

WEIGHT WATCHERS INTERNATIONAL INC
Form 10-Q
November 10, 2015
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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 October 3, 2015

OR

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

For the transition period from **to**

Commission File Number: 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Virginia **11-6040273**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
675 Avenue of the Americas, 6th 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

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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 November 3, 2015 was 63,621,022.

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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)**

	October 3, 2015	January 3, 2015 (restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 212,260	\$ 301,212
Receivables (net of allowances: October 3, 2015 - \$2,714 and January 3, 2015 - \$3,287)	28,475	31,960
Inventories	12,272	32,382
Deferred income taxes	22,062	23,744
Prepaid expenses and other current assets	47,020	36,367
TOTAL CURRENT ASSETS	322,089	425,665
Property and equipment, net	62,229	74,650
Franchise rights acquired	750,171	760,883
Goodwill	161,613	168,279
Trademarks and other intangible assets, net	66,155	68,115
Deferred financing costs, net	26,871	32,742
Other noncurrent assets	6,024	4,306
TOTAL ASSETS	\$ 1,395,152	\$ 1,534,640
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	\$ 213,323	\$ 80,728
Accounts payable	36,754	52,411
Derivative payable	58,585	42,423
Salaries and wages payable	42,217	64,785
Accrued marketing and advertising	10,738	20,540
Other accrued liabilities	74,575	93,839
Income taxes payable	10,759	10,779
Deferred revenue	68,776	66,190

TOTAL CURRENT LIABILITIES	515,727	431,695
Long-term debt	2,026,500	2,277,272
Deferred income taxes	168,797	176,278
Other	21,833	16,883
TOTAL LIABILITIES	2,732,857	2,902,128
Redeemable noncontrolling interest	4,480	5,553
TOTAL DEFICIT		
Common stock, \$0 par value; 1,000,000 shares authorized; 112,585 shares issued at October 3, 2015 and 112,195 shares issued at January 3, 2015	0	0
Treasury stock, at cost, 55,374 shares at October 3, 2015 and 55,485 shares at January 3, 2015	(3,249,796)	(3,253,597)
Retained earnings	1,950,574	1,900,506
Accumulated other comprehensive loss	(42,963)	(19,950)
TOTAL DEFICIT	(1,342,185)	(1,373,041)
TOTAL LIABILITIES AND TOTAL DEFICIT	\$ 1,395,152	\$ 1,534,640

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

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

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Service revenues, net	\$ 224,158	\$ 281,863	\$ 724,500	\$ 917,217
Product sales and other, net	49,166	63,321	180,681	234,872
Revenues, net	273,324	345,184	905,181	1,152,089
Cost of services	113,972	122,079	364,239	402,033
Cost of product sales and other	22,730	35,538	87,653	113,775
Cost of revenues	136,702	157,617	451,892	515,808
Gross profit	136,622	187,567	453,289	636,281
Marketing expenses	27,158	36,811	154,769	198,377
Selling, general and administrative expenses	46,356	59,362	146,788	180,893
Operating income	63,108	91,394	151,732	257,011
Interest expense	30,132	32,958	91,696	89,411
Other expense, net	373	1,520	1,292	2,679
Early extinguishment of debt	50	0	(11,426)	0
Gain on Brazil acquisition	0	0	0	(10,540)
Income before income taxes	32,553	56,916	70,170	175,461
Provision for income taxes	10,761	19,123	26,082	62,045
Net income	21,792	37,793	44,088	113,416
Net (income) loss attributable to the noncontrolling interest	(2)	99	146	9
Net income attributable to Weight Watchers International, Inc.	\$ 21,790	\$ 37,892	\$ 44,234	\$ 113,425
Earnings Per Share attributable to Weight Watchers International, Inc.				
Basic	\$ 0.38	\$ 0.67	\$ 0.78	\$ 2.00

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Diluted	\$	0.38	\$	0.67	\$	0.77	\$	2.00
Weighted average common shares outstanding								
Basic		57,107		56,675		57,000		56,575
Diluted		57,266		56,769		57,167		56,646

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

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

(IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net income	\$ 21,792	\$ 37,793	\$ 44,088	\$ 113,416
Other comprehensive loss:				
Foreign currency translation adjustments	(8,737)	(10,639)	(22,725)	(6,579)
Income tax effect on foreign currency translation adjustments	3,408	4,153	8,863	2,566
Foreign currency translation adjustments, net of taxes	(5,329)	(6,486)	(13,862)	(4,013)
Changes in (loss) gain on derivatives	(15,544)	10,404	(16,637)	(15,235)
Income tax effect on changes in (loss) gain on derivatives	6,062	(4,058)	6,488	5,941
Changes in (loss) gain on derivatives, net of taxes	(9,482)	6,346	(10,149)	(9,294)
Total other comprehensive loss	(14,811)	(140)	(24,011)	(13,307)
Comprehensive income	6,981	37,653	20,077	100,109
Less: Net (income) loss attributable to the noncontrolling interest	(2)	99	146	9
Less: Foreign currency translation adjustments, net of taxes attributable to the noncontrolling interest	549	336	998	111
Comprehensive loss attributable to the noncontrolling interest	547	435	1,144	120
Comprehensive income attributable to Weight Watchers International, Inc.	\$ 7,528	\$ 38,088	\$ 21,221	\$ 100,229

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)**

	Nine Months Ended	
	October 3, 2015	September 27, 2014
Operating activities:		
Net income	\$ 44,088	\$ 113,416
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	40,745	36,288
Amortization of deferred financing costs	5,224	7,459
Share-based compensation expense	7,567	7,235
Deferred tax provision	9,889	25,908
Allowance for doubtful accounts	(554)	608
Reserve for inventory obsolescence	7,005	11,773
Foreign currency exchange rate loss	1,234	2,631
Loss on disposal of assets	2,302	121
Gain on Brazil acquisition	0	(10,540)
Early extinguishment of debt	(12,667)	0
Other items, net	0	(184)
Changes in cash due to:		
Receivables	3,132	4,077
Inventories	13,183	6,395
Prepaid expenses	(12,116)	4,883
Accounts payable	(14,933)	(8,698)
Accrued liabilities	(47,110)	8,144
Deferred revenue	8,069	5,627
Income taxes	(2,190)	6,148
Cash provided by operating activities	52,868	221,291
Investing activities:		
Capital expenditures	(3,569)	(5,960)
Capitalized software expenditures	(25,155)	(21,318)
Cash paid for acquisitions	(3,128)	(16,678)
Other items, net	(918)	(3,421)
Cash used in investing activities	(32,770)	(47,377)
Financing activities:		
Payments on long-term debt	(104,863)	(18,000)

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Payment of dividends	(21)	(80)
Proceeds from stock options exercised	0	297
Tax benefit of restricted stock units vested and stock options exercised	0	1
Cash used in financing activities	(104,884)	(17,782)
Effect of exchange rate changes on cash and cash equivalents and other	(4,166)	(3,308)
Net (decrease) increase in cash and cash equivalents	(88,952)	152,824
Cash and cash equivalents, beginning of period	301,212	174,557
Cash and cash equivalents, end of period	\$ 212,260	\$ 327,381

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

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

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of Weight Watchers International, Inc. and all of its subsidiaries. The terms "Company" and "WWI" as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements. The Company's meetings business refers to providing access to meetings to the Company's monthly commitment plan subscribers, pay-as-you-go members, Total Access subscribers and other meeting members. Online refers to Weight Watchers Online, Weight Watchers Online*Plus*, Personal Coaching and other digital subscription products.

