

Vitamin Shoppe, Inc.
Form 10-Q
November 06, 2012
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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 September 29, 2012

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)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

11-3664322
(IRS Employer
Identification No.)

2101 91st Street

North Bergen, New Jersey 07047

(Addresses of Principal Executive Offices, including Zip Code)

(201) 868-5959

(Registrant's Telephone Number, Including Area Code)

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

Title of Class
Common Stock, \$0.01 par value per share

Name of the exchange on which registered
New York Stock Exchange

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

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 ☐

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

As of October 17, 2012, Vitamin Shoppe, Inc. had 30,165,955 shares of common stock outstanding.

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FORWARD LOOKING STATEMENTS

Statements in this document that are not historical facts are hereby identified as forward looking statements for the purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 (the Exchange Act) and Section 27A of the Securities Act of 1933 (the Securities Act). Vitamin Shoppe, Inc. (formerly VS Holdings, Inc. (VSI)), Vitamin Shoppe Industries Inc. (Industries) and VS Direct Inc. (Direct, and, together with VSI and Industries, the Company, we, us or our) caution readers that such forward looking statements , including without limitation, those relating to the Company s future business prospects, revenue, new stores, working capital, liquidity, capital expenditures, capital needs, leverage levels, interest costs and income, wherever they occur in this document or in other statements attributable to the Company, are necessarily estimates reflecting the judgment of the Company s senior management and involve a number of risks and uncertainties that could cause the Company s actual results to differ materially from those suggested by the forward looking statements. You can identify these statements by forward-looking words such as expect, intend, anticipate, plan, believe, seek, estimate, outlook, trend, benefits, strategies, goals and similar words. Such forward looking statements should, therefore, be considered in light of the factors set forth in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The forward looking statements contained in this report are made under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations, and Other Information. Moreover, the Company, through its senior management, may from time to time make forward looking statements about matters described herein or other matters concerning the Company. You should consider our forward-looking statements in light of the risks and uncertainties that could cause the Company s actual results to differ materially from those which are management s current expectations or forecasts. These risks and uncertainties include, but are not limited to, industry based factors such as the level of competition in the vitamin, mineral and supplement (VMS) industry, continued demand from the primary markets the Company serves, economic conditions generally, the availability of raw materials, as well as factors more specific to the Company such as restrictions imposed by the Company s debt including financial covenants and limitations on the Company s ability to incur additional indebtedness and the Company s future capital requirements. See Item 1A Risk Factors in the Company s Fiscal 2011 Annual Report on Form 10-K and in the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2012, filed with the Securities and Exchange Commission, for further discussion.

The Company disclaims any intent or obligation to update forward looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes to future operating results over time.

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VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 29, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 76,054	\$ 10,754
Inventories	130,821	121,494
Prepaid expenses and other current assets	25,211	20,768
Total current assets	232,086	153,016
Property and equipment, net of accumulated depreciation and amortization of \$176,523 and \$163,247 in 2012 and 2011, respectively	89,207	88,677
Goodwill	177,248	177,248
Other intangibles, net	68,758	68,852
Other assets	3,088	2,812
Total assets	\$ 570,387	\$ 490,605
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$ 104	\$ 956
Accounts payable	24,306	22,279
Accrued expenses and other current liabilities	57,498	60,438
Total current liabilities	81,908	83,673
Capital lease obligations, net of current portion	103	
Deferred income taxes	16,213	13,725
Deferred rent	29,774	28,738
Other long-term liabilities	6,758	8,666
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 250,000,000 shares authorized and no shares issued and outstanding at September 29, 2012 and December 31, 2011		
Common stock, \$0.01 par value; 400,000,000 shares authorized, 30,165,955 shares issued and outstanding at September 29, 2012, and 29,216,888 shares issued and outstanding at December 31, 2011	302	292
Additional paid-in capital	285,466	256,795
Retained earnings	149,863	98,716
Total stockholders' equity	435,631	355,803

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Total liabilities and stockholders' equity	\$ 570,387	\$ 490,605
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See accompanying notes to condensed consolidated financial statements.

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VITAMIN SHOPPE, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Net sales	\$ 238,994	\$ 208,936	\$ 732,026	\$ 641,730
Cost of goods sold	156,494	139,493	475,435	423,299
Gross profit	82,500	69,443	256,591	218,431
Selling, general and administrative expenses	57,732	51,812	173,690	159,582
Income from operations	24,768	17,631	82,901	58,849
Loss on extinguishment of debt				552
Interest expense, net	161	419	535	2,076
Income before provision for income taxes	24,607	17,212	82,366	56,221
Provision for income taxes	8,316	5,301	31,219	20,769
Net income	\$ 16,291	\$ 11,911	\$ 51,147	\$ 35,452
Weighted average common shares outstanding				
Basic	29,646,287	28,916,734	29,333,828	28,741,227
Diluted	30,244,053	29,693,651	29,993,403	29,508,761
Net income per common share				
Basic	\$ 0.55	\$ 0.41	\$ 1.74	\$ 1.23
Diluted	\$ 0.54	\$ 0.40	\$ 1.71	\$ 1.20

See accompanying notes to condensed consolidated financial statements.

Table of Contents**VITAMIN SHOPPE, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Nine Months Ended	
	September 29, 2012	September 24, 2011
Cash flows from operating activities:		
Net income	\$ 51,147	\$ 35,452
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed and intangible assets	16,539	14,905
Impairment charge on fixed assets	730	651
Loss on extinguishment of debt		552
Loss on disposal of fixed assets	583	
Amortization of deferred financing fees	231	282
Deferred income taxes	2,118	(548)
Deferred rent	405	969
Equity compensation expense	4,692	3,792
Tax benefits on exercises of stock options	(12,131)	(1,850)
Changes in operating assets and liabilities:		
Inventories	(9,327)	988
Prepaid expenses and other current assets	(4,443)	(2,446)
Other long-term assets	(507)	(437)
Accounts payable	3,505	2,629
Accrued expenses and other current liabilities	8,314	7,027
Other long-term liabilities	(907)	18
Net cash provided by operating activities	60,949	61,984
Cash flows from investing activities:		
Capital expenditures	(18,625)	(15,170)
Net cash used in investing activities	(18,625)	(15,170)
Cash flows from financing activities:		
Borrowings under revolving credit agreement		12,000
Repayments of borrowings under revolving credit agreement		(30,000)
Payments of capital lease obligations	(1,013)	(1,316)
Redemption of long term debt - Notes		(55,106)
Borrowings of long term debt - term loan		25,000
Repayments of long term debt - term loan		(6,250)
Proceeds from exercises of common stock options	11,137	5,770
Issuance of shares under employee stock purchase plan	721	543
Tax benefits on exercises of stock options	12,131	1,850
Deferred financing fees		(490)
Net cash provided by (used in) financing activities	22,976	(47,999)
Net increase (decrease) in cash and cash equivalents	65,300	(1,185)
Cash and cash equivalents beginning of period	10,754	25,968

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Cash and cash equivalents end of period	\$ 76,054	\$ 24,783
Supplemental disclosures of cash flow information:		
Interest paid	\$ 272	\$ 2,134
Income taxes paid	\$ 22,338	\$ 18,119
Supplemental disclosures of non-cash investing activities:		
Accrued purchases of property and equipment	\$ 4,390	\$ 981
Assets acquired under capital lease	\$ 264	\$
See accompanying notes to condensed consolidated financial statements.		

