

WEIGHT WATCHERS INTERNATIONAL INC  
Form 10-Q  
August 12, 2010  
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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 July 3, 2010

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)

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**Virginia** **11-6040273**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**11 Madison Avenue, 17<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.

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 July 31, 2010 was 75,382,582.

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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)**

|  | <b>July 3,<br/>2010</b> | <b>January 2,<br/>2010</b> |
|--|-------------------------|----------------------------|
| <b>ASSETS</b>  |                         |                            |
| <b>CURRENT ASSETS</b>                                |                         |                            |
| Cash and cash equivalents                            | \$ 65,562               | \$ 46,137                  |
| Receivables, net                                     | 37,934                  | 39,622                     |
| Inventories, net                                     | 23,955                  | 32,488                     |
| Prepaid income taxes                                 | 26,869                  | 28,375                     |
| Deferred income taxes                                | 20,749                  | 18,242                     |
| Prepaid expenses and other current assets            | 27,467                  | 35,087                     |
| <b>TOTAL CURRENT ASSETS</b>                          | <b>202,536</b>          | <b>199,951</b>             |
| Property and equipment, net                          | 31,565                  | 36,038                     |
| Franchise rights acquired                            | 756,183                 | 758,617                    |
| Goodwill   | 51,351                  | 51,373                     |
| Trademarks and other intangible assets, net          | 29,453                  | 31,633                     |
| Deferred financing costs and other noncurrent assets | 18,968                  | 9,897                      |
| <b>TOTAL ASSETS</b>                                  | <b>\$ 1,090,056</b>     | <b>\$ 1,087,509</b>        |
| <b>LIABILITIES AND TOTAL DEFICIT</b>                 |                         |                            |
| <b>CURRENT LIABILITIES</b>                           |                         |                            |
| Portion of long-term debt due within one year        | \$ 222,790              | \$ 215,000                 |
| Accounts payable                                     | 23,512                  | 28,371                     |
| Dividend payable                                     | 13,541                  | 13,786                     |
| Derivative payable                                   | 48,582                  | 40,947                     |
| U.K. VAT liability                                   | 1,999                   | 33,568                     |
| U.K. Self-employment liability                       | 37,722                  | 36,660                     |
| Accrued liabilities                                  | 108,260                 | 99,078                     |
| Income taxes payable                                 | 11,395                  | 176                        |
| Deferred revenue                                     | 79,169                  | 68,469                     |
| <b>TOTAL CURRENT LIABILITIES</b>                     | <b>546,970</b>          | <b>536,055</b>             |
| Long-term debt                                       | 1,183,929               | 1,238,000                  |
| Deferred income taxes                                | 40,037                  | 34,624                     |
| Other  | 12,659                  | 12,100                     |
| <b>TOTAL LIABILITIES</b>                             | <b>1,783,595</b>        | <b>1,820,779</b>           |

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|   |                     |                     |
|---|---------------------|---------------------|
| TOTAL DEFICIT   |                     |                     |
| Common stock, \$0 par value; 1,000,000 shares authorized; 111,988 shares issued             | 0                   | 0                   |
| Treasury stock, at cost, 36,038 shares at July 3, 2010 and 34,947 shares at January 2, 2010 | (1,714,751)         | (1,684,343)         |
| Retained earnings   | 1,032,581           | 955,514             |
| Accumulated other comprehensive loss  | (16,270)            | (7,683)             |
| <b>TOTAL WEIGHT WATCHERS INTERNATIONAL, INC. DEFICIT</b>                                    | <b>(698,440)</b>    | <b>(736,512)</b>    |
| Noncontrolling interest   | 4,901               | 3,242               |
| <b>TOTAL DEFICIT</b>  | <b>(693,539)</b>    | <b>(733,270)</b>    |
| <b>TOTAL LIABILITIES AND TOTAL DEFICIT</b>  | <b>\$ 1,090,056</b> | <b>\$ 1,087,509</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 INCOME****(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

|  | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b> |                         |
|--|---------------------------|-------------------------|-------------------------|-------------------------|
|  | <b>July 3,<br/>2010</b>   | <b>July 4,<br/>2009</b> | <b>July 3,<br/>2010</b> | <b>July 4,<br/>2009</b> |
| Meeting fees, net  | \$ 214,233                | \$ 216,010              | \$ 432,451              | \$ 441,943              |
| Product sales and other, net   | 101,915                   | 106,268                 | 216,428                 | 222,500                 |
| Internet revenues  | 60,594                    | 50,248                  | 115,859                 | 98,661                  |
| Revenues, net  | 376,742                   | 372,526                 | 764,738                 | 763,104                 |
| Cost of meetings, products and other                                   | 155,347                   | 156,358                 | 322,121                 | 325,245                 |
| Cost of Internet revenues  | 9,724                     | 8,699                   | 19,265                  | 18,217                  |
| Cost of revenues   | 165,071                   | 165,057                 | 341,386                 | 343,462                 |
| Gross profit   | 211,671                   | 207,469                 | 423,352                 | 419,642                 |
| Marketing expenses   | 56,693                    | 53,179                  | 131,156                 | 127,738                 |
| Selling, general and administrative expenses                           | 42,820                    | 42,950                  | 88,614                  | 86,719                  |
| Operating income   | 112,158                   | 111,340                 | 203,582                 | 205,185                 |
| Interest expense   | 19,583                    | 16,957                  | 38,288                  | 33,698                  |
| Other expense (income), net  | 1,017                     | (479)                   | 1,636                   | 25                      |
| Income before income taxes   | 91,558                    | 94,862                  | 163,658                 | 171,462                 |
| Provision for income taxes   | 35,615                    | 36,901                  | 63,632                  | 66,696                  |
| Net income   | 55,943                    | 57,961                  | 100,026                 | 104,766                 |
| Net loss attributable to the noncontrolling interest                   | 363                       | 801                     | 854                     | 1,302                   |
| Net income attributable to Weight Watchers International, Inc.         | \$ 56,306                 | \$ 58,762               | \$ 100,880              | \$ 106,068              |
| Earnings per share attributable to Weight Watchers International, Inc. |                           |                         |                         |                         |
| Basic  | \$ 0.73                   | \$ 0.76                 | \$ 1.31                 | \$ 1.38                 |
| Diluted  | \$ 0.73                   | \$ 0.76                 | \$ 1.31                 | \$ 1.38                 |
| Weighted average common shares outstanding                             |                           |                         |                         |                         |
| Basic  | 76,751                    | 77,000                  | 76,902                  | 76,989                  |
| Diluted  | 76,907                    | 77,094                  | 77,072                  | 77,075                  |
| Dividends declared per common share                                    | \$ 0.18                   | \$ 0.18                 | \$ 0.35                 | \$ 0.35                 |

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>Six Months Ended</b> |                         |
|--|-------------------------|-------------------------|
|  | <b>July 3,<br/>2010</b> | <b>July 4,<br/>2009</b> |
| Cash provided by operating activities                              | \$ 144,398              | \$ 162,209              |
| Investing activities:  |                         |                         |
| Capital expenditures   | (3,385)                 | (6,590)                 |
| Capitalized software expenditures                                  | (5,938)                 | (6,820)                 |
| Other items, net   | (18)                    | (230)                   |
| Cash used for investing activities                                 | (9,341)                 | (13,640)                |
| Financing activities:  |                         |                         |
| Payments of long-term debt   | (46,280)                | (117,250)               |
| Payment of dividends   | (27,082)                | (27,116)                |
| Payments to acquire treasury stock                                 | (28,305)                | 0                       |
| Deferred financing costs   | (11,378)                | (4,043)                 |
| Investment and advances from noncontrolling interest               | 2,512                   | 2,631                   |
| Proceeds from stock options exercised                              | 39                      | 18                      |
| Cash used for financing activities                                 | (110,494)               | (145,760)               |
| Effect of exchange rate changes on cash/cash equivalents and other | (5,138)                 | 3,085                   |
| Net increase in cash and cash equivalents                          | 19,425                  | 5,894                   |
| Cash and cash equivalents, beginning of period                     | 46,137                  | 47,322                  |
| Cash and cash equivalents, end of period                           | \$ 65,562               | \$ 53,216               |

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 term "Company" as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of its businesses consolidated for purposes of its financial statements. The term "WWI" as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of the Company's businesses other than WW.com. The term "WW.com" as used throughout these notes is used to indicate WeightWatchers.com, Inc. and all of the Company's Internet-based businesses.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( "U.S. GAAP" ) 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.

On February 5, 2008, Weight Watchers Asia Holdings Ltd. ( "Weight Watchers Asia" ), a direct, wholly-owned subsidiary of the Company, and Danone Dairy Asia, an indirect, wholly-owned subsidiary of Groupe DANONE S.A., entered into a joint venture agreement to establish a weight management business in the People's Republic of China. Pursuant to the terms of the joint venture agreement, Weight Watchers Asia and Danone Dairy Asia own 51% and 49%, respectively, of the joint venture entity, Weight Watchers Danone China Limited (together with its subsidiaries, the "China Joint Venture" ). Because the Company has a direct controlling financial interest in the China Joint Venture, it began to consolidate this entity in the first quarter of fiscal 2008.

These statements should be read in conjunction with the Company's Annual Report on Form 10-K for fiscal 2009, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

**2. Summary of Significant Accounting Policies**

In January 2010, the Financial Accounting Standards Board (the "FASB" ) issued authoritative guidance revising certain disclosure requirements concerning fair value measurements. The guidance requires an entity to disclose separately significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and to disclose the reasons for such transfers. It also requires the presentation of purchases, sales, issuances and settlements within Level 3, on a gross basis rather than a net basis. These new disclosure requirements were effective for the Company beginning with its first fiscal quarter of 2010, except for the additional disclosure of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. The Company did not have any such transfers into and out of Levels 1 and 2 during the six months ended July 3, 2010. The Company is currently evaluating the full impact of this guidance, but does not expect it to have a material impact on the disclosures in its consolidated financial statements in future filings.

In May 2009, new accounting guidance was issued which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In February 2010, an amendment to this guidance was issued to eliminate the requirement to disclose the date through which a company has evaluated subsequent events.

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 2009.

*Reclassification:*

Certain prior year amounts have been reclassified to conform to the current period presentation.



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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. Acquisitions**

The acquisitions of certain franchisees have been accounted for under the purchase method of accounting and, accordingly, their earnings have been included in the consolidated operating results of the Company since their dates of acquisition. There have been no key acquisitions since 2008.

**4. Goodwill and Intangible Assets**

For the six months ended July 3, 2010, the change in goodwill is due to foreign currency fluctuations. The Company's goodwill by reportable segment at July 3, 2010 was \$25,151 related to its WWI segment and \$26,200 related to its WW.com segment. Franchise rights acquired are due to acquisitions of the Company's franchised territories. For the six months ended July 3, 2010, the change in franchise rights acquired is due to foreign currency fluctuations.

Aggregate amortization expense for the finite-lived intangible assets was recorded in the amounts of \$3,277 and \$7,017 for the three and six months ended July 3, 2010, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$3,383 and \$6,461 for the three and six months ended July 4, 2009, respectively.

