UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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	**11-3664322**
(State or Other Jurisdiction of Incorporation or Organization)	**(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)

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 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 smaller reporting company)	Smaller reporting company	☐
			Emerging growth company	☐

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

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

As of July 28, 2018 Vitamin Shoppe, Inc. had 24,052,779 shares of common stock outstanding.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, those that contain words such as “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, 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 our strategy, trade restrictions, availability of suitable store locations at appropriate terms, the availability of raw materials, compliance with regulations, certifications and best practices with respect to the development, manufacture, sales and marketing of the Company's products, management changes, maintaining appropriate levels of inventory, changes in tax policy, e-commerce relationships, disruptions of manufacturing, warehouse or distribution facilities or information systems, political environment and other specific factors discussed herein and in other Securities and Exchange Commission (the "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.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	June 30, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,910	$ 1,947
Inventories	202,163	218,087
Prepaid expenses and other current assets	37,924	39,473
Current assets held for sale	—	22,625
Total current assets	241,997	282,132
Property and equipment, net of accumulated depreciation and amortization of $334,637 and $334,082 in 2018 and 2017, respectively	137,256	141,520
Other intangibles, net	11,045	11,040
Deferred taxes	27,142	37,278
Other long-term assets	2,560	2,572
Noncurrent assets held for sale	—	16,891
Total assets	$ 420,000	$ 491,433
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility	$ 3,000	$ 12,000
Accounts payable	52,078	46,921
Accrued expenses and other current liabilities	68,678	62,645
Current liabilities held for sale	—	5,337
Total current liabilities	123,756	126,903
Convertible notes, net	61,544	126,415
Deferred rent	39,409	40,832
Other long-term liabilities	1,684	1,916
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 250,000,000 shares authorized and no shares issued and outstanding at June 30, 2018 and December 30, 2017	—	—
Common stock, $0.01 par value; 400,000,000 shares authorized, 24,273,510 shares issued and 24,019,510 shares outstanding at June 30, 2018, and 24,220,509 shares issued and 24,021,948 shares outstanding at December 30, 2017	243	242
Additional paid-in capital	83,985	88,823
Treasury stock, at cost; 254,000 shares at June 30, 2018 and 198,561 shares at December 30, 2017	(7,254)	(7,010)
Retained earnings	116,633	113,312
Total stockholders' equity	193,607	195,367
Total liabilities and stockholders' equity	$ 420,000	$ 491,433

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**
Net sales	$ 293,103	$ 296,420	$ 589,067	$ 602,192
Cost of goods sold	198,867	199,099	401,720	405,889
Gross profit	94,236	97,321	187,347	196,303
Selling, general and administrative expenses	88,918	81,604	177,516	161,745
Goodwill and store fixed-assets impairment charges	131	168,090	833	168,090
Income (loss) from operations	5,187	(152,373)	8,998	(133,532)
Gain on extinguishment of debt	3,727	—	16,229	—
Interest expense, net	1,699	2,374	4,140	4,786
Income (loss) before provision (benefit) for income taxes	7,215	(154,747)	21,087	(138,318)
Provision (benefit) for income taxes	1,932	(8,331)	6,147	(1,797)
Net income (loss) from continuing operations	5,283	(146,416)	14,940	(136,521)
Net gain (loss) from discontinued operations, net of tax	1,897	(10,003)	(11,619)	(11,902)
Net income (loss)	$ 7,180	$ (156,419)	$ 3,321	$ (148,423)
Weighted average common shares outstanding				
Basic	23,593,876	23,231,453	23,444,052	23,029,849
Diluted	23,774,548	23,231,453	23,570,976	23,029,849
Net income (loss) from continuing operations per common share				
Basic	$ 0.22	$ (6.30)	$ 0.64	$ (5.93)
Diluted	$ 0.22	$ (6.30)	$ 0.63	$ (5.93)
Net income (loss) from discontinued operations per common share				
Basic	$ 0.08	$ (0.43)	$ (0.50)	$ (0.52)
Diluted	$ 0.08	$ (0.43)	$ (0.49)	$ (0.52)
Net income (loss) per common share				
Basic	$ 0.30	$ (6.73)	$ 0.14	$ (6.44)
Diluted	$ 0.30	$ (6.73)	$ 0.14	$ (6.44)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended	
	June 30, 2018	**July 1, 2017**
Cash flows from operating activities:		
Net income (loss)	$ 3,321	$ (148,423)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of fixed and intangible assets	21,498	15,839
Impairment charge on goodwill	—	164,325
Impairment charges on intangible assets	8,174	—
Impairment charges on fixed assets	8,873	5,585
Loss on sale of FDC Vitamins, LLC	163	—
Amortization of deferred financing fees	365	458
Gain on extinguishment of debt	(16,229)	—
Amortization of debt discount on convertible notes	1,976	2,368
Deferred income taxes	10,136	(11,225)
Deferred rent	(1,842)	(1,465)
Equity compensation expense	931	2,710
Tax benefits on exercises of equity awards	705	747
Changes in operating assets and liabilities:		
Accounts receivable	(971)	4,409
Inventories	19,558	12,852
Prepaid expenses and other current assets	1,398	(2,886)
Other long-term assets	(50)	25
Accounts payable	4,741	(9,109)
Accrued expenses and other current liabilities	3,354	1,343
Other long-term liabilities	186	521
Net cash provided by operating activities	66,287	38,074
Cash flows from investing activities:		
Capital expenditures	(15,705)	(28,378)
Net proceeds on sale of FDC Vitamins, LLC	15,729	—
Trademarks and other intangible assets	(163)	(156)
Net cash used in investing activities	(139)	(28,534)
Cash flows from financing activities:		
Borrowings under revolving credit facility	81,000	57,000
Repayments of borrowings under revolving credit facility	(90,000)	(65,000)
Purchases of convertible notes	(57,158)	—
Bank overdraft	327	(3,052)
Proceeds from exercises of common stock options	—	1,511
Issuance of shares under employee stock purchase plan	108	270
Purchases of treasury stock	(244)	(544)
Other financing activities	(219)	(566)

Net cash used in financing activities	(66,186)	(10,381)
Effect of exchange rate changes on cash and cash equivalents	1	11
Net decrease in cash and cash equivalents	(37)	(830)
Cash and cash equivalents beginning of period	1,947	2,833
Cash and cash equivalents end of period	$ 1,910	$ 2,003
Supplemental disclosures of cash flow information:		
Interest paid	$ 1,943	$ 1,934
Income taxes (refunded) paid	$ (10,764)	$ 6,588
Supplemental disclosures of non-cash investing activities:		
Liability for purchases of property and equipment	$ 5,988	$ 10,017
Assets acquired under capital leases	$ —	$ 891
Assets acquired under tenant incentives	$ —	$ 2,986

See accompanying notes to consolidated financial statements.

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

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 an omni-channel specialty retailer 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.

The consolidated financial statements as of June 30, 2018 and July 1, 2017 are unaudited. The consolidated balance sheet as of December 30, 2017 was derived from our audited financial statements and has been restated to reflect discontinued operations. Refer to Note 2., "Discontinued Operations" for additional information. As a result of the discontinued operations, the Company currently operates through one business segment. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to such rules and regulations. The interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation in conformity with GAAP. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 30, 2017, as filed with the Securities and Exchange Commission on February 27, 2018 (the “Fiscal 2017 Form 10-K”). The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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. The results for the three and six months ended June 30, 2018 and July 1, 2017 are each based on 13-week and 26-week periods, respectively.

The preparation of financial statements in conformity with 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.

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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842). ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU 2016-02 will require modified retrospective application at the beginning of our first quarter of Fiscal 2019, but permits adoption in an earlier period. Although the Company is still evaluating ASU 2016-02, the Company currently expects this guidance will not have a material impact on its results of operations, however, this guidance will result in a significant increase to long-term assets and liabilities on the Company's balance sheet given the Company has a significant number of leases. The Company is in the process of implementing changes to its business processes, systems and controls to support the adoption of ASU 2016-02 in Fiscal 2019.