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VITAMIN SHOPPE, INC. AND SUBSIDIARY

NOTES TO CONDENSED 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") and Industries' wholly-owned subsidiary, VS Direct Inc. ("Direct"), and, together with Industries and VSI, the Company is a leading specialty retailer and direct marketer of nutritional products. Sales of both national brands and proprietary brands of vitamins, minerals, nutritional supplements, herbs, sports nutrition formulas, homeopathic remedies and other health and beauty aids are made through VSI-owned retail stores, the internet and mail order catalogs to customers located primarily in the United States. VSI operates from its headquarters in North Bergen, New Jersey.

The condensed consolidated financial statements as of September 29, 2012 and December 31, 2011 and for the three and nine months ended September 29, 2012 and September 24, 2011, include the accounts of VSI, Industries and Direct. All significant intercompany transactions have been eliminated. The condensed consolidated financial statements as of September 29, 2012 and for the three and nine months ended September 29, 2012 and September 24, 2011, are unaudited. The condensed consolidated balance sheet as of December 31, 2011 was derived from our audited financial statements. 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 condensed or omitted. 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 for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on February 28, 2012. 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 or 53-week period, ending on the last Saturday in December. Fiscal 2012 is a 52-week period ending December 29, 2012 and Fiscal 2011 was a 53-week period ended December 31, 2011. The results for the three and nine months ended September 29, 2012 and September 24, 2011, are each based on 13-week and 39-week periods, respectively.

During the three months ended March 26, 2011, the Company recorded a charge of \$3.7 million, in selling, general and administrative expenses, for non-income based taxes relating to the fiscal years 2006 through 2010, resulting in a \$2.3 million cumulative impact to net income for those years. The charge represents a cumulative adjustment relating to the Company's best estimate of the exposure for such taxes.

The Company is involved in ongoing examinations with various taxing authorities regarding non-income based tax matters for Fiscal 2012 and prior. The final obligation to these authorities may be subject to either an increase or decrease to the initial estimates recorded. As of September 29, 2012, the Company believes the reserves for these matters are adequately provided for in its consolidated financial statements, the reserves of which are reflected in "Accrued expenses and other current liabilities" in the Company's condensed consolidated balance sheets.

2. Summary of Significant Accounting Policies

Use of Estimates 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.

Advertising Costs The costs of advertising for online marketing arrangements, magazines and radio are expensed the first time the advertising takes place. Costs associated with the production and distribution of the Company's catalogs are expensed as incurred. Advertising expense was \$3.6 million and \$3.2 million for the three months ended September 29, 2012 and September 24, 2011, respectively, and \$11.5 million and \$9.6 million for the nine months ended September 29, 2012 and September 24, 2011, respectively.

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

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

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Numerator:				
Net income	\$ 16,291	\$ 11,911	\$ 51,147	\$ 35,452
Denominator:				
Basic weighted average common shares outstanding	29,646,287	28,916,734	29,333,828	28,741,227
Effect of dilutive securities:				
Stock options	497,501	713,110	575,794	717,558
Restricted shares	97,598	63,807	82,227	49,976
Restricted share units	2,667		1,554	
Diluted weighted average common shares outstanding	30,244,053	29,693,651	29,993,403	29,508,761
Basic net income per common share	\$ 0.55	\$ 0.41	\$ 1.74	\$ 1.23
Diluted net income per common share	\$ 0.54	\$ 0.40	\$ 1.71	\$ 1.20

Stock options for the three months ended September 29, 2012 and September 24, 2011 in the amount of 15,165 shares and 122,286 shares, respectively, have been excluded from the above calculation as they were anti-dilutive. Stock options for the nine months ended September 29, 2012 and September 24, 2011 in the amount of 50,180 shares and 98,434 shares, respectively, have been excluded from the above calculation as they were anti-dilutive.

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

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

	September 29, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets						
Goodwill	\$ 177,248	\$	\$ 177,248	\$ 177,248	\$	\$ 177,248
Tradenames	68,520		68,520	68,520		68,520
Intangibles related to asset purchase	3,000	2,762	238	3,000	2,668	332
	\$ 248,768	\$ 2,762	\$ 246,006	\$ 248,768	\$ 2,668	\$ 246,100

4. Accrued Expenses and Other Current Liabilities

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

	September 29, 2012	December 31, 2011
Deferred sales	\$ 17,159	\$ 18,859
Accrued salaries and related expenses	12,748	12,053
Sales tax payable and related expenses	5,948	8,664
Other accrued expenses	21,643	20,862
	\$ 57,498	\$ 60,438

5. Credit Arrangements

As of September 29, 2012 and as of December 31, 2011, the Company had no outstanding debt, except for its capital lease obligations which were \$0.2 million and \$1.0 million as of September 29, 2012 and December 31, 2011, respectively.

Revolving Credit Facility

On September 25, 2009, the Company entered into a revolving credit facility (the "Revolving Credit Facility"). The terms of the Revolving Credit Facility, as amended, extend through September, 2015, and allow the Company to borrow up to \$70.0 million subject to the terms of the facility. The availability under the Revolving Credit Facility is subject to a borrowing base calculated on the value of certain accounts receivable from credit card companies as well as the inventory of the Company. The obligations thereunder are secured by a security interest in substantially all of the assets of VSI, Industries and Direct and VSI provided guarantees in respect of the Company's obligations under the Revolving Credit Facility, and Industries and VSI have provided guarantees in respect of Direct's obligations under the Revolving Credit Facility. The Revolving Credit Facility provides for affirmative and negative covenants affecting VSI, Industries and Direct. 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, acquire or sell assets, make certain investments, loans or other advances, enter into transactions with affiliates, change the line of business, and restricts the types of hedging activities which can be entered into. During the nine months ended September 29, 2012 there have been no borrowings under the Revolving Credit Facility. The unused available line of credit under the Revolving Credit Facility at September 29, 2012 was \$69.4 million.

The borrowings under the Revolving Credit Facility accrue interest, at the Company's option, at the rate per annum announced from time to time by the agent as its prime rate, or at a per annum rate equal to 2.50% above the adjusted Eurodollar rate. The weighted average interest rate for

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the Revolving Credit Facility for the nine months ended September 24, 2011 was 2.80%.

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Interest expense, net for the three and nine months ended September 29, 2012 and September 24, 2011 consists of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Interest on notes	\$	\$	\$	\$ 644
Interest on term loan		219		556
Amortization of deferred financing fees	66	84	231	282
Interest on the revolving credit facility and fees	95	116	304	603
Interest income				(9)
Interest expense, net	\$ 161	\$ 419	\$ 535	\$ 2,076