The carrying amount of finite-lived intangible assets as of July 3, 2010 and January 2, 2010 was as follows:

|                            | July 3, 2010                |                             | January 2, 2010             |                             |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                            | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Capitalized software costs | \$ 48,065                   | \$ 29,947                   | \$ 44,486                   | \$ 25,396                   |
| Trademarks                 | 9,699                       | 8,776                       | 9,602                       | 8,593                       |
| Website development costs  | 31,654                      | 21,607                      | 29,878                      | 19,266                      |
| Other                      | 7,017                       | 6,652                       | 5,741                       | 4,819                       |
|                            | <b>\$ 96,435</b>            | <b>\$ 66,982</b>            | <b>\$ 89,707</b>            | <b>\$ 58,074</b>            |

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

|                          |           |
|--------------------------|-----------|
| Remainder of fiscal 2010 | \$ 6,893  |
| Fiscal 2011              | \$ 12,108 |
| Fiscal 2012              | \$ 6,328  |
| Fiscal 2013              | \$ 2,952  |
| Fiscal 2014              | \$ 1,083  |

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**5. Long-Term Debt**

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

|                                 | July 3, 2010        |                         | January 2, 2010     |                         |
|---------------------------------|---------------------|-------------------------|---------------------|-------------------------|
|                                 | Balance             | Effective Interest Rate | Balance             | Effective Interest Rate |
| Revolver I due 2011             | \$ 52,883           | 1.31%                   | \$ 128,000          | 1.43%                   |
| Revolver II due 2014            | 105,117             | 2.86%                   |                     |                         |
| Term A Loan due 2011            | 69,900              | 1.32%                   | 245,000             | 1.40%                   |
| Additional Term A Loan due 2013 | 241,215             | 1.32%                   | 595,000             | 1.92%                   |
| Term B Loan due 2014            | 241,250             | 1.82%                   | 485,000             | 2.12%                   |
| Term C Loan due 2015            | 454,479             | 2.57%                   |                     |                         |
| Term D Loan due 2016            | 241,875             | 2.57%                   |                     |                         |
| <b>Total Debt</b>               | <b>1,406,719</b>    |                         | <b>1,453,000</b>    |                         |
| <b>Less Current Portion</b>     | <b>222,790</b>      |                         | <b>215,000</b>      |                         |
| <b>Total Long-Term Debt</b>     | <b>\$ 1,183,929</b> |                         | <b>\$ 1,238,000</b> |                         |

The Company's credit facilities consist of a term loan facility and a revolving credit facility (collectively, the WWI Credit Facility). The term loan facility consists of two tranche A loans (Term A Loan and Additional Term A Loan), a tranche B loan (Term B Loan), a tranche C loan (Term C Loan), and a tranche D loan (Term D Loan), in an aggregate original principal amount of \$1,550,000. The revolving credit facility (the Revolver) consists of two tranches (Revolver I and Revolver II) of up to \$500,000 in the aggregate. At July 3, 2010, the Company had \$158,000 outstanding under the WWI Credit Facility with an additional \$340,448 of availability under the Revolver.

At July 3, 2010, the Term A Loan, Additional Term A Loan and Revolver I bore interest at a rate equal to LIBOR plus 1.00% per annum; the Term B Loan bore interest at a rate equal to LIBOR plus 1.50% per annum; the Term C Loan and Term D Loan bore interest at a rate equal to LIBOR plus 2.25% per annum; and the Revolver II bore interest at a rate equal to LIBOR plus 2.50% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, at July 3, 2010, the Company was required to pay a commitment fee to the lenders under the Revolver I and Revolver II with respect to the unused commitments at a rate equal to 0.20% per annum and 0.50% per annum, respectively.

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 July 3, 2010, the Company was in compliance with all of the required financial ratios and also met all of the financial condition tests and expects 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.

The Company previously amended the WWI Credit Facility on June 26, 2009 to allow it to make loan modification offers to all lenders of any tranche of term loans or revolving loans to extend the maturity date of such loans and/or reduce or eliminate the scheduled amortization. Any

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such loan modifications would be effective only with respect to such tranche of term loans or revolving loans and only with respect to those lenders that accept the Company's offer. Loan modification offers may be accompanied by increased pricing and/or fees payable to accepting lenders. This amendment also provides for up to an additional \$200,000 of

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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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incremental term loan financing through the creation of a new tranche of term loans, provided that the aggregate principal amount of such new term loans cannot exceed the amount then outstanding under the Company's existing revolving credit facility. In addition, the proceeds from such new tranche of term loans must be used solely to repay certain outstanding revolving loans and permanently reduce the commitments of certain revolving lenders. In connection with this amendment, the Company incurred fees of approximately \$4,058 during fiscal 2009.

On April 8, 2010, the Company amended the WWI Credit Facility pursuant to a loan modification offer to all lenders of all tranches of term loans and revolving loans to, among other things, extend the maturity date of such loans. In connection with this amendment, certain lenders converted a total of \$454,480 of their outstanding term loans under the Term A Loan (\$151,775) and Additional Term A Loan (\$302,705) into term loans under the new Term C Loan which matures on June 30, 2015 (or 2013, upon the occurrence of certain events described in the WWI Credit Facility agreement), and a total of \$241,875 of their outstanding term loans under the Term B Loan into term loans under the new Term D Loan which matures on June 30, 2016. In addition, certain lenders converted a total of \$332,647 of their outstanding Revolver I commitments into commitments under the new Revolver II which terminates on June 30, 2014 (or 2013, upon the occurrence of certain events described in the WWI Credit Facility agreement), including a proportionate amount of their outstanding Revolver I loans into Revolver II loans. Following these conversions of a total of \$1,029,002 of loans and commitments, at April 8, 2010, the Company had the same amount of debt outstanding under the WWI Credit Facility and amount of availability under the Revolver as it had immediately prior to such conversions. In connection, with this loan modification offer, the Company incurred fees of approximately \$11,500 during the second quarter of fiscal 2010.

**6. Treasury Stock**

On October 9, 2003, the Company, at the direction of its Board of Directors, authorized and announced 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 its Board of Directors, authorized and announced adding \$250,000 to the 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. and its parents and subsidiaries under the program. The repurchase program currently has no expiration date.

During the six months ended July 3, 2010 the Company purchased 1,140 shares of its common stock in the open market under the repurchase program for a total cost of \$30,598. During the six months ended July 4, 2009 the Company did not purchase any shares of its common stock.

**7. 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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**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
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The following table sets forth the computation of basic and diluted EPS:

|   | Three Months<br>Ended |                 | Six Months Ended |                 |
|---|-----------------------|-----------------|------------------|-----------------|
|   | July 3,<br>2010       | July 4,<br>2009 | July 3,<br>2010  | July 4,<br>2009 |
| <b>Numerator:</b>   |                       |                 |                  |                 |
| Net income attributable to Weight Watchers International, Inc.  | \$ 56,306             | \$ 58,762       | \$ 100,880       | \$ 106,068      |
| <b>Denominator:</b>   |                       |                 |                  |                 |
| Weighted average shares of common stock outstanding             | 76,751                | 77,000          | 76,902           | 76,989          |
| Effect of dilutive common stock equivalents                     | 156                   | 94              | 170              | 86              |
| Weighted average diluted common shares outstanding              | 76,907                | 77,094          | 77,072           | 77,075          |
| <b>EPS attributable to Weight Watchers International, Inc.:</b> |                       |                 |                  |                 |
| Basic   | \$ 0.73               | \$ 0.76         | \$ 1.31          | \$ 1.38         |
| Diluted   | \$ 0.73               | \$ 0.76         | \$ 1.31          | \$ 1.38         |

The number of anti-dilutive common stock equivalents excluded from the calculation of weighted average shares for diluted EPS was 2,289 and 2,520 for the three months ended July 3, 2010 and July 4, 2009, respectively, and 2,157 and 2,365 for the six months ended July 3, 2010 and July 4, 2009, respectively.

**8. Stock Plans**

On May 6, 2008, May 12, 2004 and December 16, 1999, respectively, the Company's shareholders approved the 2008 Stock Incentive Plan (the "2008 Plan"), the 2004 Stock Incentive Plan (the "2004 Plan") and the 1999 Stock Purchase and Option Plan (the "1999 Plan" and together with the 2008 Plan and the 2004 Plan, the "Stock Plans"). These plans are 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 aligning 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 Stock Plans.

In connection with the Company's annual grant of stock compensation, on March 26, 2010, the Company granted 466 non-qualified stock options and 68 restricted stock units (RSUs) to certain employees. The options and RSUs will vest on the third anniversary of the date of grant 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 \$3,684 and \$1,748, respectively.

**9. Income Taxes**

The effective tax rate for the three and six months ended July 3, 2010 and July 4, 2009 was 38.9%. For the three and six months ended July 3, 2010 and July 4, 2009, the primary differences between the U.S. federal statutory 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.



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**10. Legal**

*U.K. VAT Matter*

In June 2008, the U.K. Court of Appeal issued a ruling that from April 1, 2005 Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% standard rated value added tax ( VAT ) thus reversing in its entirety an earlier 2007 decision of the U.K. VAT and Duties Tribunal (the VAT Tribunal ) in the Company 's favor. For over a decade prior to April 1, 2005, Her Majesty 's Revenue and Customs ( HMRC ) had determined that Weight Watchers meeting fees in the United Kingdom were only partially subject to 17.5% VAT. In light of the Court of Appeal 's ruling and in accordance with accounting guidance for contingencies, the Company recorded a charge of approximately \$32,500 as an offset to revenue in the second quarter of fiscal 2008 for U.K. VAT liability (including interest) in excess of reserves previously recorded. Beginning in the third quarter of fiscal 2008, in accordance with accounting guidance for contingencies, the Company has recorded as an offset to revenue VAT charges associated with U.K. meeting fees as earned, consistent with the Court of Appeal 's ruling.

However, with respect to U.K. VAT owed for the period prior to July 1, 2005, HMRC has failed to raise a notice of assessment within the statutory three-year time period. In addition, although HMRC raised notices of assessment against the Company with respect to U.K. VAT due for the periods July 1, 2005 to September 30, 2005 and October 1, 2005 to December 31, 2005, the Company has asserted that these notices of assessment are invalid on the grounds that they had been raised outside the relevant statutory time limits. HMRC indicated in November 2008 that it agreed with the Company 's assertion that the notice of assessment for the period July 1, 2005 to September 30, 2005 was invalid, and, in February 2009, confirmed that this notice had been formally withdrawn. As a result of the expiration of the statutory time period with respect to U.K. VAT owed prior to October 1, 2005, the Company recorded in the fourth quarter of fiscal 2008 as a benefit to revenue for the periods prior to October 1, 2005 an amount of approximately \$9,200 as an offset against reserves previously recorded including in part the charge recorded against revenue in the second quarter of fiscal 2008 for U.K. VAT liability.

In March 2009, June 2009 and September 2009, HMRC raised notices of assessment against the Company in respect of U.K. VAT due for the periods January 1, 2006 to March 31, 2006, April 1, 2006 to June 30, 2006, and July 1, 2006 to September 30, 2006, respectively, which the Company similarly believes were raised outside the relevant statutory time limits.

The Company intends to vigorously challenge any amount of U.K. VAT that HMRC claims to be owed by the Company for any period between October 1, 2005 and September 30, 2006. Accordingly, the Company filed notices of appeal with the VAT Tribunal against the U.K. VAT assessments issued for the periods October 1, 2005 to December 31, 2005, January 1, 2006 to March 31, 2006, April 1, 2006 to June 30, 2006, and July 1, 2006 to September 30, 2006 in March 2009, April 2009, July 2009 and October 2009, respectively. These appeals were consolidated and heard together at the U.K. First Tier Tribunal (Tax Chamber) (the U.K. First Tier Tribunal ) in May 2010. The Company is currently awaiting the U.K. First Tier Tribunal 's decision.

*U.K. Self-Employment Matter*

In July 2007, HMRC issued to the Company notices of determination and decisions that, for the period April 2001 to April 2007, its leaders and certain other service providers in the United Kingdom 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 ( PAYE ) and national insurance contributions ( NIC ) collection rules and remitted such amounts to HMRC. HMRC also issued a claim to the Company in October 2008 in respect of NIC which corresponds to the prior notices of assessment with respect to PAYE previously raised by HMRC.

In September 2007, the Company appealed HMRC 's notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by the Company and, in July 2008, filed this appeal with the U.K. First Tier Tribunal. The Company 's appeal was heard by the U.K. First Tier Tribunal in June 2009 and October 2009. In February 2010, the U.K. First Tier Tribunal issued a ruling that the Company 's U.K. leaders should have been classified as employees for U.K. tax purposes and, as such, the Company should have withheld tax from its leaders pursuant to the PAYE and NIC collection rules for the period from April 2001 to April 2007 with respect to services performed by the

leaders for the Company.

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Although the Company is appealing this adverse ruling, in light of this adverse ruling and in accordance with accounting guidance for contingencies, the Company recorded in the fourth quarter of fiscal 2009 a reserve for the period from April 2001 through the end of fiscal 2009, inclusive of estimated accrued interest, and, as it did beginning in the first quarter of fiscal 2010, the Company intends to record a reserve for U.K. withholding taxes with respect to its U.K. leaders consistent with this ruling on a quarterly basis. Accordingly, the aggregate reserve for the period from April 2001 through the end of the second quarter of fiscal 2010 is approximately \$37,722.

