No. 001-34507))
10.53	Letter Agreement, dated as of January 29, 2016, among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Louis H. Weiss (Filed herewith)
10.54	Letter Agreement, dated as of February 10, 2011, by and between Brenda Galgano and Vitamin Shoppe Industries, Inc. * (Incorporated by reference to Exhibit 10.29 in our Annual Report on Form 10-K filed on March 9, 2011 (File No. 001-34507))
10.55	Employment and Non-Competition Agreement, dated as of March 29, 2012, by and among Brenda Galgano, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc. * (Incorporated by reference to Exhibit 10.5 in our Current Report on Form 8-K filed on April 2, 2012 (File No. 001-34507))
10.56	Amendment to Employment and Non-Competition Agreement, dated as of March 27, 2015, by and among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Brenda Galgano. * (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on March 30, 2015 (File No. 001-34507))
10.57	Lease Agreement, dated as of May 2, 2002, by and between Hartz Mountain Industries, Inc. and Vitamin Shoppe Industries Inc. (Incorporated by reference to Exhibit 10.22 in our Registration Statement No. 333-134983 on Form S-4 filed on June 13, 2006 (File No. 333-134983-02))
10.58	Lease Agreement, dated as of August 27, 2012, by and between CLF Ashland, LLC and Vitamin Shoppe Industries Inc. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on August 31, 2012 (File No. 001-34507))
10.59	Master Confirmation - Capped Accelerated Share Repurchase, dated as of November 3, 2014, by and among Vitamin Shoppe, Inc. and JP Morgan Securities LLC, as Agent for JPMorgan Chase Bank, National Association, London Branch. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on November 6, 2014 (File No. 001-34507))
10.60	Master Confirmation - Capped Accelerated Share Repurchase, dated as of December 7, 2015, by and among Vitamin Shoppe, Inc. and JP Morgan Securities LLC, as Agent for JPMorgan Chase Bank, National Association, London Branch. (Incorporated by reference to Exhibit 10.10 in our Current Report on Form 8-K filed on December 10, 2015 (File No. 001-34507))

<u>Exhibit No.</u>	<u>Description</u>
10.61	Agreement, dated as of January 12, 2016, by and between the Company and Carlson Capital. (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on January 12, 2016 (File No. 001-34507))
21.1	Subsidiaries of the Registrant. (Filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm. (Filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer. (Filed herewith)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer. (Filed herewith)
101	The following financial information from the Company’s Annual Report on Form 10-K for the fiscal year ended December 26, 2015, formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets as of December 26, 2015 and December 27, 2014; (b) Consolidated Statements of Income for the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013; (c) Consolidated Statements of Comprehensive Income for the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013; (d) Consolidated Statements of Stockholders’ Equity for the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013; (e) Consolidated Statements of Cash Flows for the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013; and (f) Notes to Consolidated Financial Statements for the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013.

* Management contract or compensation plan or arrangement.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined under the Exchange Act) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Such internal control includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets; and (ii) provide reasonable assurance (A) that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors; and (B) regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 26, 2015. In making this assessment, it used the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published in 2013. Based on this assessment, management has determined that, as of December 26, 2015, our internal control over financial reporting is effective based on those criteria.

The Company's internal control over financial reporting as of December 26, 2015 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their attestation report which appears herein.

February 23, 2016

/S/ Colin Watts

Colin Watts
Chief Executive Officer

/S/ Brenda Galgano

Brenda Galgano
EVP and Chief Financial Officer

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Vitamin Shoppe, Inc. is responsible for the preparation, objectivity and integrity of the consolidated financial statements and other information contained in this Annual Report on Form 10-K. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include some amounts that are based on management's informed judgments and best estimates.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and has expressed herein their unqualified opinion on those financial statements.

The Audit Committee of the Board of Directors, which oversees all of the Company's financial reporting process on behalf of the Board of Directors, consists solely of independent directors, meets with the independent registered public accounting firm, internal auditors and management periodically to review their respective activities and the discharge of their respective responsibilities. Both the independent registered public accounting firm and the internal auditors have unrestricted access to the Audit Committee, with or without management, to discuss the scope and results of their audits and any recommendations regarding the system of internal controls.

February 23, 2016

/S/ Colin Watts

Colin Watts
Chief Executive Officer

/S/ Brenda Galgano

Brenda Galgano
EVP and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Vitamin Shoppe, Inc.
Secaucus, New Jersey

We have audited the internal control over financial reporting of Vitamin Shoppe, Inc. and Subsidiary (the “Company”) as of December 26, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 26, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the fiscal year ended December 26, 2015 of the Company and our report dated February 23, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
New York, New York
February 23, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Vitamin Shoppe, Inc.
Secaucus, New Jersey

We have audited the accompanying consolidated balance sheets of Vitamin Shoppe, Inc. and Subsidiary (the “Company”) as of December 26, 2015 and December 27, 2014, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three fiscal years in the period ended December 26, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 26, 2015 and December 27, 2014, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 26, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 26, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP
New York, New York
February 23, 2016

**VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)**

	<u>December 26, 2015</u>	<u>December 27, 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,104	\$ 12,166
Accounts receivable, net of allowance of \$897 and \$1,883 in 2015 and 2014, respectively	7,437	10,376
Inventories	226,830	187,027
Prepaid expenses and other current assets	25,194	29,580
Deferred income taxes	—	7,449
Total current assets	<u>274,565</u>	<u>246,598</u>
Property and equipment, net	140,158	140,596
Goodwill	243,269	243,269
Other intangibles, net	87,270	89,025
Other long-term assets	3,429	2,903
Total assets	<u>\$748,691</u>	<u>\$722,391</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility	\$ 8,000	\$ 8,000
Accounts payable	41,217	37,396
Deferred sales	20,483	22,499
Accrued expenses and other current liabilities	47,776	53,321
Total current liabilities	<u>117,476</u>	<u>121,216</u>
Convertible notes, net	115,410	—
Deferred income taxes	—	9,151
Deferred rent	39,889	39,388
Other long-term liabilities	615	702
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 250,000,000 shares authorized and no shares issued and outstanding at December 26, 2015 and December 27, 2014	—	—
Common stock, \$0.01 par value; 400,000,000 shares authorized, 25,993,715 shares issued and 25,873,581 shares outstanding at December 26, 2015, and 30,106,337 shares issued and 30,048,881 shares outstanding at December 27, 2014	260	301
Additional paid-in capital	139,827	267,083
Treasury stock, at cost; 120,134 shares at December 26, 2015 and 57,456 shares at December 27, 2014	(5,225)	(2,695)
Accumulated other comprehensive loss	(60)	(83)
Retained earnings	<u>340,499</u>	<u>287,328</u>
Total stockholders' equity	<u>475,301</u>	<u>551,934</u>
Total liabilities and stockholders' equity	<u>\$748,691</u>	<u>\$722,391</u>

See accompanying notes to consolidated financial statements.

VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net sales	\$ 1,266,549	\$ 1,213,046	\$ 1,087,469
Cost of goods sold	847,634	808,787	709,823
Gross profit	418,915	404,259	377,646
Selling, general and administrative expenses	329,922	301,603	267,354
Income from operations	88,993	102,656	110,292
Interest expense, net	1,105	495	495
Income before provision for income taxes	87,888	102,161	109,797
Provision for income taxes	34,717	40,920	43,251
Net income	<u>\$ 53,171</u>	<u>\$ 61,241</u>	<u>\$ 66,546</u>
Weighted average common shares outstanding			
Basic	28,954,804	30,239,183	29,992,620
Diluted	29,203,429	30,664,105	30,541,057
Net income per common share			
Basic	\$ 1.84	\$ 2.03	\$ 2.22
Diluted	\$ 1.82	\$ 2.00	\$ 2.18

See accompanying notes to consolidated financial statements.

VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	<u>Fiscal Year Ended</u>		
	<u>December 26, 2015</u>	<u>December 27, 2014</u>	<u>December 28, 2013</u>
Net income	\$53,171	\$61,241	\$66,546
Other comprehensive income (loss):			
Foreign currency translation adjustments	<u>23</u>	<u>3</u>	<u>(87)</u>
Other comprehensive income (loss)	<u>23</u>	<u>3</u>	<u>(87)</u>
Comprehensive income	<u>\$53,194</u>	<u>\$61,244</u>	<u>\$66,459</u>

See accompanying notes to consolidated financial statements.

VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amounts	Shares	Amounts				
Balance at December 29, 2012	30,170,627	\$302	—	\$ —	\$ 287,574	\$ 1	\$159,541	\$ 447,418
Comprehensive (loss) income	—	—	—	—	—	(87)	66,546	66,459
Equity compensation	—	—	—	—	8,333	—	—	8,333
Issuance of restricted shares	166,573	1	—	—	(1)	—	—	—
Purchase of treasury stock	—	—	(6,316)	(280)	—	—	—	(280)
Cancellation of restricted shares	(16,610)	—	—	—	—	—	—	—
Issuance of shares under employee stock purchase plan	20,887	—	—	—	849	—	—	849
Exercise of stock options	190,073	2	—	—	3,485	—	—	3,487
Tax benefits on exercise of equity awards	—	—	—	—	2,074	—	—	2,074
Balance at December 28, 2013	30,531,550	305	(6,316)	(280)	302,314	(86)	226,087	528,340
Comprehensive income	—	—	—	—	—	3	61,241	61,244
Equity compensation	—	—	—	—	6,901	—	—	6,901
Issuance of restricted shares	194,929	2	—	—	(2)	—	—	—
Purchases of treasury stock	—	—	(51,140)	(2,415)	—	—	—	(2,415)
Purchases of shares under Share Repurchase Program	(1,183,714)	(12)	—	—	(57,803)	—	—	(57,815)
Cancellation of restricted shares	(14,691)	—	—	—	—	—	—	—
Issuance of shares under employee stock purchase plan	24,289	—	—	—	923	—	—	923
Exercise of stock options	553,974	6	—	—	9,387	—	—	9,393
Tax benefits on exercise of equity awards	—	—	—	—	5,363	—	—	5,363
Balance at December 27, 2014	30,106,337	301	(57,456)	(2,695)	267,083	(83)	287,328	551,934
Comprehensive income	—	—	—	—	—	23	53,171	53,194
Equity compensation	—	—	—	—	5,402	—	—	5,402
Issuance of restricted shares	271,716	3	—	—	(3)	—	—	—
Issuance of shares	5,184	—	—	—	167	—	—	167
Purchases of treasury stock	—	—	(62,678)	(2,530)	—	—	—	(2,530)
Purchases of shares under Share Repurchase Program	(4,328,055)	(43)	—	—	(146,065)	—	—	(146,108)
Cancellation of restricted shares	(145,117)	(2)	—	—	2	—	—	—
Issuance of shares under employee stock purchase plan	27,187	—	—	—	892	—	—	892
Exercise of stock options	56,463	1	—	—	1,351	—	—	1,352
Equity portion of convertible notes, net	—	—	—	—	24,948	—	—	24,948
Bond hedge purchase	—	—	—	—	(26,407)	—	—	(26,407)
Warrant sale	—	—	—	—	12,966	—	—	12,966
Tax benefits on exercise of equity awards	—	—	—	—	(509)	—	—	(509)
Balance at December 26, 2015	25,993,715	\$260	(120,134)	\$(5,225)	\$ 139,827	\$(60)	\$340,499	\$ 475,301

See accompanying notes to consolidated financial statements.

VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Cash flows from operating activities:			
Net income	\$ 53,171	\$ 61,241	\$ 66,546
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed and intangible assets	38,495	34,219	28,026
Impairment charges on fixed assets	1,177	419	—
Contingent consideration for acquisition of FDC Vitamins, LLC	(959)	959	—
Gain on insurance recoveries	—	—	(1,079)
Amortization of deferred financing fees	237	164	96
Amortization of debt discount on convertible notes	223	—	—
Deferred income taxes	(1,364)	(3,950)	545
Deferred rent	(2,294)	(503)	810
Equity compensation expense	5,491	6,901	8,333
Issuance of shares for services rendered	167	—	—
Proceeds from insurance recoveries	—	—	757
Tax benefits on exercises of equity awards	509	(5,363)	(2,074)
Changes in operating assets and liabilities:			
Accounts receivable	2,939	1,499	—
Inventories	(38,284)	(2,458)	(13,429)
Prepaid expenses and other current assets	3,889	3,782	(15,668)
Other long-term assets	(139)	2,441	(968)
Accounts payable	(3,709)	(9,869)	11,688
Deferred sales	(2,011)	787	734
Accrued expenses and other current liabilities	394	8,483	(1,416)
Other long-term liabilities	2,735	1,395	(1,779)
Net cash provided by operating activities	<u>60,667</u>	<u>100,147</u>	<u>81,122</u>
Cash flows from investing activities:			
Capital expenditures	(39,403)	(42,957)	(42,782)
Acquisition of FDC Vitamins, LLC	487	(81,538)	—
Acquisition of Super Supplements, Inc	—	—	(50,542)
Trademarks and other intangible assets	(514)	(689)	(648)
Proceeds from insurance recoveries	—	—	322
Net cash used in investing activities	<u>(39,430)</u>	<u>(125,184)</u>	<u>(93,650)</u>
Cash flows from financing activities:			
Borrowings under revolving credit agreement	47,000	15,000	—
Repayments of borrowings under revolving credit agreement	(47,000)	(7,000)	—
Proceeds from issuance of convertible notes	143,750	—	—
Debt issuance costs on convertible notes	(4,593)	—	—
Bond hedge purchase	(26,407)	—	—
Proceeds from sale of warrants	12,966	—	—
Contingent consideration payment for acquisition of FDC Vitamins, LLC	(4,041)	—	—
Bank overdraft	6,973	—	—
Payments of capital lease obligations	(80)	(152)	(135)
Proceeds from exercises of common stock options	1,352	9,393	3,487
Issuance of shares under employee stock purchase plan	892	923	849
Purchases of treasury stock	(2,530)	(2,415)	(280)
Purchases of shares under Share Repurchase Programs	(146,108)	(57,815)	—
Tax benefits on exercises of equity awards	(509)	5,363	2,074
Deferred financing fees and other	(93)	(174)	(532)
Net cash (used in) provided by financing activities	<u>(18,428)</u>	<u>(36,877)</u>	<u>5,463</u>
Effect of exchange rate changes on cash and cash equivalents	129	44	(67)
Net increase (decrease) in cash and cash equivalents	2,938	(61,870)	(7,132)
Cash and cash equivalents beginning of year	12,166	74,036	81,168
Cash and cash equivalents end of year	<u>\$ 15,104</u>	<u>\$ 12,166</u>	<u>\$ 74,036</u>
Supplemental disclosures of cash flow information:			
Interest paid	\$ 440	\$ 249	\$ 390
Income taxes paid	\$ 33,659	\$ 37,652	\$ 57,064
Supplemental disclosures of non-cash investing activities:			
Liability for purchases of property and equipment	\$ 7,497	\$ 8,379	\$ 7,106
Assets acquired under capital lease	\$ —	\$ —	\$ 314

See accompanying notes to consolidated financial statements.

VITAMIN SHOPPE, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Vitamin Shoppe, Inc. (“VSI”), is incorporated in the State of Delaware, and through its wholly-owned subsidiary, Vitamin Shoppe Industries Inc. (“Subsidiary” or “Industries” together with VSI, the “Company”), is a multi-channel specialty retailer and contract manufacturer of nutritional products. Sales of both national brands and our own brands of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products (“VMS products”) are made through VSI-operated retail stores, and the internet to customers located primarily in the United States. In addition, the Company manufactures products for both sales to third parties as well as for the VSI product assortment.

The consolidated financial statements for the fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013 include the accounts of VSI and Subsidiary. All intercompany transactions and balances have been eliminated in consolidation.

The Company’s fiscal year ends on the last Saturday in December. As used herein, the term “Fiscal Year” or “Fiscal” refers to a 52-week period, ending on the last Saturday in December.

On June 6, 2014, the Company acquired all of the outstanding equity interests of FDC Vitamins, LLC d/b/a Nutri-Force Nutrition (“Nutri-Force”), a company which provides custom manufacturing and private labeling of vitamins, dietary supplements, nutraceuticals and nutritional supplements, as well as, develops and markets its own branded products. The total purchase price was \$86.1 million in cash, which includes \$5.0 million of contingent consideration which was paid in Fiscal 2015. Refer to Note 3. Acquisitions for additional information.

On February 14, 2013, the Company acquired substantially all of the assets and assumed certain liabilities of Super Supplements, Inc. (“Super Supplements”), a specialty retailer of vitamins, minerals, specialty supplements and sports nutrition, including 31 retail locations in the Pacific Northwest, a distribution center in Seattle, Washington and an e-commerce business. The total purchase price was \$50.5 million in cash and the assumption of certain liabilities. Refer to Note 3. Acquisitions for additional information.

2. Summary of Significant Accounting Policies

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include all highly liquid investments with original maturities of ninety days or less. The Company reclassifies cash overdrafts to accounts payable.

Accounts Receivable – Through Nutri-Force, the Company sells product to third-party wholesale customers. The Company monitors the financial condition of its third-party wholesale customers and establishes an allowance for doubtful accounts for balances estimated to be uncollectible. In addition, customer allowances including promotional discounts and allowances are provided to wholesale customers based on various contract terms and are recorded as a reduction to revenue.

The following table details the activity and balances for the Company's customer allowances for the years ended December 26, 2015 and December 27, 2014 (in thousands):

	<u>Balance at Beginning of Fiscal Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Fiscal Year</u>
Period Ended December 26, 2015	\$1,883.2	\$2,751.9	\$(3,738.4)	\$ 896.7
Period Ended December 27, 2014	\$ —	\$3,194.2	\$(1,311.0)	\$1,883.2

Inventories – Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average method. Finished goods inventory includes costs of freight on internally transferred merchandise, and costs associated with our buying department and distribution facilities, as well as manufacturing overhead which are capitalized into inventory and then expensed as merchandise is sold. In addition, the cost of inventory is reduced by purchase discounts and other allowances received from certain of our vendors. The Company estimates losses for expiring inventory and the net realizable value of inventory based on when a product is close to expiration and not expected to be sold, when a product has reached its expiration date, or when a product is not expected to be saleable. In determining the reserves for these products, consideration is given to such factors as the amount of inventory on hand, the remaining shelf life, current and expected market conditions, historical trends and the likelihood of recovering the inventory costs based on anticipated demand. The following table details the activity and balances for the Company's reserve for inventory for the years ended December 26, 2015, December 27, 2014, and December 28, 2013 (in thousands):

	<u>Balance at Beginning of Fiscal Year</u>	<u>Amounts Charged to Cost of Goods Sold</u>	<u>Write-Offs Against Reserves</u>	<u>Balance at End of Fiscal Year</u>
Fiscal Year Ended December 26, 2015	\$3,121.0	\$9,809.2	\$(7,991.1)	\$4,939.1
Fiscal Year Ended December 27, 2014	2,640.3	5,866.6	(5,385.9)	3,121.0
Fiscal Year Ended December 28, 2013	1,841.2	4,637.9	(3,838.8)	2,640.3

Property and Equipment, Net – Property and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for on a straight-line basis over the estimated useful lives of the related assets. Furniture, fixtures and equipment are generally depreciated over seven years. Leasehold improvements are amortized generally over the shorter of their useful lives or related lease terms. The direct internal and external costs associated with the development of the features and functionality of the Company's website, transaction processing systems, telecommunications infrastructure and network operations, are capitalized and are amortized on a straight line basis over the estimated useful lives of generally five years. Capitalization of costs begins when the preliminary project stage is completed and management authorizes and commits to funding the computer software project and that it is probable that the project will be completed and the software will be used to perform the function intended. Depreciation of the assets commences when they are put into use. Expenditures for repairs and maintenance are expensed as incurred and expenditures for major renovations and improvements are capitalized. Upon retirement or disposition of property and equipment, the applicable cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the results of operations.