6. Stock-Based Compensation

Stock Option Plans- The Company has two equity incentive plans that provide stock based compensation to certain directors, officers, consultants and employees of the Company; the 2006 Stock Option Plan (the "2006 Plan") and the Vitamin Shoppe 2009 Equity Incentive Plan (the "2009 Plan"), under which the Company has granted stock options (includes non-qualified as well as performance based stock options), restricted shares (includes time based as well as performance based restricted shares) and restricted share units. The issuance of up to 7,453,678 shares of common stock is authorized under these plans. As of September 29, 2012, there were 2,771,357 shares available to grant under both plans. The stock options are exercisable at no less than the fair market value of the underlying shares on the date of grant, and restricted shares and restricted share units are issued at a value not less than the fair market value of the common shares on the date of the grant. Generally, stock options awarded shall become vested in four equal increments on each of the first, second, third and fourth anniversaries of the date on which such equity grants were awarded. Equity awards of restricted shares generally shall become vested between two and four years subsequent to the date on which such equity grants were awarded. However, regarding performance based stock options and performance based restricted shares, vesting is dependent not only on the passage of time, but also on the attainment of certain internal performance metrics. The stock options generally have a maximum term of 10 years. The following table summarizes stock options for the 2006 and 2009 Plans as of September 29, 2012 and changes during the nine 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 31, 2011	2,017,175	\$ 17.19		
Granted	11,068	54.50		
Exercised	(830,945)	13.40		
Canceled/forfeited	(46,487)	29.00		
Outstanding at September 29, 2012	1,150,811	\$ 19.81	5.28	\$ 44,313
Vested or expected to vest at September 29, 2012	1,095,572	\$ 19.81	5.28	
Vested and exercisable at September 29, 2012	709,192	\$ 16.30	4.41	\$ 29,799

The total intrinsic value of options exercised during the nine months ended September 29, 2012 and September 24, 2011, was \$34.1 million and \$10.2 million, respectively. The cash received from options exercised during the nine months ended September 29, 2012 and September 24, 2011 was \$11.1 million and \$5.8 million, respectively.

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The following table summarizes restricted shares for the 2009 Plan as of September 29, 2012 and changes during the nine month period then ended:

	Number of Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2011	219,365	\$ 28.79
Granted	144,766	\$ 46.35
Vested	(32,821)	\$ 18.30
Canceled/forfeited	(45,541)	\$ 35.40
Unvested at September 29, 2012	285,769	\$ 37.84

During the nine months ended September 29, 2012, the Company granted 5,004 restricted share units with a weighted average grant date fair value of \$41.96. Restricted share units become vested one year subsequent to the date on which such equity grants were awarded.

Stock-based compensation cost is measured at the grant date based on the fair value of awards and is recognized as expense over the vesting period, net of anticipated forfeitures. With the exception of restricted shares and restricted share units, determining the fair value of stock-based awards at the grant date requires considerable judgment, including estimating expected volatility, expected term and risk-free rate. The expected volatility is derived from the average volatility of similar actively traded companies over our expected holdings periods, as well as the Company's own volatility, which is weighted to adjust for the shorter trading history. Generally, the expected holding period of non performance based options is calculated using the simplified method using the vesting term of 4 years and the contractual term of 10 years, resulting in a holding period of 6.25 years. Certain limited grants have contractual terms of 7.5 years, and/or shorter vesting periods and as such have calculated holding periods of 4 to 5 years. The Company's performance based stock option grants vest annually over four years depending on a particular year's attainment of certain internal financial performance metrics. For accounting purposes, performance based stock option grants are measured, and expense is calculated and recorded, subsequent to the determination that the achievement of the pre-established performance targets are probable, over the relevant service period. The target metrics underlying the vesting of performance based stock option grants are established each year. The vesting requirements for performance based stock option grants permit a catch-up of vesting should the target not be achieved in a fiscal year but achieved in a subsequent fiscal year, over the four year vesting period. Accordingly, the holding period for performance based stock option grants is calculated using the vesting term of 1 year and the remainder of the contractual term of 10 years, depending on which year of the four year grant is currently vesting; e.g. 25% of the grant vesting in year two of the grant would have a holding period calculated using 1 year and the remaining 9 years of the contractual term. The simplified method was chosen as a means to determine the Company's holding period as prior to November 2009 there was no historical option exercise experience due to the Company being privately held. As of September 29, 2012, there continues to be insufficient information for purposes of determining a Company specific holding period due to the Company being a relatively new publicly owned company. The risk-free interest rate is derived from the average yields of zero-coupon U.S. Treasury Strips for the expected holding period of each of the Company's stock option grants. Compensation expense resulting from the granting of restricted shares and restricted share units is based on the grant date fair value of those common shares and is recognized generally over the two to four year vesting period for restricted shares and over the one year vesting period for restricted share units.

The weighted-average grant date fair value of stock options granted during the three and nine months ended September 29, 2012, was \$23.71 and \$23.20, respectively. The weighted-average grant date fair value of stock options granted during the three and nine months ended September 24, 2011, was \$21.37 and \$17.52, respectively. These valuations represent the fair value of stock options granted during the applicable periods as well as the fair value of subsequent annual tranches of performance based stock option grants. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Weighted average expected volatility	43.2%	48.9%	44.6%	49.6%
Weighted average risk-free interest rate	0.9%	1.8%	1.0%	2.5%

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Expected holding period(s)	5.00 - 6.25 years	5.50 - 6.25 years	4.50 - 6.25 years	3.63 - 6.25 years
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Employee Stock Purchase Plan- Pursuant to the Vitamin Shoppe 2010 Employee Stock Purchase Plan (the "ESPP"), shares of common stock are issued at the end of each calendar quarter (the "Participation Period") subject to employee participation in the plan. Under the ESPP, participating employees are allowed to purchase shares at 85% of the lower of the market price of the Company's common stock at either the first or last trading day of the Participation Period. Compensation expense related to the ESPP is based on the estimated fair value of the discount and purchase price offered on the estimated shares to be purchased under the ESPP. During the nine months ended September 29, 2012, employee contributions of \$0.7 million were used to purchase 18,897 shares of the Company's common stock under the ESPP. As of September 24, 2011, there was approximately \$0.2 million of employee payroll deductions available under the ESPP for purchasing common shares on the September 30, 2011 purchase date.

Compensation expense attributable to stock-based compensation for the three and nine months ended September 29, 2012 was approximately \$1.8 million and \$4.7 million, respectively, and for the three and nine months ended September 24, 2011 was approximately \$1.4 million and \$3.8 million, respectively. As of September 29, 2012, the remaining unrecognized stock-based compensation expense for non-vested stock options, restricted shares and restricted share units to be expensed in future periods is \$12.2 million, and the related weighted-average period over which it is expected to be recognized is 2.2 years. There were 709,192 and 441,619 vested and non-vested outstanding options, respectively, at September 29, 2012. There were 285,769 unvested restricted shares at September 29, 2012. There were 5,004 unvested restricted share units at September 29, 2012. 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 stock option granting. The estimated value of future forfeitures for stock options, restricted shares and restricted share units as of September 29, 2012 is approximately \$0.6 million.

7. Legal Proceedings

The Company is party to various lawsuits arising from time to time in the normal course of business, many of which are covered by insurance. As of September 29, 2012, the Company was not party to any material legal proceedings. Although the impact of the final resolution of these matters on the Company's financial condition, results of operations or cash flows is not known, management does not believe that the resolution of these lawsuits will have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

8. Segment Data

The Company currently operates two business segments, retail and direct. The operating segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The Company's management evaluates segment operating results based on several indicators. The primary key performance indicators are sales and operating income for each segment. The table below represents key financial information for each of the Company's business segments, retail and direct, as well as corporate costs. The retail segment includes the Company's retail stores. The retail segment generates revenue primarily through the sale of third-party branded and proprietary branded vitamins, minerals, herbs, supplements, sports nutrition and other health and wellness products through retail stores throughout the United States. The direct segment generates revenue through the sale of third-party branded and proprietary branded vitamins, minerals, herbs, supplements, sports nutrition and other health and wellness products primarily through the Company's web site and catalog. A catalog is mailed periodically to customers in the Company's Healthy Awards Program database, and the Company's website at www.vitaminshoppe.com offers its customers online access to a full assortment of approximately 18,000 SKUs.