*Sabatino v. Weight Watchers North America, Inc.*

In September 2009, a lawsuit was filed in the Superior Court of California by one of the Company's former leaders alleging violations of certain California wage and hour laws on behalf of herself, and, if approved by the Court, other leaders and those employees who have performed the location coordinator function in California since September 17, 2005. In this matter, the plaintiff is seeking unpaid wages and certain other damages. In October 2009, the Company answered the complaint and removed the case to the U.S. District Court for the Northern District of California. In July 2010, the plaintiff filed an amended complaint adding two additional named plaintiffs for this matter.

Although the Company disagrees with the allegations that it has violated California wage and hour laws and the Company believes it has valid defenses with respect to this matter, litigation is inherently unpredictable. At this time, it is not possible to determine the outcome of, or estimate the liability related to, this action and the Company has not made any provision for losses in connection with it.

*Hanson-Kelly & Jackson v. Weight Watchers North America, Inc. and Weight Watchers International, Inc.*

In January 2010, a lawsuit was filed in the U.S. District Court for the Middle District of North Carolina by two leaders alleging violations of certain federal and North Carolina wage and hour laws on behalf of themselves, and, if approved by the Court, other leaders and receptionists in North Carolina since January 25, 2007. In this matter, the plaintiffs are seeking unpaid wages and certain other damages. In April 2010, the Company filed a Motion to Dismiss the claim for unpaid wages under the North Carolina wage and hour laws.

Although the Company disagrees with the allegations that it has violated federal and North Carolina wage and hour laws and the Company believes it has valid defenses with respect to this matter, litigation is inherently unpredictable. At this time, it is not possible to determine the outcome of, or estimate the liability related to, this action and the Company has not made any provision for losses in connection with it.

*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 resolutions of one or more legal actions.

**11. Derivative Instruments and Hedging**

The Company is exposed to certain risks related to its ongoing business operations, primarily interest rate risk and foreign currency risk. The primary risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to hedge a portion of the cash flow exposure associated with the Company's variable-rate borrowings. The Company does not use any derivative instruments for trading or speculative purposes.



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The Company recognizes the fair value of all derivative instruments as either assets or liabilities on its balance sheet. The Company has designated and accounted for interest rate swaps as cash flow hedges of the Company's variable-rate borrowings. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income/(loss) and reclassified into earnings in the periods during which the hedged transactions affect earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The fair value of the Company's interest rate swaps is reported in the derivative payable and prepaid expenses balances on the Company's balance sheet. See Note 12 for a further discussion regarding the fair value of the Company's interest rate swaps. The net effect of the interest payable and receivable under the Company's interest rate swaps is included in interest expense on the Company's statement of income.

As of July 3, 2010, the Company had interest rate swaps with notional amounts totaling \$1,217,500. As of July 4, 2009, the Company had an interest rate swap with a notional amount of \$900,000 and a forward-starting swap with an initial notional amount of \$425,000. The effective date of the forward-starting swap was January 4, 2010.

The Company is hedging forecasted transactions for periods not exceeding the next five years. At July 3, 2010, given the current configuration of its debt, the Company estimates that no derivative gains or losses reported in accumulated other comprehensive income/(loss) will be reclassified to the Company's statement of income within the next twelve months.

As of July 3, 2010, cumulative losses for qualifying hedges were reported as a component of accumulated other comprehensive income/(loss) in the amount of \$29,379 (\$48,162 before taxes). As of July 4, 2009, cumulative losses for qualifying hedges were reported as a component of accumulated other comprehensive loss in the amount of \$26,670 (\$43,724 before taxes). For the three and six months ended July 3, 2010 and July 4, 2009, there were no fair value adjustments recorded in the Company's statement of income since all hedges were considered qualifying and effective.

**12. 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:

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.

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.

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On April 9, 2009, accounting guidance was issued which requires disclosures about the fair value of financial instruments for annual and interim reporting periods. This guidance is effective for interim reporting periods ending after June 15, 2009.

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. As of July 3, 2010, the fair value of the Company's long-term debt was approximately \$1,382,670.

*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 counterparty credit risk. See Note 11 for disclosures related to derivative financial instruments.

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

|   | Total<br>Fair<br>Value | Fair Value Measurements Using:  |  |  |
|---|------------------------|---|--|--|
|   |                        | Quoted Prices<br>in<br>Active<br>Markets<br>for Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Interest rate swap asset at July 3, 2010        | \$                     | \$  | \$   | \$   |
| Interest rate swap asset at January 2, 2010     | \$ 1,692               | \$  | \$ 1,692   | \$   |
| Interest rate swap liability at July 3, 2010    | \$ 48,582              | \$  | \$ 48,582  | \$   |
| Interest rate swap liability at January 2, 2010 | \$ 40,947              | \$  | \$ 40,947  | \$   |

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**13. Comprehensive Income**

Comprehensive income 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<br>Ended |                 | Six Months Ended |                 |
|--|-----------------------|-----------------|------------------|-----------------|
|  | July 3,<br>2010       | July 4,<br>2009 | July 3,<br>2010  | July 4,<br>2009 |
| Net income   | \$ 55,943             | \$ 57,961       | \$ 100,026       | \$ 104,766      |
| Other comprehensive income/(loss):                                       |                       |                 |                  |                 |
| Foreign currency translation adjustments, net of tax                     | 4,634                 | 2,069           | 2,944            | 978             |
| Current period changes in fair value of derivatives, net of tax          | 5,230                 | 6,560           | 5,643            | 10,655          |
| Total other comprehensive income/(loss)                                  | 9,864                 | 8,629           | 8,587            | 11,633          |
| Comprehensive income   | 65,807                | 66,590          | 108,613          | 116,399         |
| Comprehensive loss attributable to the noncontrolling interest           | 363                   | 801             | 854              | 1,302           |
| Comprehensive income attributable to Weight Watchers International, Inc. | \$ 66,170             | \$ 67,391       | \$ 109,467       | \$ 117,701      |

**14. Segment Data**

The Company has two reportable segments: WWI and WW.com. WWI has multiple operating segments which have been aggregated into one reportable segment. WWI and WW.com 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.



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

|                                  | <b>Three Months Ended July 3, 2010</b> |                  |                                      |                     |
|----------------------------------|--|------------------|--------------------------------------|---------------------|
|                                  | <b>WWI</b>                             | <b>WW.com</b>    | <b>Intercompany<br/>Eliminations</b> | <b>Consolidated</b> |
| Revenues from external customers | \$ 315,622                             | \$ 61,120        | \$                                   | \$ 376,742          |
| Intercompany revenue             | 5,821                                  |                  | (5,821)                              |                     |
| <b>Total revenue</b>             | <b>\$ 321,443</b>                      | <b>\$ 61,120</b> | <b>\$ (5,821)</b>                    | <b>\$ 376,742</b>   |
| Depreciation and amortization    | \$ 6,415                               | \$ 1,812         | \$                                   | \$ 8,227            |
| <b>Operating income</b>          | <b>\$ 92,333</b>                       | <b>\$ 19,825</b> | <b>\$</b>                            | <b>112,158</b>      |
| Interest expense                 |  |                  |                                      | 19,583              |
| Other income, net                |  |                  |                                      | 1,017               |
| Provision for income taxes       |  |                  |                                      | 35,615              |
| <b>Net income</b>                |  |                  |                                      | <b>\$ 55,943</b>    |
| Total assets                     | \$ 1,157,841                           | \$ 235,007       | \$ (302,792)                         | \$ 1,090,056        |

|                                  | <b>Three Months Ended July 4, 2009</b> |                  |                                      |                     |
|----------------------------------|--|------------------|--------------------------------------|---------------------|
|                                  | <b>WWI</b>                             | <b>WW.com</b>    | <b>Intercompany<br/>Eliminations</b> | <b>Consolidated</b> |
| Revenues from external customers | \$ 321,796                             | \$ 50,730        | \$                                   | \$ 372,526          |
| Intercompany revenue             | 4,781                                  |                  | (4,781)                              |                     |
| <b>Total revenue</b>             | <b>\$ 326,577</b>                      | <b>\$ 50,730</b> | <b>\$ (4,781)</b>                    | <b>\$ 372,526</b>   |
| Depreciation and amortization    | \$ 5,885                               | \$ 1,368         | \$                                   | \$ 7,253            |
| <b>Operating income</b>          | <b>\$ 95,587</b>                       | <b>\$ 15,753</b> | <b>\$</b>                            | <b>111,340</b>      |
| Interest expense                 |  |                  |                                      | 16,957              |
| Other expense, net               |  |                  |                                      | (479)               |
| Provision for income taxes       |  |                  |                                      | 36,901              |

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|              |              |            |              |    |           |
|--------------|--------------|------------|--------------|----|-----------|
| Net income   |              |            |              | \$ | 57,961    |
| Total assets | \$ 1,212,349 | \$ 170,367 | \$ (297,156) | \$ | 1,085,560 |

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|                                  | <b>Six Months Ended July 3, 2010</b> |                   |                                      |                     |
|----------------------------------|--------------------------------------|-------------------|--------------------------------------|---------------------|
|                                  | <b>WWI</b>                           | <b>WW.com</b>     | <b>Intercompany<br/>Eliminations</b> | <b>Consolidated</b> |
| Revenues from external customers | \$ 647,727                           | \$ 117,011        | \$                                   | \$ 764,738          |
| Intercompany revenue             | 11,073                               |                   | (11,073)                             |                     |
| <b>Total revenue</b>             | <b>\$ 658,800</b>                    | <b>\$ 117,011</b> | <b>\$ (11,073)</b>                   | <b>\$ 764,738</b>   |
| Depreciation and amortization    | \$ 14,186                            | \$ 2,962          | \$                                   | \$ 17,148           |
| <b>Operating income</b>          | <b>\$ 169,560</b>                    | <b>\$ 34,022</b>  | <b>\$</b>                            | <b>203,582</b>      |
| Interest expense                 |                                      |                   |                                      | 38,288              |
| Other income, net                |                                      |                   |                                      | 1,636               |
| Provision for income taxes       |                                      |                   |                                      | 63,632              |
| <b>Net income</b>                |                                      |                   |                                      | <b>\$ 100,026</b>   |
| Total assets                     | \$ 1,157,841                         | \$ 235,007        | \$ (302,792)                         | \$ 1,090,056        |

|                                  | <b>Six Months Ended July 4, 2009</b> |                  |                                      |                     |
|----------------------------------|--------------------------------------|------------------|--------------------------------------|---------------------|
|                                  | <b>WWI</b>                           | <b>WW.com</b>    | <b>Intercompany<br/>Eliminations</b> | <b>Consolidated</b> |
| Revenues from external customers | \$ 663,223                           | \$ 99,881        | \$                                   | \$ 763,104          |
| Intercompany revenue             | 9,362                                |                  | (9,362)                              |                     |
| <b>Total revenue</b>             | <b>\$ 672,585</b>                    | <b>\$ 99,881</b> | <b>\$ (9,362)</b>                    | <b>\$ 763,104</b>   |
| Depreciation and amortization    | \$ 11,438                            | \$ 2,594         | \$                                   | \$ 14,032           |
| <b>Operating income</b>          | <b>\$ 179,177</b>                    | <b>\$ 26,008</b> | <b>\$</b>                            | <b>205,185</b>      |
| Interest expense                 |                                      |                  |                                      | 33,698              |
| Other expense, net               |                                      |                  |                                      | 25                  |
| Provision for income taxes       |                                      |                  |                                      | 66,696              |
| <b>Net income</b>                |                                      |                  |                                      | <b>\$ 104,766</b>   |
| Total assets                     | \$ 1,212,349                         | \$ 170,367       | \$ (297,156)                         | \$ 1,085,560        |



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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 the 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;

the effectiveness of our marketing and advertising programs;

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

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 people from gathering with others;

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;

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

risks associated with unauthorized penetration of our information security;

the impact of disputes with our franchise operators;

the impact of existing and future laws and regulations;

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

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 and the Company refer to Weight Watchers International, Inc. and all its businesses consolidated for purposes of its financial statements; Weight Watchers International and WWI refer to Weight Watchers International, Inc. and all of the Company's businesses other than WeightWatchers.com; WeightWatchers.com refers to WeightWatchers.com, Inc. and all of the Company's Internet-based businesses; NACO refers to our North American Company-owned meeting operations; and China Joint Venture refers to Weight Watchers Danone China Limited and all of its businesses.