2. Discontinued Operations

On May 7, 2018, the Company sold certain assets, including the Betancourt Nutrition® brand, and liabilities of FDC Vitamins, LLC d/b/a Nutri-Force Nutrition (“Nutri-Force”) to Arizona Nutritional Supplements, LLC (“ANS”). Proceeds from the sale, net of transaction costs, were approximately $15.7 million and are subject to a working capital adjustment. The Company recognized a pre-tax loss on the sale of Nutri-Force of $0.2 million. In connection with the sale, the parties executed a transition services agreement for an initial term of six months whereby the Company agreed to provide services to operate the manufacturing facilities in Miami Lakes, Florida and to transition the production of products to ANS facilities. In addition, the parties executed supply agreements in which the Company has agreed to purchase a total of $53.0 million annually of its private label products and Betancourt Nutrition® brand products from ANS for a term of five years.

The results of operations of Nutri-Force for the three and six months ended June 30, 2018 are classified as discontinued operations in the consolidated statements of operations. The consolidated balance sheet as of December 30, 2017 and the statements of operations for the three and six months ended July 1, 2017 have been restated to reflect the discontinued operations.

Reconciliation of the Carrying Amounts of Major Classes of Assets and Liabilities of the Discontinued Operation to Total Assets and Liabilities of the Disposal Group Classified as Held for Sale That Are Presented Separately in the Balance Sheet
(in thousands)

	As of December 30, 2017
Carrying amounts of the major classes of assets included in discontinued operations:	
Accounts receivable	$ 6,265
Inventories	16,200
Prepaid expenses and other current assets	160
Total current assets	22,625
Property and equipment, net	8,513
Intangible assets, net	8,378
Total noncurrent assets	16,891
Total assets of the disposal group classified as held for sale	$ 39,516
Carrying amounts of the major classes of liabilities included in discontinued operations:	
Accounts payable	$ 2,704
Accrued liabilities	2,633
Total current liabilities of the disposal group classified as held for sale	$ 5,337

Reconciliation of the Major Line Items Constituting Loss of Discontinued Operations to the After-Tax Loss of Discontinued Operations That Are Presented in the Statements of Operations
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Major classes of line items constituting net loss on discontinued operations:				
Net sales (1)	$ 4,875	$ 8,417	$ 10,426	$ 19,546
Cost of goods sold	3,340	17,303	7,339	28,600
Fixed assets impairment charges	—	1,820	7,236	1,820
Gross profit (loss)	1,535	(10,706)	(4,149)	(10,874)
Selling, general and administrative expenses	558	5,175	1,952	8,239
Intangible assets and fixed assets impairment charges	—	—	8,978	—
Discontinued operations (gain) loss (2)	(1,287)	—	163	—
Income (loss) before provision (benefit) for income taxes	2,264	(15,881)	(15,242)	(19,113)
Provision (benefit) for income taxes	367	(5,878)	(3,623)	(7,211)
Net income (loss)	$ 1,897	$ (10,003)	$ (11,619)	$ (11,902)

(1) Revenue related to the transition services agreement was $1.6 million during the three and six months ended June 30, 2018.

(2) During the three months ended March 31, 2018, the Company recorded a charge of $1.5 million which represented the estimated loss on the sale of the discontinued operations based on the anticipated proceeds less estimated transaction

costs. During the three months ended June 30, 2018, this estimated loss was reduced by $1.3 million resulting in a pre-tax loss on the sale of Nutri-Force of $0.2 million.

Cash Flow Disclosures for Discontinued Operations
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Cash flows provided by (used in) operating activities	$ (15,062)	$ (1,012)	$ (15,116)	$ (896)
Cash flows provided by (used in) investing activities	$ 15,726	$ (528)	$ 15,634	$ (879)
Depreciation and amortization	$ —	$ 281	$ 769	$ 559
Capital expenditures	$ 2	$ 528	$ 94	$ 879

3. Goodwill and Intangible Assets

The following table discloses the carrying value of all intangible assets (in thousands):

	June 30, 2018				December 30, 2017			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Charges	Net	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Charges	Net
Intangible assets								
Goodwill	$ 243,269	$ —	$ 243,269	$ —	$ 243,269	$ —	$ 243,269	$ —
Tradenames – Indefinite-lived	68,405	—	59,405	9,000	68,405	—	59,405	9,000
Tradenames – Definite-lived	5,555	3,510	—	2,045	5,392	3,352	—	2,040
	$ 317,229	$ 3,510	$ 302,674	$ 11,045	$ 317,066	$ 3,352	$ 302,674	$ 11,040

The useful life of the Company's definite-lived intangible assets is 10 years. The expected amortization expense on definite-lived intangible assets on the Company's consolidated balance sheet at June 30, 2018, is as follows (in thousands):

Remainder of Fiscal 2018	$ 157
Fiscal 2019	313
Fiscal 2020	313
Fiscal 2021	313
Fiscal 2022	313
Thereafter	636
	$ 2,045

4. Accrued Expenses and Other Current Liabilities

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

	June 30, 2018	December 30, 2017
Accrued salaries and related expenses	$ 19,912	$ 18,094
Sales tax payable and related expenses	6,819	7,088
Deferred sales	8,196	5,710
Other accrued expenses	33,751	31,753
	$ 68,678	$ 62,645

5. Credit Arrangements

Convertible Senior Notes due 2020

On December 9, 2015, the Company issued $143.8 million of its 2.25% Convertible Senior Notes due 2020 (the “Convertible Notes”). The Convertible Notes are senior unsecured obligations of VSI. Interest on the Convertible Notes is payable on June 1 and December 1 of each year 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 certain circumstances. The Convertible Notes are 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 a conversion price of approximately $39.74. The conversion rate is 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.

On March 27, 2018, the Company repurchased $45.4 million in aggregate principal amount of its Convertible Notes for an aggregate purchase price of $34.0 million, which includes accrued interest of $0.3 million. The repurchase was funded through borrowings under the Company's Revolving Credit Facility. The gain on extinguishment of the repurchased Convertible Notes was $12.5 million.

On June 1, 2018, the Company repurchased $29.9 million in aggregate principal amount of its Convertible Notes for an aggregate purchase price of $23.1 million, which includes a de minimis amount of accrued interest. The repurchase was funded through borrowings under the Company's Revolving Credit Facility. The gain on extinguishment of the repurchased Convertible Notes was $3.7 million.

The Convertible Notes consist of the following components (in thousands):

	June 30, 2018	December 30, 2017
Liability component:		
Principal	$ 68,439	$ 143,750
Conversion feature	(17,685)	(24,800)
Liability portion of debt issuance costs	(2,758)	(3,802)
Amortization	13,548	11,267
Net carrying amount	$ 61,544	$ 126,415
Equity component:		
Conversion feature	$ 18,908	$ 24,800
Equity portion of debt issuance costs	(793)	(793)
Deferred taxes	941	941
Net carrying amount	$ 19,056	$ 24,948

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, were used to repurchase shares of the Company's common stock under the Company's share repurchase programs.

In connection with the repurchases of Convertible Notes, the convertible note hedge transactions and the warrant transaction noted above were reduced in ratable proportion to the face amount of Convertible Notes that were repurchased. The net proceeds received by the Company from these transactions were de minimis.

Revolving Credit Facility

As of June 30, 2018 and December 30, 2017, the Company had $3.0 million and $12.0 million of borrowings outstanding on its Revolving Credit Facility (the "Revolving Credit Facility"), respectively.

In May 2017, the Company executed an amendment to its Revolving Credit Facility, which provides for an extension of the maturity date to May 9, 2022, provided that the maturity date would be any day on or after September 2, 2020 only if the Company did not on any such day have enough liquidity to retire its Convertible Notes then outstanding, if any. The amendment also provides for a reduction of the interest rate under the Revolving Credit Facility, as noted below.