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Corporate costs represent the Company's administrative expenses which include, but are not limited to: human resources, legal, retail management, direct management, finance, information technology, depreciation and amortization, and various other corporate level activity related expenses. There are no inter-segment sales transactions.

The Company's segments are designed to allocate resources internally and provide a framework to determine management responsibility. The accounting policies of the segments are consistent with those described in Note 3- Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. The Company has allocated \$131.9 million and \$45.3 million of its recorded goodwill to the retail and direct segments, respectively. The Company does not have identifiable assets separated by segment.

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Sales:				
Retail	\$ 214,083	\$ 187,108	\$ 655,233	\$ 574,424
Direct	24,911	21,828	76,793	67,306
Net sales	\$ 238,994	\$ 208,936	\$ 732,026	\$ 641,730
Income from operations:				
Retail	\$ 42,548	\$ 33,916	\$ 136,224	\$ 110,128
Direct	4,990	3,807	15,358	12,375
Corporate costs (1)	(22,770)	(20,092)	(68,681)	(63,654)
Income from operations	\$ 24,768	\$ 17,631	\$ 82,901	\$ 58,849

- (1) Corporate costs include depreciation and amortization expenses of \$5.7 million and \$5.1 million for the three months ended September 29, 2012 and September 24, 2011, respectively and \$16.5 million and \$14.9 million for the nine months ended September 29, 2012 and September 24, 2011, respectively.

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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 condensed consolidated financial statements and notes thereto included as part of this quarterly report on Form 10-Q. The discussion in this section contains forward-looking statements that are based upon current expectations. We sometimes identify forward-looking statements with such words as may, expect, intend, anticipate, plan, believe, seek, estimate, outlook, trends, future benefits, strategies, goals and similar words concerning future events. The forward-looking statements contained herein, include, without limitation, statements concerning future revenue sources and concentration, gross profit margins, selling and marketing expenses, general and administrative expenses, capital resources, liquidity, capital expenditures, new stores, additional financings or borrowings and additional losses and are subject to risks and uncertainties including, but not limited to, those discussed below and elsewhere in this quarterly report on Form 10-Q that could cause actual results to differ materially from the results contemplated by these forward-looking statements. We also urge you to carefully review the risk factors set forth in Item 1A- Risk Factors in our Fiscal 2011 Annual Report on Form 10-K and in our Quarterly Report on Form 10-Q for the period ended March 31, 2012, filed with the Securities and Exchange Commission.

Company Overview

We are a leading specialty retailer and direct marketer of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products. As of October 17, 2012, we operated 567 stores in 42 states, the District of Columbia and Puerto Rico and sold our products directly to consumers through the internet, primarily at www.vitaminshoppe.com, and our catalog. We market over 400 different nationally recognized brands as well as

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our proprietary brands, which include Vitamin Shoppe, BodyTech and True Athlete. We believe we offer the greatest variety of products among vitamin, mineral and supplement (VMS) retailers with approximately 8,000 stock keeping units (SKUs) offered in our typical store and approximately 10,000 additional SKUs available through our internet and other direct sales channels. Our broad product offering enables us to provide our customers with a selection of products that is not readily available at other specialty retailers or at mass merchants, such as drug stores chains and supermarkets. We believe our extensive product offering, together with our well-known brand name and emphasis on product education and customer service, help us bond with our target customer and serve as a foundation for strong customer loyalty.

Segment Information

We sell our products through two operating segments: retail, which is our retail store format, and direct, which consists of our internet and catalog formats.

Retail. We believe we operate a unique retail store format in the VMS industry, which has been successful in diverse geographic and demographic markets, ranging from urban locations in New York City to suburban locations in Plantation, Florida and Manhattan Beach, California, as well as to resort locations in Hawaii. Our stores carry a broad selection of VMS products and are staffed with experienced and knowledgeable associates who are able to educate our customers about product features and assist in product selection.

Since the beginning of 2006, we have aggressively pursued new store growth. During this period through October 17, 2012, we opened 306 new stores, expanding our presence in our existing markets as well as entering new markets. Our new stores typically have reached sales more consistent with our mature store base over an approximate four year time period.

Direct. We sell our products directly to consumers through the internet, primarily at www.vitaminshoppe.com. Our websites and our catalog complement our in-store experience by extending our retail product offerings with approximately 10,000 additional SKUs that are not available in our stores and enable us to access customers outside our retail markets and those who prefer to shop online.

Trends and Other Factors Affecting Our Business

Our performance is affected by trends that affect the VMS industry, including demographic, health and lifestyle preferences. Changes in these trends and other factors, which we may not foresee, may also impact our business. For example, our industry is subject to potential regulatory actions, such as the announcement in April 2012 of warning letters sent by the U.S. Food and Drug Administration to ten manufacturers and distributors of dietary supplements containing 1,3-dimethylpentylamine/dimethylamylamine/13-dimethylamylamine, or DMAA, and other legal matters that affect the viability of a given product. Potential regulatory actions, variable consumer trends, such as those described in the following paragraph, as well as the overall impact on consumer spending, which may be impacted heavily by current economic conditions, can dramatically affect purchasing patterns. Our business allows us to respond to changing industry trends by introducing new products and adjusting our product mix and sales incentives. We will continue to diversify our product lines to offer items less susceptible to the effects of economic conditions.

Sales of weight management products are generally more sensitive to consumer trends, such as increased demand for products recommended by media personalities, resulting in higher volatility than our other products. Our sales of weight management products have been significantly influenced by the rapid increase and subsequent decline of products such as those containing ephedra, low carb products, and certain thermogenic products. Accordingly, we launch new weight management products on an ongoing basis in response to prevailing market conditions and consumer demands. As the rate of obesity increases and as the general public becomes increasingly more health conscious, we expect the demand for weight management products, albeit somewhat variable, to continue to be strong in the near term.

In addition to the weight management product lines, we intend to continue our focus in meeting the demands of an increasingly aging population, the effects of increasing costs of traditional healthcare and a rapidly growing fitness conscious public.

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Our historical results have also been significantly influenced by our new store openings. As a result of continuing and anticipated growth, we are planning to open a new distribution center in the southeastern United States in Fiscal 2013.

Our stores typically require approximately four years to mature generating lower store level sales in the initial years than our mature stores. As a result, new stores generally have a negative impact on our overall operating margin and sales per square foot. As our recently opened stores mature, we expect them to contribute meaningfully to our operating results.

Critical Accounting Policies

Our significant accounting policies are described in Note 3 of the notes to the Consolidated Financial Statements included in our financial statements for Fiscal 2011, Fiscal 2010, and Fiscal 2009, filed with the Securities and Exchange Commission on February 28, 2012, in our Annual Report on Form 10-K. A discussion of our critical accounting policies and estimates are included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 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 its 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

General Definitions for Operating Results

Net Sales consist of sales, net of sales returns, deferred sales and a provision for estimated future returns, from comparable stores and non comparable stores, as well as sales made directly to our internet and catalog customers. A store is included in comparable store sales after 410 days of operation.

Cost of goods sold, which excludes depreciation and amortization which is included within selling, general and administrative expenses, includes the cost of inventory sold, costs of warehousing and distribution and store occupancy costs. Warehousing and distribution costs include freight on internally transferred merchandise, rent for the distribution center and costs associated with our buying department and distribution facility, including payroll, which are capitalized into inventory and then expensed as merchandise is sold. Store occupancy costs include rent, common area maintenance, real estate taxes and utilities.