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

fiscal 2006 refers to our fiscal year ended December 30, 2006;

fiscal 2008 refers to our fiscal year ended January 3, 2009;

fiscal 2009 refers to our fiscal year ended January 2, 2010;

fiscal 2010 refers to our fiscal year ended January 1, 2011;

fiscal 2011 refers to our fiscal year ended December 31, 2011;

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

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

fiscal 2014 refers to our fiscal year ended January 3, 2015.

The following terms used in this Quarterly Report on Form 10-Q are our trademarks: *Weight Watchers*®, *WeightWatchers.com*® and *ProPoints*®.

You should read the following discussion in conjunction with our Annual Report on Form 10-K for fiscal 2009 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 ).

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**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 margin, operating income and operating income margin, including components thereof, are discussed in this Quarterly Report on Form 10-Q both as reported (on a GAAP basis), and, with respect to the second quarter and first six months of fiscal 2009, as adjusted (on a non-GAAP basis) to include the impact of the previously reported adverse U.K. tax ruling relating to the self-employment status of the Company's U.K. leaders and to exclude the impact of restructuring charges associated with our previously disclosed cost savings initiatives. We generally refer to such non-GAAP financial measures as excluding or adjusting for the impact of this ruling and/or these restructuring charges. Our management believes these non-GAAP financial measures provide useful supplemental information to management and investors regarding the performance of our business and are useful for period-over-period comparisons of the performance of our business. While we believe that these non-GAAP financial measures are useful for management and investors 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 titled measures reported by other companies.

**USE OF CONSTANT CURRENCY**

As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results on a constant currency basis in addition to reported results helps improve our management's and 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 on a constant currency basis or excluding or adjusting for the impact of foreign currency. 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.

**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 2009. Our critical accounting policies have not changed since the end of fiscal 2009.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 3, 2010 COMPARED TO THE THREE MONTHS ENDED JULY 4, 2009**

Fiscal 2010 second quarter revenues were \$376.7 million, an increase of \$4.2 million, or 1.1%, as compared to the prior year period. Net income attributable to the Company for fiscal 2010 second quarter was \$56.3 million, a decrease of \$2.5 million, or 4.2%, from \$58.8 million for the prior year period.

The table below shows our consolidated statements of income for the three months ended July 3, 2010 versus the three months ended July 4, 2009 on both a reported and an as adjusted basis. Results for the three months ended July 4, 2009 are adjusted to include expenses associated with the impact of the previously disclosed adverse U.K. self-employment tax ruling and to exclude the restructuring charges associated with our previously disclosed cost savings initiatives. See Non-GAAP Financial Measures above.



**Table of Contents****Statements of Income as Reported and Adjusted**

|   | (In Millions, except per share amounts) |                 |                         |             |
|---|---|-----------------|-------------------------|-------------|
|   | For the Three Months Ended              |                 |                         |             |
|   | July 3,<br>2010                         | July 4,<br>2009 | Increase/<br>(Decrease) | %<br>Change |
| Revenues, net   | \$ 376.7                                | \$ 372.5        | \$ 4.2                  | 1.1%        |
| Cost of revenues (as adjusted) <sup>(1)</sup>                           | 165.0                                   | 166.1           | (1.1)                   | (0.7%)      |
| U.K. self-employment tax ruling <sup>(1)</sup>                          |   | (1.1)           | 1.1                     | 100.0%      |
| Cost of revenues  | 165.0                                   | 165.0           | 0.0                     | 0.0%        |
| Gross Profit  | 211.7                                   | 207.5           | 4.2                     | 2.0%        |
| Gross Margin %  | 56.2%                                   | 55.7%           |                         |             |
| Marketing expenses  | 56.7                                    | 53.2            | 3.5                     | 6.6%        |
| Selling, general & administrative expenses (as adjusted) <sup>(1)</sup> | 42.8                                    | 41.0            | 1.8                     | 4.4%        |
| Impact of restructuring <sup>(1)</sup>                                  |   | 2.0             | (2.0)                   | (100.0%)    |
| Selling, general & administrative expenses                              | 42.8                                    | 43.0            | (0.2)                   | (0.5%)      |
| Operating income  | 112.2                                   | 111.3           | 0.9                     | 0.7%        |
| Operating Income Margin %   | 29.8%                                   | 29.9%           |                         |             |
| Interest expense  | 19.6                                    | 16.9            | 2.7                     | 16.0%       |
| Other expense (income), net   | 1.1                                     | (0.5)           | 1.6                     | (100.0%)    |
| Income before income taxes  | 91.5                                    | 94.9            | (3.4)                   | (3.6%)      |
| Provision for income taxes  | 35.6                                    | 36.9            | (1.3)                   | (3.5%)      |
| Net income  | 55.9                                    | 58.0            | (2.1)                   | (3.6%)      |
| Net loss attributable to the noncontrolling interest                    | 0.4                                     | 0.8             | (0.4)                   | (50.0%)     |
| Net income attributable to the Company                                  | \$ 56.3                                 | \$ 58.8         | \$ (2.5)                | (4.2%)      |
| Weighted average diluted shares outstanding                             | 76.9                                    | 77.1            |                         |             |
| Diluted EPS   | \$ 0.73                                 | \$ 0.76         | \$ (0.03)               | 3.9%        |

Note: Totals may not sum due to rounding.

(1) With respect to the above table, as adjusted is a non-GAAP financial measure that adjusts the consolidated statements of income for the three months ended July 4, 2009 to include \$1.1 million in the cost of revenues for the impact of the U.K. self-employment tax ruling attributable to that quarter, and to exclude from selling, general and administrative expenses the impact of a \$2.0 million restructuring charge recorded in that period. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures. As previously reported, in February 2010, the Company received an adverse U.K. self-employment tax ruling related to the self-employment status of its U.K. leaders which resulted in a charge to the fourth quarter of fiscal 2009 for fiscal 2009 and prior years. In addition, this ruling

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resulted in a current period charge in the second quarter of fiscal 2010 in the amount of \$1.1 million. Our cost of revenues remained flat at \$165.0 million for the second quarter of fiscal 2010 as compared to the second quarter of fiscal 2009. After adjusting the second quarter of fiscal 2009 for the portion of the U.K. self-employment tax ruling charge attributable to that quarter, as shown in the table above, our cost of revenues in the second quarter of fiscal 2010 would have declined by \$1.1 million, or 0.7%, versus the prior year period.

The Company also recorded \$2.0 million of restructuring charges in the second quarter of fiscal 2009 associated with the previously announced cost savings initiatives. Selling, general and administrative expenses were \$0.2 million, or 0.5%, lower in the second quarter of fiscal 2010 versus the second quarter of fiscal 2009. Excluding the restructuring charges in the second quarter of fiscal 2009, selling, general and administrative expenses would have been \$1.8 million, or 4.4%, higher in the second quarter of fiscal 2010 than in the second quarter of fiscal 2009.

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The following summary table sets forth the reconciliation of selected financial data for the three months ended July 4, 2009 on a comparable basis, after the two adjustments as noted and discussed above are reflected:

|   | Revenues,<br>net | Gross<br>Profit | Gross<br>Margin % | Operating<br>Income | Operating<br>Income<br>Margin % | Net<br>Income<br>Attributable<br>to<br>Company | Diluted<br>EPS |
|---|------------------|-----------------|-------------------|---------------------|---------------------------------|--|----------------|
| <b>Second quarter of fiscal 2009</b>                            | \$ 372.5         | \$ 207.5        | 55.7%             | \$ 111.3            | 29.9%                           | \$ 58.8  | \$ 0.76        |
| <b>Adjustments to Reported Amounts</b>                          |                  |                 |                   |                     |                                 |  |                |
| Restructuring Costs   |                  |                 |                   | 2.0                 |                                 | 1.2  | 0.02           |
| U.K. Self-Employment Tax Ruling                                 |                  | (1.1)           |                   | (1.1)               |                                 | (0.7)  | (0.01)         |
| <b>Total Adjustments</b>  |                  | (1.1)           |                   | 0.9                 |                                 | 0.5  | 0.01           |
| <b>Second quarter of fiscal 2009, as adjusted<sup>(1)</sup></b> | \$ 372.5         | \$ 206.4        | 55.4%             | \$ 112.3            | 30.1%                           | \$ 59.2  | \$ 0.77        |

Note: Totals may not sum due to rounding.

(1) With respect to the above table, as adjusted is a non-GAAP financial measure that adjusts certain selected financial data for the three months ended July 4, 2009. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures. Net income attributable to the Company for the second quarter of fiscal 2010 of \$56.3 million, which declined by \$2.5 million, or 4.2%, from \$58.8 million in the prior year period, would have declined by \$2.9 million, or 5.0%, as compared to the adjusted second quarter of fiscal 2009 net income of \$59.2 million. Diluted earnings per share of \$0.73 for the second quarter of fiscal 2010 declined by \$0.03, or 3.9%, as compared to \$0.76 for the second quarter of fiscal 2009. After adjusting the second quarter of fiscal 2009 for the restructuring charges, which increased earnings per share by \$0.02, and for the U.K. self-employment tax ruling, which decreased earnings per share by \$0.01, diluted earnings per share for the second quarter of fiscal 2009 would have been \$0.77. Comparing second quarter fiscal 2010 earnings per share to the adjusted 2009 level would have resulted in a decline of \$0.04, or 5.2%. Higher interest expense accounted for \$0.02 of the decline in earnings per share in the second quarter of 2010 versus the prior year period.

**Components of Revenue and Volumes**

For the second quarter of fiscal 2010, net revenues of \$376.7 million increased by 1.1% compared to \$372.5 million in the comparable period of fiscal 2009. The second quarter of fiscal 2010 revenues included an unfavorable impact from foreign currency exchange rates, which decreased our revenues by \$2.5 million, or 0.7%. Excluding this impact, revenues would have increased by 1.8% versus the prior year period. Strong performance in our WeightWatchers.com business, where revenues increased by 20.6% in the second quarter 2010, was the key driver. In the meeting business, revenues declined in total by 1.6%, with increased revenues in our Continental Europe business offset by weaker than prior year performance in the United Kingdom and a slight decline in NACO.

For the second quarter of fiscal 2010, global meeting fees were \$214.2 million, a decrease of \$1.8 million, or 0.8%, from the prior year period. On a constant currency basis, fiscal 2010 second quarter global meeting fees were slightly behind the prior year period with a decline of \$0.4 million, or 0.2%. Global meeting paid weeks of 23.3 million were 0.2 million, or 0.8%, above 23.1 million in the prior year period. Growth in meeting paid weeks internationally was partially offset by a decline in NACO. Paid week volume trends improved in the second quarter 2010 as compared to the decline of 4.2% experienced in the first quarter 2010 versus the first quarter of 2009. Global attendance in the second quarter of fiscal 2010 declined by 4.4% versus the second quarter of fiscal 2009, a marked improvement from the 12.0% decline that we experienced in the first quarter of fiscal 2010 as compared to the first quarter of fiscal 2009. This improvement in the attendance trend was driven primarily by better performance in NACO. Global meeting fees per paid week decreased by 1.6% in second quarter fiscal 2010 versus the prior year period, and on a constant currency basis were down 1.0%. The slight decline was mainly as a result of promotional activity and globally higher penetration of Monthly Pass, our value priced recurring payment plan model.

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In NACO, meeting fees for the second quarter of fiscal 2010 were \$143.5 million, a 1.1% or \$1.5 million decrease from \$145.0 million for the second quarter of fiscal 2009, driven by a 1.8% decline in paid weeks. Paid weeks declined from 14.6 million in the second quarter of fiscal 2009 to 14.4 million in the second quarter of fiscal 2010. Attendance volume decreased 0.4 million, or 4.9%.

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from 8.5 million in the second quarter of fiscal 2009 to 8.1 million in the second quarter of fiscal 2010. Volume trends in NACO improved in the second quarter with the launch of the spring marketing campaign featuring Jennifer Hudson at the beginning of the quarter. Prior to that, in the first fiscal quarter of 2010, NACO had experienced paid week declines of 8% and attendance declines of 16% as compared to the first fiscal quarter of 2009. Second quarter fiscal 2010 meeting fees per paid week were up marginally 0.8%, or 0.1% on a constant currency basis versus the prior year period.