Subject to the terms of the Revolving Credit Facility, 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 during the six months ended June 30, 2018 and July 1, 2017 was $43.0 million and $38.0 million, respectively. The unused available line of credit under the Revolving Credit Facility at June 30, 2018 was $82.7 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 0.00%, 0.125% or 0.25% or the adjusted Eurodollar rate plus 1.00%, 1.125% or 1.25%, in each case with the highest spread applicable in the event that the average excess collateral availability under the Revolving Credit Facility is less than 33% of the borrowing base availability under the Revolving Credit Facility, the second highest spread applicable in the event that the average excess collateral availability under the Revolving Credit Facility is less than 66% and greater than or equal to 33% of the borrowing base availability under the Revolving Credit Facility and the lowest spread applicable in the event that the average excess collateral availability under the Revolving Credit Facility is greater than or equal to 66% of the borrowing base availability under the Revolving Credit Facility. The weighted average interest rate for the Revolving Credit Facility during the six months ended June 30, 2018 and July 1, 2017 was 2.81% and 2.13%, respectively. The commitment fee on the undrawn portion of the $90.0 million Revolving Credit Facility is 0.25% per annum.

Interest expense, net for the three and six months ended June 30, 2018 and July 1, 2017 consists of the following (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Amortization of debt discount on Convertible Notes	$ 769	$ 1,190	$ 1,976	$ 2,368
Interest on Convertible Notes	542	817	1,348	1,635
Amortization of deferred financing fees	145	220	365	458
Interest / fees on the Revolving Credit Facility and other interest	243	147	451	325
Interest expense, net	$ 1,699	$ 2,374	$ 4,140	$ 4,786

6. Revenue Recognition

The Company recognizes revenue from retail customers when merchandise is sold "at point of sale" in retail stores or upon delivery to a customer. Substantially all revenue from customers represents goods transferred at a point in time.

The Company applied the modified retrospective method for the transition to FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The modified retrospective method requires application of the new revenue standard only to the current year financial statements (i.e., the financial statements for the year in which the new revenue standard is first implemented). Under the modified retrospective method, an entity records a cumulative-effect adjustment on the opening balance sheet to retained earnings. The opening adjustment to retained earnings is determined on the basis of the impact of the new revenue standard's application on contracts that were not completed as of the date of initial application. The Company did not record an opening adjustment to retained earnings as the impact of the application of the new revenue standard was de minimis.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers into two categories, sales fulfilled in stores and direct to consumer sales. The Company determines that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

The following table contains net sales by fulfillment category (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net sales:				
Sales fulfilled in stores	$ 254,875	$ 268,484	$ 512,291	$ 542,307
Direct to consumer sales	38,228	27,936	76,776	59,885
Net sales	$ 293,103	$ 296,420	$ 589,067	$ 602,192

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Product Category				
Vitamins, Minerals, Herbs and Homeopathy	$ 83,997	$ 82,114	$ 172,801	$ 168,760
Sports Nutrition	89,669	94,834	179,008	192,094
Specialty Supplements	75,986	75,837	151,408	153,802
Other	42,840	43,098	84,622	86,377
	292,492	295,883	587,839	601,033
Delivery Revenue	611	537	1,228	1,159
Total net sales	$ 293,103	$ 296,420	$ 589,067	$ 602,192

Delivery revenue represents shipping fees billed to customers which are included in net sales in the consolidated statements of operations.

Contract Balances

Receivables primarily consist of amounts due from debit and credit card processors and amounts due from third-party e-commerce marketplaces. These receivables balances are included in prepaid expenses and other current assets in the consolidated balance sheets.

For the periods presented, the Company does not have contract assets. A contract asset would exist when an entity has a contract with a customer for which revenue has been recognized but payment is contingent on a future event other than the passage of time (e.g., unbilled receivables).

Contract liabilities primarily include deferred sales related to the loyalty program, a liability for future gift card redemptions and a liability for sales in transit. These liabilities are included in accrued expenses and other current liabilities in the consolidated balance sheets.

The opening and closing balances of the Company's receivables and contract liabilities are as follows (in thousands):

	Receivables	Contract Liabilities
Balances as of December 30, 2017	$ 10,937	$ 7,511
Increase	1,055	899
Balances as of March 31, 2018	11,992	8,410
Increase / (Decrease)	(560)	1,013
Balances as of June 30, 2018	$ 11,432	$ 9,423
Balances as of December 31, 2016	$ 11,012	$ 6,901
Increase / (Decrease)	744	(503)
Balances as of April 1, 2017	11,756	6,398
Increase / (Decrease)	(672)	983
Balances as of July 1, 2017	$ 11,084	$ 7,381

The amounts of revenue recognized during the three month periods ended March 31, 2018 and April 1, 2017 that were included in the opening contract liability balances were $6.5 million and $6.0 million, respectively. The amounts of revenue recognized during the three month periods ended June 30, 2018 and July 1, 2017 that were included in the opening contract liability balances were $6.4 million and $5.6 million, respectively. This revenue consists primarily of loyalty point redemptions, the delivery of sales in transit and gift card redemptions.

Performance Obligations

For retail sales, the performance obligation is the transfer of retail merchandise to the customer at the retail store or at the time of delivery to the customer. Variable consideration for retail sales is primarily related to our loyalty program. Under the loyalty program, 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 and current trends. The Company records a liability in the period points are earned with a corresponding reduction of sales. Under the current program, loyalty points are earned each calendar quarter and must be redeemed within the subsequent calendar quarter or they expire. During Fiscal 2018, the Company is testing potential changes to the loyalty program, such as extending the redemption period on loyalty points, in order to improve the effectiveness of the program.

Performance obligations are typically satisfied at the point in time when the Company transfers control of the merchandise to the customer and at such point in time the customer is able to direct the use of and obtains substantially all of the benefits from the merchandise transferred to the customer. For retail sales, payment is due at the time the customer purchases retail merchandise. For retail sales, the Company establishes a provision for estimated returns of retail products, based on historical information.

The Company considers shipping and handling costs as fulfillment costs, and does not consider such activities as a separate performance obligation. When applicable, the Company is responsible for shipment and delivery of the merchandise, even when using a third-party shipping company.

Significant Judgments and Estimates

The Company considers control of retail products to have transferred upon delivery, at the retail location or the place of delivery, because the Company has a present right to payment at that time, the customer has legal title to the products, the Company has transferred physical possession of the products, and the customer has significant risks and rewards of ownership of the products.

Under the loyalty program, the value of points projected to be redeemed is dependent on the estimated redemption rates which are based on both historical information and current trends.

For retail sales in transit, the Company defers the recognition of revenue based on an estimate of the respective anticipated timing of delivery.

Practical Expedients

The Company has elected to use the following practical expedients affecting the measurement and recognition of revenue:

Significant financing component - As substantially all of the Company's contracts with customers have an original duration of one year or less, the Company uses the practical expedient applicable to such contacts and does not consider the time value of money.

Sales taxes - Consistent with prior periods, sales taxes collected from customers are presented on a net basis and as such are excluded from revenue.

Contract costs - Due to the short term duration of the Company's contracts with customers, such incremental costs of obtaining or fulfilling a contract are recognized as an expense when incurred since the amortization period of the asset that the Company otherwise would have recognized is one year or less.

Portfolio approach - For its retail contracts with customers, the Company has applied the new revenue standard to a portfolio of contracts with similar characteristics since the Company reasonably expects that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts within that portfolio.

Disclosure of remaining performance obligations - Due to the short duration of its contracts with customers of one year or less, the Company has elected not to disclose the information regarding the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.

7. Stock Based Compensation

Equity Incentive Plans – In June 2018, the Company's shareholders approved the 2018 Long-term Incentive Plan (the "2018 Plan") to provide stock based compensation to certain directors, officers, consultants and employees of the Company. The 2018 Plan replaces the two previous plans, the 2006 Stock Option Plan and the Vitamin Shoppe 2009 Equity Incentive Plan, as amended and restated effective April 6, 2012. Upon adoption of the 2018 Plan, 1,410,928 additional shares were authorized to grant under this plan. As of June 30, 2018, there were 2,800,643 shares available to grant under the 2018 Plan which includes 240,900 shares currently held by the Company as treasury stock.