Gross profit is net sales minus cost of goods sold.

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

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

Loss on extinguishment of debt represents expenses incurred in connection with the redemption or repayment of debt.

Interest expense, net includes interest on our revolving credit facility, interest on our term loan, interest on our second priority senior secured floating rate notes (the "Notes") along with letters of credit fees, interest on our capital leases, as well as amortization of financing costs, offset with interest income earned from highly liquid investments (investments purchased with an original maturity of three months or less).

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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		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Net sales	\$ 238,994	\$ 208,936	\$ 732,026	\$ 641,730
Increase in comparable store net sales	9.6%	7.1%	9.2%	7.7%
Gross profit as a percent of net sales	34.5%	33.2%	35.1%	34.0%
Income from operations	\$ 24,768	\$ 17,631	\$ 82,901	\$ 58,849

The following table shows the growth in our network of stores during the three and nine months ended September 29, 2012 and September 24, 2011:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Store Data:				
Stores open at beginning of period	551	505	528	484
Stores opened	15	10	39	34
Stores closed	(2)		(3)	(3)
Stores open at end of period	564	515	564	515

Results of Operations

The information presented below is for the three and nine months ended September 29, 2012 and September 24, 2011 and was derived from our condensed consolidated financial statements, which, in the opinion of management, includes all adjustments necessary for a fair presentation of our financial position and operating results for such periods and as of such dates. The following table summarizes our results of operations for the three and nine months ended September 29, 2012 and September 24, 2011 as a percentage of net sales:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	September 24, 2011	September 29, 2012	September 24, 2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	65.5%	66.8%	64.9%	66.0%
Gross profit	34.5%	33.2%	35.1%	34.0%
Selling, general and administrative expenses	24.2%	24.8%	23.7%	24.9%
Income from operations	10.4%	8.4%	11.3%	9.2%
Loss on extinguishment of debt	0.0%	0.0%	0.0%	0.1%
Interest expense, net	0.1%	0.2%	0.1%	0.3%
Income before provision for income taxes	10.3%	8.2%	11.3%	8.8%
Provision for income taxes	3.5%	2.5%	4.3%	3.2%
Net income	6.8%	5.7%	7.0%	5.5%

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Three Months Ended September 29, 2012 Compared To Three Months Ended September 24, 2011

Net Sales

Net sales increased \$30.1 million, or 14.4%, to \$239.0 million for the three months ended September 29, 2012 compared to \$208.9 million for the three months ended September 24, 2011. The increase was primarily the result of an increase in our comparable store sales, non-comparable store sales, as well as an increase in our direct sales. Sales increased primarily in the categories of specialty supplements and sports nutrition, which increased \$15.6 million and vitamins, minerals and herbs, which increased \$9.9 million. The sports nutrition and weight management categories continue to be among our fastest growing categories. We expect this trend in sports nutrition to continue based on the continued strength in sales and the growth of the fitness-conscious market.

Retail

Net sales from our retail stores increased \$27.0 million, or 14.4%, to \$214.1 million for the three months ended September 29, 2012 compared to \$187.1 million for the three months ended September 24, 2011. We operated 564 stores as of September 29, 2012 compared to 515 stores as of September 24, 2011. Store sales increased due to an increase in comparable store sales of \$17.8 million, or 9.6%, and an increase in non-comparable store sales of \$9.2 million. The increase in comparable store sales was primarily due to an increase in customer count.

Direct

Net sales to our direct customers increased \$3.1 million, or 14.1%, to \$24.9 million for the three months ended September 29, 2012 compared to \$21.8 million for the three months ended September 24, 2011. The increase in our direct sales was due to an increase in our e-commerce sales of 16.9% which was offset in part by a decrease in our catalog sales. The increase in e-commerce sales was largely due to increased efficiency in customer acquisition and retention marketing programs during the three months ended September 29, 2012 compared to the three months ended September 24, 2011. We have reduced our catalog circulation and customer prospecting as we believe catalog purchasing in general is declining in popularity as a purchasing medium, especially in the wake of the growth of on-line shopping. In addition, as we continue to open more stores in new markets, some catalog customers choose to shop at our retail locations.

Cost of Goods Sold

Cost of goods sold, which includes product, warehouse and distribution and occupancy costs, increased \$17.0 million, or 12.2%, to \$156.5 million for the three months ended September 29, 2012 compared to \$139.5 million for the three months ended September 24, 2011. The dollar increase was primarily due to an increase in sales, as well as an increase in occupancy costs for the three months ended September 29, 2012, as compared to the three months ended September 24, 2011. Cost of goods sold as a percentage of net sales decreased to 65.5% for the three months ended September 29, 2012, compared to 66.8% for the three months ended September 24, 2011. This decrease was due to a decrease in occupancy costs of 0.7% as a percentage of net sales and a decrease in product costs of 0.6% as a percentage of net sales. The decrease in occupancy costs as a percentage of net sales reflects the maturation of our newer stores as the increase in comparable store sales more than offsets the increase in our store occupancy costs. The decrease in product costs as a percentage of net sales was primarily due to effective inventory management and the timing of vendor allowances for new stores recognized during the three months ended September 29, 2012, as compared to the three months ended September 24, 2011. We anticipate the amortization of vendor allowances for new stores to decrease in the fiscal fourth quarter of 2012 as compared to the three months ended September 29, 2012.

Gross Profit

As a result of the foregoing, gross profit increased \$13.1 million, or 18.8%, to \$82.5 million for the three months ended September 29, 2012 compared to \$69.4 million for the three months ended September 24, 2011. Gross profit as a percentage of sales increased to 34.5% for the three months ended September 29, 2012 compared to 33.2% for the three months ended September 24, 2011.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$5.9 million, or 11.4%, to \$57.7 million during the three months ended September 29, 2012, compared to \$51.8 million during the three months ended September 24, 2011. The components of selling, general and administrative expenses are explained below. Selling, general and administrative expenses as a percentage of net sales for the three months ended September 29, 2012 decreased to 24.2% compared to 24.8% for the three months ended September 24, 2011.

Operating payroll and related benefits increased \$2.3 million, or 11.3%, to \$22.9 million for the three months ended September 29, 2012 compared to \$20.6 million for the three months ended September 24, 2011. The dollar increase in operating payroll and related benefits was primarily due to the increase in head count added to operate new stores. Operating payroll and related benefits expenses as a percentage of net sales for the three months ended September 29, 2012 decreased to 9.6% compared to 9.9% for the three months ended September 24, 2011. The decrease as a percentage of net sales was primarily due to greater sales per hour for the three months ended September 29, 2012, as compared to the three months ended September 24, 2011, due to the maturation of our newer stores.

Advertising and promotion expenses increased \$0.4 million, or 14.0%, to \$3.6 million for the three months ended September 29, 2012 compared to \$3.2 million for the three months ended September 24, 2011. Advertising and promotion expenses as a percentage of net sales remained constant at 1.5% for the three months ended September 29, 2012 and the three months ended September 24, 2011.