Our international meeting fees were \$70.7 million for the second quarter of fiscal 2010, a decrease of \$0.2 million, or 0.3%. On a constant currency basis, international meeting fees increased \$2.1 million, or 3.0%, as compared to the prior year period driven by a 5.3% increase in meeting paid weeks. Paid weeks volume growth was driven by Continental Europe, on the strength of its recent program innovation, and by higher penetration of Monthly Pass in many of our international countries. International meeting fees per paid week in the second quarter of fiscal 2010 declined 5.4%, or 2.2% on a constant currency basis, versus the prior year period. Higher penetration of Monthly Pass, our value priced recurring payment plan model, and increased promotional activity were the main drivers of this decline. International meeting attendance declined by 3.7% in the second quarter as compared to the prior year quarter, with the United Kingdom's decline, offsetting an increase in Continental Europe.

Global in-meeting product sales for the second quarter of fiscal 2010 were \$68.2 million, a decrease of \$1.6 million, or 2.3%, from \$69.8 million in the second quarter of fiscal 2009. Global in-meeting product sales per attendee increased 2.2% in the second quarter of fiscal 2010 versus the prior year period, and increased 3.6% on a constant currency basis driven by NACO. NACO's in-meeting product sales per attendee increased 9.9% versus the prior year period. NACO's total in-meeting product sales rose 4.6% in the second quarter, to \$36.8 million, despite 4.9% lower attendances in the quarter versus the prior year period. New consumable product launches along with an effective promotional campaign drove increased product sales penetration in NACO. International in-meeting product sales per attendee decreased in the second quarter of fiscal 2010 by 5.8% versus the prior year period, or 2.1% on a constant currency basis. International in-meeting product sales in total were \$31.4 million in the second quarter of fiscal 2010, a decrease of 9.3%, or 5.7% on a constant currency basis, versus the prior year period.

Internet revenues, which include subscription revenues from sales of Weight Watchers Online and Weight Watchers eTools as well as Internet advertising revenues, grew \$10.3 million, or 20.6%, to \$60.6 million for the second quarter of fiscal 2010 from \$50.2 million for the second quarter of fiscal 2009. Our investment in WeightWatchers.com global marketing was 24.7% higher in this year's second quarter versus the prior year period. As part of our increased investment in WeightWatchers.com marketing, we launched a new campaign in North America, and we integrated marketing activities with the meeting business in some of our international countries, which proved to be growth drivers. Second quarter fiscal 2010 online sign-ups grew 41.1% versus the prior year period, and end-of-period active Online subscribers increased 25.8%, from 843,000 at July 4, 2009 to 1,061,000 at July 3, 2010.

Other revenues, comprised primarily of licensing revenues and revenues from our publications, were \$30.5 million for the second quarter of fiscal 2010, a decrease versus the second quarter of fiscal 2009 of \$2.4 million, or 7.3% and 6.6% on a constant currency basis. Our global licensing revenues of \$15.0 million in the quarter continued to be negatively impacted by changes in consumer discretionary spending habits. In the second quarter 2010, licensing revenues declined \$1.2 million or 7.2%, and 5.9% on a constant currency basis, versus the prior year period. The termination of one license in NACO accounted for 35% of the global decline in constant currency. Excluding the terminated license, NACO licensing revenues which declined 5.1% in total in the second quarter were up marginally, 0.2%. International licensing revenues, which continue to be especially impacted by the weak economy, decreased 9.4% in the second quarter of fiscal 2010 versus the prior year period, a decrease of 6.8% on a constant currency basis.

Franchise royalties for the second quarter of fiscal 2010 were \$2.1 million in the United States and \$1.1 million internationally. Total franchise royalties of \$3.2 million were 9.4% lower in the second quarter of fiscal 2010 versus the prior year period, and 9.6% lower on a constant currency basis, underperforming compared to the Company-owned meeting business.

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### Expenses and Margins

Cost of revenues remained flat at \$165.0 million in the second quarter of fiscal 2010 as compared to the second quarter of fiscal 2009. After adjusting the second quarter of fiscal 2009 for the impact of the U.K. self-employment tax ruling, cost of revenues would have been \$166.1 million in that period. In comparison, second quarter 2010 cost of revenues would have decreased 0.7% versus the adjusted prior year period.

Gross profit for the second quarter of fiscal 2010 was \$211.7 million, an increase of \$4.2 million, or 2.0%, versus the second quarter of fiscal 2009. After adjusting the second quarter of fiscal 2009 for the U.K. self-employment tax ruling, gross profit in that period would have been \$206.4 million, and in comparison, second quarter 2010 gross profit would have increased \$5.3 million, or 2.6%, versus the adjusted prior year period. Gross profit margin was 56.2% in the second quarter of fiscal 2010 as compared to 55.7%, or 55.4% as adjusted, in the second quarter of fiscal 2009. The increase in gross profit margin was attributable to the WeightWatchers.com business and the Continental Europe meeting business where attendance per meeting increased driven by the *ProPoints* innovation. The meeting business gross margin was virtually flat (down 0.1%) versus prior year. Continental Europe's gross margin percentage increase was offset by the impact on margin of product discounting in NACO and lower attendance per meeting in the United Kingdom.

Marketing expenses for the second quarter of fiscal 2010 of \$56.7 million increased \$3.5 million compared to the second quarter of fiscal 2009, up 6.6%, or 6.5% on a constant currency basis. The increase was the result of the heavier investment in WeightWatchers.com marketing, which successfully drove incremental online sign-ups and revenue. Meeting business marketing expenses declined slightly in the second quarter versus the prior year quarter. Marketing expenses as a percentage of revenues increased to 15.0% in the second quarter of fiscal 2010 as compared to 14.3% in the prior year period.

Selling, general and administrative expenses were \$42.8 million for the second quarter of fiscal 2010 versus \$43.0 million for the second quarter of fiscal 2009, a decrease of \$0.2 million, or 0.5%. On a constant currency basis, selling, general and administrative expenses increased 0.2% for the second quarter of fiscal 2010 as compared to the second quarter of fiscal 2009. After adjusting the second quarter of fiscal 2009 to exclude \$2.0 million of restructuring charges associated with our previously disclosed cost saving initiatives, selling, general and administrative expenses for the second quarter of fiscal 2009 would have been \$41.0 million, and 2010 second quarter selling, general and administrative expenses would have increased \$1.8 million, or 4.4%, versus the adjusted second quarter 2009 level. The second quarter of fiscal 2010 was impacted by higher legal and professional fees and bad debt expense associated with one of our European licensees, which offset the cost benefits that resulted from our 2009 restructuring and other cost saving efforts. Selling, general and administrative expenses as a percentage of revenues were 11.4% in the second quarter of 2010 and 11.0% in the second quarter of 2009.

Our operating income for the second quarter of fiscal 2010 was \$112.2 million as compared to \$111.3 million in the second quarter of fiscal 2009, an increase of \$0.9 million, or 0.7%. On a constant currency basis, the second quarter of fiscal 2010 operating income was \$113.3 million, an increase of \$1.9 million, or 1.7%, versus the prior year period. After adjusting the second quarter of fiscal 2009 for the adverse U.K. self-employment tax ruling and the impact of the restructuring charges, operating income in that period would have been \$112.3 million, and in comparison, 2010 operating income for the second quarter would have declined by \$0.1 million, or 0.1%, versus the adjusted second quarter of fiscal 2009. Our operating income margin for the second quarter of fiscal 2010 was 29.8%, a decline of 10 basis points versus 29.9% in the second quarter of fiscal 2009; however, on an adjusted basis, our operating income margin would have declined 30 basis points. While gross margin increased in the quarter versus prior year, operating income margin compression resulted primarily from higher marketing as a percentage of revenues and higher selling, general and administrative expenses as a percentage of revenues.

Interest expense was \$19.6 million for the second quarter of fiscal 2010, an increase of \$2.7 million, or 16.0%, from \$16.9 million in the second quarter of fiscal 2009. This resulted from higher amortization of transaction fees, and increases in our credit spread resulting from our recent debt extension and in the average notional value of interest rate swaps. The average credit spread increased from 1.15% in the second quarter of 2009 to 1.78% in the second quarter of 2010. The average notional value of our interest rate swaps increased from \$900.0 million in the second quarter of fiscal 2009 to \$1,271.3 million in the second quarter of fiscal 2010. These increases were offset by lower LIBOR rates and a decrease in the average debt outstanding. The resultant effective interest rate increased by 85 basis points from 4.18% in the second quarter of fiscal 2009 to 5.03% in the second quarter of fiscal 2010. The average value of debt outstanding decreased from \$1,560.7 million in the second quarter of 2009 to \$1,430.5 million in the second quarter of 2010.

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For the second quarter of fiscal 2010, we reported other expense of \$1.1 million, as compared to \$0.5 million of other income in the second quarter of fiscal 2009. The change resulted primarily from the impact of foreign currency exchange rates on intercompany transactions.

The effective tax rate on our results for the second quarter of fiscal 2010 and 2009 was 38.9%.

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JULY 3, 2010 COMPARED TO THE SIX MONTHS ENDED JULY 4, 2009**

For the first six months of fiscal 2010, our revenues were \$764.7 million, an increase of \$1.6 million, or 0.2%, as compared to the prior year period. Net income attributable to the Company for the first six months of fiscal 2010 was \$100.9 million, a decrease of \$5.2 million, or 4.9%, from \$106.1 million for the prior year period.

The table below shows our consolidated statements of income for the six months ended July 3, 2010 versus the six months ended July 4, 2009 on both a reported basis and an as adjusted basis. Results for the six months ended July 4, 2009 are adjusted to include expenses associated with the impact of the previously disclosed adverse U.K. self-employment tax ruling and to exclude the restructuring charges associated with our previously disclosed cost savings initiatives. See [Non-GAAP Financial Measures](#) above.

**Table of Contents****Statements of Income as Reported and Adjusted**

|   | (In Millions, except per share amounts)<br>For the Six Months Ended |                 |                         |             |
|---|---|-----------------|-------------------------|-------------|
|   | July 3,<br>2010   | July 4,<br>2009 | Increase/<br>(Decrease) | %<br>Change |
| Revenues, net   | \$ 764.7  | \$ 763.1        | \$ 1.6                  | 0.2%        |
| Cost of revenues (as adjusted) <sup>(1)</sup>                           | 341.3   | 345.6           | (4.3)                   | (1.2%)      |
| U.K. self-employment tax ruling <sup>(1)</sup>                          |   | (2.1)           | 2.1                     | 100.0%      |
| Cost of revenues  | 341.3   | 343.5           | (2.2)                   | (0.6%)      |
| Gross Profit  | 423.4   | 419.6           | 3.8                     | 0.9%        |
| Gross Margin %  | 55.4%   | 55.0%           |                         |             |
| Marketing expenses  | 131.2   | 127.7           | 3.5                     | 2.7%        |
| Selling, general & administrative expenses (as adjusted) <sup>(1)</sup> | 88.6  | 81.6            | 7.0                     | 8.6%        |
| Impact of restructuring <sup>(1)</sup>                                  |   | 5.1             | (5.1)                   | (100.0%)    |
| Selling, general & administrative expenses                              | 88.6  | 86.7            | 1.9                     | 2.2%        |
| Operating income  | 203.6   | 205.2           | (1.6)                   | (0.8%)      |
| Operating Income Margin %   | 26.6%   | 26.9%           |                         |             |
| Interest expense  | 38.3  | 33.7            | 4.6                     | 13.6%       |
| Other expense, net  | 1.6   |                 | 1.6                     | 100.0%      |
| Income before income taxes  | 163.7   | 171.5           | (7.8)                   | (4.5%)      |
| Provision for income taxes  | 63.7  | 66.7            | (3.0)                   | (4.5%)      |
| Net income  | 100.0   | 104.8           | (4.8)                   | (4.6%)      |
| Net loss attributable to the noncontrolling interest                    | 0.9   | 1.3             | (0.4)                   | (30.8%)     |
| Net income attributable to the Company                                  | \$ 100.9  | \$ 106.1        | \$ (5.2)                | (4.9%)      |
| Weighted average diluted shares outstanding                             | 77.1  | 77.1            |                         |             |
| Diluted EPS   | \$ 1.31   | \$ 1.38         | \$ (0.07)               | (5.1%)      |

Note: Totals may not sum due to rounding.

