WEIGHT WATCHERS INTERNATIONAL INC
Form 10-Q
November 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2007

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 No. 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Virginia	**11-6040273**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

11 Madison Avenue, 17th 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 x No ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non Accelerated Filer ¨

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

The number of shares of common stock outstanding as of October 31, 2007 was 79,370,260.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS AT

(IN THOUSANDS)

	September 29, 2007	December 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 48,682	$ 37,504
Receivables, net	43,371	40,324
Inventories, net	37,656	38,548
Prepaid expenses and other current assets	28,296	34,927
Deferred income taxes	25,993	3,443
TOTAL CURRENT ASSETS	183,998	154,746
Property and equipment, net	31,844	31,033
Franchise rights acquired	722,623	691,903
Goodwill	51,369	51,329
Trademarks and other intangible assets, net	27,622	21,027
Deferred income taxes	10,487	43,931
Deferred financing costs and other noncurrent assets	9,545	8,423
TOTAL ASSETS	$ 1,037,488	$ 1,002,392
LIABILITIES AND SHAREHOLDERS DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	$ 31,250	$ 18,922
Accounts payable	32,514	31,891
Dividend payable	14,185	17,062
Accrued interest	25,232	8,189
Accrued liabilities	120,550	101,509
Income taxes payable	21,253	6,457
Deferred income taxes	1,217	9,063
Deferred revenue	71,742	43,439
TOTAL CURRENT LIABILITIES	317,943	236,532
Long-term debt	1,655,000	830,237
Other	9,234	3,990
TOTAL LIABILITIES	1,982,177	1,070,759
SHAREHOLDERS DEFICIT		
Dividend to Artal Luxembourg S.A.	(304,835)	(304,835)
Common stock, $0 par value; 1,000,000 shares authorized; 111,988 shares issued		
Treasury stock, at cost, 32,632 shares at September 29, 2007 and 14,486 shares at December 30, 2006	(1,570,270)	(540,318)

Retained earnings	920,837	770,539
Accumulated other comprehensive income	9,579	6,247
TOTAL SHAREHOLDERS DEFICIT	(944,689)	(68,367)
TOTAL LIABILITIES AND SHAREHOLDERS DEFICIT	$ 1,037,488	$ 1,002,392

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended	
	September 29, 2007	September 30, 2006
Meeting fees, net	$ 204,489	$ 166,845
Product sales and other, net	94,407	84,815
Internet revenues	38,554	33,093
Revenues, net	337,450	284,753
Cost of meetings, products and other	140,873	120,713
Cost of internet revenues	8,650	8,317
Cost of revenues	149,523	129,030
Gross profit	187,927	155,723
Marketing expenses	39,220	30,678
Selling, general and administrative expenses	42,208	32,756
Operating income	106,499	92,289
Interest expense	28,309	13,169
Other income, net	(2,315)	(76)
Income before income taxes	80,505	79,196
Provision for income taxes	30,994	28,581
Net income	$ 49,511	$ 50,615
Earnings per share:		
Basic	$ 0.63	$ 0.52
Diluted	$ 0.62	$ 0.52
Weighted average common shares outstanding:		
Basic	79,159	97,425
Diluted	79,608	98,036
Dividends declared per common share	$ 0.18	$ 0.18

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

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Nine Months Ended	
	September 29, 2007	September 30, 2006
Meeting fees, net	$ 672,063	$ 552,671
Product sales and other, net	338,431	297,228
Internet revenues	112,634	97,961
Revenues, net	1,123,128	947,860
Cost of meetings, products and other	465,929	396,502
Cost of internet revenues	23,549	22,651
Cost of revenues	489,478	419,153
Gross profit	633,650	528,707
Marketing expenses	163,591	125,492
Selling, general and administrative expenses	124,524	101,428
Operating income	345,535	301,787
Interest expense	82,558	35,931
Other income, net	(2,418)	(821)
Early extinguishment of debt	3,021	1,321
Income before income taxes	262,374	265,356
Provision for income taxes	101,014	99,827
Net income	$ 161,360	$ 165,529
Earnings per share:		
Basic	$ 1.99	$ 1.67
Diluted	$ 1.98	$ 1.66
Weighted average common shares outstanding:		
Basic	80,985	99,152
Diluted	81,560	99,872
Dividends declared per common share	$ 0.53	$ 0.53

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES

IN SHAREHOLDERS DEFICIT

(IN THOUSANDS)

	Common Stock		Treasury Stock		Accumulated Other Comprehensive	Dividend to Artal Luxembourg	Retained	
	Shares	Amount	Shares	Amount	Income	S.A.	Earnings	Total
Balance at December 31, 2005	111,988	$	11,410	$ (390,864)	$ 5,995	$ (304,835)	$ 609,053	$ (80,651)
Comprehensive Income:								
Net income							209,825	209,825
Translation adjustment, net of taxes of ($ 675)					699			699
Change in fair value of derivatives accounted for as hedges, net of taxes of $ 287					(447)			(447)
Total Comprehensive Income								210,077
Issuance of treasury stock under stock plans			(551)	2,224			2,947	5,171
Tax benefit of restricted stock units vested and stock options exercised							6,234	6,234
Secondary offering fees							(455)	(455)
Cash dividends declared							(68,854)	(68,854)
Purchase of treasury stock			3,627	(151,678)				(151,678)
Compensation expense on share-based awards							11,789	11,789
Balance at December 30, 2006	111,988	$	14,486	$ (540,318)	$ 6,247	$ (304,835)	$ 770,539	$ (68,367)
Comprehensive Income:								
Net income							161,360	161,360
Translation adjustment, net of taxes of ($ 4,500)					7,822			7,822
Change in fair value of derivatives accounted for as hedges, net of taxes of $ 2,870					(4,490)			(4,490)
Total Comprehensive Income								164,692
Cumulative effect of adoption of FIN 48							(1,907)	(1,907)
Issuance of treasury stock under stock plans			(913)	3,692			13,440	17,132
Tax benefit of restricted stock units vested and stock options exercised							10,481	10,481
Purchase of treasury stock			19,059	(1,033,644)				(1,033,644)
							8,677	8,677

Compensation expense on share-based awards							
Cash dividends declared						(41,753)	(41,753)
Balance at September 29, 2007	111,988	$ 32,632	$ (1,570,270)	$ 9,579	$ (304,835)	$ 920,837	$ (944,689)

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Nine Months Ended September 29, 2007	Nine Months Ended September 30, 2006
Cash provided by operating activities	$ 265,276	$ 234,033
Investing activities:		
Capital expenditures	(8,651)	(10,227)
Capitalized software costs	(8,664)	(8,355)
Website development costs	(3,894)	(3,633)
Cash paid for acquisitions	(16,756)	(74,597)
Other items, net	(258)	(213)
Cash used for investing activities	(38,223)	(97,025)
Financing activities:		
Net decrease in short-term borrowings		(832)
Proceeds from new term loans	1,200,000	350,000
Proceeds from revolver borrowings		160,000
Payments of long-term debt	(362,909)	(439,085)
Proceeds from stock options exercised	17,803	4,090
Tax benefit from restricted stock units vested and stock options exercised	10,481	3,329
Repurchase of treasury stock	(1,033,644)	(151,678)
Costs of public equity offering		(280)
Payment of dividends	(44,614)	(34,758)
Deferred financing costs	(5,417)	(1,744)
Cash used for financing activities	(218,300)	(110,958)
Effect of exchange rate changes on cash/cash equivalents and other	2,425	1,280
Net increase in cash and cash equivalents	11,178	27,330
Cash and cash equivalents, beginning of period	37,504	31,476
Cash and cash equivalents, end of period	$ 48,682	$ 58,806

The accompanying notes are an integral part of the 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 its wholly-owned subsidiaries. The term the Company as used throughout this document is used to indicate Weight Watchers International, Inc. and its wholly-owned subsidiaries. The term WWI as used throughout this document is used to indicate Weight Watchers International, Inc. and its wholly-owned subsidiaries other than WeightWatchers.com, Inc. and its subsidiaries, or collectively WW.com.