Other selling, general and administrative expenses, which include depreciation and amortization expense, increased \$3.1 million, or 11.2%, to \$31.2 million for the three months ended September 29, 2012 compared to \$28.1 million for the three months ended September 24, 2011. The dollar increase in other selling, general and administrative expenses was primarily due to an increase in corporate payroll and stock compensation expense of \$1.7 million in the three months ended September 29, 2012 compared to the three months ended September 24, 2011. Other selling, general and administrative expenses as a percentage of net sales decreased to 13.1% for the three months ended September 29, 2012 compared to 13.4% for the three months ended September 24, 2011. The decrease as a percentage of sales was largely the result of experiencing overall economies of scale with regards to these expenses relative to the increase in sales for the three months ended September 29, 2012 as compared to the three months ended September 24, 2011.

Income from Operations

As a result of the foregoing, income from operations increased \$7.1 million, or 40.5%, to \$24.8 million for the three months ended September 29, 2012 compared to \$17.6 million for the three months ended September 24, 2011. Income from operations as a percentage of net sales increased to 10.4% during the three months ended September 29, 2012 as compared to 8.4% during the three months ended September 24, 2011.

Retail

Income from operations for the retail segment increased \$8.6 million, or 25.5%, to \$42.5 million for the three months ended September 29, 2012 compared to \$33.9 million for the three months ended September 24, 2011. Income from operations as a percentage of net sales for the retail segment increased to 19.9% for the three months ended September 29, 2012 compared to 18.1% for the three months ended September 24, 2011. The increase as a percentage of net sales was primarily due to a decrease in occupancy costs of 0.7% as a percentage of net sales, a decrease in product costs of 0.6% as a percentage of net sales and a decrease in general administrative expenses of 0.5% as a percentage of net sales. The decrease in occupancy costs as a percentage of net sales reflects the maturation of our newer stores as the increase in comparable sales more than offsets the increase in our store occupancy costs. The decrease in product costs as a percentage of net sales was primarily due to effective inventory management and the timing of vendor allowances for new stores recognized during the three months ended September 29, 2012, as compared to the three months ended September 24, 2011. We anticipate the amortization of vendor allowances for new stores to decrease in the fiscal fourth quarter of 2012 as compared to the three months ended September 29, 2012. The decrease in general administrative expenses as a percentage of net sales were largely the result of experiencing overall economies of scale with regards to these expenses relative to the increase in sales for the three months ended September 29, 2012 as compared to the three months ended September 24, 2011.

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Direct

Income from operations for the direct segment increased \$1.2 million, or 31.1%, to \$5.0 million for the three months ended September 29, 2012 compared to \$3.8 million for the three months ended September 24, 2011. Income from operations as a percentage of net sales for the direct segment increased to 20.0% for the three months ended September 29, 2012 compared to 17.4% for the three months ended September 24, 2011. This increase was primarily due to a decrease in general administrative expenses of 1.3% as a percentage of net sales and a decrease in product costs of 1.2% as a percentage of net sales. The decrease in general administrative expenses as a percentage of net sales were largely the result of experiencing overall economies of scale with regards to these expenses relative to the increase in sales for the three months ended September 29, 2012 as compared to the three months ended September 24, 2011. The decrease in product costs as a percentage of net sales was primarily due to an increase in promotional effectiveness and lower costs incurred for shipping supplies during the three months ended September 29, 2012, as compared to the three months ended September 24, 2011.

Corporate Costs

Corporate costs increased \$2.7 million, or 13.3%, to \$22.8 million during the three months ended September 29, 2012 compared to \$20.1 million for the three months ended September 24, 2011. Corporate costs as a percentage of net sales decreased to 9.5% for the three months ended September 29, 2012 compared to 9.6% for the three months ended September 24, 2011. The dollar increase was primarily due to an increase in corporate payroll and stock compensation expense of \$1.7 million in the three months ended September 29, 2012 compared to the three months ended September 24, 2011. The decrease as a percentage of sales was largely the result of experiencing overall economies of scale with regards to these expenses relative to the increase in sales for the three months ended September 29, 2012 as compared to the three months ended September 24, 2011.

Interest Expense, net

Interest expense, net decreased \$0.3 million, or 61.6%, to \$0.2 million in the three months ended September 29, 2012 compared to \$0.4 million in the three months ended September 24, 2011. The decrease in interest expense, net during the three months ended September 29, 2012 was primarily due to the early termination of our term loan entered into during January 2011 and terminated in October 2011.

Provision for Income Taxes

We recognized \$8.3 million of income tax expense during the three months ended September 29, 2012 compared to \$5.3 million during the three months ended September 24, 2011. The effective tax rate for the three months ended September 29, 2012 was 33.8%, compared to 30.8% for the three months ended September 24, 2011. The effective tax rates for both the three months ended September 29, 2012 and September 24, 2011 reflect the reversal of charges previously recorded related to uncertain tax positions due to the expiration of the applicable statutes of limitations. The benefit to the provision for income taxes for the three months ended September 29, 2012 of \$2.2 million was partially offset by a charge in connection with an audit of prior year tax returns of approximately \$0.6 million. The benefit to the provision for income taxes for the three months ended September 24, 2011 was \$1.0 million. Excluding these adjustments, the effective tax rate for the three months ended September 29, 2012 increased primarily due to changes to our blended states income tax rate.

Net Income

As a result of the foregoing, we generated net income of \$16.3 million in the three months ended September 29, 2012 compared to net income of \$11.9 million in the three months ended September 24, 2011.

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Nine Months Ended September 29, 2012 Compared To Nine Months Ended September 24, 2011

Net Sales

Net sales increased \$90.3 million, or 14.1%, to \$732.0 million for the nine months ended September 29, 2012 compared to \$641.7 million for the nine months ended September 24, 2011. The increase was primarily the result of an increase in our comparable store sales, non-comparable store sales, as well as an increase in our direct sales. Sales increased primarily in the categories of specialty supplements and sports nutrition, which increased \$50.1 million and vitamins, minerals and herbs, which increased \$24.9 million. The sports nutrition and weight management categories continue to be among our fastest growing categories. We expect this trend in sports nutrition to continue based on the continued strength in sales and the growth of the fitness-conscious market.

Retail

Net sales from our retail stores increased \$80.8 million, or 14.1%, to \$655.2 million for the nine months ended September 29, 2012 compared to \$574.4 million for the nine months ended September 24, 2011. We operated 564 stores as of September 29, 2012 compared to 515 stores as of September 24, 2011. Store sales increased due to an increase in comparable store sales of \$52.2 million, or 9.2%, and an increase in non-comparable store sales of \$28.6 million. The increase in comparable store sales was primarily due to an increase in customer count.

Direct

Net sales to our direct customers increased \$9.5 million, or 14.1%, to \$76.8 million for the nine months ended September 29, 2012 compared to \$67.3 million for the nine months ended September 24, 2011. The increase in our direct sales was due to an increase in our e-commerce sales of 17.5% which was offset in part by a decrease in our catalog sales. The increase in e-commerce sales was largely due to increased efficiency in customer acquisition and retention marketing programs during the nine months ended September 29, 2012 compared to the nine months ended September 24, 2011. We have reduced our catalog circulation and customer prospecting as we believe catalog purchasing in general is declining in popularity as a purchasing medium, especially in the wake of the growth of on-line shopping. In addition, as we continue to open more stores in new markets, some catalog customers choose to shop at our retail locations.