(1) With respect to the above table, as adjusted is a non-GAAP financial measure that adjusts the consolidated statements of income for the six months ended July 4, 2009 to include \$2.1 million in the cost of revenues for the impact of the U.K. self-employment tax ruling attributable to that period, and to exclude from selling, general and administrative expenses the impact of a \$5.1 million restructuring charge recorded in that period. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures. As previously reported, in February 2010, the Company received an adverse U.K. self-employment tax ruling related to the self-employment status of its leaders, which resulted in a charge to the fourth quarter of fiscal 2009 for fiscal 2009 and prior years. In addition, this ruling resulted



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in a year to date charge for fiscal 2010 of \$2.1 million. Our cost of revenues decreased by \$2.2 million, or 0.6%, from \$343.5 million for the first six months of fiscal 2009 to \$341.3 million for the first six months of fiscal 2010. After adjusting the first six months of fiscal 2009 for the portion of the U.K. self-employment tax ruling charge attributable to that period, as shown in the table above, our cost of revenues in the first six months of fiscal 2010 would have declined by \$4.3 million, or 1.2%, versus the prior year period.

The Company also recorded \$5.1 million of restructuring charges in the first six months of fiscal 2009 associated with the previously announced cost savings initiatives. Selling, general and administrative expenses were \$1.9 million, or 2.2%, higher in the

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first six months of fiscal 2010 versus the first six months of fiscal 2009. After excluding the restructuring charges from the first six months of fiscal 2009, selling, general and administrative expenses in the first six months of fiscal 2010 would have increased by \$7.0 million, or 8.6%, versus the first six months of fiscal 2009 as adjusted. This increase in selling, general and administrative expenses was the result of higher legal and professional fees in our North American and United Kingdom meeting businesses, and higher bad debt reserves.

The following summary table sets forth the reconciliation of selected financial data for the six months ended July 4, 2009 on a comparable basis, after the two adjustments as noted and discussed above are reflected:

|   | Revenues,<br>net | Gross<br>Profit | Gross<br>Margin % | Operating<br>Income | Operating<br>Income<br>Margin % | Net<br>Income<br>Attributable<br>to<br>Company | Diluted<br>EPS |
|---|------------------|-----------------|-------------------|---------------------|---------------------------------|--|----------------|
| <b>Six months of fiscal 2009</b>                            | \$ 763.1         | \$ 419.6        | 55.0%             | \$ 205.2            | 26.9%                           | \$ 106.1                                       | \$ 1.38        |
| <b>Adjustments to Reported Amounts</b>                      |                  |                 |                   |                     |                                 |  |                |
| Restructuring Charge  |                  |                 |                   | 5.1                 |                                 | 3.1  | 0.04           |
| U.K. Self-Employment Tax Ruling                             |                  | (2.1)           |                   | (2.1)               |                                 | (1.5)  | (0.02)         |
| <b>Total Adjustments</b>                                    |                  | <b>(2.1)</b>    |                   | <b>3.0</b>          |                                 | <b>1.6</b>                                     | <b>0.02</b>    |
| <b>Six months of fiscal 2009, as adjusted<sup>(1)</sup></b> | \$ 763.1         | \$ 417.5        | 54.7%             | \$ 208.2            | 27.3%                           | \$ 107.7                                       | \$ 1.40        |

Note: Totals may not sum due to rounding.

(1) With respect to the above table, as adjusted is a non-GAAP financial measure that adjusts certain selected financial data for the six months ended July 4, 2009. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures. Net income attributable to the Company for the first six months of fiscal 2010 of \$100.9 million declined by \$5.2 million, or 4.9%, from \$106.1 million in the prior year period. Compared to the adjusted net income for the first six months of fiscal 2009 of \$107.7 million, as shown in the table above, net income for the first six months of 2010 would have declined by \$6.8 million, or 6.3%. Diluted earnings per share of \$1.31 for the first six months of fiscal 2010 declined by \$0.07, or 5.1%, as compared to \$1.38 for the first six months of fiscal 2009. After adjusting the first six months of fiscal 2009 earnings per share for \$0.04 associated with the restructuring charges and \$0.02 for the U.K. self-employment tax ruling, diluted earnings per share for the first six months of fiscal 2009 would have been \$1.40 and 2010 diluted earnings per share would have declined \$0.09, or 6.4%, compared to the adjusted 2009 period.

**Components of Revenue and Volumes**

For the first six months of fiscal 2010, net revenues of \$764.7 million increased by 0.2% compared to \$763.1 million in the comparable period of fiscal 2009. Revenues in the first six months of fiscal 2010 benefited from favorable foreign currency exchange rates in the first quarter of fiscal 2010, which increased our revenues for the six months by \$12.7 million, or 1.7%. Excluding this benefit, revenues for the first six months of 2010 decreased by 1.4% versus the prior year period, with second quarter 2010 revenue growth of 1.8% on a constant currency basis offsetting much of the 4.5% constant currency revenue shortfall experienced in the first quarter. The first quarter shortfall, driven by the meeting business, was the result of a combination of the impact of bad weather and cycling against a prior year innovation. These first quarter factors resulted in reduced meeting enrollments, and lowered the propensity of our members to attend meetings. Overall in the six month period of 2010, robust growth in the WeightWatchers.com business and volume driven growth in Continental Europe was more than offset by performance weakness in the meeting business in the first half in the United Kingdom, and in the first quarter in NACO.

For the first half of fiscal 2010, global meeting fees were \$432.5 million, a decrease of \$9.5 million, or 2.1%, from the prior year period. On a constant currency basis, fiscal 2010 first half global meeting fees as compared to the prior year period declined \$16.3 million, or 3.7%. First half volume declines in our NACO and United Kingdom markets more than offset volume gains in Continental Europe, where we launched the new **ProPoints** program innovation. This overall volume performance, which was weaker in the first quarter 2010 versus the first quarter of fiscal 2009 trended up in the second quarter 2010 versus the second quarter of fiscal 2009. Global meeting paid weeks declined 0.8 million, or 1.7%.

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in the first half of fiscal 2010, versus the prior year period. In the second quarter of fiscal 2010, global meeting paid weeks rose markedly, up 7.7% versus second quarter of 2009, as compared to a 4.2%

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decline in the first quarter of fiscal 2010 the first quarter of 2009. On a per paid week basis, first half fiscal 2010 global meeting fees decreased slightly versus the prior year period, and decreased 2.0% on a constant currency basis, mainly as a result of higher penetration of Monthly Pass, our value priced recurring payment plan. Global attendance in the first half of fiscal 2010 declined by 8.4% to 28.6 million from 31.2 million in the first half of fiscal 2009. As with the other volume metrics noted above, the negative trend in global attendance volume also moderated through the first six months of the year on the strength of better enrollment performance. Attendance performance improved from a 12.0% decline in the first quarter of 2010 versus the first quarter of 2009, to a 4.4% decline in the second quarter 2010 versus the second quarter of 2009.

In NACO, meeting fees for the first half of fiscal 2010 were \$285.9 million, a decrease of \$15.0 million, or 5.0%, from \$301.0 million for the first half of fiscal 2009. The decrease in meeting fees was driven by a 5.0% decline in paid weeks, from 29.8 million in the first half of fiscal 2009 to 28.3 million in the first half of fiscal 2010. Attendance volume decreased by 2.0 million, or 10.9%, from 18.5 million in the first half of fiscal 2009 to 16.5 million in the first half of fiscal 2010. This decline was due primarily to the extreme weather and the lack of a new program innovation in the first quarter of fiscal 2010. Beginning on April 1, 2010, we successfully launched a new marketing campaign featuring Jennifer Hudson, which resulted in improved year-over-year performance in the second quarter relative to first quarter year-over-year performance. Attendance versus the prior year quarter declined 4.9% in the second quarter of fiscal 2010 as compared to a decline of 16% in the first quarter 2010. Paid weeks versus the prior year quarter declined 1.8% in the second quarter 2010 as compared to a decline of 8% in the first quarter 2010. First half fiscal 2010 meeting fees per paid week were flat with the same period in the prior year, but decreased 0.9% on a constant currency basis versus the prior year period.

Our international meeting fees were \$146.5 million for the first six months of fiscal 2010, an increase of \$5.5 million, or 3.9%, from the prior year period. On a constant currency basis, international meeting fees increased \$1.1 million, or 0.8%, driven by a 3.9% increase in meeting paid weeks. Monthly Pass was the primary driver of this increase in meeting paid weeks in our international business in the first six months of fiscal 2010 versus the prior year period, with most of the increase coming from Continental Europe. In Continental Europe, higher volume was driven by the success of our new program innovation, *ProPoints*. International meeting fees per paid week in the first six months of fiscal 2010 increased slightly, up 0.1%, but declined 3.0% on a constant currency basis, versus the prior year period. The decrease in international meeting paid weeks resulted from higher penetration of value priced Monthly Pass, higher promotional activity, and a return to higher value added tax, or VAT, rates in the United Kingdom after a temporary government abatement.

Global in-meeting product sales for the first half of fiscal 2010 were \$148.2 million, a decrease of \$1.5 million, or 1.0%, from \$149.7 million in the first half of fiscal 2009. Global in-meeting product sales per attendee increased 8.1% in the first half of fiscal 2010 versus the prior year period, or 6.2% on a constant currency basis. In NACO, first half fiscal 2010 in-meeting product sales of \$77.0 million increased by \$0.1 million, or 0.1%, versus the prior year period on the strength of a 12.3% increase in in-meeting product sales per attendee versus the prior year period. This was primarily the result of new consumable product launches along with an effective promotional campaign. International in-meeting product sales per attendee increased 2.8% in the first half of fiscal 2010 versus the prior year period, but declined 0.1% on a constant currency basis. International in-meeting product sales in total were \$71.3 million in the first half of fiscal 2010, a decrease of 2.2%, or 5.0% on a constant currency basis, versus the prior year period.

Internet revenues, which include subscription revenues from sales of Weight Watchers Online and Weight Watchers eTools as well as Internet advertising revenues, grew \$17.2 million, or 17.4%, to \$115.9 million for the first six months of fiscal 2010 from \$98.7 million for the first six months of fiscal 2009. On a constant currency basis, Internet revenues rose 15.7% in the first six months of fiscal 2010 versus the prior year period, driven by higher online sign-ups. Online sign-ups grew 20.5% in the first six months of fiscal 2010 versus the prior year period. End-of-period active Online subscribers increased 25.8%, from 843,000 at July 4, 2009 to 1,061,000 at July 3, 2010. This growth was driven by a new and highly effective marketing campaign in the United States, additional TV and integrated marketing activities in some of our international countries, and the new *ProPoints* program in Continental Europe.

Other revenues, comprised primarily of licensing revenues and revenues from our publications were \$61.6 million for the first six months of fiscal 2010, a decrease of \$3.6 million, or 5.5%, from \$65.2 million in the first six months of fiscal 2009. Excluding the

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impact of foreign currency, other revenues were down 7.5% in the first six months of fiscal 2010 as compared to the first six months of fiscal 2009. Our global licensing revenues in the first half of fiscal 2010 decreased 4.5%, or 6.3% on a constant currency basis versus the prior year period. NACO licensing revenues declined 7.6% in the first half of fiscal 2010 versus the prior year period with 4.9% of the decline resulting from the change in certain licensee relationships. International licensing revenues decreased 1.5% in the first half of fiscal 2010 versus the prior year period, a decrease of 5.2% on a constant currency basis. The Continental European countries continued to be impacted by the weak economy.

Franchise royalties for the first half of fiscal 2010 were \$4.2 million in the United States and \$2.4 million internationally. Total franchise royalties of \$6.6 million were 12.6% lower in the first half of fiscal 2010 versus the prior year period, and 14.5% lower on a constant currency basis, underperforming compared to the Company-owned meeting business.

**Expenses and Margins**

Cost of revenues was \$341.3 million for the first six months of fiscal 2010, a decrease of \$2.2 million, or 0.6%, from \$343.5 million for the prior year period. After adjusting the first six months of fiscal 2009 for the impact of the U.K. self-employment tax ruling, cost of revenues for that period would have been \$345.6 million. When comparing the first six months of fiscal 2010 to the adjusted 2009 level, cost of revenues would have decreased 1.2%.

