

WEIGHT WATCHERS INTERNATIONAL INC

Form 10-Q

November 05, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 27, 2014**

**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: 001-16769**

**WEIGHT WATCHERS INTERNATIONAL, INC.**

**(Exact name of registrant as specified in its charter)**

**Virginia** **11-6040273**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**675 Avenue of the Americas, 6<sup>th</sup> Floor, New York, New York 10010**  
**(Address of principal executive offices) (Zip Code)**  
**Registrant's telephone number, including area code: (212) 589-2700**

**(Former name, former address and former fiscal year, if changed since last report)**

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.

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock outstanding as of October 29, 2014 was 56,685,659.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS AT****(IN THOUSANDS)**

	September 27, 2014	December 28, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 327,381	\$ 174,557
Receivables (net of allowances: September 27, 2014 - \$3,721 and December 28, 2013 - \$3,477)	32,050	36,248
Inventories	23,460	40,939
Deferred income taxes	22,924	24,457
Prepaid expenses and other current assets	33,172	39,524
<b>TOTAL CURRENT ASSETS</b>	<b>438,987</b>	<b>315,725</b>
Property and equipment, net	76,814	87,052
Franchise rights acquired	833,148	836,835
Goodwill	110,696	79,294
Trademarks and other intangible assets, net	58,220	45,297
Deferred financing costs, net	34,587	42,046
Other noncurrent assets	5,878	2,682
<b>TOTAL ASSETS</b>	<b>\$ 1,558,330</b>	<b>\$ 1,408,931</b>
<b>LIABILITIES AND TOTAL DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Portion of long-term debt due within one year	\$ 30,000	\$ 30,000
Accounts payable	36,582	45,496
Derivative payable	28,899	7,578
Other accrued liabilities	179,311	175,639
Income taxes payable	22,437	10,777
Deferred revenue	81,129	76,330
<b>TOTAL CURRENT LIABILITIES</b>	<b>378,358</b>	<b>345,820</b>
Long-term debt	2,340,000	2,358,000
Deferred income taxes	182,161	164,064
Other	15,489	15,669
<b>TOTAL LIABILITIES</b>	<b>2,916,008</b>	<b>2,883,553</b>
Redeemable noncontrolling interest	5,990	0
<b>TOTAL DEFICIT</b>		

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Common stock, \$0 par value; 1,000,000 shares authorized; 112,195 shares issued	0	0
Treasury stock, at cost, 55,513 shares at September 27, 2014 and 55,562 shares at December 28, 2013	(3,254,459)	(3,256,406)
Retained earnings	1,895,470	1,773,267
Accumulated other comprehensive (loss) income	(4,679)	8,517
<b>TOTAL DEFICIT</b>	<b>(1,363,668)</b>	<b>(1,474,622)</b>
<b>TOTAL LIABILITIES AND TOTAL DEFICIT</b>	<b>\$ 1,558,330</b>	<b>1,408,931</b>

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

**Table of Contents****WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF NET INCOME****(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Service revenues, net	\$ 281,863	\$ 321,954	\$ 917,217	\$ 1,065,862
Product sales and other, net	63,321	74,380	234,872	292,150
<b>Revenues, net</b>	<b>345,184</b>	<b>396,334</b>	<b>1,152,089</b>	<b>1,358,012</b>
Cost of services	122,079	130,284	402,033	427,585
Cost of product sales and other	35,538	34,070	113,775	131,095
<b>Cost of revenues</b>	<b>157,617</b>	<b>164,354</b>	<b>515,808</b>	<b>558,680</b>
<b>Gross profit</b>	<b>187,567</b>	<b>231,980</b>	<b>636,281</b>	<b>799,332</b>
Marketing expenses	36,811	48,157	198,377	241,108
Selling, general and administrative expenses	59,362	59,303	180,893	176,609
<b>Operating income</b>	<b>91,394</b>	<b>124,520</b>	<b>257,011</b>	<b>381,615</b>
Interest expense	32,958	26,892	89,411	76,298
Other expense (income), net	1,520	(352)	2,679	802
Gain on Brazil acquisition	0	0	(10,540)	0
Early extinguishment of debt	0	0	0	21,685
<b>Income before income taxes</b>	<b>56,916</b>	<b>97,980</b>	<b>175,461</b>	<b>282,830</b>
Provision for income taxes	19,123	37,722	62,045	108,903
<b>Net income</b>	<b>37,793</b>	<b>60,258</b>	<b>113,416</b>	<b>173,927</b>
Net loss attributable to the noncontrolling interest	99	0	9	0
<b>Net income attributable to Weight Watchers International, Inc.</b>	<b>\$ 37,892</b>	<b>\$ 60,258</b>	<b>\$ 113,425</b>	<b>\$ 173,927</b>
<b>Earnings per share</b>				
Basic	\$ 0.67	\$ 1.07	\$ 2.00	\$ 3.10
Diluted	\$ 0.67	\$ 1.07	\$ 2.00	\$ 3.09
<b>Weighted average common shares outstanding</b>				
Basic	56,675	56,321	56,575	56,056
Diluted	56,769	56,504	56,646	56,348

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Dividends declared per common share	\$	0.00	\$	0.18	\$	0.00	\$	0.53
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The accompanying notes are an integral part of these consolidated financial statements.



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**WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income	\$ 37,793	\$ 60,258	\$ 113,416	\$ 173,927
Other comprehensive loss:				
Foreign currency translation adjustments	(10,639)	3,486	(6,579)	(4,727)
Income tax effect on foreign currency translation adjustments	4,153	(1,360)	2,566	1,824
Foreign currency translation adjustments, net of taxes	(6,486)	2,126	(4,013)	(2,903)
Changes in gain (loss) on derivatives	10,404	(12,132)	(15,235)	(7,049)
Income tax effect on changes in gain (loss) on derivatives	(4,058)	4,732	5,941	2,749
Changes in gain (loss) on derivatives, net of taxes	6,346	(7,400)	(9,294)	(4,300)
Total other comprehensive loss	(140)	(5,274)	(13,307)	(7,203)
Comprehensive income	37,653	54,984	100,109	166,724
Less: Net loss attributable to the noncontrolling interest	99	0	9	0
Less: Foreign currency translation adjustments, net of taxes attributable to the noncontrolling interest	336	0	111	0
Comprehensive loss attributable to the noncontrolling interest	435	0	120	0
Comprehensive income attributable to Weight Watchers International, Inc.	\$ 38,088	\$ 54,984	\$ 100,229	\$ 166,724

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

**Table of Contents****WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN THOUSANDS)**

	<b>Nine Months Ended</b>	
	<b>September 27, 2014</b>	<b>September 28, 2013</b>
<b>Operating activities:</b>		
Net income	\$ 113,416	\$ 173,927
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	36,288	33,115
Amortization of deferred financing costs	7,459	5,715
Share-based compensation expense	7,235	2,515
Deferred tax provision	25,908	21,516
Allowance for doubtful accounts	608	(64)
Reserve for inventory obsolescence	11,773	7,358
Foreign currency exchange rate loss	2,631	837
Loss on disposal of assets	121	1,390
Gain on Brazil acquisition	(10,540)	0
Early extinguishment of debt	0	21,685
Other items, net	(184)	0
Changes in cash due to:		
Receivables	4,077	2,841
Inventories	6,395	7,240
Prepaid expenses	4,883	7,243
Accounts payable	(8,698)	(8,105)
UK self-employment liability	0	(7,272)
Accrued liabilities	8,144	5,520
Deferred revenue	5,627	5,280
Income taxes	6,148	20,696
 Cash provided by operating activities	 221,291	 301,437
 <b>Investing activities:</b>		
Capital expenditures	(5,960)	(37,656)
Capitalized software expenditures	(21,318)	(15,686)
Cash paid for acquisitions	(16,678)	(78,354)
Other items, net	(3,421)	270
 Cash used for investing activities	 (47,377)	 (131,426)
 <b>Financing activities:</b>		
Proceeds from new term loans	0	2,400,000
Payments on long-term debt	(18,000)	(2,412,364)
Payment of dividends	(80)	(19,701)
Deferred financing costs	0	(44,817)
Proceeds from stock options exercised	297	15,655
Tax benefit of restricted stock units vested and stock options exercised	1	2,128

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Cash used for financing activities	(17,782)	(59,099)
Effect of exchange rate changes on cash and cash equivalents and other	(3,308)	128
Net increase in cash and cash equivalents	152,824	111,040
Cash and cash equivalents, beginning of period	174,557	70,215
Cash and cash equivalents, end of period	\$ 327,381	\$ 181,255

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

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**WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

**1. Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Weight Watchers International, Inc. and all of its subsidiaries. The terms Company and WWI as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on management's best estimates and judgments. While all available information has been considered, actual amounts could differ from those estimates. The consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments including those of a normal recurring nature necessary for a fair statement of the interim results presented.

These statements should be read in conjunction with the Company's Annual Report on Form 10-K for fiscal 2013, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

*Revisions:*

The classification of certain brand marketing funds received from licensees has been revised to reflect them as revenue as opposed to being recorded as an offset to expense, increasing the three and nine months ended September 28, 2013 Product sales and other, net, Cost of product sales and other, Gross profit, Marketing expenses and Selling, general and administrative expenses as follows:

	<b>September 28, 2013</b>	
	<b>Three</b>	<b>Nine</b>
	<b>Months</b>	<b>Months</b>
	<b>Ended</b>	<b>Ended</b>
Product sales and other, net	\$ 2,436	\$ 12,057
Cost of product sales and other	\$ 415	\$ 1,078
Gross profit	\$ 2,021	\$ 10,979
Marketing expenses	\$ 1,798	\$ 10,278
Selling, general and administrative expenses	\$ 223	\$ 701

These adjustments were not considered to be material, individually or in the aggregate, to previously issued financial statements. However, because of the significance of these adjustments, the Company revised its three and nine months ended September 28, 2013 consolidated statements of net income. These revisions had no impact on the consolidated balance sheets, consolidated statements of comprehensive income or consolidated statements of cash flows included in these financial statements.

**2. Summary of Significant Accounting Policies***Recently Issued Accounting Pronouncements:*

In May 2014, the Financial Accounting Standards Board (the FASB) issued updated guidance on accounting for revenue from contracts with customers. The objective of this guidance is to provide a single, comprehensive revenue recognition model, to remove existing industry specific guidance and to expand qualitative and quantitative disclosures. The core principle of the new standard is for revenue recognition to depict transfer of control to the customer in an amount that reflects consideration to which an entity expects to be entitled. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption not permitted. The Company

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is currently evaluating the impact that the adoption of this guidance will have on the consolidated financial position, results of operations or cash flows of the Company.

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In April 2014, the FASB issued updated guidance on reporting discontinued operations and disclosures of disposals of components of an entity. This guidance raises the threshold for disposal transactions to qualify as discontinued operations and focuses on disposal transactions that represent strategic shifts having a major effect on operations and financial results, requiring additional disclosures and revising balance sheet presentation. This guidance is effective for fiscal years beginning after December 15, 2014, and interim periods within those fiscal years and is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

*Reclassification:*

Certain prior year amounts have been reclassified to conform to the current period presentation. With respect to the Company's previously announced change in segment reporting, segment data for the three and nine months ended September 28, 2013 has been revised to reflect the new reportable segment structure. See Note 13 for disclosures related to segments.

In addition, the components of Revenues and Cost of revenues as presented in the Consolidated Statements of Net Income have been reclassified to reflect the integration of the Company's Internet-based business with its meetings and other businesses. Revenues are comprised of service revenues, which are comprised of meetings fees, Online subscription revenue and eTools subscription revenue, and revenues from product sales and other. Cost of revenues is comprised of cost of services and cost of product sales and other.

For a discussion of the Company's other significant accounting policies, see "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for fiscal 2013.

**3. Acquisitions of Franchisees, Additional Equity Interest in Brazil and Wello**

*Franchisee Acquisitions*

The acquisitions of franchisees have been accounted for under the purchase method of accounting and, accordingly, earnings of acquired franchisees have been included in the consolidated operating results of the Company since the applicable date of acquisition. Details of these franchise acquisitions are outlined below.

The acquisitions resulted in goodwill related to, among other things, expected synergies in operations. The Company expects that the majority of goodwill recorded in connection with the below acquisitions will be deductible for tax purposes. The effect of these franchise acquisitions was not material to the Company's consolidated financial position, results of operations, or operating cash flows in the periods presented.

On March 4, 2013, the Company acquired substantially all of the assets of its Alberta and Saskatchewan, Canada franchisees, Weight Watchers of Alberta Ltd. and Weight Watchers of Saskatchewan Ltd., for an aggregate purchase price of \$35,000. The total purchase price has been allocated to franchise rights acquired (\$30,633), goodwill (\$4,626), customer relationship value (\$473), inventory (\$218), fixed assets (\$182) and prepaid expenses (\$3) offset by deferred revenue of \$1,135.

On July 15, 2013, the Company acquired substantially all of the assets of its West Virginia franchisee, Weight Watchers of West Virginia, Inc., for a net purchase price of \$16,028 less assumed assets, plus assumed liabilities, net of \$28. The total purchase price has been allocated to franchise rights acquired (\$10,131), goodwill (\$5,212), customer relationship value (\$448) and fixed assets (\$209).

On July 22, 2013, the Company acquired substantially all of the assets of its Columbus, Ohio franchisee, Weight Watchers of Columbus, Inc., for a net purchase price of \$23,357 plus assumed liabilities of \$143 and its Reno, Nevada franchisee, Weight Watchers of Northern Nevada, Inc.,

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for a net purchase price of \$3,969 plus assumed liabilities of \$31. The aggregate total purchase price has been allocated to franchise rights acquired (\$19,643), goodwill (\$7,220), customer relationship value (\$494), fixed assets (\$116) and inventory (\$27).

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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On October 28, 2013, the Company acquired substantially all of the assets of its Manitoba, Canada franchisee, Weight Watchers of Manitoba Ltd., for a net purchase price of \$5,197 plus assumed liabilities of \$28 and its Franklin and St. Lawrence Counties, New York franchisee, Weight Watchers of Franklin and St. Lawrence Counties Inc., for a net purchase price of \$274 plus assumed liabilities of \$1. The total purchase price of the Manitoba, Canada franchisee has been allocated to franchise rights acquired (\$4,525), goodwill (\$449), customer relationship value (\$249), inventory (\$1) and prepaid expenses (\$1). The total purchase price of the Franklin and St. Lawrence Counties, New York franchisee has been allocated to franchise rights acquired (\$238), goodwill (\$23), customer relationship value (\$13) and prepaid expenses (\$1).

*Acquisition of Additional Equity Interest in Brazil*

Prior to March 12, 2014, the Company had owned 35% of Vigilantes do Peso Marketing Ltda. ( VPM ), a Brazilian limited liability partnership. On March 12, 2014, the Company acquired an additional 45% equity interest in VPM for a net purchase price of \$14,181 less cash acquired of \$2,262. VPM was converted into a joint-stock corporation prior to closing and subsequently operates as a subsidiary of the Company with rights to conduct typical business lines. As a result of the acquisition, the Company gained a direct controlling financial interest in VPM and has therefore begun consolidating this entity since the date of acquisition.

The equity interest held immediately before the acquisition was \$12. An implied fair value technique was used to measure acquisition date fair value of the equity interest to be \$11,029. As a result of this transaction, the Company adjusted its previously held equity interest to fair value of \$11,017 and recorded a charge of \$477 associated with the settlement of the royalty-free arrangement of the Brazilian partnership. The net effect of these items resulted in the Company recognizing a gain of \$10,540 (\$6,429 after-tax or \$0.11 per fully diluted share) in the first quarter of fiscal 2014.

The fair value of the redeemable noncontrolling interest has been valued at \$6,157. In connection with the acquisition, a call option and a put option were granted related to the 20% interest in VPM not owned by the Company.