Cost of Goods Sold

Cost of goods sold, which includes product, warehouse and distribution and occupancy costs, increased \$52.1 million, or 12.3%, to \$475.4 million for the nine months ended September 29, 2012 compared to \$423.3 million for the nine months ended September 24, 2011. The dollar increase was primarily due to an increase in sales, as well as an increase in occupancy costs for the nine months ended September 29, 2012, as compared to the nine months ended September 24, 2011. Cost of goods sold as a percentage of net sales decreased to 64.9% for the nine months ended September 29, 2012, compared to 66.0% for the nine months ended September 24, 2011. This decrease was due to a decrease in occupancy costs of 0.7% as a percentage of net sales, a decrease in product costs of 0.2% as a percentage of net sales and a decrease in warehouse and distribution costs of 0.2% as a percentage of net sales. The decrease in occupancy costs as a percentage of net sales reflects the maturation of our newer stores as the increase in comparable store sales more than offsets the increase in our store occupancy costs.

Gross Profit

As a result of the foregoing, gross profit increased \$38.2 million, or 17.5%, to \$256.6 million for the nine months ended September 29, 2012 compared to \$218.4 million for the nine months ended September 24, 2011. Gross profit as a percentage of sales increased to 35.1% for the nine months ended September 29, 2012 compared to 34.0% for the nine months ended September 24, 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$14.1 million, or 8.8%, to \$173.7 million during the nine months ended September 29, 2012, compared to \$159.6 million during the nine months ended September 24,

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2011. The components of selling, general and administrative expenses are explained below. Selling, general and administrative expenses as a percentage of net sales for the nine months ended September 29, 2012 decreased to 23.7% compared to 24.9% for the nine months ended September 24, 2011. Selling, general and administrative expenses for the nine months ended September 24, 2011 includes a \$3.7 million charge for non-income based taxes, which was approximately 0.6% as a percentage of net sales.

Operating payroll and related benefits increased \$6.5 million, or 10.6%, to \$68.2 million for the nine months ended September 29, 2012 compared to \$61.7 million for the nine months ended September 24, 2011. The dollar increase in operating payroll and related benefits was primarily due to the increase in head count added to operate new stores. Operating payroll and related benefits expenses as a percentage of net sales for the nine months ended September 29, 2012 decreased to 9.3% compared to 9.6% for the nine months ended September 24, 2011. The decrease as a percentage of net sales was primarily due to greater sales per hour for the nine months ended September 29, 2012, as compared to the nine months ended September 24, 2011, due to the maturation of our newer stores.

Advertising and promotion expenses increased \$1.8 million, or 19.1%, to \$11.5 million for the nine months ended September 29, 2012 compared to \$9.6 million for the nine months ended September 24, 2011. Advertising and promotion expenses as a percentage of net sales increased to 1.6% during the nine months ended September 29, 2012 compared to 1.5% during the nine months ended September 24, 2011.

Other selling, general and administrative expenses, which include depreciation and amortization expense, increased \$5.8 million, or 6.5%, to \$94.1 million for the nine months ended September 29, 2012 compared to \$88.3 million for the nine months ended September 24, 2011. The dollar increase in other selling, general and administrative expenses was primarily due to increases in corporate payroll and stock compensation expense of \$5.7 million, impairments and dispositions of fixed assets of \$1.3 million and an increase in depreciation and amortization expense of \$1.0 million in the nine months ended September 29, 2012 compared to the nine months ended September 24, 2011, partially offset by a \$3.7 million charge for non-income based tax exposures during the nine months ended September 24, 2011. Other selling, general and administrative expenses as a percentage of net sales decreased to 12.8% for the nine months ended September 29, 2012 compared to 13.8% for the nine months ended September 24, 2011. The decrease as a percentage of sales was largely the result of the charge for non-income based taxes, which was approximately 0.6% as a percentage of net sales during the nine months ended September 24, 2011.

Income from Operations

As a result of the foregoing, income from operations increased \$24.1 million, or 40.9%, to \$82.9 million for the nine months ended September 29, 2012 compared to \$58.8 million for the nine months ended September 24, 2011. Income from operations as a percentage of net sales increased to 11.3% during the nine months ended September 29, 2012 as compared to 9.2% during the nine months ended September 24, 2011.

Retail

Income from operations for the retail segment increased \$26.1 million, or 23.7%, to \$136.2 million for the nine months ended September 29, 2012 compared to \$110.1 million for the nine months ended September 24, 2011. Income from operations as a percentage of net sales for the retail segment increased to 20.8% for the nine months ended September 29, 2012 compared to 19.2% for the nine months ended September 24, 2011. The increase as a percentage of net sales was primarily due to a decrease in occupancy costs of 0.7% as a percentage of net sales and a decrease in general administrative expenses of 0.5% as a percentage of net sales. The decrease in occupancy costs as a percentage of net sales reflects the maturation of our newer stores as the increase in comparable sales more than offsets the increase in our store occupancy costs. The decrease in general administrative expenses as a percentage of net sales were largely the result of experiencing overall economies of scale with regards to these expenses relative to the increase in sales for the nine months ended September 29, 2012 as compared to the nine months ended September 24, 2011.

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Direct

Income from operations for the direct segment increased \$3.0 million, or 24.1%, to \$15.4 million for the nine months ended September 29, 2012 compared to \$12.4 million for the nine months ended September 24, 2011. Income from operations as a percentage of net sales for the direct segment increased to 20.0% for the nine months ended September 29, 2012 compared to 18.4% for the nine months ended September 24, 2011. This increase was primarily due to a decrease in general administrative expenses as a percentage of net sales which was largely the result of experiencing overall economies of scale with regards to these expenses relative to the increase in sales for the nine months ended September 29, 2012 as compared to the nine months ended September 24, 2011.

Corporate Costs

Corporate costs increased \$5.0 million, or 7.9%, to \$68.7 million during the nine months ended September 29, 2012 compared to \$63.7 million for the nine months ended September 24, 2011. Corporate costs as a percentage of net sales decreased to 9.4% for the nine months ended September 29, 2012 compared to 9.9% for the nine months ended September 24, 2011. The dollar increase was primarily due to increases in corporate payroll and stock compensation expense of \$5.7 million, impairments and dispositions of fixed assets of \$1.3 million and an increase in depreciation and amortization expense of \$1.0 million in the nine months ended September 29, 2012 compared to the nine months ended September 24, 2011, partially offset by a \$3.7 million charge for non-income based tax exposures during the nine months ended September 24, 2011. The decrease as a percentage of sales was largely the result of the charge for non-income based taxes, which was approximately 0.6% as a percentage of net sales during the nine months ended September 24, 2011.

Loss on extinguishment of debt

Loss on extinguishment of debt of \$0.6 million for the nine months ended September 24, 2011 represents the write-off of unamortized deferred financing fees related to the repurchase of our Notes in February 2011.

Interest Expense, net

Interest expense, net decreased \$1.5 million, or 74.2%, to \$0.5 million in the nine months ended September 29, 2012 compared to \$2.1 million in the nine months ended September 24, 2011. The decrease in interest expense, net during the nine months ended September 29, 2012 was primarily due to the redemption of the remaining \$55.1 million in aggregate principal of our Notes during February 2011 as well as the early termination of our term loan entered into during January 2011 and terminated in October 2011.