Gross profit for the first six months of fiscal 2010 of \$423.4 million, which increased \$3.8 million, or 0.9%, would have increased \$5.9 million, or 1.4%, from \$417.5 million for the first half of fiscal 2009 after adjusting for the U.K. self-employment tax ruling. Gross profit margin was 55.4% in the first six months of fiscal 2010 as compared to gross profit margin of 55.0%, or 54.7% as adjusted, in the first six months of fiscal 2009. Margin growth occurred in the WeightWatchers.com business and in the Continental Europe meeting business. This growth in gross profit margin was partially offset by lower gross profit margin in NACO and the United Kingdom in the first six months of 2010 versus the same period in 2009.

Marketing expenses for the first six months of fiscal 2010 of \$131.2 million increased from the first six months of fiscal 2009, by 2.7%. Excluding the impact of foreign currency, marketing expenses were nearly flat, up \$0.2 million, or 0.1%, in the first six months of fiscal 2010 versus the prior year period. Marketing expenses increased in the WeightWatchers.com business globally. This increase was almost completely offset by lower spending in the meeting business, mainly as a result of advertising rate efficiencies and the timing of winter production costs. Marketing expenses as a percentage of revenues were 17.2%, or 17.0% on a constant currency basis, in the first six months of fiscal 2010 as compared to 16.7% in the prior year period.

Selling, general and administrative expenses were \$88.6 million for the first six months of fiscal 2010 versus \$86.7 million for the first six months of fiscal 2009, an increase of \$1.9 million, or 2.2%. On a constant currency basis, selling, general and administrative expenses increased 0.3%. After adjusting the first six months of fiscal 2009 to exclude the restructuring charges associated with our previously disclosed cost saving initiatives, selling, general and administrative expenses for the first six months of fiscal 2010 would have increased \$7.0 million, or 8.6%, compared to \$81.6 million in the first six months of fiscal 2009. The increase was driven by higher legal and professional fees and bad debt expense associated with one of our European licensees which offset the cost benefits that resulted from our 2009 restructuring and other cost saving efforts. Selling, general and administrative expenses as a percentage of revenues for the first six months of fiscal 2010 were 11.6% and for the first six months of fiscal 2009 were 11.4%, or 10.7% on an as adjusted basis.

Our operating income for the first six months of fiscal 2010 was \$203.6 million, a decrease of \$1.6 million, or 0.8%, from \$205.2 million in the first six months of fiscal 2009. On a constant currency basis, the first six months of fiscal 2010 operating income was \$202.3 million, a decrease of \$2.9 million, or 1.4%, versus the prior year period. For the first six months of 2009, after excluding the restructuring charges associated with our cost saving initiatives and including the impact of the U.K. self-employment tax ruling, adjusted operating income would have been \$208.2 million. When comparing the six months 2010 operating income to this adjusted 2009 operating income, 2010 operating income for the period would have decreased by \$5.9 million, or 2.8%. Our operating income margin for the first six months of fiscal 2010 was 26.6%, a decline of 30 basis points versus 26.9% in the first six months of fiscal

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2009, but a decline of 70 basis points when comparing to the adjusted 2009 operating income margin of 27.3%. This margin compression resulted from higher marketing and selling, general and administrative expenses as a percentage of revenues partially offset by an increase in the gross profit margin, as noted above.

Interest expense was \$38.3 million for the first six months of fiscal 2010, an increase of \$4.6 million, or 13.6%, from \$33.7 million in the first six months of fiscal 2009. Higher interest expense was driven by higher amortization of transaction fees, increases in our credit spread resulting from our recent debt extension and in the average notional value of interest rate swaps. The average credit spread increased from 1.15% in the first six months of 2009 to 1.47% in the first six months of 2010. The average notional value of our interest rate swaps increased from \$900.0 million in the first six months of fiscal 2009 to \$1,298.1 million in the first six months of fiscal 2010. The impact of these was partially offset by lower LIBOR rates and a decrease in the average debt outstanding. The resultant effective interest rate increased by 88 basis points from 4.11% in the first six months of fiscal 2009 to 4.99% in the first six months of fiscal 2010. The average value of debt outstanding decreased from \$1,607.1 million in the first six months of 2009 to \$1,435.8 million in the first six months of 2010.

For the first six months of fiscal 2010, we reported other expense of \$1.6 million, as compared to \$0.03 million of other income in the first six months of fiscal 2009. The change resulted primarily from the impact of foreign currency exchange rates on intercompany transactions.

The effective tax rate on our results for the first six months of fiscal 2010 and fiscal 2009 was 38.9%.

**LIQUIDITY AND CAPITAL RESOURCES***Sources and Uses of Cash*

For the six months ended July 3, 2010, cash and cash equivalents were \$65.6 million, an increase of \$19.4 million from the end of fiscal 2009. Cash flows provided by operating activities for the six months ended July 3, 2010 were \$144.4 million, exceeding the six month period's \$100.9 million net income attributable to the Company by \$43.5 million. Cash flows provided by operating activities included a cash payment of \$29.1 million for prior period charges associated with the June 2008 adverse U.K. tax ruling we received regarding the imposition of U.K. VAT on our U.K. meeting fee revenue. See Item 1. Legal Proceedings U.K. VAT Matter. Excluding this one-time payment, cash flows provided by operating activities would have been \$173.5 million for the six months ended July 3, 2010. The excess of cash flows provided by operating activities over net income arose partially from changes in our working capital, as described below, see Balance Sheet, and as a result of differences between book and cash taxes. Net cash used for investing and financing activities combined totaled \$119.8 million. Net cash used for investing activities of \$9.3 million consisted primarily of capital spending. Net cash used for financing activities totaled \$110.5 million and consisted of long-term debt payments of \$46.3 million, stock repurchases of \$28.3 million, dividend payments of \$27.1 million, and deferred financing costs of \$11.4 million in connection with our debt extension.

For the six months ended July 4, 2009, cash and cash equivalents were \$53.2 million, an increase of \$5.9 million from the end of fiscal 2008. Cash flows provided by operating activities for the six months ended July 4, 2009 were \$162.2 million, exceeding the six month period's \$106.1 million net income attributable to the Company by \$56.1 million. The excess of cash flows provided by operating activities over net income arose from changes in our working capital, as described below under Balance Sheet, and differences between book and cash taxes. Net cash used for investing and financing activities combined totaled \$159.4 million. Investing activities, consisting primarily of capital spending, utilized \$13.6 million. Net cash used for financing activities totaled \$145.8 million, including dividend payments of \$27.1 million and long-term debt payments of \$117.3 million.

*Balance Sheet*

Comparing our balance sheet at July 3, 2010 with our balance sheet at January 2, 2010, our cash balance increased by \$19.4 million. Our working capital deficit at July 3, 2010 was \$344.4 million, including \$65.6 million of cash and cash equivalents and \$222.8 million of current portion of long-term debt, as compared to \$336.1 million at January 2, 2010, including \$46.1 million of cash and cash equivalents and \$215.0 million of current portion of long-term debt. Excluding the change in cash and cash equivalents and current portion of long-term debt, the working capital deficit was \$187.2 million, an increase in the deficit of \$20.0 million during the first six months of fiscal 2010 versus \$167.2 million at January 2, 2010.

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The \$20.0 million increase in the working capital deficit was driven by an increase in the derivative payable of \$9.3 million, \$10.2 million of higher income tax liabilities, and a \$32.1 million increase in the deficit related to operational items. These operational items included higher deferred revenue associated primarily with greater penetration of our Monthly Pass commitment plans, lower inventory levels, which are higher at the end of the calendar year in anticipation of our highest volume diet season beginning in January, and higher accruals primarily associated with advertising. The impact of these on the working capital deficit was partially offset by a decrease in the deficit of approximately \$31.6 million in the U.K. VAT liability (including a payment of \$29.1 million for prior periods as noted above, see Sources and Uses of Cash ).

*Long-Term Debt*

Our credit facilities consist of a term loan facility and a revolving credit facility, or collectively, the WWI Credit Facility. The term loan facility consists of two tranche A loans, or Term A Loan and Additional Term A Loan, a tranche B loan, or Term B Loan, a tranche C loan, or Term C Loan, and a tranche D loan, or Term D Loan, in an aggregate original principal amount of \$1,550.0 million. The revolving credit facility, or the Revolver, consists of two tranches, or Revolver I and Revolver II, of up to \$500.0 million in the aggregate. At July 3, 2010, we had \$158.0 million outstanding under the WWI Credit Facility with an additional \$340.4 million of availability under the Revolver.

At July 3, 2010, and January 2, 2010, our debt consisted entirely of variable-rate instruments. Interest rate swaps are entered into to hedge a portion of the cash flow exposure associated with our variable-rate borrowings. The average interest rate on our debt was approximately 2.36% and 1.47% per annum at July 3, 2010 and January 2, 2010, respectively.

The following schedule sets forth our long-term debt obligations and interest rates at July 3, 2010:

**Long-Term Debt****At July 3, 2010****(Balances in millions)**

|                                 | <b>Balance</b>    | <b>LIBOR</b> | <b>Applicable Margin</b> | <b>Interest Rate</b> |
|---------------------------------|-------------------|--------------|--------------------------|----------------------|
| Revolver I due 2011             | \$ 52.9           | 0.38%        | 1.00%                    | 1.38%                |
| Revolver II due 2014            | 105.1             | 0.38%        | 2.50%                    | 2.88%                |
| Term A Loan due 2011            | 69.9              | 0.56%        | 1.00%                    | 1.56%                |
| Additional Term A Loan due 2013 | 241.2             | 0.56%        | 1.00%                    | 1.56%                |
| Term B Loan due 2014            | 241.2             | 0.56%        | 1.50%                    | 2.06%                |
| Term C Loan due 2015            | 454.5             | 0.56%        | 2.25%                    | 2.81%                |
| Term D Loan due 2016            | 241.9             | 0.56%        | 2.25%                    | 2.81%                |
| <b>Total Debt</b>               | <b>1,406.7</b>    |              |                          |                      |
| <b>Less Current Portion</b>     | <b>222.8</b>      |              |                          |                      |
| <b>Total Long-Term Debt</b>     | <b>\$ 1,183.9</b> |              |                          |                      |

The WWI Credit Facility provides that term loans and the Revolver bear interest, at our option, at LIBOR plus an applicable margin per annum or the alternative base rate (as defined in the WWI Credit Facility Agreement) plus an applicable margin per annum. At July 3, 2010, the Term A Loan, Additional Term A Loan and Revolver I bore interest at a rate equal to LIBOR plus 1.00% per annum; the Term B Loan bore interest at a rate equal to LIBOR plus 1.50% per annum; the Term C Loan and Term D Loan bore interest at a rate equal to LIBOR plus 2.25% per annum; and the Revolver II bore interest at a rate equal to LIBOR plus 2.50% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, at July 3, 2010, we were required to pay a commitment fee to the lenders under the Revolver I and Revolver II with respect to the unused commitments at a rate equal to 0.20% per annum and 0.50% per annum, respectively.

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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 July 3, 2010, we were in compliance with all of the required financial ratios and also met all of the financial condition tests and expect 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.

We previously amended the WWI Credit Facility on June 26, 2009 to allow us to make loan modification offers to all lenders of any tranche of term loans or revolving loans to extend the maturity date of such loans and/or reduce or eliminate the scheduled amortization. Any such loan modifications would be effective only with respect to such tranche of term loans or revolving loans and only with respect to those lenders that accept our offer. Loan modification offers may be accompanied by increased pricing and/or fees payable to accepting lenders. This amendment also provides for up to an additional \$200.0 million of incremental term loan financing through the creation of a new tranche of term loans, provided that the aggregate principal amount of such new term loans cannot exceed the amount then outstanding under our existing revolving credit facility. In addition, the proceeds from such new tranche of term loans must be used solely to repay certain outstanding revolving loans and permanently reduce the commitments of certain revolving lenders. In connection with this amendment, we incurred fees of approximately \$4.1 million during fiscal 2009.