Impairment of Long-Lived Assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances, including store closures, indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to undiscounted pre-tax future net cash flows expected to be generated by that asset. If the undiscounted future cash flows are not adequate to recover the carrying value of the asset, an impairment loss is recognized for the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Goodwill and Other Intangibles – Goodwill and other indefinite-lived intangibles are not amortized. Evaluations for impairment are performed at least annually, in the fourth quarter of each year, or whenever impairment indicators exist. Goodwill is evaluated for impairment at the reporting unit level (the Company’s operating segments). The evaluation of goodwill and other indefinite-lived intangibles may first consider qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value is less than its carrying value. A quantitative evaluation is performed if the qualitative evaluation results in a more likely than not determination or if a qualitative evaluation is not performed. The Company’s quantitative impairment tests involve calculating the fair value of each reporting unit using the discounted cash flow analysis method along with the market multiples method which is used for additional validation of the fair value calculated. These valuation methods require certain assumptions and estimates be made by the Company regarding certain industry trends and future profitability. It is the Company’s policy to conduct goodwill impairment testing from information based on current business projections, which include projected future revenues and cash flows. The cash flows utilized in the discounted cash flow analysis are based on five-year financial forecasts developed internally by management. Cash flows for each reporting unit are discounted using an internally derived weighted average cost of capital which reflects the costs of borrowing for the funding of each unit as well as the risk associated with the units themselves. If the carrying amount of a reporting unit exceeds its fair value, the Company would compare the implied fair value of the reporting unit goodwill with its carrying value. To compute the implied fair value of goodwill, the Company would assign the fair value of the reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Also as part of the quantitative test, the Company conducts the test using a 10% decrease in its revenue projections as an additional sensitivity test to ensure the reporting unit’s fair value is greater than its carrying value should events in the future be less favorable than anticipated. For indefinite-lived tradenames, we utilize the royalty relief method in our quantitative evaluations. Under the royalty relief method, a royalty rate is determined based on comparable licensing arrangements which is applied to the revenue projections for the applicable indefinite-lived tradename and the fair value is calculated using a discounted cash flow analysis. To the extent that the implied fair value associated with the goodwill and indefinite-lived intangible assets is less than the recorded value, this would result in a write down of the carrying value of the asset. Impairment tests between annual tests may be undertaken if an event occurs or circumstances change that could reduce the fair value of a reporting unit below its carrying value. The valuation of the goodwill and indefinite-lived intangible assets is affected by, among other things, the Company’s projections for the future and estimated results of future operations. Changes in the business plan or operating results that are different than the estimates used to develop the valuation of the assets may impact these valuations. For those intangible assets which have definite lives, the Company amortizes their cost on a straight-line basis over their estimated useful lives, the periods of which vary based on their particular contractual terms.

In Fiscal 2015, the Company performed a quantitative analysis of its retail, direct and manufacturing reporting units and determined that the fair value of these reporting units and indefinite-lived tradenames were substantially greater than their respective carrying values, with the exception of the manufacturing reporting unit.

Since the acquisition, Nutri-Force has experienced disruption in its ability to optimize production capacity and correspondingly has experienced lower service levels to customers.

As of the annual testing date, the fair value of the manufacturing reporting unit exceeded the carrying value by approximately 5%. Goodwill for the manufacturing reporting unit is \$32.6 million. The assumptions which impact the estimated fair value include management projections, the weighted average cost of capital percentage including the company specific risk premium and the selection of comparable companies. The uncertainty associated with the key assumptions relates primarily to the performance of Nutri-Force in comparison to management projections, which includes improvements in operating efficiencies, the ability to transition additional Vitamin Shoppe branded products, and increase sales to third party customers.

The Company has taken steps to improve the operations at Nutri-Force, including the hiring of new leadership and the engagement of third-party manufacturing consultants to implement and improve manufacturing processes. The Company believes the disruption noted above should not impact the long-term opportunity from the Nutri-Force acquisition. Although the Company believes it has used reasonable estimates and assumptions to calculate the fair value of the manufacturing reporting unit, these estimates and assumptions could be materially different from actual results. If actual market conditions are less favorable than those projected, or if events occur or circumstances change that would reduce the fair value of this reporting unit below its carrying value, the Company may be required to conduct an interim test and possibly recognize impairment charges, which may be material, in future periods.

There have been no impairment charges related to other intangibles during Fiscal 2015, Fiscal 2014 and Fiscal 2013.

Rent Expenses, Deferred Rent and Landlord Construction Allowances – Rent expense and rent incentives, including landlord construction allowances, are recognized on a straight-line basis over the lease term. The Company records rent expense for stores, distribution centers and manufacturing facilities as a component of cost of goods sold. The Company accounts for landlord construction allowances as lease incentives and records them as a component of deferred rent, which is recognized in cost of goods sold over the lease term.

Revenue Recognition – The Company recognizes revenue when merchandise is sold “at point of sale” in retail stores or upon delivery to a direct customer. In addition, shipping fees billed to customers are classified as sales. Amount recognized as shipping revenue during Fiscal 2015, Fiscal 2014, and Fiscal 2013, were \$2.0 million, \$3.0 million, and \$2.5 million, respectively. Nutri-Force sells product primarily to third-party customers and to our retail and direct segments. Wholesale revenue is recognized when risk of loss, title and insurable risks have transferred to the customer, net of estimated returns and allowances. To arrive at net sales, gross sales are reduced by deferred sales, customer discounts, actual customer returns and a provision for estimated future customer returns, which is based on management’s review of historical and current customer returns. Sales taxes collected from customers are presented on a net basis and as such are excluded from revenue.

Cost of Goods Sold – The Company includes the cost of inventory sold, costs of warehousing, distribution, manufacturing and store occupancy costs in cost of goods sold and excludes depreciation and amortization related to the retail and direct segments, which is included within selling, general and administrative expenses. Warehousing, distribution and manufacturing costs, which are capitalized into inventory and then expensed as merchandise is sold, include freight on internally transferred merchandise as well as for shipments to direct and wholesale customers and costs associated with our buying department and distribution facilities, as well as manufacturing overhead. Store occupancy costs include rent, common area maintenance, real estate taxes and utilities.

Vendor Allowances – Vendor allowances include discounts, allowances and rebates received from vendors and are based on various contract terms. Vendor allowances are recognized as either purchase discounts which represent a reduction of product cost, funding which is capitalized into inventory and recognized in the statement of income as the merchandise is sold, or direct offset which represents funding subject to immediate recognition in the statement of income, depending on the nature of the allowance.

Frequent Buyer Program – The Company has a frequent buyer program (“Healthy Awards Program”), whereby customers earn points toward free merchandise based on the dollar volume of purchases. Points are earned each calendar year and must be redeemed within the first three months of the following year or they expire. Sales are deferred at the time points are earned based on the value of points that are projected to be redeemed, which are based on historical redemption data. The Company records a liability in the period points are earned with a corresponding reduction of sales.

Store Pre-opening Costs – Costs associated with the opening of new retail stores and start up activities are expensed as incurred.

Advertising Costs – The costs of advertising for online marketing arrangements, magazines, direct mail, television and radio are expensed the first time the advertising takes place. Advertising expense was \$21.6 million, \$19.3 million and \$16.5 million for Fiscal 2015, Fiscal 2014 and Fiscal 2013, respectively.

Online Marketing Arrangements – The Company has entered into online marketing arrangements with various online companies. These agreements are established for periods of 24 months, 12 months or, in some cases, a lesser period and generally provide for compensation based on revenue sharing upon the attainment of stipulated revenue amounts, a percentage of the media expenditure managed by the online partner, or based on the number of visitors that the online company refers to the Company. The Company had no fixed payment commitments during Fiscal 2015, Fiscal 2014 and Fiscal 2013.

Income Taxes – Deferred income tax assets and liabilities are recorded in accordance with the liability method. Deferred income taxes have been provided for temporary differences between the tax bases and financial reporting bases of the Company's assets and liabilities using the tax rates and laws in effect for the periods in which the differences are expected to reverse.

The Company accounts for tax positions based on the provisions of the accounting literature related to accounting for uncertainty in income tax positions. Such literature provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For tax positions that are not more likely than not sustainable upon audit, the Company recognizes the largest amount of the benefit that is more likely than not to be sustained. The Company makes estimates of the potential liability based on our assessment of all potential tax exposures. In addition, the Company uses factors such as applicable tax laws and regulations, current information and past experience with similar issues to make these assessments. The tax positions are analyzed regularly and adjustments are made as events occur that warrant adjustments for those positions. The Company records interest expense and penalties payable to relevant tax authorities as income tax expense.