As a result of the acquisition of an additional equity interest in Vigilantes do Peso Marketing Ltda. ("VPM") in March 2014, the Company gained a direct controlling financial interest in VPM and has therefore begun consolidating this entity as of the date of acquisition and as a result of the acquisition of Knowplicity, Inc., d/b/a Wello, in April 2014, Wello became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition. As further discussed in Note 3, as a result of the acquisition of Weilos, Inc. ("Weilos"), in March 2015, Weilos became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information 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 Company's operating results for any interim period are not necessarily indicative of future or annual results. The consolidated financial statements are unaudited and, accordingly, they do not include all of the information necessary for a comprehensive presentation of results of operations, financial position and cash flow activity required by GAAP for complete financial statements but, in the opinion of management, reflect all adjustments including those of a normal recurring nature necessary for a fair statement of the interim results presented.

These statements should be read in conjunction with the Company's Annual Report on Form 10-K/A for fiscal 2014 filed on May 13, 2015, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

Restatement:

The Company filed on May 13, 2015 an amendment on Form 10-K/A to amend its Annual Report on Form 10-K for the fiscal year ended January 3, 2015, as filed on March 4, 2015, to restate (1) its consolidated financial statements as of and for the fiscal year ended January 3, 2015, (2) its selected financial data as of and for the fiscal year ended January 3, 2015, (3) its quarterly results of operations for the fiscal quarter ended January 3, 2015 and (4) its Management's Annual Report on Internal Control Over Financial Reporting as of January 3, 2015, as well as to revise (1) its consolidated financial statements as of and for the fiscal year ended December 28, 2013, (2) its selected

financial data as of and for the fiscal year ended December 28, 2013 and (3) its quarterly results of operations for all fiscal quarters in the fiscal year ended December 28, 2013.

On May 4, 2015, the Audit Committee of the Board of Directors of the Company concluded that the Company's previously issued consolidated financial statements for the fiscal year ended January 3, 2015 as contained in the Company's Annual Report on Form 10-K for fiscal 2014, as filed on March 4, 2015, should be restated with respect to the accounting for certain franchise rights acquired. Based on discussions with the Staff of the Securities and Exchange Commission regarding the Company's accounting of its franchise rights acquired, the Company determined that, subsequent to the fiscal 2009 adoption of ASC 350-30-35-2, franchise rights acquired in connection with franchise agreements that have a renewal term at the option of the franchisee should be accounted for as definite-lived assets. Previously these acquired franchise rights were accounted for as indefinite-lived assets based on the franchisee's ability to elect indefinitely to renew the franchise rights. After this correction, the value of these rights and the amortization period thereon will contemplate the remainder of the contractual term from the date of acquisition without giving any effect to the franchisee's renewal rights.

As part of this restatement, the Company's consolidated Balance Sheet as of January 3, 2015 was also revised to correct the previously disclosed immaterial misclassification of a portion of the Company's long-term debt due within one year. In addition, the Company also recorded other miscellaneous adjustments as part of this restatement that are either related to the aforementioned or were previously identified but determined to be immaterial.

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For a discussion of the Company's restatement, see "Restatement of Financial Statements" in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K/A for fiscal 2014. For a discussion of the Company's remediation efforts with respect to its internal control over financial reporting related to the aforementioned accounting for certain franchise rights acquired, see "Item 4. Controls and Procedures Remediation Efforts on Previously Identified Material Weakness" in this Quarterly Report on Form 10-Q.

Liquidity:

The Company has a \$144,323 debt maturity obligation due April 2016. The Company believes that cash generated by its revenue forecast for fiscal 2015 of approximately \$1,160,000, its cost-savings initiative, the anticipated successful launch of its 2016 winter season program innovation, its cash on hand of \$212,260 as of October 3, 2015, and the \$43,199 cash payment received on October 19, 2015 from Ms. Oprah Winfrey in connection with her 10% investment in the Company will provide the Company with sufficient liquidity to meet its obligations for the next twelve months, including its April 2016 debt maturity obligation of \$144,323. The Company's cash on hand of \$212,260 at October 3, 2015 includes the \$48,000 of proceeds from its revolver borrowing. The revolver borrowing is classified as a short-term liability in consideration of the fact that the terms of the Revolving Facility (defined hereafter) require an assessment as to whether there have been any material adverse changes with respect to the Company in connection with the Company's monthly interest elections. Although the revolver borrowing is classified as a short-term liability, absent any change in fact and circumstance, the Company has the ability to extend and not repay the Revolving Facility until its due date of April 2, 2018. The Company has the ability, if necessary, to delay investments or reduce marketing spend. Notwithstanding the foregoing, depending on future developments, there can be no assurance that the Company will meet these obligations.

Out-of-Period Adjustments:

In the second quarter of fiscal 2015, the Company identified and recorded out-of-period adjustments related to immaterial errors in prior period financial statements that impacted income before income taxes and net income attributable to the Company by \$1,650 and \$420, respectively.

2. Summary of Significant Accounting Policies

In May 2014, the Financial Accounting Standards Board (the "FASB") issued updated guidance on accounting for revenue from contracts with customers. The objective of this guidance is to provide a single, comprehensive revenue recognition model, to remove existing industry specific guidance and to expand qualitative and quantitative disclosures. The core principle of the new standard is for revenue recognition to depict transfer of control to the customer in an amount that reflects consideration to which an entity expects to be entitled. In August 2015, the FASB issued an amendment to the updated guidance that defers the effective date by one year. This guidance is now

effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact that the adoption of this guidance will have on the consolidated financial position, results of operations or cash flows of the Company.

In July 2015, the FASB issued updated guidance to simplify the measurement of inventory. Under this amendment, an entity using an inventory method other than last-in, first out or the retail inventory method should measure inventory at the lower of cost and net realizable value. The new guidance clarifies that net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and should be applied prospectively with earlier adoption permitted as of the beginning of the interim or annual reporting period. The Company is currently evaluating the impact that the adoption of this guidance will have on the consolidated financial position of the Company.

In April 2015, the FASB issued updated guidance to simplify the presentation of debt issuance costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued updated guidance which clarifies the treatment of debt issuance costs from line-of-credit arrangements. In particular, this guidance clarifies that the Securities and Exchange Commission Staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, and should be applied on a retrospective basis with earlier adoption permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact that the adoption of this guidance will have on the consolidated financial position of the Company.

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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/A for fiscal 2014.

3. Acquisition of Weilos

On March 11, 2015, the Company acquired for a purchase price of \$6,674 Weilos, a California-based startup with an online social platform that provides a mobile health and weight loss community. Payment was in the form of common stock issued \$2,810, restricted stock issued \$114 and cash \$2,775 plus cash held back of \$975. The total purchase price of Weilos has been allocated to goodwill (\$5,588), identifiable intangibles (\$1,741) and other assets (\$24) offset by deferred tax liabilities (\$679). Restricted shares in the amount of \$908 were issued to key employees, contingent upon 18 months post-combination employment, and are accounted for as stock compensation cost in the post-combination financial statements. As a result of the acquisition, Weilos became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition. The acquisition resulted in goodwill related to, among other things, expected synergies in operations. The Company does not expect goodwill to be deductible for tax purposes.