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 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 the fiscal year ended December 30, 2006, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

2. Summary of Significant Accounting Policies

For a discussion of the Company s 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 the fiscal year ended December 30, 2006.

3. Acquisitions

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

On July 27, 2006, the Company acquired substantially all of the assets of its Indiana franchisee, Weight Watchers of Greater Indiana, Inc., for a net purchase price of approximately $24,575, plus assumed liabilities and transaction costs of $479. The total purchase price has been allocated to franchise rights acquired ($24,852), inventory ($102) and fixed assets ($100).

On August 17, 2006, the Company acquired substantially all of the assets of its eastern Canadian franchisee, Walmar (Eastern Canada) Limited (Walmar), and of Vale Printing Limited (Vale , and collectively with Walmar, Eastern Canada), for a net purchase price of approximately $49,781, plus assumed liabilities and transaction costs of $1,405. The total purchase price has been allocated to franchise rights acquired ($49,386), inventory ($885), fixed assets ($779) and prepaid expenses and other current assets ($136).

On November 2, 2006, the Company acquired substantially all of the assets of its Suffolk County, New York franchisee, Weight Watchers of Suffolk, Inc., for a net purchase price of approximately $24,170, plus assumed liabilities of $330. The total purchase price has been allocated to franchise rights acquired ($23,225), fixed assets ($1,133), inventory ($140) and other current assets ($2).

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On December 11, 2006, the Company acquired substantially all of the assets of its western Michigan franchisee, Weight Watchers of Western Michigan, Inc., for a net purchase price of $36,935, plus assumed liabilities of $330. The total purchase price has been preliminarily allocated to franchise rights acquired ($36,034), fixed assets ($784), inventory ($445) and other current assets ($2).

On December 11, 2006, the Company reacquired its franchise rights in Greece and Italy for an aggregate amount of $5,452.

On June 3, 2007, the Company acquired substantially all of the assets of its British Columbia franchisee, Weight Watchers of British Columbia Inc., for a net purchase price of $15,282, plus assumed liabilities and transaction costs of $452. The total purchase price has been preliminarily allocated to franchise rights acquired ($15,638), inventory ($88), fixed assets ($7) and other current assets ($1).

The effects of these franchise acquisitions, individually or in the aggregate, were not material to the Company s consolidated financial position, results of operations, or operating cash flows in any of the periods presented.

4. Goodwill and Intangible Assets

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company no longer amortizes goodwill or other indefinite lived intangible assets. The Company performed its annual impairment review as of December 30, 2006 and determined that no impairment existed. Unamortized goodwill is due mainly to the acquisition of the Company by the H.J. Heinz Company in 1978 and the acquisition of WW.com in 2005. Franchise rights acquired are due mainly to acquisitions of the Company s franchised territories. For the nine months ended September 29, 2007, the changes in goodwill and franchise rights acquired are due to the British Columbia acquisition as well as foreign currency fluctuations.

In accordance with SFAS No. 142, aggregate amortization expense for finite lived intangible assets was recorded in the amounts of $2,350 and $5,797 for the three and nine months ended September 29, 2007, respectively. Aggregate amortization expense was $1,193 and $3,777 for the three and nine months ended September 30, 2006, respectively.

The carrying amount of the amortized intangible assets as of September 29, 2007 and December 30, 2006 was as follows:

	September 29, 2007		December 30, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Deferred software costs	$ 28,340	$ 10,868	$ 19,361	$ 6,372
Trademarks	8,482	7,866	8,393	7,647
Website development costs	18,975	10,643	15,081	8,900
Other	5,741	4,539	5,317	4,206
	$ 61,538	$ 33,916	$ 48,152	$ 27,125

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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

Remainder of 2007	$ 2,319
2008	$ 9,045
2009	$ 7,186
2010	$ 4,325
2011	$ 2,366

5. Long-Term Debt

WWI Credit Facility

WWI s credit agreement, dated as of January 16, 2001, and amended and restated as of January 21, 2004, as supplemented on October 19, 2004 and as amended on June 24, 2005, May 8, 2006 and amended and supplemented on January 26, 2007, consists of a term loan facility consisting of two tranche A facilities, or Term Loan A and Additional Term Loan A, and a tranche B facility, or Term Loan B, in an aggregate amount of $1,550,000 and a revolving credit facility, or the Revolver, in the amount of up to $500,000. We refer to the term loan facilities and the Revolver collectively as the WWI Credit Facility.

On May 8, 2006, WWI entered into a refinancing to reduce its effective interest rate while increasing its borrowing capacity and extending the maturities of borrowings under the WWI Credit Facility. In connection with the refinancing, WWI s then existing tranche B facilities in the aggregate amount of $294,375 were repaid and replaced with a new Term Loan A in the amount of $350,000. The additional funds of $55,625 were used to pay down the then existing revolving line of credit. Also, in connection with this refinancing, WWI s then existing revolving line of credit was repaid and replaced with a new revolving line of credit, the Revolver, that increased borrowing capacity from $350,000 to $500,000. The Term Loan A and the Revolver have a maturity date of June 2011. In connection with the early extinguishment of debt resulting from this refinancing, the Company recorded a charge of $1,321 in the second quarter of 2006 relating to the write-off of a portion of the deferred financing costs associated with its old debt.

On January 26, 2007, in connection with the Tender Offer (as defined in *Note 6*) and the share repurchase from Artal Holdings Sp. z.o.o., an indirect subsidiary of Artal Group, S.A., the Company increased its debt capacity by adding an Additional Term Loan A in the amount of $700,000 and a new Term Loan B in the amount of $500,000 (see *Note 6*). We refer to Artal Group, S.A. together with its parent and subsidiaries as Artal. The Company utilized (a) $185,784 of these proceeds to pay off the WW.com Credit Facilities, consisting of (i) a five year, senior secured first lien term loan facility in an aggregate principal amount of $170,000 and (ii) a five and one-half year, senior secured second lien term loan facility in an aggregate principal amount of $45,000, (b) $461,593 to repurchase 8,548 of its shares in the Tender Offer and (c) $567,617 to repurchase 10,511 of its shares from Artal. In connection with the early extinguishment of the WW.com Credit Facilities, the Company recorded a charge of $3,021 in the first quarter of 2007 relating to the write-off of the deferred financing costs associated with the WW.com Credit Facilities. The Additional Term Loan A and Term Loan B mature in January 2013 and January 2014, respectively. At September 29, 2007, the Company had $349,518 of availability under the Revolver.

The Term Loan A, Additional Term Loan A and the Revolver bear interest at an initial rate equal to LIBOR plus 1.25% per annum or, at the Company s option, the alternate base rate (as defined in the WWI Credit Facility). The Term Loan B bears interest at an initial rate equal to LIBOR plus 1.5% per annum

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

or, at the Company s option, the alternate base rate (as defined in the WWI Credit Facility). In addition to paying interest on outstanding principal under the WWI Credit Facility, the Company is required to pay a commitment fee to the lenders under the Revolver with respect to the unused commitments at an initial rate equal to 0.25% per annum.