Concentrations of Credit Risk – Financial instruments, which potentially subject the Company to concentrations of credit risk, include accounts receivable from wholesale customers as well as debit and credit card processors of retail transactions. As of December 26, 2015 and December 27, 2014, five customers represented approximately 53% and 60%, respectively, of the accounts receivable from wholesale customers. Accounts receivable from debit and credit card processors, included in prepaid expenses and other current assets on the consolidated balance sheets, totaled \$10.2 million at December 26, 2015 and \$7.2 million at December 27, 2014.

The Company had two suppliers from whom we purchased at least 5% of our merchandise during Fiscal 2015 and one supplier from whom we purchased at least 5% of our merchandise during Fiscal 2014 and Fiscal 2013. We purchased approximately 17% of our total merchandise from these suppliers during Fiscal 2015 and approximately 12% during Fiscal 2014 and 10% during Fiscal 2013.

The Company is subject to concentrations of credit risk associated with cash and cash equivalents, and at times holds cash balances in excess of Federal Deposit Insurance Corporation limits.

Stock-Based Compensation – Stock-based compensation cost is measured at the grant date based on the fair value of awards and is recognized as expense on a straight-line basis over the requisite service period for each separately vesting portion of the award, net of anticipated forfeitures. With the exception of restricted shares and restricted share units, determining the fair value of stock-based awards at the grant date requires considerable judgment, including estimating expected volatility, expected term and risk-free rate. Compensation expense resulting from the granting of restricted shares and restricted share units is based on the grant date fair value of those common shares and is recognized generally over the two to three year vesting period for restricted shares and over the quarterly or one year vesting periods for restricted share units. For accounting purposes, the expense for performance based stock options and performance based restricted shares is calculated and recorded, based on

the determination that the achievement of the pre-established performance targets are probable, over the relevant service period. The vesting requirements for performance based stock options and performance based restricted shares permit a catch-up of vesting at the end of the vesting period.

Expense related to shares purchased under the Company's Employee Stock Purchase Plan ("ESPP") is accounted for based on fair value recognition requirements similar to stock options. ESPP participation occurs each calendar quarter (the "Participation Period") and the expense of which is subject to employee participation in the plan. Under the ESPP, participating employees are allowed to purchase shares at 85% of the lower of the market price of the Company's common stock at either the first or last trading day of the Participation Period. Compensation expense related to the ESPP is based on the estimated fair value of the discount and purchase price offered on the estimated shares to be purchased under the ESPP. Expense is calculated quarterly, based on the employee contributions made over the applicable three-month Participation Period, using volatility and risk free rates applicable to that three-month period.

Net Income Per Share – The Company's basic net income per share excludes the dilutive effect of stock options, unvested restricted shares and unvested restricted share units. It is based upon the weighted average number of common shares outstanding during the period divided into net income.

Diluted net income per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock options, unvested restricted shares, warrants and unvested restricted share units are included as potential dilutive securities for the periods applicable, using the treasury stock method to the extent dilutive.

The components of the calculation of basic net income per common share and diluted net income per common share are as follows (in thousands except share and per share data):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Numerator:			
Net income available to common stockholders	\$ 53,171	\$ 61,241	\$ 66,546
Denominator:			
Basic weighted average common shares outstanding	28,954,804	30,239,183	29,992,620
Effect of dilutive securities:			
Stock options	97,114	235,057	402,814
Restricted shares	150,353	184,995	141,573
Restricted share units	1,158	4,870	4,050
Diluted weighted average common shares outstanding	<u>29,203,429</u>	<u>30,664,105</u>	<u>30,541,057</u>
Basic net income per common share	<u>\$ 1.84</u>	<u>\$ 2.03</u>	<u>\$ 2.22</u>
Diluted net income per common share	<u>\$ 1.82</u>	<u>\$ 2.00</u>	<u>\$ 2.18</u>

Stock options and restricted shares for the fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013 for 48,538, 18,089 and 23,319 shares, respectively, have been excluded from the above calculation as they were anti-dilutive.

The Company has the intent and ability to settle the principal portion of its Convertible Notes in cash, and as such, has applied the treasury stock method, which has resulted in the underlying convertible shares being anti-dilutive in Fiscal 2015 as the Company's average stock price from the issuance of the Convertible Notes through December 26, 2015 is less than the conversion price. Refer to Note 8. Credit Arrangements for additional information on the Convertible Notes.

Recent Accounting Pronouncements – Except as noted below, the Company has considered all new accounting pronouncements and has concluded that there are no new pronouncements that may have a material impact on its results of operations, financial condition, or cash flows, based on current information.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers (Topic 606). Under ASU 2014-09, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of ASU 2014-09 by one year. As a result of this deferral, ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 for public companies and early adoption of ASU 2014-09 is permitted for public companies for annual reporting periods beginning after December 15, 2016. The Company is evaluating ASU 2014-09 to determine if this guidance will have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (“ASU 2015-03”), Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with the treatment of debt discounts. This standard does not affect the recognition and measurement guidance for debt issuance costs. Amortization of such costs will continue to be reported as interest expense. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted and the Company has elected to early adopt this standard, concurrent with the issuance of the Convertible Notes. As a result, issuance costs attributable to the liability portion of the Convertible Notes have been recorded as a direct deduction from the carrying amount of the Convertible Notes liability. The adoption of ASU 2015-03 has no impact on any prior period financial statements presented, as debt issuance costs previously incurred relate to the Company’s revolving credit facility and will continue to be recorded in other long-term assets.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 (“ASU 2015-11”), Simplifying the Measurement of Inventory (Topic 330). ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption of ASU 2015-11 is permitted. The Company is evaluating ASU 2015-11 to determine if this guidance will have a material impact on the Company’s consolidated financial statements.

3. Acquisitions

Nutri-Force

On June 6, 2014, the Company acquired all of the outstanding equity interests of Nutri-Force. The total purchase price was \$86.1 million in cash, which includes \$5.0 million of contingent consideration which was paid in Fiscal 2015. See Note 15. Segment and Product Data for additional information. The acquisition was funded by cash on hand. The results of operations of the acquired business are included in the Company’s results from the acquisition date.

The Company has recorded its accounting for this acquisition in accordance with accounting guidance on business combinations. The acquisition resulted in goodwill primarily related to the expected benefits resulting from vertical integration as well as growth opportunities. The Company recorded \$1.9 million and \$4.0 million of acquisition and integration related costs during Fiscal 2015 and Fiscal 2014, respectively, which are included in the consolidated statement of income within selling, general and administrative expenses.

The purchase price of the acquisition has been allocated to the net tangible and intangible assets acquired, with the remainder recorded as goodwill on the basis of estimated fair values. The goodwill was allocated to the Company's manufacturing segment. The allocation is as follows (in thousands):

Consideration transferred	\$ 81,538
Working capital adjustment	(487)
Estimated contingent consideration	<u>4,041(a)</u>
Total consideration	<u>\$ 85,092</u>
Less: net identifiable assets acquired	
Current assets	33,798
Non-current assets	10,008
Intangible assets	18,800
Current liabilities	<u>(10,150)</u>
Total net identifiable assets acquired	<u>\$ 52,456</u>
Goodwill	<u>\$ 32,636</u>

- (a) In the fourth quarter of Fiscal 2014, the Company recorded approximately \$1.0 million of additional contingent consideration, which is included in the consolidated statement of income within selling, general and administrative expenses.

As a result of fair value accounting for the acquisition, current assets includes an inventory valuation step-up of \$4.5 million, which was charged to cost of goods sold during Fiscal 2014. Intangible assets consist of brands totaling \$10.0 million, customer relationships of \$7.5 million and internally-developed software of \$1.3 million which are being amortized over their estimated useful lives of 18 years, 20 years and 5 years, respectively. The goodwill of \$32.6 million is being amortized for tax purposes.

From June 6, 2014 through December 27, 2014, the acquired business generated net sales to third parties of \$40.3 million and a pre-tax net loss of \$1.8 million, excluding acquisition and integration costs. The pre-tax net loss includes the \$4.5 million of charges related to the inventory valuation step-up noted above. The results represent the manufacturing segment. Pro forma results are not presented as the acquisition was not significant to the operating results for Fiscal 2015, Fiscal 2014 or Fiscal 2013.

Super Supplements

On February 14, 2013, the Company acquired substantially all of the assets and assumed certain liabilities of Super Supplements, a specialty retailer of vitamins, minerals, specialty supplements and sports nutrition, including 31 retail locations in the Pacific Northwest, a distribution center in Seattle, Washington and an e-commerce business. The total purchase price was \$50.5 million in cash and the assumption of certain liabilities. The acquisition was funded with existing cash on the Company's balance sheet. The results of operations of the acquired business are included in the Company's results from the acquisition date.

The acquisition resulted in goodwill primarily related to growth opportunities. The Company expensed acquisition and integration costs of \$0.8 million and \$4.3 million during Fiscal 2014 and Fiscal 2013, respectively, which are included in the consolidated statements of income within selling, general and administrative expenses.

The purchase price of the acquisition has been allocated to the net tangible and intangible assets acquired, with the remainder recorded as goodwill on the basis of estimated fair values. The goodwill was allocated to the Company's retail segment. The allocation is as follows (in thousands):

Total consideration transferred	\$50,542
Less: net identifiable assets acquired:	
Current assets	13,876
Non-current assets	7,027
Intangible assets	2,400
Current liabilities	(5,350)
Long-term liabilities	(796)
Total net identifiable assets acquired	<u>\$17,157</u>
Goodwill	<u>\$33,385</u>

Intangible assets consist of a tradename of \$2.4 million which is being amortized over the estimated useful life. Long-term liabilities include unfavorable leases for certain retail locations of \$0.8 million. The unfavorable lease liabilities are being amortized to rent expense over their respective lease terms, ranging from 2 to 9 years. The goodwill of \$33.4 million is being amortized for tax purposes.