4. Franchise Rights Acquired, Goodwill and Other Intangible Assets

Franchise rights acquired are due to acquisitions of the Company's franchised territories as well as the acquisition of franchise promotion agreements and other factors associated with the acquired franchise territories. For the nine months ended October 3, 2015, the change in the carrying value of indefinite-lived franchise rights acquired is due to the effect of exchange rate changes as follows:

Balance as of January 3, 2015, as restated	\$ 759,838
Effect of exchange rate changes	(9,939)
Balance as of October 3, 2015	\$ 749,899

Goodwill primarily relates to the acquisition of the Company by H.J. Heinz Company in 1978, the acquisition of WeightWatchers.com, Inc. in 2005, the acquisitions of the Company's franchised territories, the acquisitions of the majority interest in VPM and of Wello in fiscal 2014 and the acquisition of Weilos in fiscal 2015. See Note 3 for further information on the Weilos acquisition. For the nine months ended October 3, 2015, the change in the carrying amount of goodwill is due to the Weilos acquisition and the effect of exchange rate changes as follows:

	North America	United Kingdom	Continental Europe	Other	Total
Balance as of January 3, 2015, as restated	\$ 134,611	\$ 1,421	\$ 7,661	\$ 24,586	\$ 168,279
Goodwill acquired during the period	5,588	0	0	0	5,588
Effect of exchange rate changes	(4,727)	(13)	(281)	(7,233)	(12,254)
Balance as of October 3, 2015	\$ 135,472	\$ 1,408	\$ 7,380	\$ 17,353	\$ 161,613

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES
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The carrying values of finite-lived intangible assets as of October 3, 2015 and January 3, 2015 were as follows:

	October 3, 2015		January 3, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization (restated)
Capitalized software costs	\$ 117,905	\$ 83,403	\$ 107,581	\$ 72,590
Website development costs	95,606	64,625	95,717	63,405
Trademarks	10,911	10,379	10,836	10,213
Other	7,004	6,864	7,014	6,825
Trademarks and other intangible assets	231,426	165,271	221,148	153,033
Franchise rights acquired	4,191	3,919	4,735	3,690
Total finite-lived intangible assets	\$ 235,617	\$ 169,190	\$ 225,883	\$ 156,723

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$7,743 and \$26,771 for the three and nine months ended October 3, 2015, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$7,518 and \$20,697 for the three and nine months ended September 27, 2014, respectively.

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

Remainder of fiscal 2015	\$ 8,057
Fiscal 2016	\$ 29,472
Fiscal 2017	\$ 22,073
Fiscal 2018	\$ 5,990
Fiscal 2019 and thereafter	\$ 835

5. Long-Term Debt

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

	October 3, 2015		January 3, 2015	
	Balance	Effective Rate	Balance (restated)	Effective Rate
Revolving Facility due April 2, 2018	\$ 48,000	2.77%	\$ 0	0.00%
Tranche B-1 Term Facility due April 2, 2016	144,323	3.18%	294,750	3.12%
Tranche B-2 Term Facility due April 2, 2020	2,047,500	4.00%	2,063,250	3.96%
Total Debt	2,239,823	3.91%	2,358,000	3.86%
Less Current Portion	213,323		80,728	
Total Long-Term Debt	\$ 2,026,500		\$ 2,277,272	

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

On April 2, 2013, the Company refinanced its credit facilities pursuant to a new Credit Agreement (as amended, supplemented or otherwise modified, the Credit Agreement) among the Company, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and an issuing bank, The Bank of Nova Scotia, as revolving agent, swingline lender and an issuing bank, and the other parties thereto. The Credit Agreement provides for (a) a revolving credit facility (including swing line loans and letters of credit) in an initial aggregate principal amount of \$250,000 that will mature on April 2, 2018 (the Revolving Facility), (b) an initial term B-1 loan credit facility in an aggregate principal amount of \$300,000 that will mature on April 2, 2016 (the Tranche B-1 Term

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Facility) and (c) an initial term B-2 loan credit facility in an aggregate principal amount of \$2,100,000 that will mature on April 2, 2020 (the Tranche B-2 Term Facility , and together with the Tranche B-1 Term Facility, the Term Facilities ; the Term Facilities and Revolving Facility collectively, the WWI Credit Facility). In connection with this refinancing, the Company used the proceeds from borrowings under the Term Facilities to pay off a total of \$2,399,904 of outstanding loans, consisting of \$128,759 of Term B Loans, \$110,602 of Term C Loans, \$117,612 of Term D Loans, \$1,125,044 of Term E Loans, \$817,887 of Term F Loans, \$21,247 of loans under the Revolver A-1 and \$78,753 of loans under the Revolver A-2. Following the refinancing of a total of \$2,399,904 of loans, at April 2, 2013, the Company had \$2,400,000 debt outstanding under the Term Facilities and \$248,848 of availability under the Revolving Facility. The Company incurred fees of \$44,817 during the second quarter of fiscal 2013 in connection with this refinancing. In the second quarter of fiscal 2013, the Company wrote-off fees associated with this refinancing which resulted in the Company recording a charge of \$21,685 in early extinguishment of debt.

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

Under the terms of the Credit Agreement, depending on the Company s Consolidated Leverage Ratio (as defined in the Credit Agreement), the Company is obligated to offer to prepay the Term Facilities in an aggregate amount determined by its excess cash flow (as defined in the Credit Agreement). On March 13, 2015, the Company commenced an offer to prepay at a discount to par up to \$75,000 in aggregate principal amount of term loans outstanding under the Tranche B-1 Term Facility. On March 20, 2015, the Company accepted offers with a discount equal to or greater than 9.00% in respect of such term loans. On March 25, 2015, the Company paid an aggregate amount of cash proceeds totaling \$57,389 plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay \$63,065 in aggregate principal amount of such term loans under the Tranche B-1 Term Facility. This expenditure reduced, on a dollar for dollar basis, the Company s \$59,728 obligation to make a mandatory excess cash flow prepayment offer to the term loan lenders under the terms of the Credit Agreement. In addition, the Company made a voluntary prepayment at par on March 25, 2015 of \$2,500 in respect of such term loans under the Tranche B-1 Term Facility to reduce the remaining excess cash flow prepayment obligation for fiscal 2014. As a result of this prepayment, the Company wrote-off fees of \$326, incurred fees of \$601 and recorded a gain on early extinguishment of debt of \$4,749, inclusive of these fees, in the first quarter of fiscal 2015.

On June 17, 2015, the Company commenced another offer to prepay at a discount to par up to \$229,000 in aggregate principal amount of term loans outstanding under the Tranche B-1 Term Facility. On June 22, 2015, the Company accepted offers with a discount equal to or greater than 9.00% in respect of such term loans. On June 26, 2015, the Company paid an aggregate amount of cash proceeds totaling \$77,225 plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay \$84,862 in aggregate principal amount of such term loans under the

Tranche B-1 Term Facility. As a result of this prepayment, the Company wrote-off fees of \$321, incurred fees of \$641 and recorded a gain on early extinguishment of debt of \$6,677, inclusive of these fees, in the second quarter of fiscal 2015.