The WWI Credit Facility 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 also requires the Company to maintain specified financial ratios and satisfy certain financial condition tests. At September 29, 2007, the Company was in compliance with all of the required financial ratios and also met all of the financial condition tests and is expected to continue to do so for the foreseeable future. The WWI Credit Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of the Company s existing and future subsidiaries. Substantially all the assets of the Company collateralize the WWI Credit Facility.

On June 7, 2007, Standard & Poor s raised its rating on the Company s Term Loan A, Additional Term Loan A, Term Loan B and Revolver from BB to BB+ . On January 4, 2007, Moody s affirmed its Ba1 rating for the Company s Term Loan A and Revolver and assigned a Ba1 rating to Company s Additional Term Loan A and Term Loan B.

WW.com Credit Facilities

On December 16, 2005, WW.com borrowed $215,000 pursuant to the WW.com Credit Facilities. The WW.com Credit Facilities were governed by two credit agreements among WW.com, Credit Suisse, as administrative agent and collateral agent, and the participating lenders. As discussed above, the WW.com Credit Facilities were repaid in full in January 2007.

6. Treasury Stock

On October 9, 2003, the Company, at the direction of WWI s Board of Directors, authorized a program to repurchase up to $250,000 of the Company s outstanding common stock. On each of June 13, 2005 and May 25, 2006, the Company, at the direction of WWI s Board of Directors, authorized adding an additional $250,000 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 under the program.

During the nine months ended September 30, 2006, the Company purchased 3,627 shares of its common stock in the open market at a total cost of $151,678. Other than shares repurchased in connection with the Tender Offer and the share repurchase from Artal referred to below, the Company purchased no additional shares of its common stock during the nine months ended September 29, 2007.

On December 18, 2006, the Company commenced a tender offer in which it sought to acquire up to 8,300 shares of its common stock at a price between $47.00 and $54.00 per share, which we refer to as the Tender Offer. Prior to the Tender Offer, the Company entered into an agreement with Artal, whereby Artal agreed to sell to the Company, at the same price determined in the Tender Offer, the number of its shares necessary to keep its percentage ownership in the Company at substantially the same level after the Tender Offer. Artal also agreed not to participate in the Tender Offer so that it would not affect the determination of the price in the Tender Offer.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Tender Offer expired at midnight on January 18, 2007, and on January 26, 2007 approximately 8,548 shares were repurchased at a price of $54.00 per share. The 8,548 shares repurchased are comprised of the 8,300 shares the Company offered to purchase and 248 shares purchased pursuant to the Company s right to purchase up to an additional 2% of the outstanding shares as of November 30, 2006. On February 2, 2007, the Company repurchased 10,511 of its shares from Artal at a purchase price of $54.00 per share pursuant to its prior agreement with Artal. In January 2007, the Company amended and supplemented the WWI Credit Facility to finance these repurchases. See Note 5.

7. Earnings Per Share

Basic earnings per share, or EPS, computations 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 adjusted for the effect of dilutive common stock equivalents.

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

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Numerator:				
Net income	$ 49,511	$ 50,615	$ 161,360	$ 165,529
Denominator:				
Weighted-average shares of common stock outstanding	79,159	97,425	80,985	99,152
Effect of dilutive common stock equivalents	449	611	575	720
Weighted-average diluted common shares outstanding	79,608	98,036	81,560	99,872
EPS:				
Basic	$ 0.63	$ 0.52	$ 1.99	$ 1.67
Diluted	$ 0.62	$ 0.52	$ 1.98	$ 1.66

The number of anti-dilutive common stock equivalents excluded from the calculation of weighted average shares for diluted EPS was 910 and 1,762 for the three months ended September 29, 2007 and September 30, 2006, respectively, and 1,079 and 1,282 for the nine months ended September 29, 2007 and September 30 2006, respectively.

8. Stock Plans

On May 12, 2004 and December 16, 1999, respectively, the Company s shareholders approved the 2004 Stock Incentive Plan, or the 2004 Plan, and the 1999 Stock Purchase and Option Plan, or the 1999 Plan. We refer to the 1999 Plan and the 2004 Plan collectively as the Stock Plans. These plans are designed to promote the long-term financial interests and growth of the Company by attracting and retaining management with the ability to contribute to the success of the business. The Board of Directors or a committee thereof administers the Stock Plans.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Under the 2004 Plan, grants may take the following forms at the Board of Directors or a committee s sole discretion: non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, or RSUs, and other share-based awards. The maximum number of shares available for grant under the 2004 Plan is 2,500 shares of authorized common stock.

Under the 1999 Plan, grants may take the following forms at the Board of Directors or a committee s sole discretion: non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, purchase stock, dividend equivalent rights, performance units, performance shares and other share-based grants. The maximum number of shares available for grant under the 1999 Plan is 7,058 shares of authorized common stock.

On March 12, 2007, the Company granted 326 options and 41 RSUs to certain members of management. The options and RSUs will vest over three years and the options will expire 10 years from the date of grant. The options and RSUs had an aggregate estimated grant date fair value of $4,253 and $1,790, respectively.

9. Income Taxes

The effective tax rate for the three and nine months ended September 29, 2007 was 38.5%. The effective tax rate for the three and nine months ended September 30, 2006 was 36.1% and 37.6%, respectively. For the three and nine months ended September 29, 2007, the primary differences between the U.S. federal statutory tax rate and the Company s effective tax rate were state income taxes and increases in valuation allowances, offset by lower statutory rates in certain foreign jurisdictions. For the three and nine months ended September 30, 2006, the primary differences between the U.S. federal statutory tax rate and the Company s effective tax rate were state income taxes, offset by lower statutory tax rates in certain foreign jurisdictions, the reversal of $1,000 of tax reserves, primarily due to the resolution of an audit issue, and net operating loss carryforwards utilized by WW.com.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, or FIN 48, on December 31, 2006, the first day of its 2007 fiscal year. As a result of the adoption of this standard, the Company recognized a $1,907 increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the opening balance of retained earnings for fiscal year 2007. Upon adoption of FIN 48 on December 31, 2006, the Company had $8,232 of unrecognized tax benefits, of which $4,232 would affect its effective tax rate, if recognized. As of December 31, 2006, given the nature of the Company s uncertain tax positions, it is reasonably possible that there will not be a significant change in the Company s uncertain tax benefits within the next twelve months.

In addition, the Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2006, the Company had $708 of accrued interest and penalties.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. At December 31, 2006, with few exceptions, the Company was no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2002, or non-U.S. income tax examinations by tax authorities for years prior to 2001. The Internal Revenue Service, or IRS, commenced an examination of the Company s U.S. federal income tax returns for the years 2002 through 2003. The IRS has proposed and management has agreed to certain adjustments that will not have a material impact on the Company s financial position, results of operations or cash flows.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

10. Legal

In March 2006, the Company agreed to settle a litigation filed on behalf of a purported class of employees under the California Labor Code and the Federal Fair Labor Standards Act for $2,300. This settlement was accrued for in fiscal 2005 and the funds were distributed in June 2007 following final approval by the court.

