

WEIGHT WATCHERS INTERNATIONAL INC

Form 10-Q

August 07, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 28, 2014**

**OR**

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

**For the transition period from                    to**

**Commission File Number: 001-16769**

**WEIGHT WATCHERS INTERNATIONAL, INC.**

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

The number of shares of common stock outstanding as of July 31, 2014 was 56,674,154.

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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>June 28, 2014</b>	<b>December 28, 2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 276,470	\$ 174,557
Receivables (net of allowances: June 28, 2014 - \$3,803 and December 28, 2013 - \$3,477)	37,290	36,248
Inventories	28,509	40,939
Deferred income taxes	23,010	24,457
Prepaid expenses and other current assets	34,272	39,524
<b>TOTAL CURRENT ASSETS</b>	<b>399,551</b>	<b>315,725</b>
Property and equipment, net	81,092	87,052
Franchise rights acquired	840,875	836,835
Goodwill	114,826	79,294
Trademarks and other intangible assets, net	49,150	45,297
Deferred financing costs, net	38,129	42,046
Other noncurrent assets	2,741	2,682
<b>TOTAL ASSETS</b>	<b>\$ 1,526,364</b>	<b>\$ 1,408,931</b>
<b>LIABILITIES AND TOTAL DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Portion of long-term debt due within one year	\$ 30,000	\$ 30,000
Accounts payable	37,917	45,496
Derivative payable	39,304	7,578
Other accrued liabilities	168,442	175,639
Income taxes payable	18,951	10,777
Deferred revenue	91,115	76,330
<b>TOTAL CURRENT LIABILITIES</b>	<b>385,729</b>	<b>345,820</b>
Long-term debt	2,346,000	2,358,000
Deferred income taxes	175,977	164,064
Other	16,557	15,669
<b>TOTAL LIABILITIES</b>	<b>2,924,263</b>	<b>2,883,553</b>
Redeemable noncontrolling interests	6,405	0
<b>TOTAL DEFICIT</b>		

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Common stock, \$0 par value; 1,000,000 shares authorized; 112,195 shares issued	0	0
Treasury stock, at cost, 55,524 shares at June 28, 2014 and 55,562 shares at December 28, 2013	(3,254,879)	(3,256,406)
Retained earnings	1,855,225	1,773,267
Accumulated other comprehensive income	(4,650)	8,517
<b>TOTAL DEFICIT</b>	<b>(1,404,304)</b>	<b>(1,474,622)</b>
<b>TOTAL LIABILITIES AND TOTAL DEFICIT</b>	<b>\$ 1,526,364</b>	<b>\$ 1,408,931</b>

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 28, 2014</b>	<b>June 29, 2013</b>	<b>June 28, 2014</b>	<b>June 29, 2013</b>
Service revenues, net	\$ 318,657	\$ 372,407	\$ 635,354	\$ 743,908
Product sales and other, net	78,890	98,481	171,551	217,770
<b>Revenues, net</b>	<b>397,547</b>	<b>470,888</b>	<b>806,905</b>	<b>961,678</b>
Cost of services	135,345	142,631	279,954	297,301
Cost of product sales and other	36,388	44,542	78,237	97,025
<b>Cost of revenues</b>	<b>171,733</b>	<b>187,173</b>	<b>358,191</b>	<b>394,326</b>
<b>Gross profit</b>	<b>225,814</b>	<b>283,715</b>	<b>448,714</b>	<b>567,352</b>
Marketing expenses	46,231	70,750	161,566	192,951
Selling, general and administrative expenses	65,019	58,989	121,531	117,306
<b>Operating income</b>	<b>114,564</b>	<b>153,976</b>	<b>165,617</b>	<b>257,095</b>
Interest expense	31,191	26,856	56,453	49,406
Other expense (income), net	889	(142)	1,159	1,154
Gain on Brazil acquisition	0	0	(10,540)	0
Early extinguishment of debt	0	21,685	0	21,685
<b>Income before income taxes</b>	<b>82,484</b>	<b>105,577</b>	<b>118,545</b>	<b>184,850</b>
Provision for income taxes	28,392	40,661	42,922	71,181
<b>Net income</b>	<b>54,092</b>	<b>64,916</b>	<b>75,623</b>	<b>113,669</b>
Net income attributable to the noncontrolling interest	(90)	0	(90)	0
<b>Net income attributable to Weight Watchers International, Inc.</b>	<b>\$ 54,002</b>	<b>\$ 64,916</b>	<b>\$ 75,533</b>	<b>\$ 113,669</b>
<b>Earnings per share</b>				
Basic	\$ 0.95	\$ 1.16	\$ 1.34	\$ 2.03
Diluted	\$ 0.95	\$ 1.15	\$ 1.33	\$ 2.02
<b>Weighted average common shares outstanding</b>				
Basic	56,624	56,045	56,525	55,923
Diluted	56,657	56,325	56,585	56,276

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Dividends declared per common share	\$	0.00	\$	0.18	\$	0.00	\$	0.35
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The accompanying notes are an integral part of these consolidated financial statements.