On July 14, 2015, the Company drew down the \$48,000 available on its Revolving Facility in order to enhance its cash position and to provide additional financial flexibility. The revolver borrowing has been classified as a short-term liability in consideration of the fact that the terms of the Revolving Facility require an assessment as to whether there have been any material adverse changes with respect to the Company in connection with the Company's monthly interest elections. Although the revolver borrowing has been classified as a short-term liability, absent any change in fact and circumstance, the Company has the ability to extend and not repay the Revolving Facility until its due date of April 2, 2018. At October 3, 2015, under the WWI Credit Facility, the Company had \$2,191,823 outstanding consisting entirely of term loans, and borrowings of \$48,000 outstanding under the Revolving Facility. In addition, at October 3, 2015, the Revolving Facility had \$1,819 in issued but undrawn letters of credit outstanding thereunder and \$181 in available unused commitments thereunder. The proceeds from borrowings under the Revolving Facility (including swing line loans and letters of credit) are available to be used for working capital and general corporate purposes.

Borrowings under the Credit Agreement bear interest at a rate equal to, at the Company's option, LIBOR plus an applicable margin or a base rate plus an applicable margin. LIBOR under the Tranche B-2 Term Facility is subject to a minimum interest rate of 0.75% and the base rate under the Tranche B-2 Term Facility is subject to a minimum interest rate of 1.75%. Under the terms of the Credit Agreement, in the event the Company receives a corporate rating of BB- (or lower) from S&P and a corporate rating of Ba3 (or lower) from Moody's, the applicable margin relating to both of the Term Facilities would increase by 25 basis points. On February 21, 2014, both S&P and Moody's issued revised corporate ratings of the Company of B+ and B1, respectively. As a result, effective February 21, 2014, the applicable margin on borrowings under the Tranche B-1 Term Facility went from 2.75% to 3.00% and on

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borrowings under the Tranche B-2 Term Facility went from 3.00% to 3.25%. The applicable margin relating to the Revolving Facility will fluctuate depending upon the Company's Consolidated Leverage Ratio. At October 3, 2015, borrowings under the Tranche B-1 Term Facility bore interest at LIBOR plus an applicable margin of 3.00% and borrowings under the Tranche B-2 Term Facility bore interest at LIBOR plus an applicable margin of 3.25%. Based on the Company's Consolidated Leverage Ratio as of October 3, 2015, borrowings under the Revolving Facility bore interest at LIBOR plus an applicable margin of 2.50%. On a quarterly basis, the Company will pay a commitment fee to the lenders under the Revolving Facility in respect of unutilized commitments thereunder, which commitment fee will fluctuate depending upon the Company's Consolidated Leverage Ratio. Based on the Company's Consolidated Leverage Ratio as of October 3, 2015, the commitment fee was 0.50% per annum. The Company also will pay customary letter of credit fees and fronting fees under the Revolving Facility.

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

At October 3, 2015 and January 3, 2015, the Company's debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with the Company's variable-rate borrowings. The average interest rate on the Company's debt, exclusive of the impact of swaps, was approximately 3.92% and 3.90% per annum at October 3, 2015 and January 3, 2015, respectively. The average interest rate on the Company's debt, including the impact of swaps, was approximately 5.01% and 4.93% per annum at October 3, 2015 and January 3, 2015, respectively.

6. Earnings Per Share

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

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended	Nine Months Ended
--	---------------------------	--------------------------

	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Numerator:				
Net income attributable to Weight Watchers International, Inc.	\$ 21,790	\$ 37,892	\$ 44,234	\$ 113,425
Denominator:				
Weighted average shares of common stock outstanding	57,107	56,675	57,000	56,575
Effect of dilutive common stock equivalents	159	94	167	71
Weighted average diluted common shares outstanding	57,266	56,769	57,167	56,646
Earnings Per Share attributable to Weight Watchers International, Inc.				
Basic	\$ 0.38	\$ 0.67	\$ 0.78	\$ 2.00
Diluted	\$ 0.38	\$ 0.67	\$ 0.77	\$ 2.00

The number of anti-dilutive common stock equivalents excluded from the calculation of the weighted average number of common shares for diluted EPS was 2,470 and 3,365 for the three months ended October 3, 2015 and September 27, 2014, respectively, and 2,045 and 2,979 for the nine months ended October 3, 2015 and September 27, 2014, respectively.

7. Stock Plans

On May 6, 2008 and May 12, 2004, respectively, the Company's shareholders approved the 2008 Stock Incentive Plan (the "2008 Plan") and the 2004 Stock Incentive Plan (the "2004 Plan"). On May 6, 2014, the Company's shareholders approved the 2014

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

Pursuant to the option components of the Stock Plans, the Company's Board of Directors authorized the Company to enter into agreements under which certain employees received stock options with (i) time vesting criteria and/or (ii) both time and performance vesting criteria (T&P Options). On May 7, 2015, the Company's shareholders approved an amendment to the 2014 Plan to permit a one-time stock option exchange program under which the Company would offer eligible employees the opportunity to exchange certain eligible T&P Options on a (a) two-for-one basis for new stock options for all eligible employees, other than the Company's Chief Executive Officer (i.e., so that the new stock options would cover half as many shares as the corresponding surrendered options) and (b) 3.5-for-one basis for new stock options for the Company's Chief Executive Officer (i.e., so that the new stock options would cover a number of shares equal to the quotient of the number of shares covered by the corresponding surrendered options divided by 3.5). The option exchange program was designed to create better incentives for employees to remain with the Company and contribute to the attainment of its business and financial objectives.

On May 22, 2015, the Company launched a tender offer in connection with the option exchange program which expired on June 22, 2015. Pursuant to the offer, employees tendered options to purchase 1,700 shares of common stock (representing 99.6% of the total shares of common stock underlying the options eligible for exchange) with a weighted-average exercise price of \$24.68 per share. The Company cancelled and replaced those options on June 22, 2015 with options to purchase 734 shares of common stock with an exercise price of \$5.25 per share, which was the closing price per share of the Company's common stock on the New York Stock Exchange on June 22, 2015. The replacement options vest over three years, with 25% vesting on each of the first and second anniversaries of the date of grant and 50% vesting on the third anniversary of the date of grant. The option exchange resulted in an incremental stock option expense of \$1,599, which was determined by comparing the fair value as calculated based on a Monte Carlo simulation to the fair value calculated using the Black-Scholes option pricing model for the eligible options exchanged. This incremental expense, along with the unamortized expense associated with the cancelled options, is being recognized ratably over the new vesting period of the replacement options, which is three years.

See Note 15 Subsequent Event for information relating to the Option Agreement entered into by the Company and Ms. Oprah Winfrey on October 18, 2015.

8. Income Taxes

The effective tax rates for the three months ended October 3, 2015 and September 27, 2014 were 33.1% and 33.6%, respectively. The effective tax rates for the nine months ended October 3, 2015 and September 27, 2014 were 37.2% and 35.4%, respectively. For the nine months ended October 3, 2015, the increase versus the prior year period was due mainly to the Company's net tax benefit recorded in the second quarter of fiscal 2014 associated with an intercompany loan write-off in connection with the closure of the Company's China business and the establishment of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized.