From February 15, 2013 through December 28, 2013 the acquired business generated net sales of \$66.1 million and net income of \$3.1 million, excluding acquisition and integration costs. Pro forma results are not presented as the acquisition was not significant to the operating results for Fiscal 2015, Fiscal 2014 and Fiscal 2013.

4. Inventories

The components of inventories are as follows (in thousands):

	<u>December 26, 2015</u>	<u>December 27, 2014</u>
Finished goods	\$211,879	\$171,896
Work-in-process	6,180	4,592
Raw materials	8,771	10,539
	<u>\$226,830</u>	<u>\$187,027</u>

5. Goodwill and Intangible Assets

Goodwill is allocated between the Company's segments (reporting units), retail, direct and manufacturing. The following table discloses the carrying value of all intangible assets (in thousands):

	<u>December 26, 2015</u>			<u>December 27, 2014</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Intangible assets:						
Goodwill	\$243,269	\$ —	\$243,269	\$243,269	\$ —	\$243,269
Tradenames – Indefinite-lived	68,405	—	68,405	68,405	—	68,405
Brands	10,000	880	9,120	10,000	324	9,676
Customer relationships	7,500	594	6,906	7,500	219	7,281
Tradenames – Definite-lived	4,673	2,722	1,951	4,250	1,735	2,515
Software	1,300	412	888	1,300	152	1,148
Intangibles related to asset purchase	—	—	—	2,950	2,950	—
	<u>\$335,147</u>	<u>\$4,608</u>	<u>\$330,539</u>	<u>\$337,674</u>	<u>\$5,380</u>	<u>\$332,294</u>

Intangible amortization expense for Fiscal 2015, Fiscal 2014 and Fiscal 2013 was \$2.3 million, \$1.7 million and \$0.9 million, respectively. The annual impairment tests for goodwill and tradenames were performed during the fourth quarter of Fiscal 2015. There have been no impairment charges related to goodwill or other intangibles during Fiscal 2015, Fiscal 2014 and Fiscal 2013.

The useful lives of the Company's definite-lived intangible assets are between 3 to 20 years. The expected amortization expense on definite-lived intangible assets on the Company's consolidated balance sheet at December 26, 2015, is as follows (in thousands):

Fiscal 2016	\$ 1,515
Fiscal 2017	1,415
Fiscal 2018	1,415
Fiscal 2019	1,260
Fiscal 2020	1,155
Thereafter	<u>12,108</u>
	<u>\$18,865</u>

6. Property and Equipment

Property and equipment consists of the following (in thousands):

	<u>December 26, 2015</u>	<u>December 27, 2014</u>
Leasehold improvements	\$ 168,830	\$ 160,348
Furniture, fixtures and equipment	170,391	155,927
Software	<u>59,049</u>	<u>52,040</u>
	398,270	368,315
Less: accumulated depreciation and amortization	<u>(274,222)</u>	<u>(238,613)</u>
Subtotal	124,048	129,702
Construction in progress	<u>16,110</u>	<u>10,894</u>
	<u>\$ 140,158</u>	<u>\$ 140,596</u>

Depreciation and amortization expense on property and equipment for the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013 was approximately \$36.1 million, \$32.5 million and \$27.1 million, respectively. The Company recognized impairment charges of \$1.2 million during Fiscal 2015 on fixed assets related to five of its underperforming retail locations still in use in the Company's operations and three retail locations in Ontario, Canada which the Company expects to close during the second quarter of Fiscal 2016. The Company recognized impairment charges of \$0.4 million during Fiscal 2014 on fixed assets related to three of its underperforming retail locations still in use in the Company's operations.

Depreciation and amortization expense on property and equipment for the Company's retail and direct segments is recorded in selling, general and administrative expenses on the consolidated statements of income. Depreciation on property and equipment used in the manufacturing process is recorded in cost of goods sold on the consolidated statements of income. All other depreciation and amortization for the manufacturing segment is recorded in selling, general and administrative expenses on the consolidated statements of income.

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	<u>December 26, 2015</u>	<u>December 27, 2014</u>
Accrued salaries and related expenses	\$10,115	\$ 8,824
Sales tax payable and related expenses	6,975	6,494
Accrued fixed asset additions	5,842	7,290
Other accrued expenses	<u>24,844</u>	<u>30,713</u>
	<u>\$47,776</u>	<u>\$53,321</u>

The Company is involved in ongoing examinations with various taxing authorities regarding non-income based tax matters for Fiscal 2015 and prior. The final obligation to these authorities may be subject to either an increase or decrease to the initial estimates recorded. As of December 26, 2015, the Company believes the reserves for these matters are adequately provided for in its consolidated financial statements, the reserves of which are reflected in “Sales tax payable and related expenses” in the table above.

8. Credit Arrangements

Convertible Senior Notes due 2020

On December 9, 2015, the Company completed an offering of \$143.8 million of its 2.25% Convertible Senior Notes due 2020 (the “Convertible Notes”). The Convertible Notes are senior unsecured obligations of the Company. Interest on the Convertible Notes is payable on June 1 and December 1 of each year, commencing on June 1, 2016 until their maturity date of December 1, 2020. The Company may not redeem the Convertible Notes prior to the maturity date.

Prior to July 1, 2020, the Convertible Notes will be convertible only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2016, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of Convertible Notes for such trading day was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after July 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The Convertible Notes will be convertible at an initial conversion rate of 25.1625 shares of the Company’s common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$39.74. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, the Company is required to increase, in certain circumstances, the conversion rate for a holder who elects to convert its Convertible Notes in connection with such a corporate event including customary conversion rate adjustments in connection with a “make-whole fundamental change” as defined. Upon conversion, the Company may satisfy its conversion obligation by paying or delivering, as applicable, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election.

The Company allocated the principal amount of the Convertible Notes between its liability and equity components (see table below). The carrying amount of the liability component was determined by measuring the fair value of a similar debt instrument of similar credit quality and maturity that did not have the conversion

feature. The carrying amount of the equity component, representing the embedded conversion option, was determined by deducting the fair value of the liability component from the principal amount of the Convertible Notes as a whole. The equity component was recorded to additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the Convertible Notes over the carrying amount of the liability component was recorded as a debt discount, and is being amortized to interest expense using an effective interest rate of 3.8% over the term of the Convertible Notes. The Company allocated the total amount of transaction costs incurred to the liability and equity components using the same proportions as the proceeds from the Convertible Notes. Transaction costs attributable to the liability component were recorded as a direct deduction from the liability component of the Convertible Notes, and are being amortized to interest expense using the effective interest method through the maturity date. Transaction costs attributable to the equity component were netted with the equity component of the Convertible Notes in additional paid-in capital.

The Convertible Notes consist of the following components as of December 26, 2015 (in thousands):

Liability component:	
Principal	\$143,750
Conversion feature	(24,800)
Liability portion of debt issuance costs	(3,800)
Amortization	260
Net carrying amount	<u>\$115,410</u>
Equity component:	
Conversion feature	\$ 24,800
Equity portion of debt issuance costs	(793)
Deferred taxes	941
Net carrying amount	<u>\$ 24,948</u>

In connection with the issuance of the Convertible Notes, the Company entered into convertible note hedge transactions for which it paid an aggregate \$26.4 million. In addition, the Company sold warrants for which it received aggregate proceeds of \$13.0 million. The convertible note hedge transactions are expected generally to reduce potential dilution of the Company's common stock upon any conversion of notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted notes. However, the warrant transaction could separately have a dilutive effect to the extent that the market value per share of the Company's common stock exceeds the applicable strike price of the warrant transactions, which is approximately \$52.99 at inception. As these transactions meet certain accounting criteria, the convertible note hedge and warrant transactions are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period.

The net proceeds from the Convertible Notes and related transactions of \$125.7 million, net of commissions and offering costs of \$4.6 million, are being used to repurchase shares of the Company's common stock under the Company's share repurchase programs. Refer to Note 11. Share Repurchase Programs for additional information.

Revolving Credit Facility

As of December 26, 2015 and December 27, 2014, the Company had \$8.0 million of borrowings outstanding on its Revolving Credit Facility.

Subject to the terms of the Revolving Credit Facility, which has a maturity date of October 11, 2018, the Company may borrow up to \$90.0 million, with a Company option to increase the facility up to a total of \$150.0 million. The availability under the Revolving Credit Facility is subject to a borrowing base calculated on the

value of certain accounts receivable as well as certain inventory of the Company. The obligations thereunder are secured by a security interest in substantially all of the assets of the Company. Under the Revolving Credit Facility, VSI has guaranteed the Company's obligations, and Industries and its wholly-owned subsidiaries have each guaranteed the obligations of the other respective entities. The Revolving Credit Facility provides for affirmative and negative covenants affecting the Company. The Revolving Credit Facility restricts, among other things, the Company's ability to incur indebtedness, create or permit liens on the Company's assets, declare or pay dividends and make certain other restricted payments, consolidate, merge or recapitalize, sell assets, make certain investments, loans or other advances, enter into transactions with affiliates, change our line of business, and restricts the types of hedging activities the Company can enter into. The largest amount borrowed at any given point during Fiscal 2015 was \$28.0 million. The unused available line of credit under the Revolving Credit Facility at December 26, 2015 was \$79.1 million.