On July 7, 2006, the Company filed an amended notice of appeal with the U.K. VAT and Duties Tribunal, or the Tribunal, appealing a ruling by Her Majesty s Revenue and Customs, or HMRC, that from April 1, 2005 Weight Watchers meetings fees in the U.K. should be fully subject to 17.5% standard rated value added tax, or VAT. For over a decade prior to April 1, 2005, HMRC had determined that Weight Watchers meetings fees in the U.K. were only partially subject to 17.5% VAT. It is the Company s view that this prior determination by HMRC should remain in effect and this view was further supported on March 8, 2007 when the Tribunal ruled that Weight Watchers meetings in the U.K. should only be partially subject to 17.5% VAT. On May 3, 2007, HMRC appealed the Tribunal s ruling in favor of the Company and a hearing is scheduled for November 2007. The Company intends to vigorously defend the Tribunal s ruling. If such appeal by HMRC is ultimately successful or if it is determined by HMRC that a lesser proportion of Weight Watchers meetings fees as compared to HMRC s prior rulings is not subject to 17.5% VAT, the Company may incur monetary liability in excess of reserves previously recorded and its U.K. results of operations may be adversely affected in the future. However, it is the opinion of management that the ultimate disposition of this matter, to the extent not previously provided for, will not have a material impact on the financial position, results of operations or ongoing cash flows of the Company.

On July 27, 2007, HMRC issued the Company notices of determination and decisions that for the period April 2001 to April 2007 the Company s leaders and certain other service providers should have been classified as employees for tax purposes and, as such, the Company should have withheld tax from the leaders and certain other service providers pursuant to the Pay as You Earn , or PAYE, and National Insurance Contributions, or NIC, collection rules and remitted such amounts to the HMRC. The current assessment associated with the notices of determination and decisions is approximately $27,000. It is the Company s view that the U.K. leaders and other service providers identified by HMRC in its notices and decisions are self-employed and no withholding by the Company was required. On September 3, 2007, the Company appealed HMRC s notices and decisions as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by the Company. The Company intends to vigorously pursue this appeal and, although there can be no assurances, the Company believes it will ultimately prevail in its appeal. If such appeal is unsuccessful, it is possible that the Company s cash flows and results of operations in a particular quarter may be adversely affected by this matter. However, it is the opinion of management that the disposition of this matter will not have a material impact on the financial position, results of operations or ongoing cash flows of the Company.

Due to the nature of its activities, the Company is also, at times, subject to pending and threatened legal actions that arise out of the normal course of business. The Company has had and continues to have disputes with certain of its franchisees. In the opinion of management, based in part upon advice of legal counsel, the disposition of all such matters is not expected to have a material effect on the Company s financial condition, results of operations or cash flows.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

11. Derivative Instruments and Hedging

The Company enters into interest rate swaps to hedge a substantial portion of its variable rate debt. As of September 29, 2007 and September 30, 2006, the Company held contracts for interest rate swaps with notional amounts totaling $1,050,000 and $257,500, respectively. The Company is hedging forecasted transactions for periods not exceeding the next five years. At September 29, 2007, given the current configuration of its debt, the Company estimates that no derivative gains or losses reported in accumulated other comprehensive income will be reclassified to the statement of operations within the next twelve months.

As of September 29, 2007 and September 30, 2006, cumulative gains/(losses) for qualifying hedges were reported as a component of accumulated other comprehensive income in the amounts of $(3,535) ($(5,794) before taxes) and $1,217 ($1,998 before taxes), respectively. For the three and nine months ended September 29, 2007 and September 30, 2006, there were no fair value adjustments recorded in the statement of operations since all hedges are considered qualifying.

12. Comprehensive Income

Comprehensive income for the Company includes net income, the effects of foreign currency translation and changes in the fair value of derivative instruments. Comprehensive income is as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net income	$ 49,511	$ 50,615	$ 161,360	$ 165,529
Foreign currency translation adjustments	2,907	572	7,822	708
Current period changes in fair value of derivatives	(12,473)	(887)	(4,490)	(186)
Comprehensive income	$ 39,945	$ 50,300	$ 164,692	$ 166,051

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

13. Segment Data

The Company has two operating segments, each of which is a reportable segment: WWI and WW.com. These are two separate and distinct businesses for which discrete financial information is available. This discrete financial information is maintained and managed separately and is reviewed regularly by the chief operating decision maker. All intercompany activity is eliminated in consolidation.

Information about the Company s reportable operating segments is as follows:

	Three Months September 29, 2007			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 298,366	$ 39,084	$	$ 337,450
Intercompany revenue	3,681	13,903	(17,584)	
Total revenue	302,047	52,987	(17,584)	337,450
Depreciation and amortization	4,829	1,010		5,839
Operating income	83,742	22,757		106,499
Interest expense				28,309
Other income, net				(2,315)
Provision for taxes				30,994
Net income				$ 49,511
Total assets	$ 1,238,227	$ 93,832	$ (294,571)	$ 1,037,488

	Three Months Ended September 30, 2006			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 251,243	$ 33,510	$	$ 284,753
Intercompany revenue	3,185	3,298	(6,483)	
Total revenue	254,428	36,808	(6,483)	284,753
Depreciation and amortization	2,608	1,125		3,733
Operating income	77,131	15,158		92,289
Interest expense				13,169
Other income, net				(76)
Provision for taxes				28,581

Net income				$ 50,615
Total assets	$ 1,011,706	$ 38,742	$ (115,350)	$ 935,098

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Nine Months Ended September 29, 2007			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 1,008,486	$ 114,642	$	$ 1,123,128
Intercompany revenue	10,798	40,719	(51,517)	
Total revenue	1,019,284	155,361	(51,517)	1,123,128
Depreciation and amortization	12,032	2,871		14,903
Operating income	284,995	60,540		345,535
Interest expense				82,558
Other income, net				(2,418)
Early extinguishment of debt				3,021
Provision for taxes				101,014
Net income				$ 161,360
Total assets	$ 1,238,227	$ 93,832	$ (294,571)	$ 1,037,488

	Nine Months Ended September 30, 2006			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 848,514	$ 99,346	$	$ 947,860
Intercompany revenue	9,416	4,847	(14,263)	
Total revenue	857,930	104,193	(14,263)	947,860
Depreciation and amortization	7,397	3,521		10,918
Operating income	264,177	37,610		301,787
Interest expense				35,931
Other income, net				(821)
Early extinguishment of debt				1,321
Provision for taxes				99,827
Net income				$ 165,529
Total assets	$ 1,011,706	$ 38,742	$ (115,350)	$ 935,098

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

In this Quarterly Report on Form 10-Q, unless the context indicates otherwise: the Company , we , us , and our refers to Weight Watchers International, Inc. and all subsidiaries consolidated for purposes of its financial statements, including WeightWatchers.com, Inc. and its subsidiaries; Weight Watchers International or WWI refers to Weight Watchers International, Inc. and all of its subsidiaries other than WeightWatchers.com, Inc. and subsidiaries of WeightWatchers.com, Inc.; WeightWatchers.com or WW.com refers to WeightWatchers.com, Inc. and its subsidiaries; and NACO refers to our North American Company-owned operations.