9. Legal

In re Weight Watchers International, Inc. Securities Litigation

In March 2014, two substantially identical putative class action complaints alleging violation of the federal securities laws were filed by individual shareholders against the Company, certain of the Company's current and former officers and directors, and the Company's controlling shareholder, in the United States District Court for the Southern District of New York. The complaints were purportedly filed on behalf of all purchasers of the Company's common stock, no par value per share, between February 14, 2012 and October 30, 2013, inclusive (the "Class Period"). The complaints allege that, during the Class Period, the defendants disseminated materially false and misleading statements and/or concealed material adverse facts. The complaints allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5. The plaintiffs seek to recover unspecified damages on behalf of the class members. In June 2014, the Court consolidated the cases and appointed lead plaintiffs and lead counsel. On August 12, 2014, the plaintiffs filed an amended complaint that, among other things, reduced the Class Period to between February 14, 2012 and February 13, 2013 and dropped all current officers and certain directors previously named as defendants. On October 14, 2014, the defendants filed a motion to dismiss. The plaintiffs filed an opposition to the defendants' motion to dismiss on November 24, 2014 and the defendants filed a reply in support of their motion to dismiss on December 23, 2014. The Company continues to believe that the suits are without merit and intends to defend them vigorously.

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Tracey Mead, Derivatively on Behalf of Weight Watchers International, Inc. vs. Artal Group et. al. and Weight Watchers International, Inc.

On May 29, 2014 and June 23, 2014, the Company received shareholder litigation demand letters alleging breaches of fiduciary duties and unjust enrichment by Company officers and directors and Artal Group, S.A., to the alleged injury of the Company. The allegations in the letters relate to those contained in the ongoing federal securities litigation. In response to the letters, pursuant to Virginia law, the Board of Directors has created a special committee to review and evaluate the facts and circumstances surrounding the claims made in the demand letters. The special committee has decided to undertake its review after receiving a decision on defendants' motion to dismiss in the federal securities litigation given the overlapping issues.

On August 11, 2015, a purported shareholder derivative lawsuit was filed in New York State Court in Westchester County. The complaint alleges that certain directors and executive officers breached their various fiduciary duties by knowingly causing the Company to repurchase shares from the Company's controlling shareholder and from certain executive officers at artificially inflated prices in connection with a tender offer made to all shareholders. The complaint seeks an order for the defendants to disgorge all profits made from selling Company stock between March 16, 2012 and April 9, 2012, as well as an award for damages sustained by the alleged breaches of fiduciary duty. The parties sought to stay this suit pending a decision on defendants' motion to dismiss in the federal securities litigation asserting similar allegations. The court denied the stay and rescheduled the preliminary case conference for December 17, 2015.

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, the disposition of any such matters is not expected to have a material effect on the Company's results of operations, financial condition or cash flows.

10. Derivative Instruments and Hedging

As of both October 3, 2015 and January 3, 2015, the Company had in effect an interest rate swap with a notional amount totaling \$1,500,000.

In January 2009, the Company entered into a forward-starting interest rate swap which had an effective date of January 4, 2010 and a termination date of January 27, 2014. From December 29, 2012 through April 1, 2013, this swap had qualified for hedge accounting, and therefore changes in the fair value of this derivative were recorded in accumulated other comprehensive income (loss). Effective April 2, 2013, due to the Company's debt refinancing, the Company ceased the application of hedge accounting for this swap. Accordingly, changes in the fair value of this

swap were recorded in earnings subsequent to April 2, 2013 and were immaterial for the nine months ended September 27, 2014.

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

As of October 3, 2015 and January 3, 2015, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive loss in the amounts of \$32,005 (\$52,468 before taxes) and \$21,856 (\$35,830 before taxes), respectively.

The Company is hedging forecasted transactions for periods not exceeding the next six years. The Company expects approximately \$11,348 (\$18,603 before taxes) of derivative losses included in accumulated other comprehensive loss at October 3, 2015, based on current market rates, will be reclassified into earnings within the next 12 months.

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11. Fair Value Measurements

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

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.

The fair value of the Company's total debt is determined by utilizing average bid prices on or near the end of each fiscal quarter (Level 2 input). As of October 3, 2015 and January 3, 2015, the fair value of the Company's total debt was approximately \$1,250,437 and \$1,888,051, respectively.

Derivative Financial Instruments

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

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

Fair Value Measurements Using:

	Quoted Prices in Active Markets			Significant Other Inputs		Significant Unobservable Inputs
	Total for Identical Assets Fair Value	(Level 1)	Observable Inputs (Level 2)	Other Inputs (Level 2)	(Level 3)	(Level 3)
Interest rate swap liability at October 3, 2015	\$ 58,585	\$ 0	\$	58,585	\$	0
Interest rate swap liability at January 3, 2015	\$ 42,423	\$ 0	\$	42,423	\$	0

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12. Accumulated Other Comprehensive Loss

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

Changes in Accumulated Other Comprehensive Loss by Component ^(a)

	Nine Months Ended October 3, 2015		
	Loss on Qualifying Hedges	Foreign Currency Translation Adjustments	Total
Beginning Balance at January 3, 2015, restated	\$ (21,856)	\$ 1,906	\$ (19,950)
Other comprehensive loss before reclassifications, net of tax	(9,859)	(13,862)	(23,721)
Amounts reclassified from accumulated other comprehensive loss, net of tax ^(b)	(290)	0	(290)
Net current period other comprehensive loss including noncontrolling interest	(10,149)	(13,862)	(24,011)
Less: net current period other comprehensive loss attributable to the noncontrolling interest	0	998	998
Ending Balance at October 3, 2015	\$ (32,005)	\$ (10,958)	\$ (42,963)

(a) Amounts in parentheses indicate debits

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

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

(a) Amounts in parentheses indicate debits

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

Reclassifications out of Accumulated Other Comprehensive Loss ^(a)

Details about Other Comprehensive Loss Components	Three Months Ended		Nine Months Ended		Amounts Reclassified from Accumulated Other Comprehensive	Affected Line Item in the Statement Where Net Income is Presented
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014		

	Other Comprehensive Loss		Loss		
(Gain) Loss on Qualifying Hedges Interest rate contracts	\$ (68)	\$ 0	\$ 476	\$ (6,937)	Interest expense
	(68)	0	476	(6,937)	Income before income taxes
	27	0	(186)	2,705	Provision for income taxes
	\$ (41)	\$ 0	\$ 290	\$ (4,232)	Net income

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

13. Segment Data

The Company has four reportable segments: North America, United Kingdom, Continental Europe (CE) and Other. Other consists of Asia Pacific and emerging markets operations and franchise revenues and related costs, all of which have been grouped together as if they were a single reportable segment because they do not meet any of the quantitative thresholds and are immaterial for separate disclosure. To be consistent with the information that is presented to the chief operating decision maker, the Company does not include intercompany activity in the segment results.