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

(IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income including noncontrolling interests	\$ 54,092	\$ 64,916	\$ 75,623	\$ 113,669
Other comprehensive loss:				
Foreign currency translation adjustments	5,360	(8,190)	4,060	(8,213)
Income tax effect on foreign currency translation adjustments	(2,512)	3,194	(1,587)	3,184
Foreign currency translation adjustments, net of taxes	2,848	(4,996)	2,473	(5,029)
Changes in loss on derivatives	(12,226)	2,465	(25,639)	5,083
Income tax effect on changes in loss on derivatives	4,768	(962)	9,999	(1,983)
Changes in loss on derivatives, net of taxes	(7,458)	1,503	(15,640)	3,100
Total other comprehensive loss	(4,610)	(3,493)	(13,167)	(1,929)
Comprehensive income including noncontrolling interests	49,482	61,423	62,456	111,740
Less: Net income attributable to the noncontrolling interest	(90)	0	(90)	0
Less: Foreign currency translation adjustments, net of taxes attributable to the noncontrolling interest	(11)	0	(225)	0
Comprehensive income attributable to the noncontrolling interest	(101)	0	(315)	0
Comprehensive income attributable to Weight Watchers International, Inc.	\$ 49,381	\$ 61,423	\$ 62,141	\$ 111,740

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>June 28, 2014</b>	<b>June 29, 2013</b>
<b>Operating activities:</b>		
Net income	\$ 75,623	\$ 113,669
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	23,605	21,527
Amortization of deferred financing costs	3,917	3,749
Share-based compensation expense	4,427	2,234
Deferred tax provision	19,909	13,874
Allowance for doubtful accounts	224	(31)
Reserve for inventory obsolescence	5,132	5,046
Foreign currency exchange rate loss	1,132	1,117
Loss on disposal of assets	15	1,373
Gain on Brazil acquisition	(10,540)	0
Early extinguishment of debt	0	21,685
Other items, net	(183)	0
Changes in cash due to:		
Receivables	173	(1,190)
Inventories	8,436	5,733
Prepaid expenses	4,940	3,639
Accounts payable	(7,824)	(14,321)
UK self-employment liability	0	(7,272)
Accrued liabilities	3,695	(12,232)
Deferred revenue	13,852	15,748
Income taxes	(1,034)	3,665
 Cash provided by operating activities	 145,499	 178,013
<b>Investing activities:</b>		
Capital expenditures	(4,531)	(30,988)
Capitalized software expenditures	(10,874)	(10,796)
Cash paid for acquisitions	(16,678)	(35,000)
Other items, net	111	415
 Cash used for investing activities	 (31,972)	 (76,369)
<b>Financing activities:</b>		
Proceeds from new term loans	0	2,400,000
Payments on long-term debt	(12,000)	(2,406,364)
Payment of dividends	(79)	(9,858)
Deferred financing costs	0	(44,783)
Proceeds from stock options exercised	139	9,630
Tax benefit of restricted stock units vested and stock options exercised	1	1,731

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Cash used for financing activities	(11,939)	(49,644)
Effect of exchange rate changes on cash and cash equivalents and other	325	(2,238)
Net increase in cash and cash equivalents	101,913	49,762
Cash and cash equivalents, beginning of period	174,557	70,215
Cash and cash equivalents, end of period	\$ 276,470	\$ 119,977

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

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

**1. Basis of Presentation**

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

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

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

*Revisions:*

The classification of certain brand marketing funds received from licensees has been revised to reflect them as revenue as opposed to being recorded as an offset to expense, increasing the three and six months ended June 29, 2013 Product sales and other, net, Cost of product sales and other, Gross profit, Marketing expenses and Selling, general and administrative expenses as follows:

	<b>June 29, 2013</b>	
	<b>Three</b>	<b>Six</b>
	<b>Months</b>	<b>Months</b>
	<b>Ended</b>	<b>Ended</b>
Product sales and other, net	\$ 5,759	\$ 9,621
Cost of product sales and other	\$ 287	\$ 662
Gross profit	\$ 5,472	\$ 8,959
Marketing expenses	\$ 5,194	\$ 8,481
Selling, general and administrative expenses	\$ 278	\$ 478

These adjustments were not considered to be material, individually or in the aggregate, to previously issued financial statements. However, because of the significance of these adjustments, the Company revised its three and six months ended June 29, 2013 consolidated statements of net income. These revisions had no impact on the consolidated balance sheets, consolidated statements of comprehensive income or consolidated statements of cash flows included in these financial statements.