Borrowings under the Revolving Credit Facility accrue interest, at the Company's option, at the rate per annum based on an "alternative base rate" plus 0.25% or 0.50% or the adjusted Eurodollar rate plus 1.25% or 1.50%, in each case with the higher spread applicable in the event that the aggregate amount of the borrowings under the Revolving Credit Facility exceeds 50% of the borrowing base availability under the Revolving Credit Facility. The weighted average interest rate for the Revolving Credit facility for Fiscal 2015 was 1.47%. The commitment fee on the undrawn portion of the \$90.0 million Revolving Credit Facility was 0.25% as of December 26, 2015 and December 27, 2014.

Interest expense, net for Fiscal 2015, 2014 and 2013 consists of the following (in thousands):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Interest / fees on the revolving credit facility and other interest	\$ 487	\$344	\$419
Amortization of deferred financing fees	237	164	96
Interest on convertible notes	159	—	—
Amortization of debt discount on convertible notes	223	—	—
Interest income	(1)	(13)	(20)
Interest expense, net	<u>\$1,105</u>	<u>\$495</u>	<u>\$495</u>

9. Income Taxes

The provision for income taxes for Fiscal 2015, Fiscal 2014 and Fiscal 2013 consists of the following (in thousands):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Current:			
Federal	\$30,696	\$38,432	\$36,070
State	5,385	6,438	6,636
Total current	<u>36,081</u>	<u>44,870</u>	<u>42,706</u>
Deferred:			
Federal	(1,283)	(3,497)	256
State	(81)	(453)	289
Total deferred	<u>(1,364)</u>	<u>(3,950)</u>	<u>545</u>
Provision for income taxes	<u>\$34,717</u>	<u>\$40,920</u>	<u>\$43,251</u>

A reconciliation of the statutory Federal income tax rate and effective rate of the provision for income taxes is as follows:

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of Federal income tax benefit	3.4%	4.2%	4.4%
Adjustments for uncertain tax positions	—	—	(0.5)%
Other	1.1%	0.9%	0.5%
Effective tax rate	<u>39.5%</u>	<u>40.1%</u>	<u>39.4%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 26, 2015 and December 27, 2014 are as follows (in thousands):

	December 26, 2015	December 27, 2014
Deferred tax assets:		
Net operating loss carryforward	\$ 1,806	\$ 1,142
Deferred rent	11,389	11,861
Tenant allowance	4,215	3,667
Deferred sales	4,011	4,386
General accrued liabilities	6,790	6,165
Deferred wages and compensation	569	711
Inventory	7,205	4,339
Equity compensation expense	3,400	6,304
Debt	1,002	—
Other	3,299	2,062
	<u>43,686</u>	<u>40,637</u>
Valuation allowance	(1,806)	(1,142)
Deferred tax assets	<u>41,880</u>	<u>39,495</u>
Deferred tax liabilities:		
Trade name and goodwill	(29,777)	(29,368)
Accumulated depreciation	(9,488)	(9,612)
Prepaid expenses	(2,012)	(2,217)
Deferred tax liabilities	<u>(41,277)</u>	<u>(41,197)</u>
Net deferred tax asset (liability)	<u>\$ 603</u>	<u>\$ (1,702)</u>

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (“ASU 2015-17”), Balance Sheet Classification of Deferred Taxes (Topic 740) to simplify the presentation of deferred taxes by requiring the classification of all deferred tax assets and liabilities as noncurrent in a classified statement of financial position. The Company is electing a prospective early application of ASU 2015-17 for Fiscal 2015. Prior periods were not retrospectively adjusted.

Management periodically assesses whether the Company is more likely than not to realize some or all of its deferred tax assets. As of December 26, 2015, with the exception of \$1.8 million of deferred tax assets arising from a foreign and state net operating loss carryforward against which there is a valuation allowance (see above

table), management determined that the Company is more likely than not to realize the deferred tax assets detailed above. Realization of deferred tax assets associated with the state net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration by tax jurisdiction.

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was approximately \$0.4 million at December 26, 2015, \$0.4 million at December 27, 2014 and \$0.3 million at December 28, 2013. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at December 29, 2012	\$ 5,630
Additions based on tax positions related to the current year	13
Additions for tax positions of prior years	—
Decreases for tax positions of prior years due to revaluation of positions	(4,627)
Decreases for tax positions of prior years due to lapse of statutes	<u>(612)</u>
Balance at December 28, 2013	\$ 404
Additions based on tax positions related to the current year	148
Additions for tax positions of prior years	—
Decreases for tax positions of prior years due to revaluation of positions	—
Decreases for tax positions of prior years due to lapse of statutes	<u>(93)</u>
Balance at December 27, 2014	\$ 459
Additions based on tax positions related to the current year	107
Additions for tax positions of prior years	—
Decreases for tax positions of prior years due to revaluation of positions	—
Decreases for tax positions of prior years due to lapse of statutes	<u>(97)</u>
Balance at December 26, 2015	<u><u>\$ 469</u></u>

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, Puerto Rico and Canada. The Company recognizes interest related to uncertain tax positions in income tax expense. The Company is no longer subject to U.S. federal examinations by tax authorities for years before 2012 and for state examinations before 2009. However, the tax authorities still have the ability to review the relevance of net operating loss carryforwards created in closed years if such tax attributes are utilized in open years (subsequent to 2009).

The Company has domestic (U.S. state) and foreign net operating losses of approximately \$1.4 million and \$6.3 million at December 26, 2015, against which a full valuation allowance is recorded. Domestic net operating losses generated in the state of New Jersey will continue to expire annually through Fiscal 2032. The Company's foreign net operating loss is generated through operations in Canada, and will expire in Fiscal 2034.

10. Stock Based Compensation

Equity Incentive Plans – The Company has two equity incentive plans that provide stock based compensation to certain directors, officers, consultants and employees of the Company; the 2006 Stock Option Plan (the “2006 Plan”) and the Vitamin Shoppe 2009 Equity Incentive Plan (the “2009 Plan”), under which the Company has granted stock options (includes non-qualified as well as performance based stock options), restricted shares (includes time based as well as performance based restricted shares) and restricted share units. The issuance of up to 7,453,678 shares of common stock is authorized under these plans. As of December 26, 2015, there were 2,484,022 shares available to grant under both plans, which includes 120,134 shares currently held by the Company as treasury stock. Restricted shares and restricted share units are issued at a value not less than the fair market value of the common shares on the date of the grant and stock options are exercisable at no less than the fair market value of the underlying shares on the date of grant. Equity awards of restricted shares generally shall

become vested between two and three years subsequent to the date on which such equity grants were awarded. Generally, stock options awarded shall become vested in four equal increments on each of the first, second, third and fourth anniversaries of the date on which such equity grants were awarded and generally have a maximum term of 10 years. However, regarding performance based restricted shares and performance based stock options, vesting is dependent not only on the passage of time, but also on the attainment of certain internal performance metrics. The vesting requirements for performance based restricted shares and performance based stock options permit a catch-up of vesting at the end of the vesting period. For accounting purposes, the expense for performance based stock options and performance based restricted shares is calculated and recorded, based on the determination that the achievement of the pre-established performance targets are probable, over the relevant service period. Restricted share units generally shall become vested quarterly, or one year, subsequent to the date on which such equity grants were awarded.

The following table summarizes restricted shares for the 2009 Plan as of December 26, 2015 and changes during Fiscal 2015:

	<u>Number of Unvested Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at December 27, 2014	448,611	\$45.04
Granted	251,603	\$39.57
Vested	(156,535)	\$43.13
Canceled/forfeited	<u>(145,117)</u>	\$44.17
Unvested at December 26, 2015	<u>398,562</u>	\$42.65

The total intrinsic value of restricted shares vested during Fiscal 2015, Fiscal 2014 and Fiscal 2013 was \$6.3 million, \$5.7 million and \$1.3 million, respectively.

The following table summarizes stock options for the 2006 and 2009 Plans as of December 26, 2015 and changes during Fiscal 2015:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at December 27, 2014	383,577	\$24.14		
Granted	—	—		
Exercised	(56,463)	\$23.93		
Canceled/forfeited	<u>(42,276)</u>	\$34.47		
Outstanding at December 26, 2015	<u>284,838</u>	<u>\$22.65</u>	<u>2.88</u>	<u>\$3,464</u>
Vested or expected to vest at December 26, 2015	<u>284,588</u>	<u>\$22.65</u>	<u>2.88</u>	
Vested and exercisable at December 26, 2015	<u>282,338</u>	<u>\$22.36</u>	<u>2.85</u>	<u>\$3,464</u>

The total intrinsic value of options exercised during Fiscal 2015, Fiscal 2014 and Fiscal 2013 was \$1.0 million, \$16.0 million and \$6.1 million, respectively. The cash received from options exercised during Fiscal 2015, Fiscal 2014 and Fiscal 2013 was \$1.4 million, \$9.4 million and \$3.5 million, respectively.

The following table summarizes restricted share units for the 2009 Plan as of December 26, 2015 and changes during Fiscal 2015:

	<u>Number of Unvested Restricted Share Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at December 27, 2014	9,633	\$51.37
Granted	20,747	\$39.99
Vested	(19,100)	\$47.35
Canceled/forfeited	—	—
Unvested at December 26, 2015	<u>11,280</u>	\$37.25

The total intrinsic value of restricted share units vested during Fiscal 2015, Fiscal 2014, and Fiscal 2013 was \$0.6 million, \$0.3 million and \$0.3 million, respectively.

Compensation expense attributable to stock-based compensation for Fiscal 2015 was \$5.5 million, for Fiscal 2014 was \$6.9 million and for Fiscal 2013 was \$8.3 million. As of December 26, 2015, the remaining unrecognized stock based compensation expense for non-vested stock options, restricted shares and restricted share units to be expensed in future periods is \$6.1 million, and the related weighted average period over which it is expected to be recognized is 1.6 years. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company estimates forfeitures based on its historical forfeiture rate since the inception of granting stock based awards. The estimated value of future forfeitures for stock options, restricted shares and restricted share units as of December 26, 2015 is approximately \$0.6 million.