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

	Total Revenue			
	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
North America	\$ 179,069	\$ 221,157	\$ 585,397	\$ 734,053
United Kingdom	29,777	37,778	96,932	123,405
Continental Europe	51,961	67,068	180,910	235,549
Other	12,517	19,181	41,942	59,082
Total revenue	\$ 273,324	\$ 345,184	\$ 905,181	\$ 1,152,089

	Net Income			
	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Segment operating income:				
North America	\$ 44,666	\$ 67,389	\$ 113,686	\$ 214,062
United Kingdom	8,402	12,012	22,851	23,863
Continental Europe	19,427	24,494	52,066	62,412
Other	2,790	5,325	6,970	12,106
Total segment operating income	75,285	109,220	195,573	312,443
General corporate expenses	(12,177)	(17,826)	(43,841)	(55,432)
Interest expense	30,132	32,958	91,696	89,411
Other expense, net	373	1,520	1,292	2,679
Early extinguishment of debt	50	0	(11,426)	0
Gain on Brazil acquisition	0	0	0	(10,540)
Provision for taxes	10,761	19,123	26,082	62,045
Net income	21,792	37,793	44,088	113,416
Net (income) loss attributable to noncontrolling interest	(2)	99	146	9
Net income attributable to Weight Watchers International,	\$ 21,790	\$ 37,892	\$ 44,234	\$ 113,425

Inc.

	Depreciation and Amortization			
	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
North America	\$ 11,901	\$ 9,062	\$ 35,242	\$ 25,398
United Kingdom	209	255	591	969
Continental Europe	467	587	1,428	1,796
Other	403	620	1,147	1,713
Total segment depreciation and amortization	12,980	10,524	38,408	29,876
General corporate depreciation and amortization	1,135	5,701	7,561	13,871
Depreciation and amortization	\$ 14,115	\$ 16,225	\$ 45,969	\$ 43,747

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14. Restructuring Charges

As previously disclosed, the Company established a new cost-savings initiative and, as part of this cost-savings initiative, in fiscal 2015, the Company undertook a plan of reduction in force which resulted in the elimination of certain positions, termination of employment for certain employees worldwide and planned office space consolidation in the three and nine months ended October 3, 2015. In fiscal 2014, the Company reviewed its organization and undertook a restructuring which resulted in the elimination of certain positions and the termination of employment for certain employees worldwide in the three and nine months ended September 27, 2014.

In connection with these plans, the Company recorded restructuring charges in connection with employee termination benefit costs and planned office space consolidation of \$1,081 (\$660 after tax) and \$7,074 (\$4,315 after tax) during the three and nine months ended October 3, 2015, respectively, and the Company recorded restructuring charges in connection with employee termination benefit costs of \$713 (\$430 after tax) and \$10,867 (\$6,629 after tax) during the three and nine months ended September 27, 2014, respectively. For the three and nine months ended October 3, 2015, these charges impacted cost of revenues by \$(46) and \$1,652, respectively, and selling, general and administrative expenses by \$1,127 and \$5,422, respectively. For the three and nine months ended September 27, 2014, these charges impacted cost of revenues by \$(203) and \$4,483, respectively, and selling, general and administrative expenses by \$916 and \$6,384, respectively. For the three and nine months ended October 3, 2015 and September 27, 2014, all restructuring charges were recorded to general corporate expense and therefore there was no impact to the segments.

For the nine months ended October 3, 2015, the reconciliation of the liability balance for these restructuring charges was as follows:

Balance as of January 3, 2015	\$ 2,570
Provision	7,074
Payments	(8,714)
Balance as of October 3, 2015	\$ 930

The Company expects the liability as of October 3, 2015 to be paid in fiscal 2015. Pending further actions, primarily related to office space consolidation, the Company may record additional restructuring charges of up to \$3,000 during the remainder of fiscal 2015 in connection with the 2015 restructuring plan.

15. Subsequent Event

Strategic Collaboration Agreement

On October 18, 2015 (the Agreement Date), the Company entered into a Strategic Collaboration Agreement with Ms. Oprah Winfrey (the Strategic Collaboration Agreement), for an initial term of five years, with additional successive one year renewal terms, pursuant to which the parties granted each other certain intellectual property rights. During the term of this agreement, Ms. Winfrey will consult with the Company and participate in developing, planning, executing and enhancing the Weight Watchers program and related initiatives, and provide it with services in her discretion to promote the Company, its programs, products and services.

Share Purchase Agreement

On October 18, 2015, the Company entered into a Share Purchase Agreement (the Share Purchase Agreement) with Ms. Winfrey, pursuant to which, on October 19, 2015, the Company issued and sold to Ms. Winfrey an aggregate of 6,362 shares (the Purchased Shares) of the Company s common stock at a price per share of \$6.79 for an aggregate purchase price of \$43,199. The Purchased Shares are subject to certain registration rights.

The Purchased Shares may not be transferred by Ms. Winfrey within the first two years of the Agreement Date, subject to certain limited exceptions. Thereafter, Ms. Winfrey may generally transfer up to 15% of the Purchased Shares prior to the third anniversary of the Agreement Date, up to 30% prior to the fourth anniversary of the Agreement Date and up to 60% prior to the fifth anniversary of the Agreement Date. On or after the fifth anniversary of the Agreement Date, Ms. Winfrey will be permitted to transfer all of the Purchased Shares. In the event that Ms. Winfrey proposes to transfer any Purchased Shares or Option Shares (as defined below), the Company will have (a) a right of first offer with respect to such shares if such transfer is (i) for 1% or more of the Company s issued and outstanding common stock that is proposed to be made pursuant to Rule 144 under the Securities Act of 1933, as amended or (ii) proposed to be sold under a resale shelf registration statement or (b) a right of first refusal with respect to such shares if such transfer is (i) for 1% or more of the Company s issued and outstanding common stock and is proposed to be made to a

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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

competitor of the Company or (ii) for 5% or more of the Company's issued and outstanding common stock. Such transfer restrictions, right of first offer and right of first refusal terminate if Ms. Winfrey then has the right to be nominated as a director and has met certain eligibility requirements under the Share Purchase Agreement, but is not elected as a director of the Company. Such transfer restrictions also terminate if there is a change of control, including if another person (or group), other than Artal Luxembourg S.A. and Ms. Winfrey and their respective affiliates, acquires more than 50% of the total voting power of the Company.

Option Agreement

In consideration of Ms. Winfrey entering into the Strategic Collaboration Agreement and the performance of her obligations therein, on October 18, 2015, the Company granted Ms. Winfrey a fully vested option (the "Option") to purchase 3,513 shares of common stock at an exercise price of \$6.97 per share. In the fourth quarter of fiscal 2015, the Company will record as an expense the approximately \$12,800 full value of the Option for the initial five-year term of the Strategic Collaboration Agreement (based on the Black Scholes option pricing model).

Subject to certain limited exceptions, shares of common stock issuable upon exercise of the Option (the "Option Shares") generally may not be transferred by Ms. Winfrey within the first year of the Agreement Date. Thereafter, Ms. Winfrey generally may transfer up to 20% of the Option Shares prior to the second anniversary of the Agreement Date, up to 40% prior to the third anniversary of the Agreement Date, up to 60% prior to the fourth anniversary of the Agreement Date and up to 80% prior to the fifth anniversary of the Agreement Date. On or after the fifth anniversary of the Agreement Date, Ms. Winfrey will be permitted to transfer all of the Option Shares. Pursuant to the Share Purchase Agreement, in the event that Ms. Winfrey proposes to transfer any Option Shares, the Company will have a right of first offer or a right of first refusal with respect to such shares as described above. Such transfer restrictions terminate under the same director service and change of control circumstances that would result in the termination of the transfer restrictions relating to the Purchased Shares as described above.