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The net purchase price of the Brazil acquisition has been allocated as follows:

Fair value of consideration transferred:	
Net purchase price	\$ 14,181
Less cash acquired	2,262
Total	11,919
Gain on acquisition	10,540
Redeemable noncontrolling interest	6,157
	 28,616
Identifiable assets acquired and liabilities assumed:	
Franchise rights acquired	2,000
Receivables	1,139
Fixed assets	575
Prepaid expenses	421
Inventory	287
Customer relationship value	275
Other assets	199
Accrued liabilities	(1,063)
Deferred tax on acquired intangibles	(680)
Deferred revenue	(445)
Income taxes payable	(258)
Accounts payable	(91)
Total identifiable net assets	2,359
Goodwill	\$ 26,257

The acquisition resulted in goodwill related to, among other things, expected synergies in operations and the ability of the Company to provide VPM with various intellectual property and technology innovations which will afford additional future opportunities in the meetings and Online businesses within the growing market where VPM operates. The Company does not expect goodwill to be deductible for tax purposes.

*Acquisition of Wello*

On April 16, 2014, the Company acquired Knowplicity, Inc., d/b/a Wello, an online fitness and personal training company for a net purchase price of \$8,977 less cash acquired of \$11. Payment was in the form of stock issued \$4,207 and cash \$4,770. The total purchase price of Wello has been allocated to goodwill (\$6,204), website development (\$4,516), prepaid expenses (\$4) and fixed assets (\$1) offset by deferred tax liabilities (\$1,759). As a result of the acquisition, Wello became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition. The acquisition resulted in goodwill related to, among other things, expected synergies in operations. The Company does not expect goodwill to be deductible for tax purposes.

**4. Franchise Rights Acquired, Goodwill and Other Intangible Assets**

Franchise rights acquired are due to acquisitions of the Company's franchised territories as well as the acquisition of franchise promotion agreements and other factors associated with the acquired franchise territories. For the nine months ended September 27, 2014, the change in the carrying value of franchise rights acquired is due to the VPM acquisition, as described in Note 3, and the effect of exchange rate changes as follows:

Balance as of December 28, 2013	\$ 836,835
Franchise rights acquired during the period	2,000
Amortization of Brazil franchise rights acquired	(544)
Effect of exchange rate changes	(5,143)
 Balance as of September 27, 2014	 \$ 833,148

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The franchise rights acquired related to the VPM acquisition are being amortized ratably over a 2 year period.

Goodwill primarily relates to the acquisition of the Company by H.J. Heinz Company in 1978, the acquisition of WeightWatchers.com, Inc. in 2005, the acquisitions of the Company's franchised territories, the acquisition of the majority interest in VPM in the first quarter of fiscal 2014 and the acquisition of Wello in the second quarter of fiscal 2014. See Note 3 for further information on certain acquisitions. For the nine months ended September 27, 2014, the change in the carrying amount of goodwill is due to the VPM and Wello acquisitions and the effect of exchange rate changes as follows:

	North America	UK	CE	Other	Total
Balance as of December 28, 2013	\$ 67,699	\$ 1,530	\$ 8,345	\$ 1,720	\$ 79,294
Goodwill acquired during the period	6,204	0	0	26,257	32,461
Effect of exchange rate changes	(467)	0	0	(592)	(1,059)
Balance as of September 27, 2014	\$ 73,436	\$ 1,530	\$ 8,345	\$ 27,385	\$ 110,696

The carrying amount of finite-lived intangible assets as of September 27, 2014 and December 28, 2013 was as follows:

	September 27, 2014		December 28, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	\$ 99,711	\$ 70,496	\$ 85,095	\$ 62,418
Website development costs	82,332	58,017	69,660	48,060
Trademarks	10,802	10,154	10,691	9,955
Other	11,531	7,489	7,021	6,737
	\$ 204,376	\$ 146,156	\$ 172,467	\$ 127,170

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$7,518 and \$20,697 for the three and nine months ended September 27, 2014, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$6,413 and \$18,076 for the three and nine months ended September 28, 2013, respectively.

Estimated amortization expense of existing finite-lived intangible assets for the next five fiscal years is as follows:

Remainder of fiscal 2014	\$ 6,926
Fiscal 2015	\$ 24,881
Fiscal 2016	\$ 16,401
Fiscal 2017	\$ 9,185



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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. Long-Term Debt**

The components of the Company's long-term debt are as follows:

	September 27, 2014		December 28, 2013	
	Balance	Effective Rate	Balance	Effective Rate
Revolving Facility due April 2, 2018	\$ 0	0.00%	\$ 0	0.00%
Tranche B-1 Term Facility due April 2, 2016	296,250	3.11%	298,500	2.97%
Tranche B-2 Term Facility due April 2, 2020	2,073,750	3.95%	2,089,500	3.75%
Total Debt	2,370,000	3.85%	2,388,000	3.49%
Less Current Portion	30,000		30,000	
Total Long-Term Debt	\$ 2,340,000		\$ 2,358,000	

The Company's credit facilities at the end of the first quarter of fiscal 2013 consisted of the following term loan facilities and revolving credit facilities: a tranche B loan ( Term B Loan ), a tranche C loan ( Term C Loan ), a tranche D loan ( Term D Loan ), a tranche E loan ( Term E Loan ), tranche F loan ( Term F Loan ), revolving credit facility A-1 ( Revolver A-1 ) and revolving credit facility A-2 ( Revolver A-2 ).

On April 2, 2013, the Company refinanced its credit facilities pursuant to a Credit Agreement (as amended, supplemented or otherwise modified, the New Credit Agreement ) among the Company, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and an issuing bank, The Bank of Nova Scotia, as revolving agent, swingline lender and an issuing bank, and the other parties thereto. The New Credit Agreement provides for (a) a revolving credit facility (including swing line loans and letters of credit) in an initial aggregate principal amount of \$250,000 that will mature on April 2, 2018 (the Revolving Facility ), (b) an initial term B-1 loan credit facility in an aggregate principal amount of \$300,000 that will mature on April 2, 2016 (the Tranche B-1 Term Facility ) and (c) an initial term B-2 loan credit facility in an aggregate principal amount of \$2,100,000 that will mature on April 2, 2020 (the Tranche B-2 Term Facility ), and together with the Tranche B-1 Term Facility, the Term Facilities ; the Term Facilities and Revolving Facility collectively, the WWI Credit Facility ). In connection with this refinancing, the Company used the proceeds from borrowings under the Term Facilities to pay off a total of \$2,399,904 of outstanding loans, consisting of \$128,759 of Term B Loans, \$110,602 of Term C Loans, \$117,612 of Term D Loans, \$1,125,044 of Term E Loans, \$817,887 of Term F Loans, \$21,247 of loans under the Revolver A-1 and \$78,753 of loans under the Revolver A-2. Following the refinancing of a total of \$2,399,904 of loans, at April 2, 2013, the Company had \$2,400,000 debt outstanding under the Term Facilities and \$248,848 of availability under the Revolving Facility. The Company incurred fees of \$44,817 during the second quarter of fiscal 2013 in connection with this refinancing. In the second quarter of fiscal 2013, the Company wrote-off fees associated with this refinancing which resulted in the Company recording a charge of \$21,685 in early extinguishment of debt.

On September 26, 2014, the Company and certain lenders entered into an agreement amending the New Credit Agreement that, among other things, eliminated the Financial Covenant (as defined in the New Credit Agreement) with respect to the Revolving Facility. In connection with this amendment, the Company wrote-off deferred financing fees of approximately \$1,583 in the third quarter of fiscal 2014. Concurrently with and in order to effect this amendment, the Company reduced the amount of the Revolving Facility from \$250,000 to \$50,000.

At September 27, 2014, the Company had \$2,370,000 outstanding under the WWI Credit Facility, consisting entirely of term loans and there were no loans outstanding under the Revolving Facility. In addition, at September 27, 2014, the Revolving Facility had \$1,302 in issued but undrawn letters of credit outstanding thereunder and \$48,698 in available unused commitments thereunder. The proceeds from borrowings under

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the Revolving Facility (including swing line loans and letters of credit) are available to be used for working capital and general corporate purposes.

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Borrowings under the New Credit Agreement bear interest at a rate equal to, at the Company's option, LIBOR plus an applicable margin or a base rate plus an applicable margin. LIBOR under the Tranche B-2 Term Facility is subject to a minimum interest rate of 0.75% and the base rate under the Tranche B-2 Term Facility is subject to a minimum interest rate of 1.75%. The applicable margin relating to both of the Term Facilities will increase by 25 basis points in the event that the Company receives a corporate rating of BB- (or lower) from S&P and a corporate rating of Ba3 (or lower) from Moody's. On February 21, 2014, both S&P and Moody's issued revised corporate ratings of the Company of B+ and B1, respectively. As a result, effective February 21, 2014, the applicable margin on borrowings under the Tranche B-1 Term Facility went from 2.75% to 3.00% and on borrowings under the Tranche B-2 Term Facility went from 3.00% to 3.25%. The applicable margin relating to the Revolving Facility will fluctuate depending upon the Company's Consolidated Leverage Ratio (as defined in the New Credit Agreement). At September 27, 2014, borrowings under the Tranche B-1 Term Facility bore interest at LIBOR plus an applicable margin of 3.00% and borrowings under the Tranche B-2 Term Facility bore interest at LIBOR plus an applicable margin of 3.25%. Based on the Company's Consolidated Leverage Ratio as of September 27, 2014, had there been any borrowings under the Revolving Facility, it would have borne interest at LIBOR plus an applicable margin of 2.25% or base rate plus an applicable margin of 1.25%. On a quarterly basis, the Company will pay a commitment fee to the lenders under the Revolving Facility in respect of unutilized commitments thereunder, which commitment fee will fluctuate depending upon the Company's Consolidated Leverage Ratio. Based on the Company's Consolidated Leverage Ratio as of September 27, 2014, the commitment fee was 0.40% per annum. The Company also will pay customary letter of credit fees and fronting fees under the Revolving Facility.

The New Credit Agreement contains customary covenants including covenants that, in certain circumstances, restrict the Company's ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell its assets and enter into consolidations, mergers and transfers of all or substantially all of its assets. The WWI Credit Facility does not require the Company to maintain any financial ratios and is guaranteed by certain of the Company's existing and future subsidiaries. Substantially all of the Company's assets secure the WWI Credit Facility.

At September 27, 2014 and December 28, 2013, the Company's debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with the Company's variable-rate borrowings. The average interest rate on the Company's debt, exclusive of the impact of swaps, was approximately 3.90% and 3.65% per annum at September 27, 2014 and December 28, 2013, respectively. The average interest rate on the Company's debt, including the impact of swaps, was approximately 4.93% and 4.08% per annum at September 27, 2014 and December 28, 2013, respectively.

**6. Earnings Per Share**

Basic earnings per share (EPS) are calculated utilizing the weighted average number of common shares outstanding during the periods presented. Diluted EPS is calculated utilizing the weighted average number of common shares outstanding during the periods presented adjusted for the effect of dilutive common stock equivalents.

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The following table sets forth the computation of basic and diluted EPS:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
<b>Numerator:</b>				
Net income	\$ 37,892	\$ 60,258	\$ 113,425	\$ 173,927
<b>Denominator:</b>				
Weighted average shares of common stock outstanding	56,675	56,321	56,575	56,056
Effect of dilutive common stock equivalents	94	183	71	292
Weighted average diluted common shares outstanding	56,769	56,504	56,646	56,348
<b>Earnings per share</b>				
Basic	\$ 0.67	\$ 1.07	\$ 2.00	\$ 3.10
Diluted	\$ 0.67	\$ 1.07	\$ 2.00	\$ 3.09

The number of anti-dilutive common stock equivalents excluded from the calculation of the weighted average number of common shares for diluted EPS was 3,365 and 1,355 for the three months ended September 27, 2014 and September 28, 2013, respectively, and 2,979 and 1,294 for the nine months ended September 27, 2014 and September 28, 2013, respectively.

**7. Stock Plans**

On May 6, 2008 and May 12, 2004, respectively, the Company's shareholders approved the 2008 Stock Incentive Plan (the "2008 Plan") and the 2004 Stock Incentive Plan (the "2004 Plan"). On May 6, 2014, the Company's shareholders approved the 2014 Stock Incentive Plan (the "2014 Plan"), which replaces the 2008 Plan and 2004 Plan for all equity-based awards granted on or after May 6, 2014. The 2014 Plan is designed to promote the long-term financial interests and growth of the Company by attracting, motivating and retaining employees with the ability to contribute to the success of the business and to align compensation for the Company's employees over a multi-year period directly with the interests of the shareholders of the Company. The Company's Board of Directors or a committee thereof administers the 2014 Plan.

**8. Income Taxes**

The effective tax rates for the three and nine months ended September 27, 2014 were 33.6% and 35.4%, respectively. The effective tax rate for both the three and nine months ended September 28, 2013 was 38.5%. For the three months ended September 27, 2014, the primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were state income taxes and increases in the Company's valuation allowances offset by lower rates in certain foreign jurisdictions. For the nine months ended September 27, 2014, the primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were state income taxes and increases in the Company's valuation allowances offset by a net tax benefit associated with the closure of the Company's China business and



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lower rates in certain foreign jurisdictions. For both the three and nine months ended September 28, 2013, the primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were state income taxes and increases in the Company's valuation allowances, offset by lower rates in certain foreign jurisdictions. During the three months ended June 28, 2014, the Company recorded a \$1,500 increase to its valuation allowance related to tax benefits for foreign losses that are not expected to be realized. The recognition of this valuation allowance should have occurred in prior periods as the losses were incurred. However, the impact is not material to any previously issued period or the expected full year 2014 financial statements. As a result, the Company corrected this error in the second quarter of fiscal 2014.

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**9. Legal**

*Jeri Connolly et al. v. Weight Watchers North America, Inc.*

In August 2013, the Company was contacted by plaintiffs' counsel in the previously filed and settled *Sabatino v. Weight Watchers North America, Inc.* case ( *Sabatino* ), threatening to file a new class action on behalf of the Company's current and former service providers in California asserting various wage and hour claims, including but not limited to claims for unpaid overtime and minimum wage violations, which allegedly accrued after the effective date of the *Sabatino* settlement. On March 17, 2014, the parties came to an agreement in principle to settle the matter on a class-wide basis for \$1,688. On April 29, 2014, the parties executed a Memorandum of Understanding to document the terms and conditions of settlement and, the following day, plaintiffs filed a complaint regarding the claims at issue in the Northern District of California. On June 11, 2014, the parties filed a formal settlement agreement and other required documents for the Court's preliminary approval. On July 21, 2014, the parties received the Court's preliminary approval of the settlement agreement. On August 11, 2014, notices of settlement were sent out to the class members advising them of the settlement and their right to object or opt-out of the settlement; no class members did so by the deadline of September 22, 2014. A hearing seeking the Court's final approval of the settlement is scheduled for December 2014, and on October 15, 2014 the parties filed a joint motion for the Court's final approval in anticipation of that hearing. The Company believes that its previously recorded reserve is adequate with respect to this matter.

*In re Weight Watchers International, Inc. Securities Litigation*

In March 2014, two substantially identical putative class action complaints alleging violation of the federal securities laws were filed by individual shareholders against the Company, certain of the Company's current and former officers and directors, and the Company's controlling shareholder, in the United States District Court for the Southern District of New York. The complaints were purportedly filed on behalf of all purchasers of the Company's common stock, no par value per share, between February 14, 2012 and October 30, 2013, inclusive (the Class Period). The complaints allege that, during the Class Period, the defendants disseminated materially false and misleading statements and/or concealed material adverse facts. The complaints allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5. The plaintiffs seek to recover unspecified damages on behalf of the class members. In June 2014, the Court consolidated the cases and appointed lead plaintiffs and lead counsel. On August 12, 2014, the plaintiffs filed an amended complaint that, among other things, reduced the Class Period to between February 14, 2012 and February 13, 2013 and dropped all current officers and certain directors previously named as defendants. On October 14, 2014, the defendants filed a motion to dismiss. The Company continues to believe that the suits are without merit and intends to defend them vigorously.