The weighted average grant date fair value of stock options was \$18.99 and \$23.76 for Fiscal 2014 and Fiscal 2013, respectively. These valuations represent the fair value of subsequent annual tranches of performance based stock option grants, and there were no such valuations during Fiscal 2015. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>December 27, 2014</u>	<u>December 28, 2013</u>
Expected dividend yield	0.0%	0.0%
Weighted average expected volatility	35.3%	39.0%
Weighted average risk-free interest rate	1.4%	0.6%
Expected holding period (s)	4.00 – 4.43 years	4.00 – 4.93 years

Treasury Stock – As part of the Company’s equity incentive plans, the Company makes required tax payments on behalf of employees as their restricted shares vest. The Company withholds the number of vested shares having a value on the date of vesting equal to the minimum statutory tax obligation. The shares withheld are recorded as treasury shares. During Fiscal 2015, the Company purchased 62,678 shares in settlement of employees’ tax obligations for a total of \$2.5 million. The Company accounts for treasury stock using the cost method. These shares are available to grant under the Company’s equity incentive plans.

11. Share Repurchase Programs

On August 5, 2014, May 6, 2015 and November 23, 2015, the Company’s board of directors approved share repurchase programs that enable the Company to purchase up to an aggregate of \$300 million of its shares of common stock from time to time over three year periods ending on August 4, 2017, May 5, 2018 and November 22, 2018, respectively. As of December 26, 2015, 5,511,769 shares have been repurchased for a total of \$203.9 million. The repurchase program does not obligate the Company to acquire any specific number of

shares of its common stock and may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing such shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases.

During Fiscal 2015 and Fiscal 2014, the Company repurchased 1,182,990 and 201,000 shares, respectively, of its common stock in the open market. The shares were retired upon repurchase. Open market share repurchases were \$44.2 million in Fiscal 2015 and \$7.8 million in Fiscal 2014 with average repurchase prices per share of \$37.38 and \$38.88, respectively.

Additionally, the Company has entered into accelerated share repurchase (“ASR”) arrangements with financial institutions. In exchange for an up-front payment, the financial institutions initially deliver shares of the Company’s common stock. The total number of shares ultimately delivered, and therefore the average repurchase price paid per share, is determined at the end of the purchase period of each ASR based on the volume weighted-average price of the Company’s common stock during that period. The shares are retired in the periods they are delivered, and each up-front payment is accounted for as a reduction to stockholders’ equity in the Company’s Consolidated Balance Sheet in the period the payment was made. The Company reflects each ASR as a repurchase of common stock in the period delivered for purposes of calculating earnings per share and as a forward contract indexed to its own common stock. The ASRs met all of the applicable criteria for equity classification, and therefore, were not accounted for as derivative instruments.

The following table summarizes the Company’s ASR arrangements:

<u>Beginning of ASR Period</u>	<u>Up-front Payment (in millions)</u>	<u>Initial Share Deliveries</u>	<u>End of ASR Period</u>	<u>Final Shares Delivered</u>	<u>Average Repurchase Price</u>
November, 2014	\$50.0	982,714	January, 2015	88,325	\$46.68
December, 2015	\$50.0	1,391,940	*	*	*

* To be determined at the end of the purchase period of the ASR.

In December 2015, the Company also repurchased 1,664,800 shares of its common stock for \$51.9 million, or \$31.17 per share, from purchasers of the Convertible Notes in privately negotiated transactions.

12. Benefit Plans

The Company sponsors the Vitamin Shoppe Industries, Inc. 401(k) Plan (“401k Plan”). Employees who have completed one month of service are eligible to participate in the 401k Plan. The 401k Plan provides for participant contributions of 1% to 100% of participant compensation into deferred savings, subject to IRS limitations. The 401k Plan provides for Company contributions upon the participant meeting the eligibility requirements. Participants are 100% vested in the Company matching contribution upon receipt. The Company matching contribution is 100% of the first 3% of participant compensation contributed to the 401k Plan and 50% of the next 2% of participant compensation contributed to the 401k Plan. The Company may make discretionary contributions for each 401k Plan year.

The Company recognized expenses for the 401k Plan of \$1.9 million in Fiscal 2015, \$1.6 million in Fiscal 2014, and \$1.5 million in Fiscal 2013.

The Company had a Non-qualified Deferred Compensation Plan (“DC Plan”) which was terminated in January 2015 and did not have a material effect on the Company’s financial statements. The DC Plan allowed participants the opportunity to defer pretax amounts up to 75% of base salary and up to 100% of other eligible compensation. The DC Plan was primarily funded by elective contributions made by the participants. The assets of the DC Plan

were \$2.7 million at December 27, 2014. Accordingly, gains and losses on the underlying investments, which are held in a Rabbi Trust, were recognized in the consolidated statements of income. The liabilities for the DC Plan were \$2.3 million at December 27, 2014.

13. Lease Commitments

The Company has non-cancelable real estate operating leases, which expire through 2036. These leases generally contain renewal options for periods ranging from 1 to 10 years and require the Company to pay costs such as real estate taxes and common area maintenance. Contingent rentals are paid based on a percentage of gross sales as defined by lease agreements. The following table provides the net rental expense for all real estate operating leases (in thousands):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Minimum rentals	\$117,578	\$107,456	\$97,332
Contingent rentals	154	103	110
	<u>117,732</u>	<u>107,559</u>	<u>97,442</u>
Less: Sublease rentals	(273)	(245)	(244)
Net rental expense	<u>\$117,459</u>	<u>\$107,314</u>	<u>\$97,198</u>

As of December 26, 2015, the Company's real estate lease commitments are as follows (in thousands):

Fiscal year	Total Operating Leases (1)
2016	119,983
2017	112,965
2018	98,839
2019	81,637
2020	66,382
Thereafter	<u>195,019</u>
	<u>\$674,825</u>

- (1) Store operating leases included in the above table do not include contingent rent based upon sales volume. Operating leases do not include common area maintenance costs or real estate taxes that are paid to the landlord during the year, which combined represented approximately 17.5% of our minimum lease obligations for Fiscal 2015. In addition, not included are variable activity based fees associated with our west coast logistics facility, which were approximately \$0.6 million during Fiscal 2015.

14. Legal Proceedings

The Company is party to various lawsuits arising from time to time in the normal course of business, many of which are covered by insurance. As of December 26, 2015, the Company was not party to any material legal proceedings. Although the impact of the final resolution of these matters on the Company's financial condition, results of operations or cash flows is not known, management does not believe that the resolution of these lawsuits will have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

15. Segment and Product Data

The Company currently operates three business segments, retail, direct and manufacturing. The operating segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The Company's management evaluates segment operating results based on several indicators. The primary key performance indicators are sales and operating income for each segment. The table below represents key financial information for each of the Company's business segments as well as corporate costs. The retail segment primarily includes the Company's retail stores. The retail segment generates revenue primarily through the sale of VMS products through Vitamin Shoppe, Super Supplements and Vitapath retail stores in the United States, Puerto Rico and in Canada. The direct segment generates revenue through the sale of VMS products primarily through the Company's websites. The Company's websites offer customers online access to a full assortment of approximately 19,400 SKUs. The manufacturing segment supplies the retail and direct segments, along with various third parties, with finished products for sale. Corporate costs represent all other expenses not allocated to the retail, direct or manufacturing segments which include, but are not limited to: human resources, legal, retail management, direct management, finance, information technology, depreciation (primarily related to assets utilized by the retail and direct business segments as well as corporate assets) and amortization, and various other corporate level activity related expenses. Intercompany sales transactions are eliminated in consolidation.

The Company's segments are designed to allocate resources internally and provide a framework to determine management responsibility. The Company has allocated \$165.3 million, \$45.3 million and \$32.6 million of its recorded goodwill to the retail, direct and manufacturing segments, respectively. The Company does not have identifiable assets separated by segment, with the exception of the identifiable assets of the manufacturing segment, which were \$88.4 million and \$96.2 million as of December 26, 2015 and December 27, 2014, respectively. Capital expenditures for the manufacturing segment during Fiscal 2015 were \$3.5 million and from the acquisition date of June 6, 2014 through December 27, 2014 were approximately \$0.5 million. At December 26, 2015 and December 27, 2014, long lived assets of the manufacturing segment were \$60.4 million and \$59.9 million, respectively. Depreciation and amortization expense, included in selling, general and administrative expenses, for the manufacturing segment during Fiscal 2015 was \$1.5 million and from the acquisition date of June 6, 2014 through December 27, 2014 was \$0.9 million.