Provision for Income Taxes

We recognized \$31.2 million of income tax expense during the nine months ended September 29, 2012 compared to \$20.8 million during the nine months ended September 24, 2011. The effective tax rate for the nine months ended September 29, 2012 was 37.9%, compared to 36.9% for the nine months ended September 24, 2011. The effective tax rates for both the nine months ended September 29, 2012 and September 24, 2011 reflect the reversal of charges previously recorded related to uncertain tax positions due to the expiration of the applicable statutes of limitations. The benefit to the provision for income taxes for the nine months ended September 29, 2012 of \$2.0 million was partially offset by a charge in connection with an audit of prior year tax returns of approximately \$0.6 million. The benefit to the provision for income taxes for the nine months ended September 24, 2011 was \$1.0 million. Excluding these adjustments, the effective tax rate for the nine months ended September 29, 2012 increased primarily due to changes to our blended states income tax rate.

Net Income

As a result of the foregoing, we generated net income of \$51.1 million in the nine months ended September 29, 2012 compared to net income of \$35.5 million in the nine months ended September 24, 2011.

Table of Contents**Key Indicators of Liquidity and Capital Resources**

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

	September 29, 2012	As of December 31, 2011
Balance Sheet Data:		
Cash and cash equivalents	\$ 76,054	\$ 10,754
Working capital	150,178	69,343
Total assets	570,387	490,605
Total debt, including capital leases	207	956
Other Information:		
Depreciation and amortization of fixed and intangible assets	\$ 16,539	\$ 14,905
Cash Flows Provided By (Used In):		
Operating activities	\$ 60,949	\$ 61,984
Investing activities	(18,625)	(15,170)
Financing activities	22,976	(47,999)
Net increase (decrease) in cash and cash equivalents	\$ 65,300	\$ (1,185)

Liquidity and Capital Resources

Our primary uses of cash are to fund working capital, operating expenses and capital expenditures related primarily to the build-out of new stores. Historically, we have financed these 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, including investments made and expenses incurred in connection with our store growth plans, new distribution center, systems development and store improvements.

We plan to spend approximately \$35 million to \$40 million in capital expenditures during Fiscal 2012, most of which will pertain to new stores we anticipate opening throughout the year and costs of a new distribution center planned to open in Fiscal 2013. Of the total capital expenditures projected for Fiscal 2012, we have already invested \$18.6 million during the nine months ended September 29, 2012. We plan on opening approximately 52 stores during Fiscal 2012, of which we have already opened 39 stores as of September 29, 2012. During Fiscal 2013, we plan to spend approximately \$45 million in capital expenditures.

Our working capital requirements for merchandise inventory will continue to increase as we continue to open additional stores. Currently, our practice is to establish an inventory level of approximately \$160,000 at cost for each of our stores, the cost of which is partially offset by vendor incentive and allowance programs. Additionally, 30 day payment terms have been extended to us by some of our suppliers allowing us to effectively manage our inventory and working capital.

Currently, the Company's cash management practice is to realize lower bank fees in lieu of generating interest income on its cash balances.

We were in compliance with all debt covenants as of September 29, 2012. We expect to be in compliance with these same debt covenants during the remainder of Fiscal 2012 as well.

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On September 26, 2012, Standard & Poor's Ratings Services raised its corporate credit rating on the Company to BB from BB-.

Cash Provided by Operating Activities

Net cash provided by operating activities was \$60.9 million for the nine months ended September 29, 2012 as compared to \$62.0 million for the nine months ended September 24, 2011. The \$1.0 million decrease in cash flows from operating activities is primarily due to an increase in inventory purchases and the changes in income and non-income based taxes payable, partially offset by the increase in our net income, for the nine months ended September 29, 2012 as compared to the nine months ended September 24, 2011.

Cash Used in Investing Activities

Net cash used in investing activities was \$18.6 million during the nine months ended September 29, 2012 as compared to \$15.2 million during the nine months ended September 24, 2011. Capital expenditures during the nine months ended September 29, 2012 and September 24, 2011 were used primarily for the build-out of new stores and improvements to existing stores, as well as computer equipment related to those stores. The Company opened 39 new stores during the nine months ended September 29, 2012 as compared to 34 new stores during the nine months ended September 24, 2011.

Cash Provided by / Used in Financing Activities

Net cash provided by financing activities was \$23.0 million for the nine months ended September 29, 2012, as compared to net cash used in financing activities of \$48.0 million for the nine months ended September 24, 2011. The \$71.0 million increase in cash flows related to financing activities was primarily due to cash provided from the proceeds and tax benefits associated with exercises of stock options of \$23.3 million during the nine months ended September 29, 2012 as compared to \$7.6 million during the nine months ended September 24, 2011, as well as the redemption of \$55.1 million of our Notes and net repayments of borrowings under our revolving credit facility of \$18.0 million during the nine months ended September 24, 2011, partially offset by net borrowings of \$18.8 million related to our term loan during the nine months ended September 24, 2011.

Revolving Credit Facility

The terms of our Revolving Credit Facility, as amended, extend through September, 2015, and allow the Company to borrow up to \$70.0 million subject to the terms of the facility. For information regarding the terms of our Revolving Credit Facility, refer to Note 5. Credit Arrangements in the Notes to Condensed Consolidated Financial Statements. During the nine months ended September 29, 2012 there have been no borrowings under the Revolving Credit Facility. The unused available line of credit under the Revolving Credit Facility at September 29, 2012 was \$69.4 million.

Contractual Obligations and Commercial Commitments

In August 2012, the Company entered into an agreement to lease a warehousing and distribution facility. The Company's obligations for the fifteen year lease term, beginning in April, 2013, are approximately \$26.1 million. There have been no other significant developments with respect to our contractual obligations since December 31, 2011. 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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.

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Effects of Inflation

We do not believe that our sales or operating results have been materially impacted by inflation during the periods presented in our financial statements. However, we have experienced increased cost pressure from our suppliers which could have an adverse impact on our gross profit results in the future.

Recent Accounting Pronouncements

We have considered all new accounting pronouncements and have concluded that there are no new pronouncements that may have a material impact on our results of operations, financial condition, or cash flows, based on current information.

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

The Company's market risks relate primarily to changes in interest rates if there were outstanding indebtedness, however, except for its capital lease obligations, the Company had no outstanding debt as of September 29, 2012. Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows.

Our Revolving Credit Facility carries a floating interest rate that is tied to the adjusted Eurodollar rate and the prime rate and, therefore, our statements of operations and our cash flows would be exposed to changes in interest rates. As of September 29, 2012, there were no borrowings on our Revolving Credit Facility.

Item 4. *Controls and Procedures* *Evaluation of Disclosure and Procedures*

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our principal executive officer and principal financial officer, respectively, of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 29, 2012, pursuant to Exchange Act Rule 13a-15. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of September 29, 2012 are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control structure over financial reporting during the quarter ended September 29, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

None.

Item 1A. *Risk Factors*

For a more detailed explanation of the factors affecting our business, please refer to the Risk Factors section in our Fiscal 2011 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 28, 2012. Except as described in our Quarterly Report on Form 10-Q for the three months ended March 31, 2012, as filed with the Securities and Exchange Commission on May 8, 2012, there has not been a material change to the risk factors set forth in our 2011 Form 10-K.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

None.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

Exhibit

No.	Description	
31.1	Certification of Anthony N. Truesdale pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certification of Brenda Galgano 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		

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The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended September 29, 2012, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Notes to Condensed Consolidated Financial Statements (1)

- (1) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 6, 2012.

VITAMIN SHOPPE, INC.

By: /s/ Anthony N. Truesdale
 Anthony N. Truesdale
 Chief Executive Officer

By /s/ Brenda Galgano
 Brenda Galgano
 Chief Financial Officer

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INDEX TO EXHIBITS

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