On May 29, 2014 and June 23, 2014, the Company received shareholder litigation demand letters alleging breaches of fiduciary duties and unjust enrichment by Company officers and directors and Artal Group, S.A., to the alleged injury of the Company. The allegations in the letters relate to those contained in the ongoing securities class action litigation. In response to the letter, pursuant to Virginia law, the Board of Directors has created a special committee to review and evaluate the facts and circumstances surrounding the claims made in the demand letters.

*New York State Department of Taxation and Finance Matter*

In 2010, the New York State Department of Taxation and Finance ( *NYSDTF* ) initiated an audit of the Online products (Online memberships and eTools) being sold by WeightWatchers.com to determine whether such products should be subject to New York state sales tax. On August 26, 2011, the NYSDTF issued a letter to the Company setting forth its position as to why the Online products sold by its Online subsidiary should be taxable. After discussions, the parties entered into a settlement agreement which included the following material terms:

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(1) the NYSDTF would not initiate any legal proceedings against the Company for any alleged unpaid sales taxes for its Online products; (2) the Company agreed to pay the NYSDTF \$1,748 in lieu of claims of unpaid sales taxes; (3) the Company agreed to impose a sales tax for its Online products sold to New York-based customers going forward; and (4) the NYSDTF agreed that the Company could challenge the taxability of future versions of the Company's Online products. On April 28, 2014, the Company sent the NYSDTF a signed copy of the settlement agreement, and the corresponding settlement payment. The Company updated its systems to begin charging sales tax to Online customers in New York effective June 1, 2014.

*Other Litigation Matters*

Due to the nature of the Company's activities, it is also, at times, subject to pending and threatened legal actions that arise out of the ordinary course of business. In the opinion of management, based in part upon advice of legal counsel, the disposition of any such matters is not expected to have a material effect on the Company's results of operations, financial condition or cash flows.

**10. Derivative Instruments and Hedging**

As of September 27, 2014 and September 28, 2013, the Company had in effect interest rate swaps with notional amounts totaling \$1,500,000 and \$467,500, respectively. In January 2009, the Company entered into a forward-starting interest rate swap with an effective date of January 4, 2010 and a termination date of January 27, 2014. Effective April 2, 2013, due to the Company's debt refinancing, the Company ceased the application of hedge accounting for this swap. Accordingly, changes in the fair value of this swap were recorded in earnings subsequent to April 2, 2013 and were immaterial for the nine months ended September 27, 2014.

On July 26, 2013, in order to hedge an additional portion of its variable rate debt, the Company entered into a forward-starting interest rate swap with an effective date of March 31, 2014 and a termination date of April 2, 2020. The initial notional amount of this swap was \$1,500,000. During the term of this swap, the notional amount will decrease from \$1,500,000 effective March 31, 2014 to \$1,250,000 on April 3, 2017 with a further reduction to \$1,000,000 on April 1, 2019. This interest rate swap effectively fixes the variable interest rate on the notional amount of this swap at 2.38%. This swap qualifies for hedge accounting and, therefore, changes in the fair value of this swap have been recorded in accumulated other comprehensive income (loss).

As of September 27, 2014 and December 28, 2013, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive income (loss) in the amounts of \$13,897 (\$22,782 before taxes) and \$4,603 (\$7,546 before taxes), respectively.

The Company is hedging forecasted transactions for periods not exceeding the next seven years. The Company expects approximately \$11,581 (\$18,985 before taxes) of derivative losses included in accumulated other comprehensive income (loss) at September 27, 2014, based on current market rates, will be reclassified into earnings within the next 12 months.

**11. Fair Value Measurements**

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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When measuring fair value, the Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs.

*Fair Value of Financial Instruments*

The Company's significant financial instruments include long-term debt and interest rate swap agreements.

The fair value of the Company's long-term debt is determined by utilizing average bid prices on or near the end of each fiscal quarter (Level 2 input). As of September 27, 2014 and September 28, 2013, the fair value of the Company's long-term debt was approximately \$1,896,918 and \$2,355,846, respectively.

*Derivative Financial Instruments*

The fair values for the Company's derivative financial instruments are determined using observable current market information such as the prevailing LIBOR interest rate and LIBOR yield curve rates and include consideration of credit risk. See Note 10 for disclosures related to derivative financial instruments.

The following table presents the aggregate fair value of the Company's derivative financial instruments:

	Total Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap liability at September 27, 2014	\$ 28,899	\$ 0	\$ 28,899	\$ 0
Interest rate swap liability at December 28, 2013	\$ 7,578	\$ 0	\$ 7,578	\$ 0

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**12. Accumulated Other Comprehensive Income**

Amounts reclassified out of accumulated other comprehensive income are as follows:

**Changes in Accumulated Other Comprehensive Income by Component <sup>(a)</sup>**

	Nine Months Ended September 27, 2014		
	Loss on Qualifying Hedges	Foreign Currency Translation Adjustments	Total
Beginning Balance at December 28, 2013	\$ (4,603)	\$ 13,120	\$ 8,517
Other comprehensive loss before reclassifications, net of tax	(13,526)	(4,013)	(17,539)
Amounts reclassified from accumulated other comprehensive income, net of tax <sup>(b)</sup>	4,232	0	4,232
Net current period other comprehensive loss including noncontrolling interest	(9,294)	(4,013)	(13,307)
Less: net current period other comprehensive loss attributable to the noncontrolling interest	0	111	111
Ending Balance at September 27, 2014	\$ (13,897)	\$ 9,218	\$ (4,679)

(a) Amounts in parentheses indicate debits

(b) See separate table below for details about these reclassifications

	Nine Months Ended September 28, 2013		
	Loss on Qualifying Hedges	Foreign Currency Translation Adjustments	Total
Beginning Balance at December 29, 2012	\$ (6,602)	\$ 19,461	\$ 12,859
Other comprehensive loss before reclassifications, net of tax	(8,922)	(2,903)	(11,825)
Amounts reclassified from accumulated other comprehensive income, net of tax <sup>(b)</sup>	4,622	0	4,622

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Net current period other comprehensive loss	(4,300)	(2,903)	(7,203)
Ending Balance at September 28, 2013	\$ (10,902)	\$ 16,558	\$ 5,656

- (a) Amounts in parentheses indicate debits
- (b) See separate table below for details about these reclassifications

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**Reclassifications out of Accumulated Other Comprehensive Income <sup>(a)</sup>**

Details about Other Comprehensive Income Components	Three Months Ended		Nine Months Ended		Affected Line Item in the Statement Where Net Income is Presented
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
	Amounts Reclassified from Accumulated Other Comprehensive Income		Amounts Reclassified from Accumulated Other Comprehensive Income		
Loss on Qualifying Hedges					
Interest rate contracts	\$ 0	\$ (2,460)	\$ (6,937)	\$ (7,577)	Interest expense
	0	(2,460)	(6,937)	(7,577)	Income before income taxes
	0	960	2,705	2,955	Provision for income taxes
	\$ 0	\$ (1,500)	\$ (4,232)	\$ (4,622)	Net income

(a) Amounts in parentheses indicate debits to profit / loss

**13. Segment Data**

Effective December 29, 2013, the Company realigned its organizational structure to improve the leverage of its significant assets and the alignment of its innovation efforts by integrating its Internet-based business with its meetings and other businesses and assigning responsibility for those integrated businesses on a geographical basis. This resulted in the Company changing the determination of its reportable segments such that the Company now has four reportable segments: North America, United Kingdom, Continental Europe and Other. Other consists of Asia Pacific and emerging markets operations and franchise revenues and related costs, all of which have been grouped together as if they were a single reportable segment because they do not meet any of the quantitative thresholds and are immaterial for separate disclosure. To be consistent with the information that is presented to the chief operating decision maker, the Company does not include intercompany activity in the segment results. Segment information for the three and nine months ended September 28, 2013 presented below has been revised to reflect the new reportable segment structure.

	Total Revenue			
	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
North America	\$ 221,157	\$ 268,431	\$ 734,053	\$ 918,869
United Kingdom	37,778	40,510	123,405	136,699
Continental Europe	67,068	67,813	235,549	232,444
Other	19,181	19,580	59,082	70,000



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Total revenue	\$ 345,184	\$ 396,334	\$ 1,152,089	\$ 1,358,012
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	Net Income			
	Three Months Ended September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Segment operating income:				
North America	\$ 67,389	\$ 100,037	\$ 214,062	\$ 330,255
United Kingdom	12,012	12,342	23,863	26,569
Continental Europe	24,494	21,841	62,412	52,118
Other	5,325	5,466	12,106	14,390
Total segment operating income	109,220	139,686	312,443	423,332
General corporate expenses	(17,826)	(15,166)	(55,432)	(41,717)
Interest expense	32,958	26,892	89,411	76,298
Other expense, net	1,520	(352)	2,679	802
Early extinguishment of debt	0	0	0	21,685
Gain on Brazil acquisition	0	0	(10,540)	0
Provision for taxes	19,123	37,722	62,045	108,903
Net Income	37,793	60,258	113,416	173,927
Net income attributable to noncontrolling interest	99	0	9	0
Net income attributable to Weight Watchers International, Inc.	\$ 37,892	\$ 60,258	\$ 113,425	\$ 173,927

	Depreciation and Amortization			
	Three Months Ended September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
North America	\$ 9,062	\$ 8,350	\$ 25,398	\$ 24,827
United Kingdom	255	372	969	915
Continental Europe	587	534	1,796	1,632
Other	620	488	1,713	1,438
Total segment depreciation and amortization	10,524	9,744	29,876	28,812
General corporate depreciation and amortization	5,701	3,810	13,871	10,018
Depreciation and amortization	\$ 16,225	\$ 13,554	\$ 43,747	\$ 38,830

**14. Restructuring Charges**

As previously disclosed, the Company has reviewed its organization and undertook a restructuring which resulted in the elimination of certain positions and the termination of employment of certain employees in the three and nine months ended September 27, 2014. In connection with this plan, the Company recorded restructuring charges in connection with employee termination benefit costs of \$713 (\$430 after tax) and

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\$10,867 (\$6,629 after tax) during the three and nine months ended September 27, 2014, respectively. For the three and nine months ended September 27, 2014, these charges impacted cost of revenues by \$(203) and \$4,483, respectively, and selling, general and administrative expense by \$916 and \$6,384, respectively. For the three and nine months ended September 27, 2014, all restructuring charges were recorded to general corporate expense and therefore there was no impact to the segments.

For the nine months ended September 27, 2014, the reconciliation of the liability balance for these restructuring charges was as follows:

Balance as of December 28, 2013	\$ 0
Provision	10,867
Payments	(7,904)
Balance as of September 27, 2014	\$ 2,963

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The Company expects \$1,850 of the liability as of September 27, 2014 to be paid in fiscal 2014 and the remainder to be paid in fiscal 2015. The Company anticipates recording additional restructuring charges in connection with this plan and the related employee termination benefit costs of approximately \$300 during the remainder of fiscal 2014.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Except for historical information contained herein, this Quarterly Report on Form 10-Q includes 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, or the Exchange Act, including, in particular, the statements about our plans, strategies and prospects under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations. We have generally used the words may, will, could, expect, anticipate, believe, estimate, plan, intend and similar expressions in this Quarterly Report on Form 10-Q to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

competition from other weight management industry participants or the development of more effective or more favorably perceived weight management methods;

our ability to continue to develop innovative new services and products and enhance our existing services and products or the failure of our services and products to continue to appeal to the market, or our ability to successfully expand into new channels of distribution;

the ability to successfully implement new strategic initiatives;

the effectiveness of our marketing and advertising programs;

the impact on the Weight Watchers brand of actions taken by our franchisees, licensees and suppliers;

the impact of our debt service obligations and restrictive debt covenants;

uncertainties regarding the satisfactory operation of our information technology or systems;

the recognition of asset impairment charges;

risks and uncertainties associated with our international operations, including economic, political and social risks and foreign currency risks;

our ability to successfully make acquisitions or enter into joint ventures, including our ability to successfully integrate, operate or realize the projected benefits of such businesses;

uncertainties related to a downturn in general economic conditions or consumer confidence;

the seasonal nature of our business;

the impact of events that discourage or impede people from gathering with others or accessing resources;

our ability to enforce our intellectual property rights both domestically and internationally, as well as the impact of our involvement in any claims related to intellectual property rights;

the impact of security breaches or privacy concerns;

the impact of disputes with our franchise operators;

the impact of existing and future laws and regulations;

the possibility that the interests of our majority owner will conflict with other holders of our common stock; and

other risks and uncertainties, including those detailed from time to time in our periodic reports filed with the Securities and Exchange Commission.

You should not put undue reliance on any forward-looking statements. You should understand that many important factors, including those discussed herein, could cause our results to differ materially from those expressed or suggested in any forward-looking statement. Except as required by law, we do not undertake any obligation to update or revise these forward-looking statements to reflect new information or events or circumstances that occur after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events or otherwise.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Weight Watchers International, Inc. is a Virginia corporation with its principal executive offices in New York, New York. In this Quarterly Report on Form 10-Q unless the context indicates otherwise: we, us, our, WWI and the Company refer to Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements; North America refers to our North American Company-owned operations; United Kingdom refers to our United Kingdom Company-owned operations; Continental Europe refers to our Continental Europe Company-owned operations; and Other refers to Asia Pacific and emerging markets operations and franchise revenues and related costs.

Our fiscal year ends on the Saturday closest to December 31st and consists of either 52- or 53-week periods. In this Quarterly Report on Form 10-Q:

fiscal 2012 refers to our fiscal year ended December 29, 2012;

fiscal 2013 refers to our fiscal year ended December 28, 2013;

fiscal 2014 refers to our fiscal year ended January 3, 2015 (includes a 53rd week);

fiscal 2015 refers to our fiscal year ended January 2, 2016;

fiscal 2016 refers to our fiscal year ended December 31, 2016;

fiscal 2017 refers to our fiscal year ended December 30, 2017; and

fiscal 2018 refers to our fiscal year ended December 29, 2018.

The following term used in this Quarterly Report on Form 10-Q is our trademark: Weight Watchers®.

You should read the following discussion in conjunction with our Annual Report on Form 10-K for fiscal 2013 that includes additional information about us, our results of operations, our financial position and our cash flows, and with our unaudited consolidated financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q (collectively, the Consolidated Financial Statements).

**NON-GAAP FINANCIAL MEASURES**

To supplement our consolidated results presented in accordance with accounting principles generally accepted in the United States, or GAAP, we have disclosed non-GAAP financial measures of operating results that exclude or adjust certain items. Cost of revenues, gross profit and gross profit margin, selling, general and administrative expenses, operating income and operating income margin, income before taxes, net income attributable to the Company, effective tax rate and earnings per fully diluted share are discussed in this Quarterly Report on Form 10-Q both as reported (on a GAAP basis) and as adjusted (on a non-GAAP basis), as applicable, as follows: (i) with respect to the third quarter and first nine months of fiscal 2014, to exclude the impact of charges associated with our previously disclosed restructuring of our organization; (ii) with respect to the first nine months of fiscal 2014, to exclude the net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized and the impact of the gain on the Brazil acquisition (as discussed further herein); and (iii) with respect to the first nine months of fiscal 2013, to exclude the impact from the early extinguishment of debt charge associated with the Company's previously reported debt refinancing. We generally refer to such non-GAAP measures as excluding or adjusting for the impact of restructuring charges, the net tax benefit offset by the recognition of a valuation allowance, the gain on the Brazil acquisition and the early extinguishment of debt charge. Our management believes these non-GAAP financial measures provide supplemental information to investors regarding the performance of





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our business and are useful for period-over-period comparisons of the performance of our business. While we believe that these financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

### **USE OF CONSTANT CURRENCY**

As exchange rates are an important factor in understanding period-to-period comparisons, we believe in certain cases the presentation of results on a constant currency basis in addition to reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Quarterly Report on Form 10-Q, we calculate constant currency by calculating current-year results using prior-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant currency basis as excluding or adjusting for the impact of foreign currency or being on a constant currency basis. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with GAAP.

### **CRITICAL ACCOUNTING POLICIES**

For a discussion of the critical accounting policies affecting us, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies of our Annual Report on Form 10-K for fiscal 2013. Our critical accounting policies have not changed since the end of fiscal 2013.