You should read the following discussion in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 30, 2006 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, or the Consolidated Financial 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 used the words may, will, expect, anticipate, believe, estimate, intend, and similar expressions in this Quarterly Report on Form 10-Q and the documents incorporated by reference 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 the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

- competition, including price competition and competition with self-help, pharmaceutical, surgical, dietary supplements and meal replacement products, and other weight-management brands, diets, programs and products;
- risks associated with the relative success of our marketing and advertising;
- risks associated with the continued attractiveness of our plans;
- risks associated with general economic conditions and consumer confidence; and
- the other factors discussed under Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

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 statements. Except as required by law, we do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances that occur after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

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 the fiscal year ended December 30, 2006. These critical accounting policies have not changed since December 30, 2006.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 29, 2007

Net revenues were $337.5 million for the three months ended September 29, 2007, an increase of $52.7 million or 18.5%, from $284.8 million for the three months ended September 30, 2006. The primary driver of revenue growth was a $37.7 million increase in meeting fees, resulting largely from the impact of the Monthly Pass commitment plan in NACO. Monthly Pass, first introduced in our 2006 fall diet season, is a recurring billing model whereby the member authorizes us to charge her credit card on a monthly basis, at a discounted rate. Product sales rose $7.8 million in the quarter as we continued to launch new products in our meetings and experience strong sell through. The remaining components of significance contributing to the $52.7 million revenue increase were $5.5 million growth in internet revenues and $2.3 million of higher licensing royalties. Other revenues decreased by $0.6 million. Net revenues were positively impacted by foreign currency exchange rates in the amount of $8.5 million, or 3.0%.

For the three months ended September 29, 2007, total global meeting fees were $204.5 million versus $166.8 million for the same period in the prior year, representing growth of $37.7 million or 22.6% including the favorable impact of foreign currency translation. This growth in meeting fees resulted from a 19.3% increase in the average meeting fee per attendee on a constant currency basis.

Total worldwide attendance was 13.9 million in the quarter, which was on par with the prior year level of 13.9 million. NACO grew attendance volumes in the quarter compared to the prior year quarter as a result of franchise acquisitions that took place during the past twelve months. Declines in Continental Europe and U.K. attendance offset these gains. In addition to the attendance volume metric, we now furnish the *paid weeks* metric for meetings to provide a greater degree of transparency. This metric captures total Weight Watchers paid membership, be it *pay as you go* meeting attendance, or our broader commitment plan relationship with members, which encompasses both meeting attendance and Weight Watchers eTools, our internet product for meeting members. In the meeting business, the global paid weeks increased 28.9% in the quarter versus the same period last year, to 19.7 million, driving the 19.3% increase in the global average meeting fee per attendee excluding the favorable impact of foreign currency exchange. The average meeting fee *per paid week* declined 7.1% in the quarter in constant dollars versus last year s third quarter. The decline in average meeting fee *per paid week* is a function of the rollout and ramp up in NACO, our largest market, of the Monthly Pass commitment plan, which is offered at a discounted weekly price.

In NACO, meeting fees for the three months ended September 29, 2007 grew 32.4% or $35.6 million from $109.7 million for the three months ended September 30, 2006 to $145.3 million. Attendances were 8.7 million in the quarter, including 0.9 million attendances from acquisitions made in the second half of 2006. NACO s attendances in the quarter grew 7.2% versus the prior year quarter while paid weeks rose 51.2%, displaying the success of NACO s Monthly Pass commitment plan. The impact of Monthly Pass on NACO s revenues was to raise the average meeting fee per attendee, which grew by 23.5% (24.6% excluding the impact of acquisitions). NACO s average meeting fee *per paid week* declined by 12.4% in the quarter as a result of the discounting. Monthly Pass has an accretive impact on the average meeting fee despite its discounted price because not all members who purchase it attend all of the meetings for which they have paid. One major benefit of Monthly Pass and its free access to eTools is that it enables us to keep members engaged through holiday periods and the summer season, when some memberships might otherwise lapse.

International Company-owned meeting fees were $59.2 million for the three months ended September 29, 2007, an increase of $2.1 million or 3.6%, from $57.1 million for the three months ended September 30, 2006. On a local currency basis, total international meeting fee revenues were lower versus the comparable prior year quarter, declining 4.3%, driven by total international attendance as a result of decreases of 4.3% and 11.7% in the U.K. and Continental Europe, respectively. The offset to the volume related decline in revenues came from meeting fee pricing increases taken since last year in some of our countries, most notably in the U.K.

Worldwide product sales for the three months ended September 29, 2007 were $72.2 million, up $7.8 million or 12.1%, from $64.4 million for the three months ended September 30, 2006. Product sales growth was pervasive across our geographies in the third quarter of 2007. Domestically, product sales posted strong increases, up 12.7% or $4.4 million to $38.7 million, while international product sales increased 11.3%, or $3.4 million, to $33.5 million. On a local currency basis, international product sales rose 2.8%. Increased penetration of existing products, as well as the successful launch of several new consumable products, drove global in-meeting product sales per attendee growth of 8.3% on a constant currency basis.

Internet revenues, which include subscription revenue from sales of Weight Watchers Online and Weight Watchers eTools, as well as internet advertising revenue, grew $5.5 million or 16.5%, to $38.6 million for the three months ended September 29, 2007, from $33.1 million for the three months ended September 30, 2006. End-of-period active Weight Watchers Online subscribers increased 24.5%, from approximately 489,000 in the third quarter of 2006 to approximately 609,000 in the third quarter of 2007. The revenue impact of growth in end-of-period Weight Watchers Online subscribers was partially offset by a reduction in paid Weight Watchers eTools subscribers in the quarter as compared to last year, since Weight Watchers eTools is now provided free as part of the Monthly Pass commitment plan. While internet revenues are lower as a result, the revenue gains in NACO from Monthly Pass have far surpassed the impact of lower paid eTool subscriptions.

Other revenue, comprised primarily of licensing revenues and our publications, was $18.4 million for the three months ended September 29, 2007, an increase of $2.1 million or 13.9%, from $16.3 million for the three months ended September 30, 2006. Global licensing revenues increased 18.6% or $2.3 million over last year s third quarter with increases in both existing and new licenses.

Franchise royalties were $2.7 million domestically and $1.1 million internationally for the three months ended September 29, 2007. As a result of our recent acquisition of five franchises, total franchise royalties were down 10.0% to $3.8 million, from $4.2 million in the prior year quarter. On a comparable basis, excluding lost royalties from recent acquisitions, franchise royalties rose 10.2% as domestic franchises benefited from our switch this year to national TV advertising in the U.S.

Cost of revenues was $149.6 million for the three months ended September 29, 2007, an increase of $20.6 million or 15.9%, from $129.0 million for the three months ended September 30, 2006. Gross profit margin of 55.7% of sales for the three months ended September 29, 2007 increased 100 basis points from 54.7% of sales in the prior year. The margin expansion is derived primarily from higher meeting fees per attendee, a result of the Monthly Pass commitment plan in NACO and a price increase in the U.K., and from growth in our licensing business.

Marketing expenses for the three months ended September 29, 2007 increased $8.5 million or 27.8%, to $39.2 million, from $30.7 million for the three months ended September 30, 2006. WW.com and international marketing accounted for most of the increase. Higher marketing expense at WW.com was primarily the result of its national television campaign, which, like the winter and spring campaigns before it, reaped significant benefit to the Online business. Internationally the increase was due primarily to television productions costs. Foreign currency exchange was also a component of the increase in marketing expense. As a percentage of net revenues, marketing expenses were 11.6% for the three months ended September 29, 2007, as compared to 10.8% in the same period last year.

Selling, general and administrative expenses were $42.2 million for the three months ended September 29, 2007, as compared to $32.8 million for the three months ended September 30, 2006, an increase of $9.4 million. The increase is due in part to our ongoing multi-year investment initiative in technology that began in mid-2005 after our acquisition of WeightWatchers.com and is geared to upgrade and add functionality to our office and meeting room systems. The increase in IT expense is a combination of depreciation from prior year capitalization and ongoing maintenance expense of new systems already put into service. In addition, selling, general and administrative expenses rose as a result of management infrastructure upgrades, foreign currency, and ordinary operational increases. As a percentage of net revenues, selling, general and administrative expenses were 12.5% for the three months ended September 29, 2007, as compared to 11.5% in the same period last year.