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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, intend and similar expressions in this Quarterly Report on Form 10-Q to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

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

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

the ability to successfully implement new strategic initiatives;

the effectiveness of our marketing and advertising programs and strength of our social media presence;

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

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

the inability to generate sufficient cash to service all of our debt service obligations;

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

the recognition of asset impairment charges;

the inability to renew certain of our licenses, or the inability to do so on terms that are favorable to us;

the expiration or early termination by us of leases;

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

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

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

the seasonal nature of our business;

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

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

the impact of security breaches or privacy concerns;

the outcomes of litigation or regulatory actions;

the impact of existing and future laws and regulations;

the loss of key personnel or consultants or failure to effectively manage and motivate our workforce;

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

our failure to maintain effective internal controls over financial reporting; 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, the Company and WWI refer to Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements; North America refers to our North American Company-owned operations; United Kingdom refers to our United Kingdom Company-owned operations; Continental Europe refers to our Continental Europe Company-owned operations; and Other refers to Asia Pacific and emerging markets operations and franchise revenues and related costs. Each of North America, United Kingdom, Continental Europe and Other is also a reporting segment. Our meetings business refers to providing access to meetings to our monthly commitment plan subscribers, pay-as-you-go members, Total Access subscribers and other meeting members. Online refers to Weight Watchers Online, Weight Watchers Online*Plus*, Personal Coaching and other digital subscription products.

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

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

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

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

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

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

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

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

fiscal 2019 refers to our fiscal year ended December 29, 2019; and

fiscal 2020 refers to our fiscal year ended January 2, 2021.

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

We have restated our consolidated financial statements for the fiscal year ended January 3, 2015 to correct the accounting for certain franchise rights acquired, to correct the immaterial misclassification of a portion of the Company's long-term debt due within one year as a result of the calculation of the Company's excess cash flow under

the Credit Agreement (defined hereafter) and to reflect other miscellaneous immaterial balance sheet adjustments.

In the second quarter of fiscal 2015, we identified and recorded out-of-period adjustments related to immaterial errors in prior period financial statements that impacted income before income taxes and net income attributable to the Company by \$1.7 million and \$0.4 million, respectively.

You should read the following discussion in conjunction with our Annual Report on Form 10-K/A for fiscal 2014 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 referred to as the Consolidated Financial Statements).

NON-GAAP FINANCIAL MEASURES

To supplement our consolidated results presented in accordance with accounting principles generally accepted in the United States, or GAAP, we have disclosed non-GAAP financial measures of operating results that exclude or adjust certain items. Gross profit and gross profit margin, operating income and operating income margin, net income attributable to the Company, selling, general and administrative expenses and earnings per fully diluted share, including components thereof, are discussed in this Quarterly Report on Form 10-Q both as reported (on a GAAP basis) and as adjusted (on a non-GAAP basis), as applicable, as follows: (i) with respect to the third quarter and first nine months of fiscal 2015 and fiscal 2014, to exclude the impact of charges associated with the Company's previously disclosed plans to restructure its organization; (ii) with respect to the first nine months of fiscal 2015, to exclude the impact from the gains on early extinguishment of debt associated with the Company's previously reported debt prepayments in the period; and (iii) with respect to the first nine months of fiscal 2014, to exclude the impact of (a) the net tax benefit associated with an intercompany loan write-off in connection with the closure of the Company's China business and the establishment of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized and (b) the gain recognized in connection with the Company's previously disclosed Brazil acquisition due to an adjustment of the Company's previously held equity interest to fair value offset by a charge associated with the settlement of the royalty-free arrangement of the Brazil partnership. We

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generally refer to such non-GAAP measures as excluding or adjusting for the impact of the restructuring charges, the gain on the Brazil acquisition, the China tax benefit partially offset by the recognition of a valuation allowance and the gain on early extinguishment of debt. Our management believes these non-GAAP financial measures provide supplemental information to 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 financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

USE OF CONSTANT CURRENCY

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

CRITICAL ACCOUNTING POLICIES

Interim Impairment Test Assessment

We completed our annual impairment test for both goodwill and franchise rights acquired on February 24, 2015, incorporating all of the business performance information available to us through that date. Following the end of our third quarter of fiscal 2015, we considered the events and circumstances that existed subsequent to February 24, 2015 in performing our interim analysis to determine whether a triggering event had occurred such that an interim impairment analysis of one or more of our indefinite-lived assets was necessary. In performing this analysis, we considered the increase in the trading value of both our equity and debt following our announcement on October 19, 2015 of our partnership with Ms. Oprah Winfrey and her 10% investment in the Company. While we noted these increases in the trading values since the October 19, 2015 announcement, we believe that they may not fully reflect the anticipated positive impact of our transformation plan. For additional information on our transformation plan, see Transformation Plan . We further believe that these trading values should continue to increase following the anticipated success of the 2016 winter season. Accordingly, given the increase in these trading values and the positive performance of the Company versus our projections used at the time we completed our annual impairment test, we concluded that there has been no triggering event requiring an interim impairment analysis. However, if our 2016 winter season does not meet our expectations, or the trading values of both our equity and debt were to significantly decline from their current levels, we may have to take an impairment charge at the appropriate time, which could be material. For additional information on risks associated with our recognizing asset impairment charges, see Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended January 3, 2015.

Other Critical Accounting Policies

For a discussion of the other 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/A for fiscal 2014. Subject to the foregoing, our critical accounting policies have not changed since the end of fiscal 2014.

PERFORMANCE INDICATORS

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality and potential variability of our cash flows and earnings. These key performance indicators include:

revenues. Our Service Revenues consist of Meeting Fees and Online Subscription Revenues. Meeting Fees consist of the fees associated with our monthly commitment plan for unlimited access to meetings and other payment arrangements for access to meetings, including our pay-as-you-go payment arrangement and fees associated with our new Total Access product. Online Subscription Revenues consist of the fees associated with subscriptions for our Online subscription products, including our new Personal Coaching product.

Paid Weeks. The Paid Weeks metric reports paid weeks by Weight Watchers customers in Company-owned operations for a given period as follows: (i) Meeting Paid Weeks is the sum of total paid commitment plan weeks (including Total Access) and total pay-as-you-go weeks; (ii) Online Paid Weeks is the total paid subscription weeks for our digital subscription products (including Personal Coaching); and (iii) Total Paid Weeks is the sum of Meeting Paid Weeks and Online Paid Weeks.

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Incoming Active Subscribers/Active Base Subscribers refer to meetings members and Online subscribers who participate in recurring billing programs, such as our monthly commitment plan for our meetings business. The Incoming Active Subscribers metric reports active Weight Watchers subscribers in Company-owned operations at a given period start as follows: (i) Incoming Active Meeting Subscribers is the total Weight Watchers monthly commitment plan active subscribers (including Total Access); (ii) Incoming Active Online Subscribers is the total number of Weight Watchers Online, Weight Watchers Online*Plus* and Personal Coaching active subscribers; and (iii) Incoming Active Subscribers is the sum of Incoming Active Meeting Subscribers and Incoming Active Online Subscribers. We also at times refer to such metrics as the Incoming Active Base .