### **RESULTS OF OPERATIONS**

#### **OVERVIEW**

Given declining recruitment trends experienced throughout fiscal 2013, we began fiscal 2014 with lower starting active bases in both the meetings and Online businesses as compared to the start of the prior year. Despite the launch of our new two week starter plan, Simple Start, at the beginning of fiscal 2014, recruitment pressure, driven by the challenging competitive environment, continued into the first, second and third quarters of fiscal 2014. This recruitment decline, coupled with the lower active bases, led to a decline in total paid weeks and revenues in the first nine months of fiscal 2014 as compared to the prior year period.

Despite our continued focus on cost saving initiatives, the period-over-period revenue decline put substantial pressure on results of operations and caused operating income to decline in the first, second and third quarters of fiscal 2014 as compared to the respective prior year periods. As part of management's strategy to offset revenue decline, the Company undertook its previously disclosed plan to restructure its organization, which resulted in the elimination of certain positions and termination of employment for certain employees in the first nine months of fiscal 2014. In connection with this plan, the Company recorded restructuring charges in connection with employee termination benefit costs of \$10.9 million (\$6.6 million after tax) during the first nine months of fiscal 2014. The Company anticipates recording additional restructuring charges in connection with this plan, including the related employee termination benefit costs, of approximately \$0.3 million in the aggregate during the remainder of fiscal 2014. We expect \$1.9 million of the liability as of September 27, 2014 to be paid in fiscal 2014 and the remainder to be paid in fiscal 2015.

As we look forward to fiscal 2015, we expect that we will enter the year with lower active bases in both our meetings and Online businesses as compared to the beginning of fiscal 2014. Irrespective of the recruitments for the remainder of fiscal 2014 and fiscal 2015, we expect the lower active bases at the beginning of fiscal 2015 as compared with the beginning of fiscal 2014 will on their own result in a reduction of

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earnings per fully diluted share, or EPS, of approximately \$0.55. This reduction in EPS, driven by the lower active bases at the start of fiscal 2015, reflects a slight improvement from the expected EPS reduction of \$0.60 we disclosed in our Quarterly Report on Form 10-Q filed on August 7, 2014. This EPS change of \$0.05 was driven by a slight improvement in top line trends in the third quarter of fiscal 2014 that we had not previously anticipated. In addition, we expect that our continued investment in healthcare and in the new technology platform (while also maintaining the legacy technology platform) will result in an expense impacting fiscal 2015 EPS by approximately \$0.26.

**THREE MONTHS ENDED SEPTEMBER 27, 2014 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 28, 2013**

The table below sets forth selected financial information for the third quarter of fiscal 2014 from our consolidated statements of net income for the three months ended September 27, 2014 versus selected financial information for the third quarter of fiscal 2013 from our consolidated statements of net income for the three months ended September 28, 2013:

**Summary of Selected Financial Data**

	(In millions, except per share amounts) For the Three Months Ended			
	September 27, 2014	September 28, 2013	Increase/ (Decrease)	% Change
Revenues, net	\$ 345.2	\$ 396.3	\$ (51.2)	(12.9%)
Cost of revenues	157.6	164.4	(6.7)	(4.1%)
Gross profit	187.6	232.0	(44.4)	(19.1%)
<i>Gross Margin %</i>	<i>54.3%</i>	<i>58.5%</i>		
Marketing expenses	36.8	48.2	(11.3)	(23.6%)
Selling, general & administrative expenses	59.4	59.3	0.1	0.1%
Operating income	91.4	124.5	(33.1)	(26.6%)
<i>Operating Income Margin %</i>	<i>26.5%</i>	<i>31.4%</i>		
Interest expense	33.0	26.9	6.1	22.6%
Other expense (income), net	1.5	(0.4)	1.9	(532.5%)
Early extinguishment of debt				
Income before income taxes	56.9	98.0	(41.1)	(41.9%)
Provision for income taxes	19.1	37.7	(18.6)	(49.3%)
Net income	37.8	60.3	(22.5)	(37.3%)
Net loss attributable to the noncontrolling interest	0.1		0.1	
Net income attributable to Weight Watchers International, Inc.	\$ 37.9	\$ 60.3	\$ (22.4)	(37.1%)
Weighted average diluted shares outstanding	56.8	56.5	0.3	0.5%
Diluted EPS	\$ 0.67	\$ 1.07	\$ (0.40)	(37.4%)

Note: Totals may not sum due to rounding.

Certain results for the third quarter of fiscal 2014 are adjusted to exclude the \$0.7 million impact of charges from our previously-disclosed restructuring plan. See **Non-GAAP Financial Measures** above. The table below sets forth a reconciliation of those components of our selected

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financial data for the three months ended September 27, 2014 that have been adjusted.

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(in millions, except per share amounts)	Cost of Revenues	Gross Profit	Gross Profit Margin	Selling, General and Administrative Expenses	Operating Income	Operating Income Margin	Net Income Attributable to Company	Diluted EPS
<b>Third quarter of fiscal 2014</b>	\$ 157.6	\$ 187.6	54.3%	\$ 59.4	\$ 91.4	26.5%	\$ 37.9	\$ 0.67
Adjustments to Reported Amounts <sup>(1)</sup>								
Restructuring charges <sup>(1)</sup>	0.2	(0.2)		(0.9)	0.7		0.4	0.01
Total Adjustments	0.2	(0.2)		(0.9)	0.7		0.4	0.01
<b>Third quarter of fiscal 2014, as adjusted <sup>(1)</sup></b>	<b>\$ 157.8</b>	<b>\$ 187.4</b>	<b>54.3%</b>	<b>\$ 58.4</b>	<b>\$ 92.1</b>	<b>26.7%</b>	<b>\$ 38.3</b>	<b>0.68</b>

Note: Totals may not sum due to rounding

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for the third quarter of fiscal 2014 to exclude the impact of the \$0.7 million (\$0.4 million after tax) of charges associated with our previously disclosed plan to restructure our organization. See Non-GAAP Financials Measures above for an explanation of our use of non-GAAP financial measures.

**Consolidated Results***Revenues*

Revenues are comprised of service revenues and revenues from product sales and other. Service revenues consist of meetings fees, Online subscription revenue and eTools subscription revenue. Revenues from product sales and other consists of revenues from products sold in meetings, licensed products sold in retail channels, royalties paid to us by our franchisees, subscriptions to our branded magazines, Online advertising revenue, and advertising in our publications.

Revenues were \$345.2 million in the third quarter of fiscal 2014, as compared to \$396.3 million in the third quarter of fiscal 2013. Excluding the impact of foreign currency, which positively impacted our revenues for the third quarter of fiscal 2014 by \$2.2 million, revenues in the third quarter of fiscal 2014 declined 13.5% versus the prior year period. This revenue decline in the third quarter of fiscal 2014 was driven almost exclusively by revenue declines in the North America meetings and Online businesses.

Service revenues for the third quarter of fiscal 2014 were \$281.9 million, a decrease of \$40.1 million, or 12.5%, from \$322.0 million in the prior year period. Excluding the impact of foreign currency, which increased our service revenues for the third quarter of fiscal 2014 by \$1.4 million, service revenues in the third quarter of fiscal 2014 decreased by 12.9% versus the prior year period. The decline in service revenues was driven by a 12.4% decline in total paid weeks in the third quarter of fiscal 2014, primarily in North America, to 42.2 million from 48.1 million in the prior year period. The decline in total paid weeks was driven by a 12.7% lower active base at the beginning of the third quarter of fiscal 2014 versus the beginning of the third quarter of fiscal 2013 as well as by the lower recruitments in the third quarter of fiscal 2014 as compared to the prior year period given the continuing challenging competitive environment.

Our active base is comprised of both active Monthly Pass subscribers and Online subscribers. Active Monthly Pass subscribers declined 12.4% to 1.2 million at the end of the third quarter of fiscal 2014 from 1.4 million at the end of the third quarter of fiscal 2013. Active Online subscribers decreased by 12.7% to 1.7 million at the end of the third quarter of fiscal 2014 from 1.9 million at the end of the third quarter of fiscal 2013. Global attendance decreased 10.1% to 8.6 million in the third quarter of fiscal 2014 from 9.5 million in the third quarter of fiscal 2013.

Product sales and other for the third quarter of fiscal 2014 were \$63.3 million, a decrease of \$11.1 million, or 14.9%, from \$74.4 million in the third quarter of fiscal 2013. Excluding the impact of foreign currency, which increased our product sales and other for the third quarter of fiscal 2014 by \$0.8 million, product sales and other in the third quarter of fiscal 2014 decreased by 15.9% versus the prior year period. In-meeting product sales for the third quarter of fiscal 2014 were \$36.0 million, a decrease of \$7.7 million, or 17.6%, from \$43.7 million in the third quarter of fiscal 2013. Excluding the impact of foreign currency, which increased our in-meeting product sales for the third quarter of fiscal 2014 by \$0.5 million, in-meeting product sales in the third quarter of fiscal 2014 decreased by 18.6% versus the prior



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year period. This decrease resulted primarily from a 10.1% decline in attendance in the third quarter of fiscal 2014 versus the prior year period. Additionally, product sales per attendee decreased 8.3%, or 9.5% on a constant currency basis, in the third quarter of fiscal 2014 versus the prior year period. This decrease in product sales per attendee in the third quarter of fiscal 2014 was primarily the result of a decline in sales of enrollment-related products in North America and in all product categories in the United Kingdom.

Other revenues consists of licensing revenues, franchise royalties, revenues from the sale of products by mail and to our franchisees, Online advertising revenues, and advertising and subscription revenues from our publications. Other revenues totaled \$27.3 million for the third quarter of fiscal 2014, a decrease of \$3.4 million, or 11.0%, from \$30.6 million for the third quarter of fiscal 2013. Excluding the impact of foreign currency, which increased other revenues for the third quarter of fiscal 2014 by \$0.3 million, other revenues were 12.1% lower in the third quarter of fiscal 2014 compared to the prior year period. Our licensing revenues decreased by 6.7% in the third quarter of fiscal 2014 versus the prior year period driven primarily by the timing of brand marketing activities in the United Kingdom. Franchise royalties and sales of products to our franchisees declined in the aggregate by 10.4% in the third quarter of fiscal 2014 versus the prior year period. This decline in franchise royalties and sales of products to our franchisees was driven in part by our franchise acquisitions. Our by mail product sales and subscription revenues from our publications also declined in the aggregate by 15.0% in the third quarter of fiscal 2014 versus the prior year period.

See Segment Results for additional details on revenues.

*Cost of Revenues and Gross Profit*

Total cost of revenues in the third quarter of fiscal 2014 was \$157.6 million, a decline of \$6.7 million from \$164.4 million in the prior year period. Excluding the impact of restructuring charges, total cost of revenues in the third quarter of fiscal 2014 would have been \$157.8 million, a decline of \$6.5 million, or 4.0%, versus the prior year period. Excluding the impact of restructuring charges, gross profit for the third quarter of fiscal 2014 would have been \$187.4 million, a decrease of \$44.6 million, or 19.2%, from \$232.0 million in the third quarter of fiscal 2013. Excluding the positive impact of foreign currency of \$1.0 million and the negative impact of restructuring charges for the third quarter of fiscal 2014, gross profit in the third quarter of fiscal 2014 decreased by \$45.7 million, or 19.7%, versus the prior year period. Gross margin in the third quarter of fiscal 2014 was 54.3%, as compared to gross margin of 58.5% in the third quarter of fiscal 2013. Gross margin compression was driven primarily by the decline in the North America gross margin, which was partially offset by the mix shift toward the higher margin Continental Europe business. The decline in North America gross margin was driven primarily by the impact of fixed cost deleverage and, in the United States, promotional activities, inventory management reserves and service provider compensation changes. In addition, given that revenues in our Online business declined as a percentage of total revenues, we were negatively impacted by the mix shift from our higher gross margin Online business in the third quarter of fiscal 2014 as compared to the prior year period where we had experienced the benefit of a mix shift to the Online business.

*Marketing*

Marketing expenses for the third quarter of fiscal 2014 were \$36.8 million, a decrease of \$11.3 million, or 23.6%, versus the third quarter of fiscal 2013. The decline was primarily driven by lower TV advertising and associated production costs in the United States. In addition, lower and more efficient digital marketing spend in the United States and timing of brand marketing promotions in the United Kingdom contributed to this decline. Marketing expenses as a percentage of revenue were 10.7% in the third quarter of fiscal 2014 as compared to 12.2% in the prior year period.

*Selling, General and Administrative*

Selling, general and administrative expenses were \$59.4 million for the third quarter of fiscal 2014 versus \$59.3 million for the third quarter of fiscal 2013, an increase of \$0.1 million, or 0.1%. Excluding the impact of restructuring charges of \$0.9 million and foreign currency, which increased selling, general and administrative expenses for the third quarter of fiscal 2014 by \$0.3 million, selling, general and administrative expenses decreased by 2.0% in the third quarter of fiscal 2014 versus the third quarter of fiscal 2013. This decline was driven by our restructuring and other cost containment efforts partially offset by higher spending in connection with our healthcare and technology initiatives. Selling, general and administrative expenses as

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a percentage of revenue for the third quarter of fiscal 2014 increased to 17.2% from 15.0% for the third quarter of fiscal 2013. Excluding the impact of restructuring charges, selling, general and administrative expenses as a percentage of revenue for the third quarter of fiscal 2014 increased to 16.9% from 15.0% for the third quarter of fiscal 2013.

*Operating Income*

Operating income for the third quarter of fiscal 2014 was \$91.4 million, a decrease of \$33.1 million, or 26.6%, from \$124.5 million in the third quarter of fiscal 2013. Excluding the impact of restructuring charges and of foreign currency, which positively impacted operating income for the third quarter of fiscal 2014 by \$0.8 million, operating income in the third quarter of fiscal 2014 decreased by \$33.2 million, or 26.6%, versus the prior year period. This decrease in operating income was primarily the result of lower service revenues from both our meetings and Online businesses in North America in the third quarter of fiscal 2014 versus the prior year period. Operating income margin in the third quarter of fiscal 2014 was 26.5%. Excluding the impact of restructuring charges, our operating income margin in the third quarter of fiscal 2014 decreased to 26.7% from 31.4% in the third quarter of fiscal 2013. This decline in operating income margin was primarily driven by the decline in gross margin and higher selling, general and administrative expenses as a percentage of revenues as compared to the prior year period, partially offset by lower marketing expenses as a percentage of revenues.

*Interest Expense*

Interest expense was \$33.0 million for the third quarter of fiscal 2014, an increase of \$6.1 million, or 22.6%, from \$26.9 million in the third quarter of fiscal 2013. Interest expense for the third quarter of fiscal 2014 included a \$1.6 million write-off of deferred financing fees associated with the reduction of the amount of our Revolving Facility (defined hereafter). The increase in interest expense was primarily driven by the difference in the notional amount of our interest rate swaps in effect during the third quarter of fiscal 2014 versus the prior year period and to a lesser extent the 25 basis point increase in interest rates related to the issuance of revised corporate ratings by S&P and Moody's on February 21, 2014. See [Liquidity and Capital Resources Long-Term Debt](#) for additional details regarding our Revolving Facility and interest rates on our debt. In addition, although our average debt outstanding decreased by \$24.0 million to \$2,370.1 million in the third quarter of fiscal 2014 from \$2,394.1 million in the third quarter of fiscal 2013, the effective interest rate on our debt, excluding the impact of our interest rate swaps, increased by 0.24% to 3.89% in the third quarter of fiscal 2014 from 3.65% in the third quarter of fiscal 2013. Including the impact of our interest rate swaps, our effective interest rate increased to 4.93% in the third quarter of fiscal 2014 from 4.09% in the third quarter of fiscal 2013.

*Other Income and Expense*

We incurred \$1.5 million of other expense in the third quarter of fiscal 2014 as compared to \$0.4 million of other income in the prior year period related to the impact of foreign currency on intercompany transactions in both periods.