The following table contains key financial information of the Company's business segments (in thousands):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net sales:			
Retail	\$1,081,123	\$1,042,054	\$ 969,610
Direct	128,825	130,644	117,859
Manufacturing	91,159	48,102	—
Segment net sales	1,301,107	1,220,800	1,087,469
Elimination of intersegment revenues	(34,558)	(7,754)	—
Net sales	<u>1,266,549</u>	<u>1,213,046</u>	<u>1,087,469</u>
Income from operations:			
Retail	192,598	194,864	192,439
Direct	20,904	22,755	21,930
Manufacturing (1)	(1,977)	(1,830)	—
Corporate costs (2)	(122,532)	(113,133)	(104,077)
Income from operations	<u>\$ 88,993</u>	<u>\$ 102,656</u>	<u>\$ 110,292</u>

- (1) In Fiscal 2015, income from operations for the manufacturing segment includes a \$1.4 million charge for accounts receivable for one wholesale customer which were deemed uncollectible, and in Fiscal 2014 includes \$4.5 million in charges related to the inventory valuation step up for inventory sold subsequent to the acquisition of Nutri-Force.
- (2) Corporate costs include (in thousands):

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Depreciation and amortization expenses	\$37,004	\$32,968	\$28,026
Management realignment charges (a)	3,396	—	—
Reinvention costs (b)	2,723	—	—
Acquisition and integration costs	1,874	4,777	4,336
Contingent consideration for Nutri-Force acquisition	—	959	—
Insurance recoveries from Superstorm Sandy	—	—	(1,079)

- (a) During Fiscal 2015, the Company incurred management realignment charges, which primarily consisted of severance, sign-on bonuses, recruiting and relocation costs.
- (b) During Fiscal 2015, the Company launched a comprehensive initiative to review and improve its customers' experience across its retail and e-commerce channels. The costs incurred represent outside consultants fees.

The following table represents net merchandise sales by major product category (in thousands):

<u>Product Category</u>	Fiscal Year Ended		
	December 26, 2015 (a)	December 27, 2014 (a)	December 28, 2013
Vitamins, Minerals, Herbs and Homeopathy	\$ 301,520	\$ 285,775	\$ 276,447
Sports Nutrition	432,205	428,845	393,659
Specialty Supplements	308,162	313,025	305,320
Other	222,615	182,352	109,554
Total	1,264,502	1,209,997	1,084,980
Delivery Revenue	2,047	3,049	2,489
	<u>\$1,266,549</u>	<u>\$1,213,046</u>	<u>\$1,087,469</u>

- (a) In Fiscal 2015 and Fiscal 2014, the "Other" product category includes net merchandise sales to third parties of Nutri-Force of \$56.6 million and \$40.3 million, respectively.

For each of the last three years, less than 1.0% of our sales have been derived from international sources.

16. Fair Value of Financial Instruments

The fair value hierarchy requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Company's financial instruments include cash, accounts receivable, accounts payable and its revolving credit facility. The Company believes that the recorded values of these financial instruments approximate their fair values due to their nature and respective durations.

The fair value and carrying value of the Convertible Notes as of December 26, 2015 was \$119.8 million and \$115.4 million, respectively. The fair value of the Convertible Notes was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, including the trading price of the Company's Convertible Notes, when available, the Company's stock price and interest rates based on similar debt issued by parties with credit ratings similar to the Company (Level 2).

Certain assets are measured at fair value on a non-recurring basis, that is, the assets are subject to fair value adjustments in certain circumstances such as when there is evidence of impairment. These measures of fair value, and related inputs, are considered level 2 or 3 measures under the fair value hierarchy.

17. Selected Quarterly Financial Information (unaudited)

The following table summarizes the Fiscal 2015 and Fiscal 2014 quarterly results (in thousands, except for share data):

	Fiscal Quarter Ended			
	March	June	September	December
Fiscal Year Ended December 26, 2015				
Net sales	\$336,835	\$322,338	\$313,886	\$293,490
Gross profit	114,649	108,260	104,709	91,297
Income from operations	30,955	23,564	23,357	11,117
Net income	18,700	14,241	14,098	6,132
Net income per common share:				
Basic	\$ 0.63	\$ 0.49	\$ 0.49	\$ 0.22
Diluted	\$ 0.63	\$ 0.48	\$ 0.48	\$ 0.22
Fiscal Year Ended December 27, 2014				
Net sales	\$307,836	\$306,218	\$308,910	\$290,082
Gross profit	109,469	102,907	97,294	94,589
Income from operations	34,247	28,166	20,549	19,694
Net income	20,509	16,926	12,197	11,609
Net income per common share:				
Basic	\$ 0.68	\$ 0.56	\$ 0.40	\$ 0.39
Diluted	\$ 0.67	\$ 0.55	\$ 0.40	\$ 0.38

The following table summarizes certain items for Fiscal 2015 and Fiscal 2014 which impacted quarterly results on a pre-tax basis (in thousands):

	Fiscal Quarter Ended			
	March	June	September	December
Fiscal Year Ended December 26, 2015				
Integration costs (1)	\$ 360	\$ 410	\$ 617	\$ 487
Management realignment charges (2)	—	2,174	—	1,222
Accounts receivable bad debt reserve charge (3)	—	1,370	—	—
Reinvention costs (4)	—	—	1,026	1,697
Super Supplements conversion costs (5)	—	—	—	1,766
Product write-off (6)	—	—	—	1,330
Canada stores closing costs (7)	—	—	—	885
Fiscal Year Ended December 27, 2014				
Acquisition and integration costs	\$1,758	\$2,248	\$ 289	\$ 482
Inventory valuation step-up recognized in cost of goods sold	—	1,200	3,306	—
Contingent consideration for Nutri-Force acquisition	—	—	—	959

- (1) Represents integration costs related to the acquisition of Nutri-Force, consisting primarily of professional fees.
- (2) Management realignment charges primarily consist of severance, sign-on bonuses, recruiting and relocation costs.
- (3) Represents a charge to increase the allowance for doubtful accounts for Nutri-Force, related to one wholesale customer that abruptly ceased operations.
- (4) The costs represent outside consultants fees in connection with the Company's "reinvention strategy".
- (5) Conversion costs primarily include inventory reserve charges, product markdowns and accelerated depreciation.
- (6) Represents a charge to inventory reserves for the write-off of USPlabs[®] products which the Company ceased selling.
- (7) Costs include inventory reserve charges, impairment charges to fixed assets and severance charges.

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUBSIDIARIES OF THE REGISTRANT

Vitamin Shoppe Industries Inc.
VS Direct, Inc.
Vitamin Shoppe Mariner, Inc.
VS Hercules, LLC
Vitamin Shoppe Procurement Services, Inc.
Vitapath Canada Limited
Vitamin Shoppe Global, Inc.
FDC Vitamins, LLC
Betancourt Sports Nutrition, LLC
Vitamin Shoppe Asia Limited

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-165897, No. 333-162990 and No. 333-207800, all on Form S-8, of our reports dated February 23, 2016, relating to the consolidated financial statements of Vitamin Shoppe, Inc. and Subsidiary and the effectiveness of Vitamin Shoppe, Inc. and Subsidiary's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Vitamin Shoppe, Inc. and Subsidiary for the year ended December 26, 2015.

/s/ Deloitte & Touche LLP
New York, New York
February 23, 2016

CERTIFICATIONS

I, Colin Watts, certify that:

1. I have reviewed this Form 10-K of Vitamin Shoppe, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2016

By: /s/ Colin Watts

Colin Watts
Chief Executive Officer

CERTIFICATIONS

I, Brenda Galgano, certify that:

1. I have reviewed this Form 10-K of Vitamin Shoppe, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2016

By: /s/ Brenda Galgano

Brenda Galgano
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this annual report on Form 10-K of Vitamin Shoppe, Inc. (the “Company”) for the year ended December 26, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Colin Watts, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (i) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2016

/s/ Colin Watts

Colin Watts
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this Report.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

CORPORATE INFORMATION

Executive Team

Colin Watts

Chief Executive Officer

Brenda Galgano

EVP, Chief Financial Officer

Michael Beardall

President, Nutri-Force

Doug Henson

SVP, Retail

Doug Jones

SVP, Chief Merchandise Officer

David Kastin

SVP, General Counsel/Corp. Secretary

Dan Lamadrid

SVP, Chief Accounting Officer

Teresa Orth

SVP, Human Resources

Richard Tannenbaum

SVP, Supply Chain & IT

Rose Hamilton

Chief Digital Officer

John Hnanicek

Chief Information Officer

Susan Sanderson

Chief Brand Officer

Board of Directors

Richard Markee

Non-Executive Chairman of the Board, Vitamin Shoppe

B. Michael Becker (1, 2)

Senior Retired Audit Partner, Ernst & Young LLP

Catherine Buggeln (2)

Senior advisor to Irving Place Capital, a private equity firm

John Edmondson (1, 3)

Private Investor & Consultant

Guillermo Marmol (3)

President, Marmol & Assoc., consulting firm for early stage technology companies

Beth Pritchard (2, 3)

Principal & Strategic Advisor for Sunrise Beauty Studio, developer and manufacturer of third party personal care and fragrance products

Colin Watts

Chief Executive Officer, Vitamin Shoppe

John Bowlin, Lead Director (1)

Private Investor & Consultant

Deborah Derby (2, 3)

Consultant to Horizon Group, a leading arts, crafts and consumer product company

David Edwab (1, 3)

Non-Executive Vice Chairman – Tailored Brands

Richard Perkal

Advisor to Irving Place Capital, private equity firm

Timothy Theriault (1)

Advisor to the CEO Walgreens Boots Alliance

(Board Committees: 1=Audit; 2= Compensation; 3=Nomination & Governance)

Annual Meeting

Tuesday, June 7, 2016 at 10:00 a.m. ET

LaQuinta Inn & Suites

350 Lighting Way

Secaucus, NJ 07094

Stock Listing

New York Stock Exchange (VSI)

Independent Public Accounting Firm

Deloitte & Touche,LLP

30 Rockefeller Plaza

New York, NY 10112

Corporate Communications- Media Relations

Meghan Biango, Manager Corporate Communications

Meghan.Biango@vitaminshoppe.com

Investor Relations Contact

Kathleen Heaney - ir@vitaminshoppe.com

For More Information or Shop Online

www.vitaminshoppe.com

Registrar and Transfer Agent

Computershare Investor Services

P.O. Box 43078

Providence, RI 02940