The following table summarizes restricted shares for the 2018 Plan as of June 30, 2018 and changes during the six month period then ended:

	Number of Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Unvested at December 30, 2017	724,104	$ 18.65
Granted	280,688	$ 4.46
Vested	(140,809)	$ 22.30
Canceled/forfeited	(281,836)	$ 16.31
Unvested at June 30, 2018	582,147	$ 12.06

The total intrinsic value of restricted shares vested during the six months ended June 30, 2018 and July 1, 2017 was $0.6 million and $1.4 million, respectively.

The following table summarizes stock options for the 2018 Plan as of June 30, 2018 and changes during the six month period then ended:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 30, 2017	308,888	$ 27.74		
Granted	141,777	$ 4.65		
Exercised	—	$ —		
Canceled/forfeited	(91,135)	$ 20.94		
Outstanding at June 30, 2018	359,530	$ 20.36	6.22	$ 326
Vested or expected to vest at June 30, 2018	341,260	$ 20.93	6.06	
Vested and exercisable at June 30, 2018	176,832	$ 31.39	3.15	$ —

No options were exercised during the six months ended June 30, 2018. The total intrinsic value of options exercised during the six months ended July 1, 2017 was $0.7 million. The cash received from options exercised during the six months ended July 1, 2017 was $1.5 million.

Stock options were not granted during the six months ended July 1, 2017. The weighted-average grant date fair value of stock options during the six months ended June 30, 2018 was $1.76. The fair value of each option grant was estimated on the date of grant using the Monte Carlo option-pricing model, because these awards contain a market condition based on the achievement of predetermined targets related to the share price of our common stock, with the following assumptions:

	Three and Six Months Ended June 30, 2018
Expected dividend yield	0.0%
Weighted average expected volatility	42.61%
Weighted average risk-free interest rate	2.54%
Expected holding period	6.02 years

The following table summarizes performance share units for the 2018 Plan as of June 30, 2018 and changes during the six month period then ended:

	Number of Unvested Performance Share Units	Weighted Average Grant Date Fair Value
Unvested at December 30, 2017	288,365	$ 22.43
Granted	531,211	$ 4.66
Vested	—	$ —
Canceled/forfeited	(400,353)	$ 11.59
Unvested at June 30, 2018	419,223	$ 10.26

Performance share units granted during the six months ended June 30, 2018 shall vest on December 26, 2020 if the performance criteria are achieved. Performance share units can vest at a range of 0% to 150% based on the achievement of pre-established performance targets.

The following table summarizes restricted share units for the 2018 Plan as of June 30, 2018 and changes during the six month period then ended:

	Number of Unvested Restricted Share Units	Weighted Average Grant Date Fair Value
Unvested at December 30, 2017	39,708	$ 11.90
Granted	4,413	$ 4.85
Vested	(32,353)	$ 11.90
Canceled/forfeited	—	$ —
Unvested at June 30, 2018	11,768	$ 9.26

The total intrinsic value of restricted share units vested during the six months ended June 30, 2018 and July 1, 2017 was $0.2 million in both periods.

Compensation expense attributable to stock based compensation for the three and six months ended June 30, 2018 was approximately $0.1 million and $0.9 million, respectively, and for the three and six months ended July 1, 2017 was approximately $1.1 million and $2.7 million, respectively. As of June 30, 2018, the remaining unrecognized stock based compensation expense for non-vested stock options, restricted shares, performance share units and restricted share units to be expensed in future periods is $4.7 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, performance share units and restricted share units as of June 30, 2018 is approximately $0.5 million.

Treasury Stock – As part of the Company's equity incentive plan, 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 the six months ended June 30, 2018, the Company purchased 55,439 shares in settlement of employees' tax obligations for a total of $0.2 million. The Company accounts for treasury stock using the cost method. 240,900 treasury shares are available to grant under the Company's equity incentive plan.

8. Restructuring Costs

Closing of Distribution Center

In August 2017, the Company announced its intention to close the North Bergen, New Jersey distribution center prior to or by the August 31, 2018 lease expiration. The transition of distribution operations to the Company's other distribution centers was substantially completed during Fiscal 2017.

Costs related to this closure, including occupancy, severance and other expenses, for the three and six months ended June 30, 2018 were $0.4 million and $2.7 million, respectively, of which approximately $0.1 million and $1.8 million, respectively, is included in cost of goods sold and approximately $0.4 million and $0.9 million, respectively, is included in selling, general and administrative expenses in the consolidated statements of operations. As of June 30, 2018, the Company had no remaining liabilities related to the closing of the North Bergen, New Jersey distribution center.

9. Advertising Costs

The costs of advertising for online marketing arrangements, direct mail, magazines and radio are expensed as incurred, or the first time the advertising takes place. Advertising expense was $6.9 million and $7.0 million for the three months ended June 30, 2018 and July 1, 2017, respectively, and $13.4 million and $12.9 million for the six months ended June 30, 2018 and July 1, 2017, respectively.

10. Income Taxes

The Tax Cut and Jobs Act of 2017 ("U.S. Tax Reform") was enacted on December 22, 2017, reducing the statutory federal income tax rate from 35% to 21%, effective January 1, 2018. As required, the Company determined a reasonable estimate for certain effects of U.S. Tax Reform and recorded that estimate as a provisional amount. Due to the Company's deferred tax position being a net asset, the provisional remeasurement of the deferred tax assets and liabilities resulted in a $15.3 million discrete tax expense which lowered the effective tax rate by 5.6% in Fiscal 2017. Our federal income tax expense for periods beginning in Fiscal 2018 is based on the new tax rate. The provisional remeasurement amount is anticipated to change as data becomes available allowing more accurate scheduling of the deferred tax assets and liabilities primarily related to depreciable assets, inventory, employee compensation and commissions. There have been no updates to the provisional amounts during the six months ended June 30, 2018.

Additionally on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118, which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the U.S. Tax Reform. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. As such, the Company is reporting the impacts of the U.S. Tax Reform provisionally based upon reasonable estimates. As of June 30, 2018 the impacts are not yet finalized as they are dependent on factors and analysis not yet known or fully completed, including but not limited to, depreciation, additional effect of the rate change on the ending deferred balances and the issuance of additional guidance, as well as our ongoing analysis of the U.S Tax Reform.

11. Net Income (Loss) Per Share

The Company’s basic net income (loss) per share excludes the dilutive effect of stock options, unvested restricted shares, unvested performance share units, unvested restricted share units and warrants. It is based upon the weighted average number of common shares outstanding during the period divided into net income (loss).

Diluted net income (loss) 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, unvested performance share units, unvested restricted share units and warrants 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 (loss) per common share and diluted net income (loss) per common share are as follows (in thousands except share and per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Numerator:				
Net income (loss) from continuing operations	$ 5,283	$ (146,416)	$ 14,940	$ (136,521)
Net income (loss) from discontinued operations	1,897	(10,003)	(11,619)	(11,902)
Net income (loss)	$ 7,180	$ (156,419)	$ 3,321	$ (148,423)
Denominator:				
Basic weighted average common shares outstanding	23,593,876	23,231,453	23,444,052	23,029,849
Effect of dilutive securities (a):				
Stock options	—	—	—	—
Restricted shares	95,330	—	80,796	—
Performance share units	68,214	—	34,145	—
Restricted share units	17,128	—	11,983	—
Diluted weighted average common shares outstanding	23,774,548	23,231,453	23,570,976	23,029,849
Basic net income (loss) from continuing operations per common share	$ 0.22	$ (6.30)	$ 0.64	$ (5.93)
Diluted net income (loss) from continuing operations per common share	$ 0.22	$ (6.30)	$ 0.63	$ (5.93)
Basic net income (loss) from discontinued operations per common share	$ 0.08	$ (0.43)	$ (0.50)	$ (0.52)
Diluted net income (loss) from discontinued operations per common share	$ 0.08	$ (0.43)	$ (0.49)	$ (0.52)
Basic net income (loss) per common share	$ 0.30	$ (6.73)	$ 0.14	$ (6.44)
Diluted net income (loss) per common share	$ 0.30	$ (6.73)	$ 0.14	$ (6.44)

(a) For the three and six months ended July 1, 2017, due to a loss for the period, no incremental shares are included because the effect would be anti-dilutive.