*Tax*

Our effective tax rate was 33.6% for the third quarter of fiscal 2014 as compared to 38.5% for the third quarter of fiscal 2013. In the third quarter of fiscal 2013, higher losses in certain of our international subsidiaries for which a full valuation allowance was recorded drove an increase in our effective tax rate in that period. Conversely, in the third quarter of fiscal 2014, higher than expected net profit before taxes in the quarter and for the full year primarily drove a decline in our effective tax rate for that period.

*Net Income Attributable to the Company and Earnings Per Share*

Net income attributable to the Company in the third quarter of fiscal 2014 declined 37.1% from \$60.3 million in the third quarter of fiscal 2013 to \$37.9 million. Excluding the impact of restructuring charges, net income attributable to the Company would have been \$38.3 million in the third quarter of fiscal 2014, a decline of 36.4% versus the prior year period. This decline in net income attributable to the Company was primarily driven by the decrease in operating income in the third quarter of fiscal 2014 versus the prior year period.

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EPS in the third quarter of fiscal 2014 was \$0.67, a decrease of \$0.40 from \$1.07 in the third quarter of fiscal 2013. Excluding the impact of restructuring charges, EPS would have been \$0.68 in the third quarter of fiscal 2014 as compared to \$1.07 in the prior year period.

**Segment Results**

Effective December 29, 2013, the Company realigned its organizational structure to improve the leverage of its significant assets and the alignment of its innovation efforts by integrating its Internet-based business and meetings and other businesses and assigning responsibility for those integrated businesses on a geographical basis. This resulted in the following new reporting segments: North America, United Kingdom, Continental Europe, or CE, and Other. Other consists of the Asia Pacific and emerging markets operations as well as our franchise revenues and related costs, all of which have been grouped together as if they were a single reportable segment because they do not meet any of the quantitative thresholds and are immaterial for separate disclosure.

*Metrics and Business Trends*

The following tables set forth key metrics by reportable segment for the three months ended September 27, 2014 and the percentage change in those metrics versus the relevant prior year period:

(in millions unless otherwise stated)

	Three Months Ended September 27, 2014						Q3 2014		
	Service Revenues	GAAP Product Sales & Other	Total Revenues	Constant Currency			Total Paid Weeks	Incoming Active Base	EOP Active Base
				Service Revenues	Product Sales & Other	Total Revenues			
North America	\$ 188.7	\$ 32.5	\$ 221.2	\$ 189.5	\$ 32.6	\$ 222.0	27.6	2,197.7	1,933.1
UK	26.9	10.9	37.8	24.8	10.1	34.9	4.9	381.9	332.0
CE	53.9	13.2	67.1	54.0	13.2	67.2	8.5	701.4	614.7
Other <sup>(1)</sup>	12.4	6.8	19.2	12.2	6.7	18.8	1.2	76.1	66.7
<b>Total</b>	<b>\$ 281.9</b>	<b>\$ 63.3</b>	<b>\$ 345.2</b>	<b>\$ 280.4</b>	<b>\$ 62.5</b>	<b>\$ 343.0</b>	<b>42.2</b>	<b>3,357.1</b>	<b>2,946.4</b>

	% Change Q3 2014 vs. Q3 2013								
North America	-17.6%	-17.8%	-17.6%	-17.2%	-17.6%	-17.3%	-16.9%	-17.3%	-16.7%
UK	-2.0%	-16.8%	-6.7%	-9.5%	-22.9%	-13.8%	-8.6%	-7.2%	-7.2%
CE	-0.1%	-4.9%	-1.1%	0.1%	-4.7%	-0.9%	1.0%	1.6%	0.8%
Other <sup>(1)</sup>	6.5%	-14.7%	-2.0%	4.2%	-15.8%	-3.9%	0.2%	-13.2%	-17.3%
<b>Total</b>	<b>-12.5%</b>	<b>-14.9%</b>	<b>-12.9%</b>	<b>-12.9%</b>	<b>-15.9%</b>	<b>-13.5%</b>	<b>-12.4%</b>	<b>-12.7%</b>	<b>-12.5%</b>

Note: Totals may not sum due to rounding

(1) Represents Asia Pacific and emerging markets operations and franchise revenues.



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(in millions unless otherwise stated)

	Three Months Ended September 27, 2014			Q3 2014	Three Months Ended September 27, 2014			Q3 2014		
	Meeting Fees		Meeting Paid Weeks	Incoming Active Monthly Pass Subscribers	EOP Active Monthly Pass Subscribers	Online Revenues		Online Paid Weeks	Incoming Active Online Subscribers	EOP Active Online Subscribers
	GAAP	Constant Currency		(in thousands)	(in thousands)	GAAP	Constant Currency		(in thousands)	
North America	\$ 118.3	\$ 118.7	12.0	895.9	813.1	\$ 70.4	\$ 70.7	15.6	1,301.8	1,120.0
UK	19.9	18.4	3.0	223.6	196.1	7.0	6.5	1.9	158.3	135.9
CE	29.9	29.9	2.9	235.5	208.6	24.0	24.1	5.6	465.8	406.0
Other <sup>(1)</sup>	9.0	8.8	0.7	33.3	29.3	3.4	3.4	0.5	42.8	37.3
<b>Total</b>	<b>\$ 177.0</b>	<b>\$ 175.7</b>	<b>18.6</b>	<b>1,388.3</b>	<b>1,247.2</b>	<b>\$ 104.8</b>	<b>\$ 104.7</b>	<b>23.5</b>	<b>1,968.8</b>	<b>1,699.3</b>

**% Change Q3 2014 vs. Q3 2013**

North America	-15.3%	-15.0%	-16.0%	-13.8%	-15.2%	-21.1%	-20.8%	-17.6%	-19.5%	-17.8%
UK	-1.3%	-9.0%	-8.2%	-4.6%	-5.5%	-3.9%	-10.9%	-9.3%	-10.6%	-9.6%
CE	-3.9%	-3.9%	-3.9%	-1.8%	-5.0%	5.0%	5.5%	3.8%	3.3%	4.1%
Other <sup>(1)</sup>	16.0%	12.9%	12.1%	-17.5%	-21.2%	-12.4%	-13.2%	-12.3%	-9.6%	-14.0%
<b>Total</b>	<b>-10.9%</b>	<b>-11.5%</b>	<b>-12.2%</b>	<b>-10.7%</b>	<b>-12.4%</b>	<b>-15.0%</b>	<b>-15.1%</b>	<b>-12.6%</b>	<b>-14.1%</b>	<b>-12.7%</b>

Note: Totals may not sum due to rounding

(1) Represents Asia Pacific and emerging markets operations and franchise revenues.

The active base metric reports the number of active Monthly Pass subscribers in Company-owned operations or the number of active Online subscribers, as applicable. Total active base is the sum of the active Monthly Pass subscribers in Company-owned operations and the active Online subscribers.

The paid weeks metric reports paid weeks by our customers in Company-owned operations for a given period. For the meetings business, paid weeks is the sum of total paid commitment plan weeks and total pay-as-you-go weeks for a given period. For the Online business, paid weeks is the total paid Online subscriber weeks for a given period. Total paid weeks is the sum of meeting paid weeks and Online paid weeks.

*Third Quarter of Fiscal 2014 North America Performance*

In the third quarter of fiscal 2014, the decline in North America revenues was driven primarily by the decline in service revenues due primarily to the decline in total paid weeks. The decline in North America total paid weeks primarily resulted from the lower active base at the beginning of the third quarter of fiscal 2014 versus the beginning of the third quarter of fiscal 2013 as well as by lower recruitments in the third quarter of fiscal 2014 versus the prior year period. North America continued to face strong competition for consumer trial from an evolving competitor set, including mobile apps and activity monitors, during the third quarter of fiscal 2014.

The decline in North America product sales and other was driven primarily by a decline in in-meeting product sales. In the third quarter of fiscal 2014, in-meeting product sales of \$18.6 million decreased by \$5.5 million, or 22.9%, versus the prior year period. This decrease resulted primarily from a 13.1% attendance decline in the third quarter of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee decreased by 11.3% in the third quarter of fiscal 2014 versus the prior year period driven primarily by a decline in sales of enrollment-related products in North America.

*Third Quarter of Fiscal 2014 United Kingdom Performance*

In the third quarter of fiscal 2014, the decline in UK revenues was driven by the decline in UK service revenues and product sales and other. The decline in UK service revenues was due primarily to the decline in total paid weeks. Paid weeks performance in the third quarter of fiscal 2014 was driven by the lower active base at the beginning of the third quarter of fiscal 2014 versus the beginning of the third quarter of fiscal 2013.

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Recruitments increased in the third quarter of fiscal 2014 versus the prior year period, driven by the new advertising highlighting the power of food and food choice, new promotional tactics and a focused local marketing campaign to directly combat a strong local competitor.

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The decline in UK product sales and other in the third quarter of fiscal 2014 versus the prior year period was driven primarily by a decline in in-meeting product sales and licensing revenue. In-meeting product sales of \$6.6 million decreased by \$1.4 million, or 17.4%, versus the prior year period. This decrease resulted primarily from an 11.0% attendance decline in the third quarter of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee decreased by 7.2% (14.2% on a constant currency basis) in the third quarter of fiscal 2014 versus the prior year period driven by the impact of the new Simple Start program on product sales and cycling against promotions in the prior year period. In the third quarter of fiscal 2014, licensing revenue of \$3.8 million declined \$0.8 million, or 17.1% (23.0% on a constant currency basis), from \$4.6 million in the prior year period driven by the timing associated with brand marketing.

*Third Quarter of Fiscal 2014 Continental Europe Performance*

Revenues in Continental Europe in the third quarter of fiscal 2014 decreased \$0.7 million, or 1.1% (0.9% on a constant currency basis), as compared to the prior year period. The decline in Continental Europe revenues was driven primarily by declines in product sales and other. Continental Europe service revenues for the third quarter of fiscal 2014 increased 0.1% on a constant currency basis versus the prior year period. Total paid weeks increased by 1.0% versus the prior year period, driven primarily by a 3.8% increase in Online paid weeks. The increase in service revenues was negatively impacted by a 3.9% paid weeks decline in the meetings business versus the prior year period. The increase in total paid weeks was primarily driven by the higher active Online subscriber base at the beginning of the quarter which more than offset a lower Monthly Pass starting active base and lower recruitments in the meetings business compared to the prior year period.

The decline in Continental Europe product sales and other was driven primarily by both a decline in licensing revenue and in-meeting product sales. In the third quarter of fiscal 2014, licensing revenue of \$2.0 million declined \$0.5 million, or 19.6% (19.5% on a constant currency basis), from \$2.5 million in the prior year period. In the third quarter of fiscal 2014, in-meeting product sales of \$9.0 million decreased by 5.0%, or 4.8% on a constant currency basis, versus the prior year period. This decrease resulted primarily from an 8.5% attendance decline in the third quarter of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee increased by 3.8%, or 4.1% on a constant currency basis, in the third quarter of fiscal 2014 versus the prior year period driven primarily by sales of Fitbit in our German market.

*Third Quarter of Fiscal 2014 Other Performance*

Revenues in Other in the third quarter of fiscal 2014 declined by 2.0%, or 3.9% on a constant currency basis, versus the prior year period. The decline in Other revenue was driven by revenue declines in Asia Pacific and with our franchisees, partially offset by the Brazil acquisition in March 2014 which resulted in the inclusion of that business' s results for fiscal 2014 from the date of acquisition forward, whereas in fiscal 2013 the results of that business were not included in the Company' s consolidated results but for the Company' s proportionate share of the income earned by that business.

Other service revenues for the third quarter of fiscal 2014 increased 4.2% on a constant currency basis as compared to the prior year period. The increase in Other service revenues was driven primarily by an increase of 12.1% in meeting paid weeks partially offset by a 12.3% decline in Online paid weeks, versus the prior year period. Other paid weeks performance in the third quarter of fiscal 2014 was driven by the Brazil acquisition, but partially offset by the lower active bases in both the meetings and Online businesses in Asia Pacific at the beginning of the third quarter of fiscal 2014 versus the beginning of the third quarter of fiscal 2013 coupled with lower recruitments as compared to levels in the prior year period.

Product sales and other in the Other segment for the third quarter of fiscal 2014 declined 14.7%, or 15.8% on a constant currency basis, versus the prior year period. The decline in product sales and other was driven primarily by a decline in in-meeting product sales and revenue from our franchisees. In the third quarter of fiscal 2014, in-meeting product sales of \$1.8 million decreased by \$0.3 million, or 13.9%, versus the prior year period driven by volume declines in Asia Pacific partially offset by the impact of the Brazil acquisition.

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Revenues from our franchisees totaled \$2.6 million in the third quarter of fiscal 2014, a decline of \$0.5 million, or 16.8%, from \$3.1 million in the prior year period, driven in part by the decline in meetings business performance, similar to that which we experienced in North America in fiscal 2013, and in the number of franchises resulting from our acquisitions of several of our franchisees in fiscal 2013.

**NINE MONTHS ENDED SEPTEMBER 27, 2014 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 28, 2013**

The table below sets forth selected financial information for the first nine months of fiscal 2014 from our consolidated statements of net income for the nine months ended September 27, 2014 versus selected financial information for the first nine months of fiscal 2013 from our consolidated statements of net income for the nine months ended September 28, 2013:

**Summary of Selected Financial Data**

	(In millions, except per share amounts)			
	For the Nine Months Ended			
	September 27, 2014	September 28, 2013	Increase/ (Decrease)	% Change
Revenues, net	\$ 1,152.1	\$ 1,358.0	\$ (205.9)	(15.2%)
Cost of revenues	515.8	558.7	(42.9)	(7.7%)
Gross profit	636.3	799.3	(163.1)	(20.4%)
<i>Gross Margin %</i>	55.2%	58.9%		
Marketing expenses	198.4	241.1	(42.7)	(17.7%)
Selling, general & administrative expenses	180.9	176.6	4.3	2.4%
Operating income	257.0	381.6	(124.6)	(32.7%)
<i>Operating Income Margin %</i>	22.3%	28.1%		
Interest expense	89.4	76.3	13.1	17.2%
Other expense, net	2.7	0.8	1.9	234.0%
Gain on Brazil acquisition	(10.5)		(10.5)	
Early extinguishment of debt		21.7	(21.7)	(100.0%)
Income before income taxes	175.5	282.8	(107.4)	(38.0%)
Provision for income taxes	62.0	108.9	(46.9)	(43.0%)
Net income	113.4	173.9	(60.5)	(34.8%)
Net income attributable to the noncontrolling interest	0.0		0.0	
Net income attributable to Weight Watchers International, Inc.	\$ 113.4	\$ 173.9	\$ (60.5)	(34.8%)
Weighted average diluted shares outstanding	56.6	56.3	0.3	0.5%
Diluted EPS	\$ 2.00	\$ 3.09	\$ (1.08)	(35.1%)

Note: Totals may not sum due to rounding.

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Certain results for the first nine months of fiscal 2014 are adjusted to exclude the \$10.9 million impact of charges from our restructuring plan, \$10.5 million related to the gain on the Brazil acquisition and the \$2.4 million net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related

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to tax benefits for foreign losses that are not expected to be realized. See **Non-GAAP Financial Measures** above. The table below sets forth a reconciliation of those components of our selected financial data for the nine months ended September 27, 2014 that have been adjusted.