Operating income was $106.5 million for the three months ended September 29, 2007, an increase of $14.2 million or 15.4%, from $92.3 million for the three months ended September 30, 2006. The operating income margin for the three months ended September 29, 2007 was 31.6% as compared to 32.4% for the comparable period last year. The decline in margin resulted from the impact of investments in marketing and IT as noted above.

Interest expense increased $15.1 million to $28.3 million for the three months ended September 29, 2007, as compared to $13.2 million for the three months ended September 30, 2006, while the average effective interest rate declined slightly. The increase in

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interest expense was primarily the result of higher debt outstanding. We raised our debt level in the first quarter of 2007 to finance the repurchase of 19.1 million of our shares (as further explained in Liquidity and Capital Resources Stock Transactions).

Our effective tax rate for the three months ended September 29, 2007 was 38.5%, as compared to 36.1% for the three months ended September 30, 2006.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2007

Net revenues were $1,123.1 million for the nine months ended September 29, 2007, an increase of $175.2 million or 18.5%, from $947.9 million for the nine months ended September 30, 2006. This $175.2 million increase was driven primarily by a $119.4 million increase in meeting fees and a $35.0 million increase in product sales, both a result of attendance growth and higher average sales per attendee. Internet and licensing revenues grew $14.6 million and $8.3 million respectively, with the growth partially offset by a $2.1 million decrease in other revenues resulting from lower franchise royalties. Net revenues were positively impacted by foreign currency exchange rates in the amount of $30.8 million or 3.2%.

For the nine months ended September 29, 2007, total global meeting fees were $672.1 million versus $552.7 million for the same period in the prior year, an increase of $119.4 million or 21.6% including the favorable impact of foreign currency translation. Globally, attendance volume reached 49.7 million for the first nine months of 2007, up 4.1% from 47.7 million in the comparable prior year period. NACO and the U.K. grew attendance volumes in the period versus prior year, while Continental Europe declined. In the first nine months of 2007, there were 64.8 million paid weeks in the global meeting business, a 23.6% increase from the prior year level. The excess of paid weeks growth over attendance growth was the key driver of the 13.8% increase in the average meeting fee per attendee on a constant currency basis. The paid weeks metric for meetings, which we began to furnish earlier this year in order to provide greater transparency, captures total Weight Watchers paid membership by adding *pay as you go* attendance to paid commitment plan weeks.

In NACO, meeting fees for the nine months ended September 29, 2007 were $461.2 million, up $102.7 million or 28.6%, from $358.5 million for the nine months ended September 30, 2006. Attendances were 30.1 million including 3.0 million from acquisitions made during the second half of 2006. NACO s attendance in total grew 9.6% in the nine months versus the prior year period, but was slightly behind last year excluding acquisitions, declining 0.2%. Paid weeks rose 39.2% as a result of the success of NACO s commitment plan, Monthly Pass, outpacing attendance and thereby driving the 17.3% increase in the average meeting fee. The increase in the average meeting fee arises because not all members who purchase Monthly Pass attend all the meetings for which they have paid.

International Company-owned meeting fees were $210.9 million for the nine months ended September 29, 2007, an increase of $16.7 million or 8.6%, from $194.2 million for the nine months ended September 30, 2006. On a local currency basis, total international meeting fee revenues declined 0.1% from the comparable prior year period. Despite U.K. attendance growth of 3.0% in the first nine months of 2007, total international attendance declined 3.3% in the period to 19.6 million as a result of softness in Continental Europe, down 8.2%.

Worldwide product sales for the nine months ended September 29, 2007 were $266.9 million, up $35.0 million, or 15.1%, from $231.9 million for the nine months ended September 30, 2006. Increased product sales penetration in the meeting room was driven by the launch and strong sell through of several new consumables products and by the strong appeal of our newly designed enrollment products to both new and returning members. Domestically, product sales grew 13.1% or $16.8 million to $145.1 million in the first nine months of 2007. International product sales increased 17.6% or $18.2 million, to $121.8 million. On a local currency basis, international product sales rose 8.2%.

Internet revenues, which include subscription revenue from sales of Weight Watchers Online and Weight Watchers eTools, as well as internet advertising revenue, grew $14.6 million or 15.0%, to $112.6 million for the nine months ended September 29, 2007 from $98.0 million for the nine months ended September 30, 2006. End-of-period active Weight Watchers Online subscribers increased 24.5%, from approximately 489,000 at September 30, 2006 to approximately 609,000 at September 29, 2007. This growth was driven by building awareness resulting from the success of WW.com s first three national television advertising campaigns, which aired in the beginning of 2007 and again in the Spring and Fall. The revenue impact of the growth in end-of-period online subscribers was partially offset by a reduction in paid Weight Watchers eTools subscribers in the nine months as compared to last year, since Weight Watchers eTools is now provided free as part of the Monthly Pass commitment plan. While internet revenues are lower as a result, the revenue gains in NACO from Monthly Pass have far surpassed the impact of lower paid Weight Watchers eTool subscriptions.

Other revenue, comprised primarily of licensing revenues and our publications, was $58.0 million for the nine months ended September 29, 2007, an increase of $8.6 million or 17.4%, from $49.4 million for the nine months ended September 30, 2006. Global licensing revenues increased 23.1% or $8.3 million.

Franchise royalties were $9.5 million domestically and $4.0 million internationally for the nine months ended September 29, 2007. As a result of our recent acquisition of five franchises, total franchise royalties were down 15.3% to $13.5 million from $15.9 million in the prior year. On a comparable basis, excluding lost royalties from recent acquisitions, franchise royalties rose 11.8%.

Cost of revenues was $489.5 million for the nine months ended September 29, 2007, an increase of $70.3 million or 16.8%, from $419.2 million for the nine months ended September 30, 2006. Gross profit margin of 56.4% of sales for the nine months increased 60 basis points from 55.8% of sales in the comparable prior year period. The margin expansion was derived primarily from higher meeting fees per attendee, a result of the Monthly Pass commitment plan in NACO, a price increase in the U.K. and price increases in a few European markets, and from growth in the licensing business.

Marketing expenses for the nine months ended September 29, 2007 increased $38.1 million or 30.4%, to $163.6 million, from $125.5 million for the nine months ended September 30, 2006. A significant portion of the increase resulted from additional television advertising. In the U.S., WW.com began advertising on television for the first time this year, with its national television advertising campaigns. For NACO, Continental Europe and the U.K., we increased our level of television advertising and experienced higher production costs as a result. We also invested more heavily in other non-TV media and direct mail in the NACO business and online advertising in the WW.com business during this period as compared to the prior year period. As a percentage of net revenues, marketing expenses were 14.6% for the nine months ended September 29, 2007, as compared to 13.2% in the same period last year.

Selling, general and administrative expenses were $124.5 million for the nine months ended September 29, 2007 as compared to $101.4 million for the nine months ended September 30, 2006, an increase of $23.1 million. As a percentage of net revenues, selling, general and administrative expenses were slightly above the prior year level, at 11.1% for the nine months ended September 29, 2007, as compared to 10.7% in the same period last year. This year s selling, general and administrative expense has been impacted by our ongoing technology investment in upgrading our systems, both office and meeting room, by employment related expenses, in particular for building our Continental Europe and marketing infrastructures, and to a lesser extent for costs associated with our franchise acquisitions.