Securities for the three months ended June 30, 2018 and July 1, 2017 in the amount of 518,214 shares and 791,633 shares, respectively, have been excluded from the above calculation as they were anti-dilutive. Securities for the six months ended June 30, 2018 and July 1, 2017 in the amount of 975,634 shares and 418,600 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, and related warrants, being anti-dilutive for the three and six months ended June 30, 2018 and July 1, 2017 as the Company's average stock price from the date of issuance of the Convertible Notes through June 30, 2018 was less than the conversion price as well as less than the strike price of the warrant transaction. Refer to Note 5., "Credit Arrangements" for additional information on the Convertible Notes.

12. Share Repurchase Programs

Beginning in August 2014, the Company's board of directors approved share repurchase programs that enable the Company to purchase up to an aggregate of $370 million of its shares of common stock and / or its Convertible Notes, from time to time. As of June 30, 2018, 8,064,325 shares of common stock pursuant to these programs, and 75,311 Convertible

Notes, have been repurchased for a total of $327.1 million. There is approximately $42.9 million remaining in this program which expires on November 22, 2018.

The repurchase programs do not obligate the Company to acquire any specific number of securities and may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing securities, the availability of alternative investment opportunities, liquidity, restrictions under the Company's credit agreement, applicable law and other factors deemed appropriate.

No shares of the Company were repurchased under these programs during the three and six month periods ended June 30, 2018 and July 1, 2017. During Fiscal 2018, the Company repurchased $75.3 million in aggregate principal amount of its Convertible Notes for an aggregate purchase price of $57.2 million, which includes accrued interest of $0.3 million. Refer to Note 5., "Credit Arrangements" for additional information.

13. Legal Proceedings

The Company is party to various lawsuits arising from time to time in the normal course of business, some of which are covered by insurance. 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.

In addition, on or about August 22, 2017, a federal securities class action suit was filed in the United States District Court in the District of New Jersey against Vitamin Shoppe and certain officers and directors on behalf of purchasers of Vitamin Shoppe common stock between March 1, 2017 and August 6, 2017. The lawsuit sought remedies under the Securities Exchange Act of 1934, including monetary damages, alleging that the defendants made false and misleading statements regarding the Company's reported goodwill, initiatives designed to improve the Company's financial performance, the Company's profitability trends, and its financial results. On April 26, 2018, the court appointed the lead plaintiffs. On July 14, 2018, the appointed lead plaintiffs voluntarily dismissed the case without prejudice.

14. 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, contract liabilities 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 Company's financial instruments also include its Convertible Notes (in thousands):

	June 30, 2018	December 30, 2017
Fair Value	$ 52,979	$ 91,612
Carrying Value (1)	61,544	126,415

(1) Represents the net carrying amount of the liability component of the Convertible Notes. The Company repurchased a portion of its Convertible Notes during the three and six months ended June 30, 2018. Refer to Note 5., "Credit Arrangements" for additional information.

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 1 or 2).

Intangible assets and fixed 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 3 measures under the fair value hierarchy.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and notes thereto included as part of this quarterly report on Form 10-Q.

Company Overview

We are an omni-channel specialty retailer of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products. We market approximately 700 nationally recognized brands as well as our own brands, which include The Vitamin Shoppe®, BodyTech®, True Athlete®, Mytrition®, plnt®, ProBioCare® and Next Step®. We believe we offer one of the largest varieties of products among vitamin, mineral and supplement (“VMS”) retailers and continue to refine our assortment with approximately 6,700 stock keeping units (“SKUs”) offered in our typical store and approximately 8,000 additional SKUs available through e-commerce. 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.

We continue to focus on our strategy to improve the customer experience through the roll-out of initiatives including increasing customer engagement and personalization, redesigning the omni-channel experience (including in stores as well as through the internet and mobile devices), growing our private brands and improving the effectiveness of pricing and promotions. As part of this strategy, we have developed several initiatives, including an emphasis on the development and deployment of our customer facing digital platforms to enhance the customer's omni-channel experience.

Discontinued Operations:

On May 7, 2018, the Company sold certain assets, including the Betancourt Nutrition® brand, and liabilities of FDC Vitamins, LLC d/b/a Nutri-Force Nutrition (“Nutri-Force”) to Arizona Nutritional Supplements, LLC (“ANS”). Proceeds from the sale, net of transaction costs, were approximately $15.7 million and are subject to a working capital adjustment. The Company recognized a pre-tax loss on the sale of Nutri-Force of $0.2 million. In connection with the sale, the parties executed a transition services agreement for an initial term of six months whereby the Company agreed to provide services to operate the manufacturing facilities in Miami Lakes, Florida and to transition the production of products to ANS facilities. In addition, the parties executed supply agreements in which the Company has agreed to purchase a total of $53.0 million annually of its private label products and Betancourt Nutrition® brand products from ANS for a term of five years.

During the second quarter of Fiscal 2018, the Company incurred approximately $1.7 million of costs which primarily consisted of severance costs. Additional costs during Fiscal 2018 are expected to be approximately $2.0 million to $6.0 million which primarily consist of lease termination charges and severance costs.

Convertible Notes Repurchases:

On March 27, 2018, the Company repurchased $45.4 million in aggregate principal amount of its Convertible Notes for an aggregate purchase price of $34.0 million, which includes accrued interest. The gain on extinguishment of the repurchased Convertible Notes was $12.5 million.

On June 1, 2018, the Company repurchased $29.9 million in aggregate principal amount of its Convertible Notes for an aggregate purchase price of $23.1 million, which includes accrued interest. The gain on extinguishment of the repurchased Convertible Notes was $3.7 million.

These repurchases were funded through borrowings under the Company's Revolving Credit Facility. Refer to Note 5., "Credit Arrangements" in the notes to consolidated financial statements (unaudited) for additional information.

Elimination of unproductive inventory:

During the second quarter of Fiscal 2018, the Company completed an evaluation in order to refine the product assortment offered in our stores and through ecommerce. The purpose of the evaluation was to identify unproductive products in order to make room for new product offerings. As a result of this evaluation, the Company recorded a charge of $3.6 million which is included in cost of goods sold in the consolidated statements of operations.

Closing of distribution center:

In August 2017, the Company announced its intention to close the North Bergen, New Jersey distribution center prior to or by the August 31, 2018 lease expiration. Distribution operations have been transitioned to the Company's other distribution centers. Costs related to this closure, such as severance, inventory related costs and other charges were $3.1 million in Fiscal 2017 and severance and other expenses for the three and six months ended June 30, 2018 were $0.4 million and $2.7 million, respectively. No additional costs are expected to be incurred during Fiscal 2018.

Trends and Other Factors Affecting Our Business

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, 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 and expansion of competitors, changes in pricing and promotional strategies or expansion of product assortment by various competitors. Over recent years, there has been a shift of market share from specialty retailers to other channels such as mass market retailers, supermarket chains, club chains, drug store chains and e-commerce companies. This broader competitive channel availability of VMS products represents a challenge for the Company to keep pace with industry growth rates. We also have observed more competition in our assortment, and more competitive pricing and promotional strategies by competitors and increased levels of marketing spending.

As of June 30, 2018 we operate 782 stores located in 45 states, the District of Columbia and Puerto Rico. We have significantly slowed new store growth while we continue to evaluate our store network strategy.

As we anticipate an acceleration in the shift in our sales towards digital commerce, we are evaluating (1) our store network in order to identify opportunities to reduce fixed costs by closing underperforming stores, (2) our supply chain infrastructure and processes in order to increase the speed of delivery of products for direct to consumer sales, as well as increase the efficiency of our distribution centers, and (3) our merchandising processes in order to, among other things, increase the penetration of our private label brands. The completion of these evaluations may result in actions that could cause (1) the closing of a significant number of stores at or before lease expiration, (2) an increase in capital expenditures, (3) a reduction in the amount of inventory on hand, and / or (4) future charges to our results of operations for store impairments.