(in millions, except per share amounts)	Cost of Revenues	Gross Profit	Gross Profit Margin	Selling, General and Administrative Expenses	Operating Income	Operating Income Margin	Gain on Brazil Acquisition	Net Income Attributable to Company	Diluted EPS
<b>Nine months of fiscal 2014</b>	\$ 515.8	\$ 636.3	55.2%	\$ 180.9	\$ 257.0	22.3%	\$ (10.5)	\$ 113.4	\$ 2.00
Adjustments to Reported Amounts <sup>(1)</sup>									
Restructuring charges <sup>(1)</sup>	(4.5)	4.5		(6.4)	10.9			6.6	0.12
Gain on Brazil acquisition <sup>(1)</sup>							(10.5)	(6.4)	(0.11)
Tax benefit, net <sup>(1)</sup>								(2.4)	(0.04)
Total Adjustments	(4.5)	4.5		(6.4)	10.9		(10.5)	(2.1)	(0.04)
<b>Nine months of fiscal 2014, as adjusted <sup>(1)</sup></b>	\$ 511.3	\$ 640.8	55.6%	\$ 174.5	\$ 267.9	23.3%	\$	\$ 111.3	1.96

Note: Totals may not sum due to rounding

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for the first nine months of fiscal 2014 to exclude the \$ 10.9 million (\$6.6 million after tax) of charges associated with our previously disclosed plan to restructure our organization, the impact of the gain of \$10.5 million (\$6.4 million after tax) recognized in connection with the Brazil acquisition due to an adjustment of our previously held equity interest to fair value offset by a charge associated with the settlement of the royalty-free arrangement of the Brazilian partnership and the \$2.4 million net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized. See **Non-GAAP Financials Measures** above for an explanation of our use of non-GAAP financial measures.

Certain results for the first nine months of fiscal 2013 are adjusted to exclude the \$21.7 million impact of the early extinguishment of debt charge. See **Non-GAAP Financial Measures** above. The table below sets forth a reconciliation of those components of our selected financial data for the nine months ended September 28, 2013 that have been adjusted.

(in millions, except per share amounts)	Income Before Taxes	Provision for Income Taxes	Net Income Attributable to Company	Diluted EPS
<b>Nine months of fiscal 2013</b>	\$ 282.8	\$ 108.9	\$ 173.9	\$ 3.09
Adjustments to Reported Amounts <sup>(1)</sup>				
Early extinguishment of debt charge <sup>(1)</sup>	21.7	8.4	13.3	0.24
Total Adjustments	21.7	8.4	13.3	0.24
<b>Nine months of fiscal 2013, as adjusted <sup>(1)</sup></b>	\$ 304.5	\$ 117.3	\$ 187.3	\$ 3.32

Note: Totals may not sum due to rounding

- (1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for the nine months ended fiscal 2013 to exclude the impact of the \$21.7 million (\$13.3 million after tax) early extinguishment of debt charge associated with our previously reported debt refinancing. See Non-GAAP Financials Measures above for an explanation of our use of non-GAAP financial measures.

**Consolidated Results**

*Revenues*

Revenues were \$1,152.1 million in the first nine months of fiscal 2014, as compared to \$1,358.0 million in the first nine months of fiscal 2013. Excluding the impact of foreign currency, which positively impacted our revenues for the first nine months of fiscal 2014 by \$9.6 million, revenues in the first nine months of fiscal 2014 declined 15.9% versus the prior year period. This revenue decline in the first nine months of fiscal 2014 was driven by revenue declines in the meetings and Online businesses globally, most notably in North America.

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Service revenues for the first nine months of fiscal 2014 were \$917.2 million, a decrease of \$148.6 million, or 13.9%, from \$1,065.9 million in the prior year period. Excluding the impact of foreign currency, which increased our service revenues for the first nine months of fiscal 2014 by \$6.0 million, service revenues in the first nine months of fiscal 2014 decreased by 14.5% versus the prior year period. The decline in service revenues was driven by a 13.6% decline in total paid weeks in the first nine months of fiscal 2014, primarily in North America, to 137.6 million from 159.3 million in the prior year period. The decline in total paid weeks was driven by an 8.6% lower active base at the beginning of fiscal 2014 versus the beginning of fiscal 2013 as well as by the lower recruitments in the first nine months of fiscal 2014 as compared to the prior year period given the continuing challenging competitive environment. Global attendance decreased 13.4% to 29.8 million in the first nine months of fiscal 2014 from 34.4 million in the first nine months of fiscal 2013.

Product sales and other for the first nine months of fiscal 2014 were \$234.9 million, a decrease of \$57.3 million, or 19.6%, from \$292.2 million in the first nine months of fiscal 2013. Excluding the impact of foreign currency, which increased our product sales and other for the first nine months of fiscal 2014 by \$3.6 million, product sales and other in the first nine months of fiscal 2014 decreased by 20.8% versus the prior year period. In-meeting product sales for the first nine months of fiscal 2014 were \$137.8 million, a decrease of \$37.4 million, or 21.4%, from \$175.3 million in the first nine months of fiscal 2013. Excluding the impact of foreign currency, which increased our in-meeting product sales for the first nine months of fiscal 2014 by \$2.4 million, in-meeting product sales in the first nine months of fiscal 2014 decreased by 22.7% versus the prior year period. This decrease resulted primarily from a 13.4% decline in attendance in the first nine months of fiscal 2014 versus the prior year period. Additionally, product sales per attendee decreased 9.1%, or 10.7% on a constant currency basis, in the first nine months of fiscal 2014 versus the prior year period. This decrease in product sales per attendee in the first nine months of fiscal 2014 was primarily the result of a decline in sales of enrollment-related products in North America and to a lesser extent the United Kingdom.

Other revenues totaled \$97.0 million for the first nine months of fiscal 2014, a decrease of \$19.9 million, or 17.0%, from \$116.9 million for the first nine months of fiscal 2013. Excluding the impact of foreign currency, which increased other revenues for the first nine months of fiscal 2014 by \$1.2 million, other revenues were 18.0% lower in the first nine months of fiscal 2014 compared to the prior year period. Our licensing revenues decreased by 14.3% in the first nine months of fiscal 2014 versus the prior year period driven primarily by the timing of brand marketing activities across many of our markets. Franchise royalties and sales of products to our franchisees declined in the aggregate by 26.9% in the first nine months of fiscal 2014 versus the prior year period. This decline in franchise royalties and sales of products to our franchisees was driven in part by our franchise acquisitions. Our by mail product sales and subscription revenues from our publications also declined in the aggregate by 14.7% in the first nine months of fiscal 2014 versus the prior year period.

See [Segment Results](#) for additional details on revenues.

*Cost of Revenues and Gross Profit*

Total cost of revenues in the first nine months of fiscal 2014 was \$515.8 million, a decline of \$42.9 million from \$558.7 million in the prior year period. Excluding the impact of restructuring charges, total cost of revenues in the first nine months of fiscal 2014 would have been \$511.3 million, a decline of \$47.4 million, or 8.5%, versus the prior year period. Excluding the impact of restructuring charges, gross profit for the first nine months of fiscal 2014 would have been \$640.8 million, a decrease of \$158.6 million, or 19.8%, from \$799.3 million in the first nine months of fiscal 2013. Excluding the positive impact of foreign currency for the first nine months of fiscal 2014 of \$4.9 million and the negative impact of restructuring charges, gross profit in the first nine months of fiscal 2014 decreased by \$163.4 million, or 20.4%, versus the prior year period. Gross margin in the first nine months of fiscal 2014 was 55.2%. Excluding the impact of restructuring charges, gross margin in the first nine months of fiscal 2014 was 55.6%, as compared to gross margin of 58.9% in the first nine months of fiscal 2013. Gross margin compression was driven primarily by the decline in the North America gross margin, which was partially offset by an increase in gross margin in Continental Europe. The decline in North America gross margin was driven primarily by fixed cost deleverage and the impact of service provider compensation changes in the United States. In addition, given the lower revenue in our Online business, the mix shift to our higher gross margin Online business in the first nine months of fiscal 2014 did not provide the same degree of benefit to gross margin as we had experienced in the prior year period.



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Marketing expenses for the first nine months of fiscal 2014 were \$198.4 million, a decrease of \$42.7 million, or 17.7%, versus the first nine months of fiscal 2013. Excluding the impact of foreign currency, which increased marketing expenses for the first nine months of fiscal 2014 by \$1.5 million, marketing expenses were 18.3% lower in the first nine months of fiscal 2014 compared to the prior year period. The decline was primarily driven by lower TV media and production costs from first-time integrated, as well as the sharing among markets of, TV spots for both our meetings and Online businesses, and lower and more efficient digital marketing spend in the United States. Marketing expenses as a percentage of revenue were 17.2% in the first nine months of fiscal 2014 as compared to 17.8% in the prior year period.

*Selling, General and Administrative*

Selling, general and administrative expenses were \$180.9 million for the first nine months of fiscal 2014 versus \$176.6 million for the first nine months of fiscal 2013, an increase of \$4.3 million, or 2.4%. Excluding the impact of restructuring charges of \$6.4 million and foreign currency, which increased selling, general and administrative expenses for the first nine months of fiscal 2014 by \$1.1 million, selling, general and administrative expenses decreased by 1.8% in the first nine months of fiscal 2014 versus the first nine months of fiscal 2013. The decrease was primarily driven by our cost saving initiatives which included lower compensation and discretionary spend across the Company. These savings were partially offset by higher spending in connection with our healthcare and technology initiatives. Selling, general and administrative expenses as a percentage of revenue for the first nine months of fiscal 2014 increased to 15.7% from 13.0% for the first nine months of fiscal 2013. Excluding the impact of restructuring charges, selling, general and administrative expenses as a percentage of revenue for the first nine months of fiscal 2014 increased to 15.1% from 13.0% for the first nine months of fiscal 2013.

*Operating Income*

Operating income for the first nine months of fiscal 2014 was \$257.0 million, a decrease of \$124.6 million, or 32.7%, from \$381.6 million in the first nine months of fiscal 2013. Excluding the impact of restructuring charges in the first nine months of fiscal 2014, and of foreign currency, which positively impacted operating income for the first nine months of fiscal 2014 by \$2.3 million, operating income in the first nine months of fiscal 2014 decreased by \$116.0 million, or 30.4%, versus the prior year period. This decrease in operating income was almost exclusively the result of lower operating income from our North America business in the first nine months of fiscal 2014 as compared to the prior year period. The lower operating income in the North America business was driven by lower service revenues from both our meetings and Online businesses in North America in the first nine months of fiscal 2014 versus the prior year period. Operating income margin in the first nine months of fiscal 2014 was 22.3%. Excluding the impact of restructuring charges, our operating income margin in the first nine months of fiscal 2014 decreased to 23.3% from 28.1% in the first nine months of fiscal 2013. This decline in operating income margin was primarily driven by the decline in gross margin, and higher selling, general and administrative expenses as a percentage of revenues partially offset by lower marketing expense as a percentage of revenues, as compared to the prior year period.

*Interest Expense*

Interest expense was \$89.4 million for the first nine months of fiscal 2014, an increase of \$13.1 million, or 17.2%, from \$76.3 million in the first nine months of fiscal 2013. Interest expense for the first nine months of fiscal 2014 included a \$1.6 million write-off of deferred financing fees associated with the reduction of the amount of our Revolving Facility (defined hereafter). The increase in interest expense was primarily driven by the higher interest rates on our debt as a result of the April 2, 2013 debt refinancing and the 25 basis point increase related to the issuance of revised corporate ratings by S&P and Moody's on February 21, 2014 as well as the difference in the notional amount of our interest rate swaps in effect during the first nine months of fiscal 2014 versus the prior year period. See Liquidity and Capital Resources Long-Term Debt for additional details regarding our Revolving Facility and interest rates on our debt. Our average debt outstanding decreased by \$24.2 million to \$2,376.1 million in the first nine months of fiscal 2014 from \$2,400.3 million in the first nine months of fiscal 2013, however, the effective interest rate on our debt, excluding the impact of our interest rate swaps, increased by 0.42% to 3.85% in the first nine months of fiscal 2014 from 3.43% in the first nine months of fiscal 2013. Including the impact of our interest rate swaps, our effective interest rate increased to 4.57% in the first nine months of fiscal 2014 from 3.87% in the first nine months of fiscal 2013.

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### *Gain on Brazil Acquisition*

In March 2014, we acquired an additional 45% equity interest in our Brazilian partnership thereby increasing our equity interest to 80%. As a result of this transaction, the Company adjusted its previously held equity interest to fair value and recorded a charge associated with the settlement of the royalty-free arrangement of its Brazilian partnership. The net effect of these items resulted in the Company recognizing a pre-tax gain of \$10.5 million in the first nine months of fiscal 2014.

### *Other Income and Expense*

We incurred \$2.7 million of other expense in the first nine months of fiscal 2014 as compared to \$0.8 million of other expense in the first nine months of fiscal 2013 related to the impact of foreign currency on intercompany transactions in both periods.

### *Tax*

Our effective tax rate was 35.4% for the first nine months of fiscal 2014 as compared to 38.5% for the first nine months of fiscal 2013. The decrease was due mainly to the net tax benefit associated with the closure of our China business that was recorded in the first nine months of fiscal 2014 offset by the recognition of a valuation allowance that was recorded in the first nine months of fiscal 2014 related to tax benefits previously recorded for foreign losses that are not expected to be realized. Excluding the impact of these items, our effective tax rate would have been 36.7%. In the first nine months of fiscal 2013, higher losses in certain of our international subsidiaries for which a full valuation allowance was recorded drove an increase in our effective tax rate in that period. Conversely, in the first nine months of fiscal 2014, higher than expected net profit before taxes in the period and for the full year primarily drove a decline in our effective tax rate for the nine month period.

### *Net Income Attributable to the Company and Earnings Per Share*

Net income attributable to the Company in the first nine months of fiscal 2014 declined 34.8% from \$173.9 million in the first nine months of fiscal 2013 to \$113.4 million. Excluding the impact of restructuring charges, the gain on the Brazil acquisition, the net tax benefit offset by the recognition of a valuation allowance, and the early extinguishment of debt charge, net income attributable to the Company would have been \$111.3 million in the first nine months of fiscal 2014, a decline of 40.6% versus the adjusted prior year period. This decline in net income attributable to the Company was primarily driven by the decrease in operating income in the first nine months of fiscal 2014 versus the prior year period.

EPS in the first nine months of fiscal 2014 was \$2.00, a decrease of \$1.08 from \$3.09 in the first nine months of fiscal 2013. Excluding the impact of restructuring charges, the gain on the Brazil acquisition, the net tax benefit offset by the recognition of a valuation allowance and the early extinguishment of debt charge, EPS would have been \$1.97 in the first nine months of fiscal 2014 as compared to \$3.09 in the prior year period.

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**Segment Results**

*Metrics and Business Trends*

The following tables set forth key metrics by reportable segment for the nine months ended September 27, 2014 and the percentage change in those metrics versus the relevant prior year period:

(in millions unless otherwise stated)

	Nine Months Ended September 27, 2014						YTD 2014		
	GAAP		Constant Currency				Total Paid Weeks	Incoming Active Base	EOP Active Base
	Service Revenues	Product Sales & Other	Total Revenues	Service Revenues	Product Sales & Other	Total Revenues			
North America	\$ 614.3	\$ 119.7	\$ 734.1	\$ 618.2	\$ 120.1	\$ 738.3	\$ 91.1	2,066.1	\$ 1,933.1
UK	84.8	38.6	123.4	78.3	35.8	114.1	15.6	297.4	332.0
CE	181.1	54.4	235.5	176.1	52.8	228.8	27.3	528.4	614.7
Other <sup>(1)</sup>	37.0	22.1	59.1	38.6	22.7	61.4	3.6	71.1	66.7
<b>Total</b>	<b>\$ 917.2</b>	<b>\$ 234.9</b>	<b>\$ 1,152.1</b>	<b>\$ 911.2</b>	<b>\$ 231.3</b>	<b>\$ 1,142.5</b>	<b>137.6</b>	<b>2,962.9</b>	<b>2,946.4</b>

	% Change First Nine Months 2014 vs. First Nine Months 2013								
North America	-19.2%	-24.4%	-20.1%	-18.7%	-24.1%	-19.7%	-17.9%	-12.3%	-16.7%
UK	-5.7%	-17.5%	-9.7%	-12.8%	-23.6%	-16.5%	-11.7%	-14.3%	-7.2%
CE	3.2%	-4.5%	1.3%	0.4%	-7.5%	-1.6%	1.6%	14.6%	0.8%
Other <sup>(1)</sup>	-7.4%	-26.5%	-15.6%	-3.4%	-24.3%	-12.3%	-5.9%	-7.1%	-17.3%
<b>Total</b>	<b>-13.9%</b>	<b>-19.6%</b>	<b>-15.2%</b>	<b>-14.5%</b>	<b>-20.8%</b>	<b>-15.9%</b>	<b>-13.6%</b>	<b>-8.6%</b>	<b>-12.5%</b>

Note: Totals may not sum due to rounding

(1) Represents Asia Pacific and emerging markets operations and franchise revenues.