End of Period Active Subscribers/Active Base The End of Period Active Subscribers metric reports active Weight Watchers subscribers in Company-owned operations at a given period end as follows: (i) End of Period Active Meeting Subscribers is the total Weight Watchers monthly commitment plan active subscribers (including Total Access); (ii) End of Period Active Online Subscribers is the total number of Weight Watchers Online, Weight Watchers Online*Plus* and Personal Coaching active subscribers; and (iii) End of Period Active Subscribers is the sum of End of Period Active Meeting Subscribers and End of Period Active Online Subscribers. We also at times refer to such metrics as the End of Period Active Base .

recruitments

attendance

Meeting Fees per Paid Week and in-meeting product sales per attendee

gross profit and operating expenses as a percentage of revenue

TRANSFORMATION PLAN

As previously disclosed, the Company is currently executing a multi-year transformation plan. The four strategic areas of focus of this transformation plan are as follows: improving near-term performance, including strong cost management; repositioning our brand and improving our product offer; targeting new channel growth in healthcare; and building organizational capabilities. As part of our focus on strong cost management, prior to fiscal 2015, we successfully executed a gross cost-savings initiative totaling \$150 million annually. In fiscal 2015, we established an incremental \$100 million annual gross cost-savings initiative. See Note 14. Restructuring Charges in our unaudited consolidated financial statements and Anticipated Business Metrics, Trends and Other Events for additional details on this initiative. The December 2015 launch of our comprehensive program innovation is a key component of our strategy to reposition our brand and improve our product offer. This innovation will expand our purpose from weight loss alone to more broadly helping people lead healthier, happier lives. Management expects that this innovation, together with our recently-announced, groundbreaking partnership with Ms. Oprah Winfrey, will accelerate the successful repositioning of our brand. As part of our partnership, and in furtherance of this repositioning of our brand, Ms. Winfrey will continue to be a member and will candidly share her experiences and perspectives along the way of her weight loss journey. A key component of the organizational capabilities upgrade is our technology transformation, whereby we are replacing legacy technology systems and architecture to enable us to deliver product and program enhancements in a more agile, cost-effective manner. For additional details on our investments in fiscal 2015 related

to this technology transformation, see [Liquidity and Capital Resources](#) [Investing Activities](#) [First Nine Months of Fiscal 2015](#) . As we execute this transformation plan, management, from time to time, reviews the resulting revenues and associated costs to refine the plan in order to ensure resources are allocated efficiently and optimized. As management determines resources should be reallocated, they refine the transformation plan accordingly. For example, our investment strategy in the healthcare channel and related technology has evolved to focus on proving our internal capabilities to deliver against healthcare market needs. Management continues to believe that the Company has sufficient liquidity to execute the transformation plan and does not believe the Company is constrained by its capital structure. See [Liquidity and Capital Resources](#) . The progress against this transformation plan, including resulting revenues, to date has not met management's initial expectations and therefore the Company's turnaround is taking longer than management had previously anticipated. However, management remains committed to this transformation plan and its underlying strategies and is optimistic about the resulting turnaround.

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ANTICIPATED BUSINESS METRICS, TRENDS AND OTHER EVENTS

We anticipate the Company's fiscal 2015 revenues will be approximately \$1.16 billion, a decline from the \$1.48 billion reported in fiscal 2014 with foreign exchange accounting for approximately \$75 million of this decline. This decline is driven by the lower fiscal 2015 Incoming Active Bases in both our meetings and Online businesses as compared to the beginning of fiscal 2014, as well as the negative recruitments in the first nine months of fiscal 2015 versus the prior year period. In the third quarter of fiscal 2015, recruitments, while still negative versus the prior year period, continued to show the stability achieved in the spring season. We expect that the overwhelming positive response to our partnership with Oprah Winfrey that we have seen to date, coupled with our 2016 winter season program innovation launch, will likely result in our global recruitments turning positive in the fourth quarter of fiscal 2015.

After a tough start to fiscal 2015, we are continuing to focus in fiscal 2015 on generating positive cash flow to maintain strong liquidity. To this end, in the first quarter of fiscal 2015, we established our previously disclosed \$100 million cost-savings initiative, which is progressing on plan. See Transformation Plan for a discussion of our focus on strong cost management. As part of this cost-savings initiative, the Company undertook its previously disclosed 2015 plan of reduction in force which resulted in the elimination of certain positions and termination of employment for certain employees worldwide. During the first nine months of fiscal 2015, we recorded \$7.1 million (\$4.3 million after tax) of restructuring charges in connection with employment termination. Pending further actions, primarily related to office space consolidation, we may record additional restructuring charges of up to \$3.0 million during the remainder of fiscal 2015 in connection with this 2015 restructuring plan. We now expect the anticipated total cost savings will be derived from savings of: approximately 45% from marketing, as we focus our marketing spend on key media that drives recruitments and lower non-working media costs; approximately 35% from general and administrative expenses (including savings from reduced compensation costs arising from our 2015 restructuring plan); and approximately 20% from operating expenses (including savings from meeting consolidation). We are confident that we are on track to modestly exceed our savings target on a constant currency basis. We believe that cash generated by our revenue forecast for fiscal 2015 of approximately \$1.16 billion, our cost-savings initiative, the anticipated successful launch of our 2016 winter season program innovation, our cash on hand of \$212.3 million at the end of the third quarter of fiscal 2015, and the \$43.2 million cash payment received on October 19, 2015 from Ms. Oprah Winfrey in connection with her 10% investment in the Company will provide us with sufficient liquidity to meet our obligations for the next twelve months, including our April 2016 debt maturity obligation of \$144.3 million. Our cash on hand of \$212.3 million at October 3, 2015 includes the \$48.0 million of proceeds from our revolver borrowing. The revolver borrowing is classified as a short-term liability in consideration of the fact that the terms of the Revolving Facility (defined hereafter) require an assessment as to whether there have been any material adverse changes with respect to the Company in connection with our monthly interest elections. Although the revolver borrowing is classified as a short-term liability, absent any change in fact and circumstance, we have the ability to extend and not repay the Revolving Facility until its due date of April 2, 2018.

Table of Contents**RESULTS OF OPERATIONS****THREE MONTHS ENDED OCTOBER 3, 2015 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 27, 2014**

The table below sets forth selected financial information for the third quarter of fiscal 2015 from our consolidated statements of net income for the three months ended October 3, 2015 versus selected financial information for the third quarter of fiscal 2014 from our consolidated statements of net income for the three months ended September 27, 2014:

Summary of Selected Financial Data

	(In millions, except per share amounts)				
	For the Three Months Ended				
	October 3, 2015	September 27, 2014	Increase/ (Decrease)	%	% Change Constant Currency
Revenues, net	\$ 273.3	\$ 345.2	\$ (71.9)	(20.8%)	(15.6%)
Cost of revenues	136.7	157.6	(20.9)	(13.3%)	(8.2%)
Gross profit	136.6	187.6	(50.9)	(27.2%)	(21.7%)
<i>Gross Margin %</i>	<i>50.0%</i>	<i>54.3%</i>			
Marketing expenses	27.2	36.8	(9.7)	(26.2%)	(21.0%)
Selling, general & administrative expenses	46.4	59.4	(13.0)	(21.9%)	(17.9%)
Operating income	63.1	91.4	(28.3)	(30.9%)	(24.4%)
<i>Operating Income Margin %</i>	<i>23.1%</i>	<i>26.5%</i>			
Interest expense	30.1	33.0	(2.8)	(8.6%)	