Operating income was $345.5 million for the nine months ended September 29, 2007, an increase of $43.7 million or 14.5%, from $301.8 million for the nine months ended September 30, 2006. The operating income margin for the nine months ended September 29, 2007 was 30.8%, a decrease of 100 basis points from 31.8% for the comparable period last year, primarily as a result of our higher marketing expense.

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Interest expense increased $46.7 million to $82.6 million for the nine months ended September 29, 2007, as compared to $35.9 million for the nine months ended September 30, 2006, while the average effective interest rate remained constant. The increase in interest expense was primarily the result of higher debt outstanding. We raised our debt level in the first quarter of 2007 to finance the repurchase of 19.1 million of our shares (as further explained in Liquidity and Capital Resources Stock Transactions).

In connection with the refinancing of the WW.com Credit Facility and the WWI Credit Facility (as further explained in *Note 5* to the Consolidated Financial Statements), we recorded a charge of $3.0 million in the first quarter of 2007 relating to the write-off of the deferred financing costs associated with WW.com and of $1.3 million in the second quarter of 2006 for early extinguishment of debt relating to WWI. These charges represented the write-off of a portion of deferred financing costs associated with this old debt.

Our effective tax rate for the nine months ended September 29, 2007 was 38.5%, as compared to 37.6% for the nine months ended September 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

For the nine months ended September 29, 2007, cash and cash equivalents were $48.7 million, an increase of $11.2 million from December 30, 2006. Cash flows provided by operating activities were $265.3 million. The cash provided by operations exceeded our net income of $161.4 million, with the excess arising from changes in our working capital, in particular a significant increase in deferred revenues, and differences between book and cash taxes. Funds used for investing and financing activities combined totaled $256.5 million. Investing activities utilized $38.2 million, primarily for acquisitions of $16.8 million, capital expenditures of $8.7 million, software expenditures of $8.7 million and website development expenditures of $3.9 million. Cash used for financing activities totaled $218.3 million. This included the repurchase of 19.1 million shares of our common stock for $1,033.6 million in connection with our Tender Offer and share repurchase from Artal (as further explained in Liquidity and Capital Resources Stock Transactions) and dividend payments of $44.6 million, financed primarily by net proceeds from borrowings of $837.1 million.

For the nine months ended September 30, 2006, cash and cash equivalents were $58.8 million, an increase of $27.3 million from December 31, 2005. Cash flows provided by operating activities in the first nine months of 2006 were $234.0 million, including $32.2 million provided by WW.com s operating activities. The cash provided by operations was driven by our net income of $165.5 million, changes in our working capital and permanent differences between book and cash taxes. Funds used for investing and financing activities combined totaled $208.0 million. Investing activities utilized $97.0 million, primarily for payments of $74.6 million for the purchase of Walmar, Vale and our Indiana franchise, capital expenditures of $10.2 million, software expenditures of $8.4 million and website development fees of $3.6 million. Cash used for financing activities totaled $111.0 million. This included the repurchase of 3.6 million shares of our common stock for $151.7 million, consistent with our stock repurchase program (as further explained in Liquidity and Capital Resources Stock Transactions), and dividend payments of $34.8 million, offset by net proceeds from borrowings of $70.9 million.

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Balance Sheet

Comparing the balance sheet at September 29, 2007 with that at December 30, 2006, our cash balance has increased by $11.2 million to $48.7 million, as noted above. Our working capital deficit at September 29, 2007 was $133.9 million, including $48.7 million of cash, as compared to $81.8 million, including $37.5 million of cash, at December 30, 2006. Excluding the change in cash, the working capital deficit increased by $63.3 million from December 30, 2006 to September 29, 2007.

Of the $63.3 million increase in negative working capital, approximately $81.4 million relates to operational items and $12.3 million reflects an increase in the current portion of our long-term debt. These are partially offset by a decrease in negative working capital of $30.4 million arising from higher deferred taxes. The $81.4 million of operational items is largely the result of a $28.3 million increase in deferred revenue for member prepayments associated with our new commitment plans, a $17.0 million increase in accrued interest and the remaining $36.1 million is primarily comprised of payables and accrued expenses.

Long-Term Debt

As of September 29, 2007, the WWI Credit Facility consisted of a term loan facility in an aggregate amount of $1,550.0 million consisting of Term Loan A, Additional Term Loan A and Term Loan B, and the Revolver in the amount of up to $500.0 million. At September 29, 2007, we had debt of $1,686.3 million and had additional availability under our $500.0 million Revolver of $349.5 million.

At September 29, 2007 and December 30, 2006, our debt consisted entirely of variable-rate instruments. The average interest rate on our debt was approximately 6.7% and 6.8% per annum at September 29, 2007 and December 30, 2006, respectively.

The following schedule sets forth our long-term debt obligations and interest rates at September 29, 2007:

Long-Term Debt

At September 29, 2007

	Balance (in millions)	Interest Rate
Revolver due 2011	$ 147.5	6.79%
Term Loan A due 2011	341.3	6.63%
Additional Term Loan A due 2013	700.0	6.63%
Term Loan B due 2014	497.5	6.88%
Total Debt	1,686.3	
Less Current Portion	31.3	
Total Long-Term Debt	$ 1,655.0	

The Term Loan A, Additional Term Loan A and the Revolver bear interest at an initial rate equal to LIBOR plus 1.25% per annum or, at our option, the alternate base rate (as defined in the WWI Credit Facility). The Term Loan B bears interest at an initial rate equal to LIBOR plus 1.5% per annum or, at our option, the alternate base rate (as defined in the WWI Credit Facility). In addition to paying interest on outstanding principal under the WWI Credit Facility, we are required to pay a commitment fee to the lenders under the Revolver with respect to the unused commitments at an initial rate equal to 0.25% per year.

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The WWI Credit Facility 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 also requires us to maintain specified financial ratios and satisfy certain financial condition tests. At September 29, 2007, we were in compliance with all of the required financial ratios and also met all of the financial condition tests and we are expected to continue to do so for the foreseeable future. The WWI Credit Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of our existing and future subsidiaries. Substantially all of our assets collateralize the WWI Credit Facility.

On June 7, 2007, Standard & Poor s raised its rating on our Term Loan A, Additional Term Loan A, Term Loan B and Revolver from BB to BB+ . On January 4, 2007, Moody s affirmed its Ba1 rating for our Term Loan A and Revolver and assigned a Ba1 rating to our Additional Term Loan A and Term Loan B.

The following schedule sets forth our year-by-year debt obligations:

Total Debt Obligation

(Including Current Portion)

As of September 29, 2007

(in millions)

Remainder of 2007	$ 5.7
2008	45.6
2009	162.5
2010	215.0
2011	502.5
Thereafter	755.0
Total	$ 1,686.3

Debt obligations due to be repaid in the next 12 months are expected to be satisfied with operating cash flows. We believe that cash flows from operating activities, together with borrowings available under our Revolver, will be sufficient for the next 12 months to fund currently anticipated capital expenditure requirements, debt service requirements and working capital requirements.

Dividends

On March 12, 2007, our Board of Directors declared a quarterly dividend of $0.175 per share for the first quarter of fiscal 2007, which was paid on April 13, 2007 to shareholders of record as of March 30, 2007. On June 14, 2007, our Board of Directors declared a dividend for the second quarter of fiscal 2007 paid on July 13, 2007 to shareholders of record as of June 29, 2007. On September 4, 2007, our Board of Directors declared a quarterly dividend of $0.175 per share for the third quarter of fiscal 2007, which was paid on October 12, 2007 to shareholders of record as of September 28, 2007.