(in millions unless otherwise stated)

	Nine Months Ended September 27, 2014			YTD 2014		Nine Months Ended September 27, 2014			YTD 2014	
	Meeting Fees		Meeting Paid Weeks	Incoming Active Monthly Pass Subscribers	EOP Active Monthly Pass Subscribers	Online Revenues		Online Paid Weeks	Incoming Active Online Subscribers	EOP Active Online Subscribers
GAAP	Constant Currency	GAAP				Constant Currency	(in thousands)			
North America	\$ 379.8	\$ 382.1	38.6	833.2	813.1	\$ 234.5	\$ 236.1	52.5	1,232.9	1,120.0
UK	62.9	58.1	9.6	166.0	196.1	21.9	20.2	6.0	131.4	135.9
CE	104.7	101.6	9.9	183.6	208.6	76.4	74.5	17.4	344.8	406.0
Other <sup>(1)</sup>	26.2	27.1	2.0	33.9	29.3	10.8	11.6	1.6	37.1	37.3
<b>Total</b>	<b>\$ 573.6</b>	<b>\$ 568.8</b>	<b>60.1</b>	<b>1,216.7</b>	<b>1,247.2</b>	<b>\$ 343.6</b>	<b>\$ 342.4</b>	<b>77.5</b>	<b>1,746.2</b>	<b>1,699.3</b>

% Change First Nine Months 2014 vs. First Nine Months 2013

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North America	-18.6%	-18.1%	-17.1%	-11.7%	-15.2%	-20.2%	-19.7%	-18.4%	-12.6%	-17.8%
UK	-5.9%	-13.1%	-12.2%	-18.7%	-5.5%	-5.0%	-12.2%	-11.0%	-8.0%	-9.6%
CE	-0.9%	-3.8%	-3.4%	-0.9%	-5.0%	9.5%	6.7%	4.7%	25.0%	4.1%
Other <sup>(1)</sup>	-1.6%	1.6%	2.4%	-3.4%	-21.2%	-19.1%	-13.3%	-14.5%	-10.2%	-14.0%
Total	-13.8%	-14.6%	-13.8%	-11.1%	-12.4%	-14.1%	-14.4%	-13.5%	-6.7%	-12.7%

Note: Totals may not sum due to rounding

(1) Represents Asia Pacific and emerging markets operations and franchise revenues.

### *First Nine Months of Fiscal 2014 North America Performance*

In the first nine months of fiscal 2014, the decline in North America revenues was driven primarily by the decline in service revenues. The decline in North America service revenues was driven primarily by the decline in North America total paid weeks. The decline in North America total paid weeks primarily resulted from the lower active base at the beginning of fiscal 2014 versus the beginning of fiscal 2013 as well as by lower recruitments in the first nine months of fiscal 2014 versus the prior year period. North America continued to face strong competition for consumer trial from an evolving competitor set, including mobile apps and activity monitors, during the first nine months of fiscal 2014. In response to weakening recruitment trends in fiscal 2014, the North America business introduced new advertising and implemented new promotional tactics.

The decline in North America product sales and other was driven primarily by a decline in in-meeting product sales. In the first nine months of fiscal 2014, in-meeting product sales of \$69.5 million

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decreased by \$29.8 million, or 30.0%, versus the prior year period. This decrease resulted primarily from a 17.2% attendance decline in the first nine months of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee decreased by 15.5% in the first nine months of fiscal 2014 versus the prior year period driven primarily by a decline in sales of enrollment-related products in North America.

*First Nine Months of Fiscal 2014 United Kingdom Performance*

In the first nine months of fiscal 2014, the decline in UK revenues was driven by both the decline in UK service revenues and in-meeting product sales. The decline in UK service revenues was driven primarily by declines of 12.2% in UK meetings paid weeks and 11.0% in UK Online paid weeks versus the prior year period. Paid weeks performance in the first nine months of fiscal 2014 was driven by the lower active bases in both the meetings and Online businesses at the beginning of fiscal 2014 versus the beginning of fiscal 2013 coupled with lower recruitments in the first nine months of fiscal 2014 as compared to the prior year period. In response to weakening recruitment trends, primarily in the meetings business, early in fiscal 2014, the UK business introduced new advertising, implemented new promotional tactics and invested in a local marketing campaign to directly combat a strong local competitor. As a result of these initiatives, although still negative in the first half of fiscal 2014, the United Kingdom experienced an improvement in its recruitment trend during the nine-month period such that, in the third quarter of fiscal 2014, the recruitment trend turned positive as compared to the prior year period.

The decline in UK product sales and other in the first nine months of fiscal 2014 versus the prior year period was driven primarily by a decline in in-meeting product sales and to a lesser extent a decline in licensing revenue. In the first nine months of fiscal 2014, in-meeting product sales of \$24.2 million decreased by \$5.2 million, or 17.7%, versus the prior year period. This decrease resulted primarily from a 12.7% attendance decline in the first nine months of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee also declined by 5.7%, or 12.7% on a constant currency basis, in the first nine months of fiscal 2014 versus the prior year period driven by the impact of the new Simple Start program on product sales. Licensing revenue of \$12.5 million declined \$2.9 million, or 18.8% (24.8% on a constant currency basis), from \$15.4 million in the prior year period driven by the timing associated with brand marketing.

*First Nine Months of Fiscal 2014 Continental Europe Performance*

Revenues in Continental Europe in the first nine months of fiscal 2014 increased \$3.1 million, or 1.3%, but declined by 1.6% when excluding the impact of foreign currency, as compared to the prior year period. The decline in Continental Europe revenues was driven primarily by the decline in product sales and other partially offset by an increase in service revenues. Continental Europe service revenues for the first nine months of fiscal 2014 increased 0.4% on a constant currency basis versus the prior year period. The increase in Continental Europe service revenues on a constant currency basis was primarily the result of an increase of 6.7% in Online revenues versus the prior year period. This increase in Online revenues was driven by the higher active Online subscriber base at the start of fiscal 2014 which drove higher Online paid weeks in the period as compared to the prior year period. This increase in Online revenue more than offset a lower Monthly Pass starting active base and recruitment softness in the meetings business, particularly in Germany in the first half of fiscal 2014.

The decline in Continental Europe product sales and other was driven primarily by both a decline in in-meeting product sales and to a lesser extent a decline in licensing revenue. In the first nine months of fiscal 2014, in-meeting product sales of \$37.9 million decreased by \$1.3 million, or 3.2% (6.2% on a constant currency basis), versus the prior year period. This decrease resulted primarily from a 5.3% attendance decline in the first nine months of fiscal 2014 as compared to the prior year period. Licensing revenue of \$7.6 million declined \$1.4 million, or 15.9% (18.7% on a constant currency basis), from \$9.0 million in the prior year period.

**Table of Contents***First Nine Months of Fiscal 2014 Other Performance*

Revenues in Other in the first nine months of fiscal 2014 declined by 15.6%, or 12.3% on a constant currency basis, versus the prior year period. The decline in Other revenue was driven by revenue declines in Asia Pacific and with our franchisees, partially offset by the beneficial impact of the consolidation of the Brazil operations following our acquisition in March 2014.

Other service revenues for the first nine months of fiscal 2014 decreased 3.4% on a constant currency basis as compared to the prior year period. This decline was driven by a 5.9% decline in Other total paid weeks versus the prior year period. Other paid weeks performance in the first nine months of fiscal 2014 was driven by the lower active bases in both the meetings and Online businesses at the beginning of fiscal 2014 versus the beginning of fiscal 2013 coupled with lower recruitments as compared to levels in the prior year period.

Product sales and other in the Other segment for the first nine months of fiscal 2014 declined 26.5%, or 24.3% on a constant currency basis, versus the prior year period. The decline in product sales and other was driven primarily by a decline in revenue from our franchisees and to a lesser extent our licensees. In the first nine months of fiscal 2014, licensing revenue of \$3.6 million declined \$1.3 million, or 26.9%, versus the prior year period due in part to the timing of brand revenue from our licensing partners. In the first nine months of fiscal 2014, in-meeting product sales of \$6.2 million decreased by \$1.1 million, or 15.6% (12.5% on a constant currency basis), versus the prior year period driven by volume declines in Asia Pacific partially offset by the impact of the Brazil acquisition.

Revenues from our franchisees totaled \$8.8 million in the first nine months of fiscal 2014, a decline of \$4.1 million, or 31.7%, from \$12.9 million in the prior year period, driven in part by the decline in meetings business performance, similar to that which we experienced in North America, and in the number of franchises resulting from our acquisitions of several of our franchisees.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flows provided by operating activities have historically supplied us with a significant source of liquidity. We use these cash flows, supplemented with long-term debt and short-term borrowings, to fund our operations and global initiatives, repurchase stock, pay down debt and opportunistically engage in franchise and other acquisitions. On October 30, 2013, we announced that we suspended our quarterly cash dividend, as described below (see Dividends). We believe that cash flows from operating activities, together with borrowings available under our revolving credit facility, will be sufficient for the next 12 months to fund currently anticipated capital expenditure requirements, debt service requirements and working capital requirements.

*Balance Sheet Working Capital*

The following table sets forth certain relevant measures of our balance sheet working capital at:

	September 27, 2014	December 28, 2013 (in millions)	Increase/ (Decrease)
Total current assets	\$ 439.0	\$ 315.7	\$ 123.3
Total current liabilities	378.4	345.8	32.6
Working capital surplus (deficit)	60.6	(30.1)	(90.7)
Cash and cash equivalents	327.4	174.6	152.8
Current portion of long-term debt	30.0	30.0	0.0
Working capital deficit, excluding cash and cash equivalents and current portion of long-term debt	\$ (236.8)	\$ (174.7)	\$ 62.1

We generally operate with negative working capital. This is driven in part by our commitment plans which are our primary payment method. These plans require members and subscribers to pay us for meetings and subscription products, respectively, before we pay for our obligations in the normal course



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of business. These prepayments are recorded as a current liability on our balance sheet which results in negative working capital. Our working capital deficit decreased \$90.7 million to a \$60.6 million working capital surplus at September 27, 2014 from a \$30.1 million working capital deficit at December 28, 2013. After making scheduled debt repayments of \$18.0 million in the first nine months of fiscal 2014, the current portion of our long-term debt remained at \$30.0 million versus the end of fiscal 2013 as described below (see Long-Term Debt ).

Excluding the changes in cash and cash equivalents and current portion of long-term debt from both periods, the working capital deficit at September 27, 2014 increased by \$62.1 million to \$236.8 million from \$174.7 million at December 28, 2013. The primary factors contributing to this increase in our working capital deficit were a \$21.3 million increase in the derivative payable, a \$17.5 million reduction in inventory, a timing-related increase of \$12.5 million in income tax liabilities, a \$4.8 million increase in deferred revenue due to the seasonality in our Online and Monthly Pass active bases and a \$4.2 million decrease in accounts receivable, as well as a \$1.8 million net increase to the working capital deficit resulting from other operational items.

*Cash Flows*

The following table sets forth a summary of the Company's cash flows for the nine months ended:

	September 27, 2014	September 28, 2013
	(in millions)	
Net cash provided by operating activities	\$ 221.3	\$ 301.4
Net cash used in investing activities	\$ (47.4)	\$ (131.4)
Net cash used in financing activities	\$ (17.8)	\$ (59.1)

*Operating Activities**First Nine Months of Fiscal 2014*

Cash flows provided by operating activities of \$221.3 million for the first nine months of fiscal 2014 decreased by \$80.1 million from \$301.4 million in the first nine months of fiscal 2013. The decrease in cash provided by operating activities was primarily the result of \$60.5 million of lower net income in the first nine months of fiscal 2014 as compared to the prior year period.

The \$221.3 million of cash flows provided by operating activities for the first nine months of fiscal 2014 exceeded the period's net income by \$107.9 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital as described above (see Balance Sheet Working Capital ) and non-cash expenses.

*First Nine Months of Fiscal 2013*

The \$301.4 million of cash flows provided by operating activities for the first nine months of fiscal 2013 exceeded the period's net income by \$127.5 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital, non-cash expenses and differences between book and cash taxes.

*Investing Activities**First Nine Months of Fiscal 2014*

Net cash used for investing activities totaled \$47.4 million in the first nine months of fiscal 2014, a decrease of \$84.0 million as compared to the first nine months of fiscal 2013. This decrease was primarily attributable to the net purchase price of \$14.2 million paid less cash acquired of \$2.3 million for our controlling equity interest in our Brazilian partnership in the first nine months of fiscal 2014 and \$4.8 million of cash paid for Wello in the first nine months of fiscal 2014 as compared to the \$78.4 million aggregate purchase price paid for franchise acquisitions completed in the first nine months of fiscal 2013. In addition, in the first nine months of fiscal 2014, although we invested in technology and operating





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infrastructure, as well as health care initiatives, we incurred lower capital expenditures due to the benefit of not having expenditures in connection with the move of our headquarters and our retail initiative as we did in the first nine months of fiscal 2013.

*First Nine Months of Fiscal 2013*

Net cash used for investing activities totaled \$131.4 million in the first nine months of fiscal 2013, an increase of \$59.8 million as compared to the first nine months of fiscal 2012. This increase was primarily attributable to the \$78.4 million aggregate purchase price paid for franchise acquisitions completed in the first nine months of fiscal 2013. In the first nine months of fiscal 2013, we acquired substantially all of the assets of our Alberta and Saskatchewan, Canada franchisees, Weight Watchers of Alberta Ltd. and Weight Watchers of Saskatchewan Ltd. for an aggregate purchase price of \$35.0 million, our West Virginia franchisee, Weight Watchers of West Virginia, Inc., for a net purchase price of \$16.0 million, our Columbus, Ohio franchisee, Weight Watchers of Columbus, Inc., for a net purchase price of \$23.4 million and our Reno, Nevada franchisee, Weight Watchers of Northern Nevada, Inc., for a net purchase price of \$4.0 million. In addition, we incurred capital expenditures in connection with the move of our headquarters, our retail initiative and capitalized software expenditures to support our customer relationship management platform and other global systems initiatives.

*Financing Activities**First Nine Months of Fiscal 2014*

Net cash used for financing activities totaled \$17.8 million in the first nine months of fiscal 2014, primarily due to payments on term loans under the WWI Credit Facility (as defined hereafter) of \$18.0 million.

*First Nine Months of Fiscal 2013*

Net cash used for financing activities totaled \$59.1 million in the first nine months of fiscal 2013 and included \$44.8 million of deferred financing fees in connection with our April 2013 debt refinancing. Additionally, term loan payments under our then existing credit facility of \$2.41 billion were offset by new borrowings of \$2.40 billion in connection with our April 2013 debt refinancing. In addition, we paid \$19.7 million of dividends to our shareholders which offset \$17.8 million in proceeds we received from stock options exercised and the tax benefit thereon in the first nine months of fiscal 2013.

**Long-Term Debt**

We currently plan to meet our long-term debt obligations by using cash flows provided by operating activities and opportunistically using other means to repay or refinance our obligations as we determine appropriate.

The following schedule sets forth our long-term debt obligations at September 27, 2014:

**Long-Term Debt****At September 27, 2014****(in millions)**

	<b>Balance</b>
Revolving Facility due April 2, 2018	\$
Tranche B-1 Term Facility due April 2, 2016	296.2
Tranche B-2 Term Facility due April 2, 2020	2,073.8
<b>Total Debt</b>	<b>2,370.0</b>
Less Current Portion	30.0
<b>Total Long-Term Debt</b>	<b>\$ 2,340.0</b>



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Our credit facilities at the end of the first quarter of fiscal 2013 consisted of the following term loan facilities and revolving credit facilities: a tranche B loan, or Term B Loan, a tranche C loan, or Term C Loan, a tranche D loan, or Term D Loan, a tranche E loan, or Term E Loan, a tranche F loan, or Term F Loan, revolving credit facility A-1, or Revolver A-1, and revolving credit facility A-2, or Revolver A-2.