Critical Accounting Policies

Our significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements included in our financial statements in the Fiscal 2017 Form 10-K. A discussion of our critical accounting policies and estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Fiscal 2017 Form 10-K. Management has discussed the development and selection of these policies with the Audit Committee of our Board of Directors, and the Audit Committee of our Board of Directors has reviewed the disclosures relating to them. Management believes there have been no material changes to the critical accounting policies or estimates reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Fiscal 2017 Form 10-K.

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. Total comparable net sales include retail sales fulfilled in stores and direct to consumer sales. Sales generated by retail stores after 410 days of operation are included in comparable net sales.

Cost of goods sold includes the cost of inventory sold, costs of warehousing, distribution and store occupancy costs. Warehousing and distribution costs, which are capitalized into inventory and then expensed as merchandise is sold, include freight to transfer merchandise and costs associated with our buying department and distribution facilities. 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 operating payroll and related benefits, advertising and promotion expense, depreciation and amortization expenses not capitalized in cost of goods sold, and other selling, general and administrative expenses.

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

Interest expense, net includes interest on our Convertible Notes and Revolving Credit Facility, letters of credit fees, interest on our capital leases, as well as amortization of financing costs, reduced by 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):

	Three Months Ended		Six Months Ended	
	June 30, 2018	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**
Net sales	$ 293,103	$ 296,420	$ 589,067	$ 602,192
Decrease in total comparable net sales (1)	(1.1)%	(8.3)%	(2.4)%	(7.3)%
Decrease in comparable store net sales	(5.1)%	(7.6)%	(5.8)%	(6.7)%
Increase (Decrease) in digital comparable net sales (2)	36.9 %	(14.6)%	28.3 %	(12.2)%
Gross profit as a percent of net sales	32.2 %	32.8 %	31.8 %	32.6 %
Income (loss) from operations	$ 5,187	$ (152,373)	$ 8,998	$ (133,532)

(1) Total comparable net sales are comprised of comparable fulfilled in retail store sales and direct to consumer sales.

(2) Digital comparable net sales includes sales from VS.com, third party marketplaces and auto delivery sales.

The following table shows the changes in our network of stores during the three and six months ended June 30, 2018 and July 1, 2017:

	Three Months Ended		Six Months Ended	
	June 30, 2018	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**
Store Data:				
Stores open at beginning of period	783	780	785	775
Stores opened	1	3	1	9
Stores closed	(2)	—	(4)	(1)
Stores open at end of period	782	783	782	783
Total retail square footage at end of period (in thousands)	2,725	2,731	2,725	2,731
Average store square footage at end of period	3,484	3,488	3,484	3,488

Three Months Ended June 30, 2018 Compared to Three Months Ended July 1, 2017

The information presented below is for the three months ended June 30, 2018 and July 1, 2017 and was derived from our consolidated financial statements, which, in the opinion of management, include all adjustments necessary for a fair presentation of our financial position and operating results for such periods and as of such dates.

The following tables summarize our results of operations for the three months ended June 30, 2018 and July 1, 2017 (in thousands):

	Three Months Ended		$ Change	% Change
	June 30, 2018	July 1, 2017		
Net sales	$ 293,103	$ 296,420	$ (3,317)	(1.1)%
Cost of goods sold	198,867	199,099	(232)	(0.1)%
Cost of goods sold as % of net sales	*67.8%*	*67.2 %*		
Gross profit	94,236	97,321	(3,085)	(3.2)%
Gross profit as % of net sales	*32.2%*	*32.8 %*		
Selling, general and administrative expenses	88,918	81,604	7,314	9.0 %
SG&A expenses as % of net sales	*30.3%*	*27.5 %*		
Goodwill and store fixed-assets impairment charges	131	168,090	(167,959)	(99.9)%
Goodwill and store fixed-assets impairment charges as % of net sales	—%	56.7 %		
Income (loss) from operations	5,187	(152,373)	157,560	(103.4)%
Income (loss) from operations as % of net sales	*1.8%*	*(51.4)%*		
Gain on extinguishment of debt	3,727	—	3,727	nm
Interest expense, net	1,699	2,374	(675)	(28.4)%
Income (loss) before provision (benefit) for income taxes	7,215	(154,747)	161,962	(104.7)%
Provision (benefit) for income taxes	1,932	(8,331)	10,263	(123.2)%
Net income (loss) from continuing operations	5,283	(146,416)	151,699	(103.6)%
Net income (loss) from discontinued operations	1,897	(10,003)	11,900	(119.0)%
Net income (loss)	$ 7,180	$ (156,419)	$ 163,599	(104.6)%

Net Sales

Net sales decreased 1.1% as a result of a decrease in our total comparable net sales of $3.3 million. Non-comparable net sales were relatively flat.

Cost of Goods Sold

Cost of goods sold includes product, warehouse, distribution and occupancy costs. As a percentage of net sales, cost of goods sold increased by 0.6%. This includes supply chain deleverage of 1.4% and a charge for the elimination of unproductive inventory of 1.2%. This was partially offset by total product margin improvement of 2.0%.

Selling, General and Administrative Expenses

	Three Months Ended			
	June 30, 2018	July 1, 2017	$ Change	% Change
SG&A Expenses (in thousands):				
Store Payroll and Benefits (a)	$ 35,398	$ 34,511	$ 887	2.6 %
Store Payroll & benefits as % of net sales	*12.1%*	*11.6%*		
Advertising and Promotion (b)	6,937	7,050	(113)	(1.6)%
Advertising & promotion as % of net sales	*2.4%*	*2.4%*		
Other SG&A (c)	46,583	40,043	6,540	16.3 %
Other SG&A as % of net sales	*15.9%*	*13.5%*		
Total SG&A Expenses	$ 88,918	$ 81,604	$ 7,314	9.0 %

(a) Store payroll and benefits increased primarily due to higher wage rates, an increase in health insurance costs and higher store incentives.
(b) Advertising and promotion expenses were relatively flat.
(c) Other selling, general and administrative expenses increased primarily due to increases in overhead expenses totaling $3.6 million which includes increases in information technology and digital commerce costs, incentive compensation and health insurance costs. The increase also includes one-time charges of $1.8 million for management realignment expenses, $0.7 million of professional services fees related to shareholder settlement and $0.4 million of costs related to the closing of the North Bergen, New Jersey distribution center.

Goodwill and Store Fixed-Assets Impairment Charges

The second quarter of Fiscal 2018 includes a store fixed-assets impairment charge of $0.1 million. The second quarter of Fiscal 2017 includes a goodwill impairment charge of $164.3 million and store fixed-assets impairment charges of $3.8 million.

Gain on Extinguishment of Debt

During the three months ended June 30, 2018 the Company recognized a $3.7 million gain on the repurchase of a portion of its Convertible Notes.

Interest Expense, Net

Interest expense, net decreased $0.7 million primarily due to the repurchases of a portion of the Company's Convertible Notes during Fiscal 2018.

Provision (benefit) for Income Taxes

The effective provision (benefit) tax rate for continuing operations for the three months ended June 30, 2018 was 26.8%, compared to (5.4)% for the three months ended July 1, 2017. The change in the effective tax rate is primarily due to the non-deductible portion of the goodwill impairment charge, the lower federal tax rate under the Tax Cut and Jobs Act of 2017 partially offset by a permanent tax difference related to the excess tax deficiencies from stock-based compensation.

Six Months Ended June 30, 2018 Compared to Six Months Ended July 1, 2017

The information presented below is for the six months ended June 30, 2018 and July 1, 2017 and was derived from our consolidated financial statements, which, in the opinion of management, include all adjustments necessary for a fair presentation of our financial position and operating results for such periods and as of such dates.