The WWI Credit Facility provides that we are permitted to pay dividends and extraordinary dividends so long as we are not in default under our credit agreement. However, payment of extraordinary dividends shall not exceed $150 million in any fiscal year if net debt to EBITDA (earnings before interest, taxes, depreciation and amortization) is greater than 2.5:1 and investment grade rating date (as defined in our credit agreement) has not occurred. We do not expect this restriction to impair our ability to pay dividends, but it could do so.

Stock Transactions

On December 18, 2006, we commenced a tender offer in which we sought to acquire up to 8.3 million shares of our common stock at a price between $47.00 and $54.00 per share, which we refer to as the Tender Offer. Prior to the Tender Offer, we entered into an agreement with Artal whereby Artal agreed to sell to us at the same price as is determined in the Tender Offer the number of our shares necessary to keep its percentage ownership in us at substantially the same level after the Tender Offer. Artal also agreed not to participate in the Tender Offer so that it would not affect the determination of the price in the Tender Offer. The Tender Offer expired at midnight on January 18, 2007, and on January 26, 2007 we repurchased approximately 8.5 million shares at a price of $54.00 per share. The 8.5 million shares repurchased are comprised of the 8.3 million shares we offered to purchase and 0.2 million shares purchased pursuant to our right to purchase up to an additional 2% of the outstanding shares as of November 30, 2006. On February 2, 2007, we repurchased 10.5 million of our shares from Artal at a purchase price of $54.00 per share pursuant to our prior agreement with Artal.

On October 9, 2003, our Board of Directors authorized a program to repurchase up to $250.0 million of our outstanding common stock. On each of June 13, 2005 and May 25, 2006, our Board of Directors authorized adding an additional $250.0 million to this plan. 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 under the program. Other than the aforementioned Tender Offer and share repurchase from Artal, we purchased no additional shares of our common stock during the nine months ended September 29, 2007.

Factors Affecting Future Liquidity

Any future acquisitions, joint ventures or other similar transactions could require additional capital and we cannot be certain that any additional capital will be available on acceptable terms or at all. Our ability to fund our capital expenditure requirements, interest, principal and dividend payment obligations and working capital requirements and to comply with all of the financial covenants under our debt agreements depends on our future operations, performance and cash flow. These are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control.

OFF-BALANCE SHEET TRANSACTIONS

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.

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RELATED PARTY TRANSACTIONS

For a discussion of related party transactions affecting us, see Item 13. Certain Relationships and Related Transactions of our Annual Report on Form 10-K for the fiscal year ended December 30, 2006. Other than during the normal course of business, the related party transactions affecting us have not changed since December 30, 2006.

SEASONALITY

Our business is seasonal, with revenues generally decreasing at year end and during the summer months. Our advertising schedule supports the three key enrollment-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 diet season and occurs between March 22 and April 25, may affect our results of operations and the year-to-year comparability of our results. For example, in 2007, Easter fell on April 8, which means that the pre-summer diet season began earlier than it did in 2006. Our operating income for the first half of the year is generally the strongest. While WW.com experiences similar seasonality in terms of new subscriber signups, its revenue tends to be less seasonal because it amortizes subscription revenue over the related subscription period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since 100% of our debt is variable rate-based, any changes in market interest rates will cause an equal change in our interest expense associated with our debt. Accordingly we have entered into interest rate swaps to hedge a substantial portion of our variable rate debt, which mitigates a substantial portion of the associated market risk.

For a more detailed discussion of our quantitative and qualitative disclosures about market risks that affect us, see Item 7A Quantitative and Qualitative Disclosure About Market Risk of our Annual Report on Form 10-K for the fiscal year ended December 30, 2006. Our exposure to market risks has not changed materially since December 30, 2006.

ITEM 4. 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 Chief Executive Officer and Chief 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 Chief Executive Officer and Chief 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 Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls were effective at the reasonable assurance level.

In addition, there was no change in our internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, in fiscal year 2007, we are in the process of upgrading some of our information systems, which will result in the automation of certain key processes. As we migrate to this new environment, our management takes appropriate actions to ensure the continuity of key controls, and the transitions are reviewed as part of our testing of internal controls as they relate to the reliability of financial reporting and the preparation and fair presentation of our consolidated financial statements.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 7, 2006, the Company filed an amended notice of appeal with the Tribunal appealing a ruling by HMRC that from April 1, 2005 Weight Watchers meetings fees in the U.K. should be fully subject to 17.5% standard rated value added tax, or VAT. For over a decade prior to April 1, 2005, HMRC had determined that Weight Watchers meetings fees in the U.K. were only partially subject to 17.5% VAT. It is the Company s view that this prior determination by HMRC should remain in effect and this view was further supported on March 8, 2007 when the Tribunal ruled that Weight Watchers meetings in the U.K. should only be partially subject to 17.5% VAT. On May 3, 2007, HMRC appealed the Tribunal s ruling in favor of the Company and a hearing is scheduled for November 2007. The Company intends to vigorously defend the Tribunal s ruling. If such appeal by HMRC is ultimately successful or if it is determined by HMRC that a lesser proportion of Weight Watchers meetings fees as compared to HMRC s prior rulings is not subject to 17.5% VAT, the Company may incur monetary liability in excess of reserves previously recorded and its U.K. results of operations may be adversely affected in the future. However, it is the opinion of management that the ultimate disposition of this matter, to the extent not previously provided for, will not have a material impact on the financial position, results of operations or ongoing cash flows of the Company.

On July 27, 2007, HMRC issued the Company notices of determination and decisions that for the period April 2001 to April 2007 the Company s leaders and certain other service providers should have been classified as employees for tax purposes and, as such, the Company should have withheld tax from the leaders and certain other service providers pursuant to the PAYE and NIC collection rules and remitted such amounts to the HMRC. The current assessment associated with the notices of determination and decisions is approximately $27 million. It is the Company s view that the U.K. leaders and other service providers identified by HMRC in its notices and decisions are self-employed and no withholding by the Company was required. On September 3, 2007, the Company appealed HMRC s notices and decisions as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by the Company. The Company intends to vigorously pursue this appeal and, although there can be no assurances, the Company believes it will ultimately prevail in its appeal. If such appeal is unsuccessful, it is possible that the Company s cash flows and results of operations in a particular quarter may be adversely affected by this matter. However, it is the opinion of management that the disposition of this matter will not have a material impact on the financial position, results of operations or ongoing cash flows of the Company.

Due to the nature of its activities, the Company is also, at times, subject to pending and threatened legal actions that arise out of the normal course of business. The Company has had and continues to have disputes with certain of its franchisees. In the opinion of management, based in part upon advice of legal counsel, the disposition of all such matters is not expected to have a material effect on the Company s financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors at September 29, 2007 from those detailed in the Company s Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

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

We made no stock repurchases during the quarter ended September 29, 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Nothing to report under this item.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Nothing to report under this item.

ITEM 5. OTHER INFORMATION

Nothing to report under this item.

ITEM 6. EXHIBITS

Exhibit 31.1	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act, as amended.
Exhibit 31.2	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act, as amended.
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350.
Exhibit 32.2	Certification pursuant to 18 U.S.C. Section 1350.

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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 8, 2007	By: /s/ DAVID P. KIRCHHOFF David P. Kirchhoff President, Chief Executive Officer and Director (Principal Executive Officer)
Date: November 8, 2007	By: /s/ ANN M. SARDINI Ann M. Sardini Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description
Exhibit 31.1	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act, as amended.
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Exhibit 32.2	Certification pursuant to 18 U.S.C. Section 1350.