On April 2, 2013, we refinanced our credit facilities pursuant to a Credit Agreement, or as amended, supplemented or otherwise modified, the New Credit Agreement, among the Company, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and an issuing bank, The Bank of Nova Scotia, as revolving agent, swingline lender and an issuing bank, and the other parties thereto. The New Credit Agreement provides for (a) a revolving credit facility (including swing line loans and letters of credit) in an initial aggregate principal amount of \$250.0 million that will mature on April 2, 2018, or the Revolving Facility, (b) an initial term B-1 loan credit facility in an aggregate principal amount of \$300.0 million that will mature on April 2, 2016, or Tranche B-1 Term Facility, and (c) an initial term B-2 loan credit facility in an aggregate principal amount of \$2,100.0 million that will mature on April 2, 2020, or Tranche B-2 Term Facility. We refer herein to the Tranche B-1 Term Facility together with the Tranche B-2 Term Facility as the Term Facilities, and the Term Facilities and Revolving Facility collectively as the WWI Credit Facility. In connection with this refinancing, we used the proceeds from borrowings under the Term Facilities to pay off a total of \$2,399.9 million of outstanding loans, consisting of \$128.8 million of Term B Loans, \$110.6 million of Term C Loans, \$117.6 million of Term D Loans, \$1,125.0 million of Term E Loans, \$817.9 million of Term F Loans, \$21.2 million of loans under the Revolver A-1 and \$78.8 million of loans under the Revolver A-2. Following the refinancing of a total of \$2,399.9 million of loans, at April 2, 2013, we had \$2,400.0 million debt outstanding under the Term Facilities and \$248.8 million of availability under the Revolving Facility. We incurred fees of \$44.8 million during the second quarter of fiscal 2013 in connection with this refinancing. In the second quarter of fiscal 2013, we wrote-off fees associated with this refinancing which resulted in our recording a charge of \$21.7 million in early extinguishment of debt.

On September 26, 2014, we entered into an agreement with certain lenders amending the New Credit Agreement that, among other things, eliminated the Financial Covenant (as defined in the New Credit Agreement) with respect to the Revolving Facility. In connection with this amendment, we wrote-off deferred financing fees of approximately \$1.6 million in the third quarter of fiscal 2014. Concurrently with and in order to effect this amendment, we reduced the amount of the Revolving Facility from \$250.0 million to \$50.0 million.

At September 27, 2014, we had \$2,370.0 million outstanding under the WWI Credit Facility, consisting entirely of term loans and there were no loans outstanding under the Revolving Facility. In addition, at September 27, 2014, the Revolving Facility had \$1.3 million in issued but undrawn letters of credit outstanding thereunder and \$48.7 million in available unused commitments thereunder. The proceeds from borrowings under the Revolving Facility (including swing line loans and letters of credit) are available to be used for working capital and general corporate purposes.

At September 27, 2014 and December 28, 2013, our debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with our variable-rate borrowings. The average interest rate on our debt, exclusive of the impact of swaps, was approximately 3.90% and 3.65% per annum at September 27, 2014 and December 28, 2013, respectively. The average interest rate on our debt including the impact of swaps was approximately 4.93% per annum and 4.08% per annum at September 27, 2014 and December 28, 2013, respectively.

Borrowings under the New Credit Agreement bear interest at a rate equal to, at our option, LIBOR plus an applicable margin or a base rate plus an applicable margin. LIBOR under the Tranche B-2 Term Facility is subject to a minimum interest rate of 0.75% and the base rate under the Tranche B-2 Term Facility is subject to a minimum interest rate of 1.75%. The applicable margin relating to both of the Term Facilities will increase by 25 basis points in the event that we receive a corporate rating of BB- (or lower) from S&P and a corporate rating of Ba3 (or lower) from Moody's. On February 21, 2014, both S&P and Moody's issued revised corporate ratings of the Company of B+ and B1, respectively. As a result, effective February 21, 2014, the applicable margin on borrowings under the Tranche B-1 Term

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Facility went from 2.75% to 3.00% and on borrowings under the Tranche B-2 Term Facility went from 3.00% to 3.25%. The applicable margin relating to the Revolving Facility will fluctuate depending upon our Consolidated Leverage Ratio (as defined in the New Credit Agreement). At September 27, 2014, borrowings under the Tranche B-1 Term Facility bore interest at LIBOR plus an applicable margin of 3.00% and borrowings under the Tranche B-2 Term Facility bore interest at LIBOR plus an applicable margin of 3.25%. Based on our Consolidated Leverage Ratio as of September 27, 2014, had there been any borrowings under the Revolving Facility, it would have borne interest at LIBOR plus an applicable margin of 2.25% or base rate plus an applicable margin of 1.25%.

On a quarterly basis, we will pay a commitment fee to the lenders under the Revolving Facility in respect of unutilized commitments thereunder, which commitment fee will fluctuate, but in no event exceed 0.50% per annum, depending upon our Consolidated Leverage Ratio. At our Consolidated Leverage Ratio of 4.96:1.00 as of September 27, 2014, the commitment fee was 0.40% per annum. We also will pay customary letter of credit fees and fronting fees under the Revolving Facility.

The New Credit Agreement contains customary covenants including covenants that, in certain circumstances, restrict our ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell our assets and enter into consolidations, mergers and transfers of all or substantially all of our assets. The WWI Credit Facility does not require us to maintain any financial ratios and is guaranteed by certain of our existing and future subsidiaries. Substantially all of our assets secure the WWI Credit Facility.

The following schedule sets forth our year-by-year debt obligations at September 27, 2014:

**Total Debt Obligation****(Including Current Portion)****At September 27, 2014****(in millions)**

Remainder of fiscal 2014	\$ 12.0
Fiscal 2015	24.0
Fiscal 2016	307.5
Fiscal 2017	21.0
Fiscal 2018	21.0
Thereafter	1,984.5
<b>Total</b>	<b>\$ 2,370.0</b>

**Dividends and Stock Transactions**

We historically have issued a quarterly cash dividend of \$0.175 per share of our common stock every quarter for the past several fiscal years. On October 30, 2013, we announced that we suspended our quarterly cash dividend. We currently intend to use the related annual cash savings to preserve financial flexibility while funding our strategic growth initiatives and building cash for future debt repayments. Any future determination to declare and pay dividends will be made at the discretion of our Board of Directors, after taking into account our financial results, capital requirements and other factors it may deem relevant. The WWI Credit Facility also contains restrictions on our ability to pay dividends on our common stock.

On October 9, 2003, our Board of Directors authorized and we announced a program to repurchase up to \$250.0 million of our outstanding common stock. On each of June 13, 2005, May 25, 2006 and October 21, 2010, our Board of Directors authorized and we announced adding \$250.0 million to this program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal Holdings Sp. z o.o., Succursale de Luxembourg and its parents and subsidiaries under this program. The repurchase program currently has no expiration date. During the nine months ended September 27, 2014 and September 28, 2013, the Company repurchased no shares of its common stock in the open market under this program.



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The WWI Credit Facility provides that we are permitted to pay dividends and extraordinary dividends, as well as repurchase shares of our common stock, so long as we are not in default under the WWI Credit Facility agreement. However, payment of extraordinary dividends and stock repurchases shall not exceed \$100.0 million in the aggregate in any fiscal year if the Consolidated Leverage Ratio is greater than 3.25:1. As of September 27, 2014, our Consolidated Leverage Ratio was greater than 3.25:1 and we expect that it will remain above 3.25:1 for the foreseeable future.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, such as entities often referred to as structured finance or special purpose entities.

### **SEASONALITY**

Our business is seasonal, with revenues generally decreasing at year end and during the summer months. Our operating income for the first half of the year is generally the strongest, and the first quarter of the fiscal year typically results in the greatest revenue due to the importance of the winter diet season to our overall recruitment environment. Our advertising schedule generally supports the three key recruitment-generating seasons of the year: winter, spring and fall, with winter having the highest concentration of advertising spending. The timing of certain holidays, particularly Easter, which precedes the spring marketing campaign and occurs between March 22nd and April 25th, may affect our results of operations and the year-to-year comparability of our results. The introduction of Monthly Pass in the meetings business has resulted in less seasonality with regard to our meeting fee revenues because its revenues are amortized over the related subscription period. While WeightWatchers.com experiences seasonality similar to the meetings business in terms of new subscriber sign-ups, its revenue tends to be less seasonal because it amortizes subscription revenue over the related subscription period.

### **AVAILABLE INFORMATION**

Corporate information and our press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments thereto, are available free of charge on our website at [www.weightwatchersinternational.com](http://www.weightwatchersinternational.com) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (i.e., generally the same day as the filing). Moreover, we also make available at that site the Section 16 reports filed electronically by our officers, directors and 10 percent shareholders. Usually these are publicly accessible no later than the business day following the filing.

We use our website at [www.weightwatchersinternational.com](http://www.weightwatchersinternational.com), our corporate Facebook page ([www.facebook.com/weightwatchers](http://www.facebook.com/weightwatchers)) and our corporate Twitter account (@WeightWatchers) as channels of distribution of Company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, Securities and Exchange Commission filings and public conference calls and webcasts. The contents of our website and social media channels shall not be deemed to be incorporated herein by reference.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of September 27, 2014, the market risk disclosures appearing in Item 7A. Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for fiscal 2013 have not materially changed from December 28, 2013.

As of September 27, 2014, based on the amount of our variable rate debt, a hypothetical 50 basis point increase or decrease in interest rates on our variable rate debt would increase or decrease our annual

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interest expense by approximately \$4.4 million. This change in market risk exposure from the end of fiscal 2013 was due to the higher notional amount of \$1,500.0 million at September 27, 2014 under our current interest rate swap as compared to \$466.3 million at December 28, 2013 under our then-existing interest rate swap.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### *Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our principal executive officer and principal financial officer concluded that the design and operation of our disclosure controls and procedures are effective at the reasonable assurance level.

#### *Changes in Internal Control Over Financial Reporting*

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

#### *Jeri Connolly et al. v. Weight Watchers North America, Inc.*

In August 2013, the Company was contacted by plaintiffs' counsel in the previously filed and settled *Sabatino v. Weight Watchers North America, Inc.* case ( *Sabatino* ), threatening to file a new class action on behalf of the Company's current and former service providers in California asserting various wage and hour claims, including but not limited to claims for unpaid overtime and minimum wage violations, which allegedly accrued after the effective date of the *Sabatino* settlement. On March 17, 2014, the parties came to an agreement in principle to settle the matter on a class-wide basis for \$1.7 million. On April 29, 2014, the parties executed a Memorandum of Understanding to document the terms and conditions of settlement and, the following day, plaintiffs filed a complaint regarding the claims at issue in the Northern District of California. On June 11, 2014, the parties filed a formal settlement agreement and other required documents for the Court's preliminary approval. On July 21, 2014, the parties received the Court's preliminary approval of the settlement agreement. On August 11, 2014, notices of settlement were sent out to the class members advising them of the settlement and their right to object or opt-out of the settlement; no class members did so by the deadline of September 22, 2014. A hearing seeking the Court's final approval of the settlement is scheduled for December 2014, and on October 15, 2014 the parties filed a joint motion for the Court's final approval in anticipation of that hearing. The Company believes that its previously recorded reserve is adequate with respect to this matter.

#### *In re Weight Watchers International, Inc. Securities Litigation*

In March 2014, two substantially identical putative class action complaints alleging violation of the federal securities laws were filed by individual shareholders against the Company, certain of the Company's current and former officers and directors, and the Company's controlling shareholder, in the



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United States District Court for the Southern District of New York. The complaints were purportedly filed on behalf of all purchasers of the Company's common stock, no par value per share, between February 14, 2012 and October 30, 2013, inclusive (the Class Period). The complaints allege that, during the Class Period, the defendants disseminated materially false and misleading statements and/or concealed material adverse facts. The complaints allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5. The plaintiffs seek to recover unspecified damages on behalf of the class members. In June 2014, the Court consolidated the cases and appointed lead plaintiffs and lead counsel. On August 12, 2014, the plaintiffs filed an amended complaint that, among other things, reduced the Class Period to between February 14, 2012 and February 13, 2013 and dropped all current officers and certain directors previously named as defendants. On October 14, 2014, the defendants filed a motion to dismiss. The Company continues to believe that the suits are without merit and intends to defend them vigorously.

On May 29, 2014 and June 23, 2014, the Company received shareholder litigation demand letters alleging breaches of fiduciary duties and unjust enrichment by Company officers and directors and Artal Group, S.A., to the alleged injury of the Company. The allegations in the letters relate to those contained in the ongoing securities class action litigation. In response to the letter, pursuant to Virginia law, the Board of Directors has created a special committee to review and evaluate the facts and circumstances surrounding the claims made in the demand letters.

### *Other Litigation Matters*

Due to the nature of the Company's activities, it is also, at times, subject to pending and threatened legal actions that arise out of the ordinary course of business. In the opinion of management, based in part upon advice of legal counsel, the disposition of any such matters is not expected to have a material effect on the Company's results of operations, financial condition or cash flows. However, the results of legal actions cannot be predicted with certainty. Therefore, it is possible that the Company's results of operations, financial condition or cash flows could be materially adversely affected in any particular period by the unfavorable resolution of one or more legal actions.

## **ITEM 1A. RISK FACTORS**

There have been no material changes in the risk factors from those detailed in our Annual Report on Form 10-K for fiscal 2013.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During August 2014, our majority shareholder Artal Luxembourg S.A. (Artal) acquired 694,211 shares of our common stock on the open market pursuant to the previously disclosed Artal stock purchase program to purchase one to two percent of the outstanding shares of our common stock in order to maintain its majority ownership taking into account anticipated dilution resulting from grants made under our incentive plans.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Nothing to report under this item.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 5. OTHER INFORMATION**

Nothing to report under this item.

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**ITEM 6. EXHIBITS**

**Exhibit**

<b>Number</b>	<b>Description</b>
*Exhibit 10.1	Amendment Agreement, dated as of September 26, 2014, relating to the Credit Agreement, dated as of April 2, 2013, among Weight Watchers International, Inc., as the Borrower, the Lenders party thereto, JPMorgan Chase Bank, N.A., as the Administrative Agent and an Issuing Bank, and The Bank of Nova Scotia, as the Revolving Agent, a Swingline Lender and an Issuing Bank.
*Exhibit 31.1	Rule 13a-14(a) Certification by James Chambers, Chief Executive Officer.
*Exhibit 31.2	Rule 13a-14(a) Certification by Nicholas P. Hotchkin, Chief Financial Officer.
*Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*Exhibit 101	
*EX-101.INS	XBRL Instance Document
*EX-101.SCH	XBRL Taxonomy Extension Schema
*EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase
*EX-101.LAB	XBRL Taxonomy Extension Label Linkbase
*EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

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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.

WEIGHT WATCHERS INTERNATIONAL, INC.

Date: November 5, 2014

By: /s/ James Chambers  
James Chambers  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: November 5, 2014

By: /s/ Nicholas P. Hotchkin  
Nicholas P. Hotchkin  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
*Exhibit 10.1	Amendment Agreement, dated as of September 26, 2014, relating to the Credit Agreement, dated as of April 2, 2013, among Weight Watchers International, Inc., as the Borrower, the Lenders party thereto, JPMorgan Chase Bank, N.A., as the Administrative Agent and an Issuing Bank, and The Bank of Nova Scotia, as the Revolving Agent, a Swingline Lender and an Issuing Bank.
*Exhibit 31.1	Rule 13a-14(a) Certification by James Chambers, Chief Executive Officer.
*Exhibit 31.2	Rule 13a-14(a) Certification by Nicholas P. Hotchkin, Chief Financial Officer.
*Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*Exhibit 101	
*EX-101.INS	XBRL Instance Document
*EX-101.SCH	XBRL Taxonomy Extension Schema
*EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase
*EX-101.LAB	XBRL Taxonomy Extension Label Linkbase
*EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.