On April 8, 2010, we amended the WWI Credit Facility pursuant to a loan modification offer to all lenders of all tranches of term loans and revolving loans to, among other things, extend the maturity date of such loans. In connection with this amendment, certain lenders converted a total of \$454.5 million of their outstanding term loans under the Term A Loan (\$151.8 million) and Additional Term A Loan (\$302.7 million) into term loans under the new Term C Loan due 2015 (or 2013, upon the occurrence of certain events described in the WWI Credit Facility agreement), and a total of \$241.9 million of their outstanding term loans under the Term B Loan into term loans under the new Term D Loan due 2016. In addition, certain lenders converted a total of \$332.6 million of their outstanding Revolver I commitments into commitments under the new Revolver II which terminates in 2014 (or 2013, upon the occurrence of certain events described in the WWI Credit Facility agreement), including a proportionate amount of their outstanding Revolver I loans into Revolver II loans. Following these conversions of a total of \$1,029.0 million of loans and commitments, at April 8, 2010, we had the same amount of debt outstanding under the WWI Credit Facility and amount of availability under the Revolver as we had immediately prior to such conversions. In connection, with this loan modification offer, we incurred fees of approximately \$11.5 million during the second quarter of fiscal 2010.

The following schedule sets forth our year-by-year debt obligations at July 3, 2010:

**Total Debt Obligation****(Including Current Portion)****At July 3, 2010****(in millions)**

|                          |                   |
|--------------------------|-------------------|
| Remainder of fiscal 2010 | \$ 57.6           |
| Fiscal 2011              | 219.2             |
| Fiscal 2012              | 130.6             |
| Fiscal 2013              | 53.4              |
| Fiscal 2014              | 362.8             |
| Thereafter               | 583.1             |
| <b>Total</b>             | <b>\$ 1,406.7</b> |



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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. 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*

We have issued a quarterly cash dividend of \$0.175 per share of our common stock every quarter beginning with the first quarter of fiscal 2006. Prior to these dividends, we had not declared or paid any cash dividends on our common stock since our acquisition by Artal Luxembourg, S.A. in 1999.

Any decision to declare and pay dividends in the future 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. Our Board of Directors may decide at any time to increase or decrease the amount of dividends or discontinue the payment of dividends based on these factors. The WWI Credit Facility also contains restrictions on our ability to pay dividends on our common stock.

The WWI Credit Facility provides that we are permitted to pay dividends and extraordinary dividends so long as we are not in default under the WWI Credit Facility agreement. However, payment of extraordinary dividends shall not exceed \$150.0 million in any fiscal year if net debt to EBITDA (as defined in the WWI Credit Facility agreement) is greater than 3.75:1 and an investment grade rating date (as defined in the WWI Credit Facility 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 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 \$250.0 million to this program. No shares will be purchased from Artal Holdings Sp. z.o.o. and its parents and subsidiaries under the program. During the six months ended July 3, 2010, the Company repurchased in its second quarter 1.14 million shares of its common stock in the open market for a total cost of \$30.6 million. During the six months ended July 4, 2009, the Company did not repurchase any shares of its common stock.

## **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.

## **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 marketing campaign 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 fiscal 2009, Easter fell on April 12, which means that our spring marketing campaign began in the second quarter of fiscal 2009 as opposed to the first quarter of fiscal 2008. The introduction of Monthly Pass in the meeting business has resulted in less seasonality with regard to our meeting fee revenues because its revenues are amortized over the related subscription period. 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.

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### **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 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) as a channel of distribution of material Company information. Financial and other material information regarding the Company is routinely posted on and accessible at our website. Our website and the information posted on it or connected to it shall not be deemed to be incorporated herein by reference.

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

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 2009 have not materially changed from January 2, 2010.

Based on the amount of our variable rate debt and interest swap agreements as of July 3, 2010, a hypothetical 50 basis point increase or decrease in interest rates on our variable debt would increase or decrease our annual interest expense by approximately \$0.9 million.

### **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 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 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 the 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**

#### *U.K. VAT Matter*

In June 2008, the U.K. Court of Appeal issued a ruling that from April 1, 2005 Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% standard rated VAT, thus reversing in its entirety an earlier 2007 decision of the U.K. VAT and Duties Tribunal, or the VAT Tribunal, in our favor. For over a decade prior to April 1, 2005, Her Majesty's Revenue and Customs, or HMRC, had determined that Weight Watchers meeting fees in the United Kingdom were only partially subject to 17.5% VAT. In light of the Court of Appeal's ruling and in accordance with accounting guidance for contingencies, we recorded a charge of



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approximately \$32.5 million as an offset to revenue in the second quarter of fiscal 2008 for U.K. VAT liability (including interest) in excess of reserves previously recorded. Beginning in the third quarter of fiscal 2008, in accordance with accounting guidance for contingencies, we have recorded as an offset to revenue VAT charges associated with U.K. meeting fees as earned, consistent with the Court of Appeal's ruling.

However, with respect to U.K. VAT owed for the period prior to July 1, 2005, HMRC has failed to raise a notice of assessment within the statutory three-year time period. In addition, although HMRC raised notices of assessment against us with respect to U.K. VAT due for the periods July 1, 2005 to September 30, 2005 and October 1, 2005 to December 31, 2005, we have asserted that these notices of assessment are invalid on the grounds that they had been raised outside the relevant statutory time limits. HMRC indicated in November 2008 that it agreed with our assertion that the notice of assessment for the period July 1, 2005 to September 30, 2005 was invalid, and, in February 2009, confirmed that this notice had been formally withdrawn. As a result of the expiration of the statutory time period with respect to U.K. VAT owed prior to October 1, 2005, we recorded in the fourth quarter of fiscal 2008 as a benefit to revenue for the periods prior to October 1, 2005 an amount of approximately \$9.2 million as an offset against reserves previously recorded including in part the charge recorded against revenue in the second quarter of fiscal 2008 for U.K. VAT liability.

In March 2009, June 2009 and September 2009, HMRC raised notices of assessment against us in respect of U.K. VAT due for the periods January 1, 2006 to March 31, 2006, April 1, 2006 to June 30, 2006, and July 1, 2006 to September 30, 2006, respectively, which we similarly believe were raised outside the relevant statutory time limits.

We intend to vigorously challenge any amount of U.K. VAT that HMRC claims to be owed by us for any period between October 1, 2005 and September 30, 2006. Accordingly, we filed notices of appeal with the VAT Tribunal against the U.K. VAT assessments issued for the periods October 1, 2005 to December 31, 2005, January 1, 2006 to March 31, 2006, April 1, 2006 to June 30, 2006, and July 1, 2006 to September 30, 2006 in March 2009, April 2009, July 2009 and October 2009, respectively. These appeals were consolidated and heard together at the U.K. First Tier Tribunal (Tax Chamber), or U.K. First Tier Tribunal, in May 2010. We are currently awaiting the U.K. First Tier Tribunal's decision.

### *U.K. Self-Employment Matter*

In July 2007, HMRC issued to us notices of determination and decisions that, for the period April 2001 to April 2007, our leaders and certain other service providers in the United Kingdom should have been classified as employees for tax purposes and, as such, we 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 HMRC. HMRC also issued a claim to us in October 2008 in respect of NIC which corresponds to the prior notices of assessment with respect to PAYE previously raised by HMRC.

In September 2007, we appealed HMRC's notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by us and, in July 2008, filed this appeal with the U.K. First Tier Tribunal. Our appeal was heard by the U.K. First Tier Tribunal in June 2009 and October 2009. In February 2010, the U.K. First Tier Tribunal issued a ruling that our U.K. leaders should have been classified as employees for U.K. tax purposes and, as such, we should have withheld tax from our leaders pursuant to the PAYE and NIC collection rules for the period from April 2001 to April 2007 with respect to services performed by the leaders for us.

Although we are appealing this adverse ruling, in light of this adverse ruling and in accordance with accounting guidance for contingencies, we recorded in the fourth quarter of fiscal 2009 a reserve for the period from April 2001 through the end of fiscal 2009, inclusive of estimated accrued interest, and, as we did beginning in the first quarter of fiscal 2010, we intend to record a reserve for U.K. withholding taxes with respect to our U.K. leaders consistent with this ruling on a quarterly basis. Accordingly, the aggregate reserve for the period from April 2001 through the end of the second quarter of fiscal 2010 is approximately \$37.7 million.

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### *Sabatino v. Weight Watchers North America, Inc.*

In September 2009, a lawsuit was filed in the Superior Court of California by one of our former leaders alleging violations of certain California wage and hour laws on behalf of herself, and, if approved by the Court, other leaders and those employees who have performed the location coordinator function in California since September 17, 2005. In this matter, the plaintiff is seeking unpaid wages and certain other damages. In October 2009, we answered the complaint and removed the case to the U.S. District Court for the Northern District of California. Although we disagree with the allegations that we have violated California wage and hour laws and we believe we have valid defenses with respect to this matter, litigation is inherently unpredictable. At this time, it is not possible to determine the outcome of, or estimate the liability related to, this action and we have not made any provision for losses in connection with it. In July 2010, the plaintiff filed an amended complaint adding two additional named plaintiffs for this matter.

### *Hanson-Kelly & Jackson v. Weight Watchers North America, Inc. and Weight Watchers International, Inc.*

In January 2010, a lawsuit was filed in the U.S. District Court for the Middle District of North Carolina by two leaders alleging violations of certain federal and North Carolina wage and hour laws on behalf of themselves, and, if approved by the Court, other leaders and receptionists in North Carolina since January 25, 2007. In this matter, the plaintiffs are seeking unpaid wages and certain other damages. Although we disagree with the allegations that we have violated federal and North Carolina wage and hour laws and we believe we have valid defenses with respect to this matter, litigation is inherently unpredictable. At this time, it is not possible to determine the outcome of, or estimate the liability related to, this action and we have not made any provision for losses in connection with it. In April 2010, we filed a Motion to Dismiss the claim for unpaid wages under the North Carolina wage and hour laws.

### *Other Litigation Matters*

Due to the nature of our activities, we are 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 our results of operations, financial condition or cash flows. However, the results of legal actions cannot be predicted with certainty. Therefore, it is possible that our results of operations, financial condition or cash flows could be materially adversely affected in any particular period by the unfavorable resolutions 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 2009.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

This table provides certain information with respect to our purchases of shares of Weight Watchers International, Inc.'s common stock during the second quarter of fiscal 2010:

|                 | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs <sup>(2)</sup> | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|-----------------|---|------------------------------|--|--|
| April 4 - May 8 |   | \$                           |  | \$ 100,473,463   |
| May 9 - June 5  | 540,000   | 27.45                        | 540,000  | 85,648,897   |
| June 6 - July 3 | 600,000   | 26.29                        | 600,000  | 69,875,194   |
| Total           | 1,140,000                                       | \$ 26.84                     | 1,140,000  | \$ 69,875,194  |

<sup>(1)</sup> All shares were purchased under our repurchase program.

<sup>(2)</sup> For a discussion of our repurchase program, see Note 6 to the Unaudited Consolidated Financial Statements.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Nothing to report under this item.

**ITEM 4. (REMOVED AND RESERVED)****ITEM 5. OTHER INFORMATION**

Nothing to report under this item.

**ITEM 6. EXHIBITS**

| Exhibit Number               | Description   |
|------------------------------|---|
| <a href="#">Exhibit 10.1</a> | Loan Modification Agreement, dated as of April 8, 2010, relating to the Sixth Amended and Restated Credit Agreement, dated as of May 8, 2006, among Weight Watchers International, Inc., as the Borrower, the lenders party thereto, and The Bank of Nova Scotia, as the Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on April 9, 2010, and incorporated herein by reference). |
| <a href="#">Exhibit 31.1</a> | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <a href="#">Exhibit 31.2</a> | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <a href="#">Exhibit 32.1</a> | Certification pursuant to 18 U.S.C. Section 1350.   |
| <a href="#">Exhibit 32.2</a> | Certification pursuant to 18 U.S.C. Section 1350.   |

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|                    |   |
|--------------------|---|
| <u>Exhibit 101</u> |   |
| <u>EX-101.INS</u>  | XBRL Instance Document                        |
| <u>EX-101.SCH</u>  | XBRL Taxonomy Extension Schema                |
| <u>EX-101.CAL</u>  | XBRL Taxonomy Extension Calculation Linkbase  |
| <u>EX-101.DEF</u>  | XBRL Taxonomy Extension Definition Document   |
| <u>EX-101.LAB</u>  | XBRL Taxonomy Extension Label Linkbase        |
| <u>EX-101.PRE</u>  | XBRL Taxonomy Extension Presentation Linkbase |

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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: August 12, 2010

By: /s/ David P. Kirchhoff  
David P. Kirchhoff  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 12, 2010

By: /s/ Ann M. Sardini  
Ann M. Sardini  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



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