The following tables summarize our results of operations for the six months ended June 30, 2018 and July 1, 2017 (in thousands):

	Six Months Ended		$ Change	% Change
	June 30, 2018	July 1, 2017		
Net sales	$ 589,067	$ 602,192	$ (13,125)	(2.2)%
Cost of goods sold	401,720	405,889	(4,169)	(1.0)%
Cost of goods sold as % of net sales	*68.2%*	*67.4 %*		
Gross profit	187,347	196,303	(8,956)	(4.6)%
Gross profit as % of net sales	*31.8%*	*32.6 %*		
Selling, general and administrative expenses	177,516	161,745	15,771	9.8 %
SG&A expenses as % of net sales	*30.1%*	*26.9 %*		
Goodwill and store fixed-assets impairment charges	833	168,090	(167,257)	(99.5)%
Goodwill and store fixed-assets impairment charges as % of net sales	0.1%	27.9 %		
Income (loss) from operations	8,998	(133,532)	142,530	(106.7)%
Income (loss) from operations as % of net sales	*1.5%*	*(22.2)%*		
Gain on extinguishment of debt	16,229	—	16,229	nm
Interest expense, net	4,140	4,786	(646)	(13.5)%
Income (loss) before provision (benefit) for income taxes	21,087	(138,318)	159,405	(115.2)%
Provision (benefit) for income taxes	6,147	(1,797)	7,944	(442.1)%
Net income (loss) from continuing operations	14,940	(136,521)	151,461	(110.9)%
Net loss from discontinued operations	(11,619)	(11,902)	283	(2.4)%
Net income (loss)	$ 3,321	$ (148,423)	$ 151,744	(102.2)%

Net Sales

Net sales decreased 2.2% as a result of a decrease in our total comparable net sales of $14.2 million, or 2.4% offset by an increase in our total non-comparable net sales of $1.1 million.

Cost of Goods Sold

Cost of goods sold includes product, warehouse, distribution and occupancy costs. As a percentage of net sales, cost of goods sold increased by 0.8%. This includes supply chain deleverage of 1.3%, a charge for the elimination of unproductive inventory of 0.6%, costs related to the closing of the North Bergen, New Jersey distribution center of 0.3% and occupancy deleverage of 0.1%. This was partially offset by total product margin improvement of 1.6%.

Selling, General and Administrative Expenses

	Six Months Ended		$ Change	% Change
	June 30, 2018	July 1, 2017		
SG&A Expenses (in thousands):				
Store Payroll and Benefits (a)	$ 71,992	$ 67,809	$ 4,183	6.2%
Store Payroll & benefits as % of net sales	*12.2%*	*11.3%*		
Advertising and Promotion (b)	13,373	12,912	461	3.6%
Advertising & promotion as % of net sales	*2.3%*	*2.1%*		
Other SG&A (c)	92,151	81,024	11,127	13.7%
Other SG&A as % of net sales	*15.6%*	*13.5%*		
Total SG&A Expenses	$ 177,516	$ 161,745	$ 15,771	9.8%

(a) Store payroll and benefits increased primarily due to higher wage rates, an increase in health insurance costs and higher store incentives.
(b) Advertising and promotion expenses increased primarily due to higher expenditures focused on improving customer acquisition trends as a result of the competitive environment in our industry.
(c) Other selling, general and administrative expenses increased primarily due to increases in overhead expenses totaling $6.9 million which includes increases in information technology and digital commerce costs, incentive compensation and health insurance costs. In addition, depreciation and amortization expenses increased by $0.8 million. The increase also includes one-time charges of $1.8 million for management realignment expenses, $0.9 million of costs related to the closing of the North Bergen, New Jersey distribution center and $0.7 million of professional services fees related to shareholder settlement.

Goodwill and Store Fixed-Assets Impairment Charges

The first half of Fiscal 2018 includes store fixed-assets impairment charges of $0.8 million. The first half of Fiscal 2017 includes a goodwill impairment charge of $164.3 million and store fixed-assets impairment charges of $3.8 million.

Gain on Extinguishment of Debt

During the six months ended June 30, 2018 the Company recognized $16.2 million of gains on the repurchases of a portion of its Convertible Notes.

Interest Expense, Net

Interest expense, net decreased $0.6 million primarily due to the repurchases of a portion of the Company's Convertible Notes during Fiscal 2018.

Provision (benefit) for Income Taxes

The effective provision (benefit) tax rate for continuing operations for the six months ended June 30, 2018 was 29.2%, compared to (1.3)% for the six months ended July 1, 2017. The change in the effective tax rate is primarily due to the non-deductible portion of the goodwill impairment charge, the lower federal tax rate under the Tax Cut and Jobs Act of 2017 partially offset by a permanent tax difference related to the excess tax deficiencies from stock-based compensation.

Key Indicators of Liquidity and Capital Resources

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

	As of	
	June 30, 2018	**December 30, 2017**
Balance Sheet Data:		
Cash and cash equivalents	$ 1,910	$ 1,947
Working capital (a)	118,241	155,229
Total assets	420,000	491,433
Total debt (b)	66,220	140,327

(a) Working capital is total current assets minus total current liabilities.

(b) Total debt includes the outstanding balance on the Company's Revolving Credit Facility, the net balance of its Convertible Notes and its capital lease obligations.

	Six Months Ended	
	June 30, 2018	July 1, 2017
Other Information:		
Depreciation and amortization of fixed and intangible assets	$ 21,498	$ 15,839
Cash Flows Provided By (Used In):		
Operating activities	$ 66,287	$ 38,074
Investing activities	(139)	(28,534)
Financing activities	(66,186)	(10,381)
Effect of exchange rate changes on cash and cash equivalents	1	11
Net decrease in cash and cash equivalents	$ (37)	$ (830)

Liquidity and Capital Resources

Historically, 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 transformation of existing stores and information technology investments as well as to repurchase shares of our common stock and our Convertible Notes. We have financed our requirements predominately through internally generated cash flow, supplemented with short-term financing. 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, costs and investments related to our current initiatives, systems development, store improvements and interest payments, as well as the repurchase of shares of our common stock and our Convertible Notes from time to time in negotiated or open market transactions subject to market conditions.

During Fiscal 2018, we plan to spend approximately $30 million in capital expenditures, including costs for information technology, investments in our digital commerce platforms and the build-out of corporate offices. Of the total capital expenditures projected for Fiscal 2018, we have invested $15.7 million during the six months ended June 30, 2018. We plan to open two new stores in Fiscal 2018, of which we have opened one store and closed four stores as of June 30, 2018.

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 financial covenants relating to our Revolving Credit Facility and Convertible Notes as of June 30, 2018. We expect to be in compliance with these same covenants during the remainder of Fiscal 2018 as well.

Cash Provided by Operating Activities

Net cash provided by operating activities was $66.3 million for the six months ended June 30, 2018 as compared to $38.1 million for the six months ended July 1, 2017. The $28.2 million increase in cash flows from operating activities is primarily due to the change in net income before impairment charges and the gain on extinguishment of debt, and changes in accounts payable, inventory and deferred taxes.

Cash Used in Investing Activities

Net cash used in investing activities was $0.1 million during the six months ended June 30, 2018 as compared to $28.5 million during the six months ended July 1, 2017. The $28.4 million decrease in cash flows from investing activities is primarily due to the net proceeds from the sale of Nutri-Force of $15.7 million and a decrease in capital expenditures of $12.7 million.

Cash Used in Financing Activities

Net cash used in financing activities was $66.2 million for the six months ended June 30, 2018, as compared to $10.4 million for the six months ended July 1, 2017. The $55.8 million increase in cash used in financing activities is primarily due to the Company's repurchases of Convertible Notes for $57.2 million during the six months ended June 30, 2018.

Revolving Credit Facility

The terms of our Revolving Credit Facility extend through May 9, 2022, 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 5., "Credit Arrangements" in the Notes to Consolidated Financial Statements (unaudited). As of June 30, 2018, the Company had $3.0 million of borrowings outstanding on its Revolving Credit Facility. The largest amount borrowed during the six months ended June 30, 2018 and July 1, 2017 was $43.0 million and $38.0 million, respectively. The unused available line of credit under the Revolving Credit Facility at June 30, 2018 was $82.7 million.

Convertible Notes

On December 9, 2015, the Company issued $143.8 million of its 2.25% Convertible Notes. The Convertible Notes are senior unsecured obligations of the Company. Interest is payable on the Convertible Notes on June 1 and December 1 of each year until their maturity date of December 1, 2020. During Fiscal 2018, the Company repurchased $75.3 million in aggregate principal amount of its Convertible Notes for an aggregate purchase price of $57.2 million, which includes accrued interest. These repurchases were funded through borrowings under the Company's Revolving Credit Facility. The gains on extinguishment of the repurchased Convertible Notes were $16.2 million. For additional information regarding our Convertible Notes, refer to Note 5. "Credit Arrangements", in the Notes to Consolidated Financial Statements (unaudited).

Contractual Obligations and Commercial Commitments

Except for the purchase commitments associated with the sale of Nutri-Force and the repurchases of a portion of our Convertible Notes, as of June 30, 2018, there have been no material changes with respect to our contractual obligations since December 30, 2017. For additional information, see Contractual Obligations and Commercial Commitments under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", in the Fiscal 2017 Form 10-K.

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, distribution centers, as well as its manufacturing and corporate facilities, which are not reflected on our balance sheet. For additional information, see Contractual Obligations and Commercial Commitments under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", in the Fiscal 2017 10-K.

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 the six months ended June 30, 2018, cost deflation was less than 1%. During Fiscal 2018, we anticipate market driven cost inflation to be in the range of 0% to 2%. 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 1., "Basis of Presentation" in the Notes to the Consolidated Financial Statements (unaudited), 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.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

For quantitative and qualitative disclosures about market risk affecting us, see "Quantitative and Qualitative Disclosure about Market Risk" in Item 7A of Part II of our Fiscal 2017 Form 10-K. As of June 30, 2018, our exposure to market risk has not changed materially since December 30, 2017.

Item 4. *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 Executive Chairman 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 l3a-15(e) and l5d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of June 30, 2018, pursuant to Exchange Act Rules 13a-l5 and 15d-15. Based on such evaluation, the Executive Chairman and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2018, 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 Executive Chairman 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.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The Company is party to various lawsuits arising from time to time in the normal course of business, some of which are covered by insurance. 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.

In addition, on or about August 22, 2017, a federal securities class action suit was filed in the United States District Court in the District of New Jersey against Vitamin Shoppe and certain officers and directors on behalf of purchasers of Vitamin Shoppe common stock between March 1, 2017 and August 6, 2017. The lawsuit sought remedies under the Securities Exchange Act of 1934, including monetary damages, alleging that the defendants made false and misleading statements regarding the Company's reported goodwill, initiatives designed to improve the Company's financial performance, the Company’s profitability trends, and its financial results. On April 26, 2018, the court appointed the lead plaintiffs. On July 14, 2018, the appointed lead plaintiffs voluntarily dismissed the case without prejudice.

Item 1A. *Risk Factors*

For a more detailed explanation of the factors affecting our business, please refer to the Risk Factors section in the Fiscal 2017 Form 10-K. There has not been a material change to the risk factors set forth in the Fiscal 2017 Form 10-K.

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

Issuer Purchases of Equity Securities

The following table summarizes the Company’s purchases of shares of common stock during the quarter ended June 30, 2018:

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in thousands)
April 1, 2018 through April 28, 2018	10,746	$ 4.05	—	$ 66,026
April 29, 2018 through May 26, 2018	761	$ 4.85	—	$ 66,026
May 27, 2018 through June 30, 2018 (3)	1,593	$ 7.81	—	$ 42,908
Totals	13,100		—	

(1) 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. On May 5, 2017, the Company's board of directors authorized the repurchase of up to an additional $70.0 million of equity and equity-linked securities. This repurchase authorization expires on November 22, 2018.
(3) The Company repurchased a portion of its Convertible Notes during the three months ended June 30, 2018. Refer to Note 5., "Credit Arrangements" in the notes to consolidated financial statements (unaudited) for additional information.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 3.1 in our Current Report on Form 8-K filed on June 10, 2016 (File No. 001-34507))
3.2	Fourth Amended and Restated By-laws of Vitamin Shoppe, Inc. (Incorporated by reference to Exhibit 3.2 in our Annual Report on Form 10-K filed on February 23, 2016 (File No. 001-34507))
10.1	Vitamin Shoppe 2018 Long-Term Incentive Plan (LTIP)* (Incorporated by reference to Appendix A of the Definitive Proxy Statement of Vitamin Shoppe, Inc. filed on May 18, 2018 (File No. 001-34507))
10.2	Form of Restricted Stock Award Agreement - 2018 LTIP* (Filed herewith)
10.3	Form of Performance Stock Unit Award Agreement - 2018 LTIP* (Filed herewith)
10.4	Form of Restricted Stock Unit Agreement for Directors - 2018 LTIP* (Filed herewith)
10.5	Restricted Stock Unit Award Agreement - Alex Smith, Executive Chairman, July 2, 2018* (Filed herewith)
10.6	Amendment to Vitamin Shoppe 2010 Employee Stock Purchase Plan* (Incorporated by reference to Appendix B to the Definitive Proxy Statement of Vitamin Shoppe, Inc. filed on May 18, 2018 (File No. 001-34507)
10.7	Letter of Promotion, dated as of June 5, 2018, among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Bill Wafford* (Filed herewith)
10.8	Offer Letter, dated June 27, 2017, among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Bill Wafford* (Filed Herewith)
10.9	Offer Letter, dated as of June 4, 2018, among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Chuck Knight* (Incorporated by reference to Exhibit 10.1 in our Current Report on Form 8-K filed on June 25, 2018 (File No. 001-34507))
10.10	General Release and Waiver, dated as of June 4, 2018, among Vitamin Shoppe, Inc., Vitamin Shoppe Industries Inc. and Brenda Galgano (Filed herewith)
10.11	Consulting Agreement, dated as of June 6, 2018 by and between Vitamin Shoppe Industries Inc. and Brenda Galgano (Filed herewith)
10.12	Employment and Non-Competition Agreement dated as of July 17, 2018 by and between Sharon Leite, 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 July 23, 2018 (File No. 001-34507)
10.13	Relocation and Repayment Agreement, dated as of July 17, 2018, by and between Sharon Leite, Vitamin Shoppe, Inc. and Vitamin Shoppe Industries Inc.* (Incorporated by reference to Exhibit 10.3 in our Current Report on Form 8-K filed on July 23, 2018 (File No. 001-34507))
10.14	Form on Performance Stock Unit Award Agreement - Sharon Leite* (Incorporated by reference to Exhibit 10.2 in our Current Report on Form 8-K filed on July 23, 2018 (File No. 001-34507))
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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.
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.
101.1	The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended June 30, 2018, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements

* Management contract or compensation plan or arrangement.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on August 8, 2018.

VITAMIN SHOPPE, INC.

By: /s/ Bill Wafford

Bill Wafford

EVP and Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, Alexander W. Smith, certify that:

1. I have reviewed this Form 10-Q 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 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: August 8, 2018

By: /s/ Alexander W. Smith

Alexander W. Smith
Executive Chairman

Exhibit 31.2

CERTIFICATIONS

I, Bill Wafford, certify that:

1. I have reviewed this Form 10-Q 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 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: August 8, 2018

By: /s/ Bill Wafford

Bill Wafford

EVP and Chief Financial Officer

Exhibit 32.1

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 quarterly report on Form 10-Q of Vitamin Shoppe, Inc. (the "Company") for the quarter ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alexander W. Smith, Executive Chairman 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 Vitamin Shoppe, Inc.

Date: August 8, 2018

/s/ Alexander W. Smith

Alexander W. Smith

Executive Chairman

(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.

Exhibit 32.2

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 quarterly report on Form 10-Q of Vitamin Shoppe, Inc. (the “Company”) for the quarter ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bill Wafford, Chief Financial 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 Vitamin Shoppe, Inc.

Date: August 8, 2018

/s/ Bill Wafford

Bill Wafford
EVP and Chief Financial Officer
(Principal Financial 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.