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

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

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

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

*Reclassification:*

Certain prior year amounts have been reclassified to conform to the current period presentation. With respect to the Company's previously announced change in segment reporting, segment data for the three and six months ended June 29, 2013 has been revised to reflect the new reportable segment structure. See Note 13 for disclosures related to segments.

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

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

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

*Franchisee Acquisitions*

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

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

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

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

On July 22, 2013, the Company acquired substantially all of the assets of its Columbus, Ohio franchisee, Weight Watchers of Columbus, Inc., for a net purchase price of \$23,357 plus assumed liabilities of \$143 and its Reno, Nevada franchisee, Weight Watchers of Northern Nevada, Inc., for a net purchase price of \$3,969 plus assumed liabilities of \$31. The aggregate total purchase price has been allocated to franchise rights

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acquired (\$19,643), goodwill (\$7,220), customer relationship value (\$494), fixed assets (\$116) and inventory (\$27).

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

*Acquisition of Additional Equity Interest in Brazil*

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

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

The fair value of the redeemable noncontrolling interests has been preliminarily valued at \$6,314. In connection with the acquisition, a call option and a put option were granted related to the 20% interest in VPM not owned by the Company.



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

Fair value of consideration transferred:	
Net purchase price	\$ 14,181
Less cash acquired	2,262
Total	11,919
Gain on acquisition	10,540
Redeemable noncontrolling interests	6,314
	 28,773
Identifiable assets acquired and liabilities assumed:	
Franchise rights acquired	2,000
Receivables	1,139
Fixed assets	575
Prepaid expenses	421
Inventory	287
Customer relationship value	275
Other assets	199
Accrued liabilities	(1,063)
Deferred tax on acquired intangibles	(680)
Deferred revenue	(445)
Income taxes payable	(258)
Accounts payable	(91)
Total identifiable net assets	2,359
Goodwill	\$ 26,414

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

*Acquisition of Wello*

On April 16, 2014, the Company acquired Knowplicity, Inc., d/b/a Wello, an online fitness and personal training company for a net purchase price of \$9,115 less cash acquired of \$11. Payment was in the form of stock issued \$4,345 and cash \$4,770. The total purchase price of Wello has been preliminarily allocated to goodwill (\$7,215), website development (\$3,088), prepaid expenses (\$4) and fixed assets (\$1) offset by deferred tax liabilities (\$1,204). As a result of the acquisition, Wello became a wholly owned subsidiary of the Company and the Company began to consolidate the entity since the date of acquisition.

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Goodwill is related to, among other things, expected synergies in operations. The Company does not expect goodwill to be deductible for tax purposes. The amounts are preliminary because the valuations have not been finalized.

#### 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 six months ended June 28, 2014, the change in the carrying value of franchise rights acquired is due to the VPM acquisition, as described in Note 3, and the effect of exchange rate changes as follows:

Balance as of December 28, 2013	\$ 836,835
Franchise rights acquired during the period	2,000
Amortization of Brazil franchise rights acquired	(200)
Effect of exchange rate changes	2,240
Balance as of June 28, 2014	\$ 840,875

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

Goodwill primarily relates to the acquisition of the Company by H.J. Heinz Company in 1978, the acquisition of WeightWatchers.com, Inc. in 2005, the acquisitions of the Company's franchised territories, the acquisition of the majority interest in VPM in the first quarter of fiscal 2014 and the acquisition of Wello in the second quarter of fiscal 2014, as described in Note 3. For the six months ended June 28, 2014, the change in the carrying amount of goodwill is due to the VPM and Wello acquisitions and the effect of exchange rate changes as follows:

	North America	UK	CE	Other	Total
Balance as of December 28, 2013	\$ 67,699	\$ 1,530	\$ 8,345	\$ 1,720	\$ 79,294
Goodwill acquired during the period	7,215	0	0	26,414	33,629
Effect of exchange rate changes	37	0	0	1,866	1,903
Balance as of June 28, 2014	\$ 74,951	\$ 1,530	\$ 8,345	\$ 30,000	\$ 114,826

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

	June 28, 2014		December 28, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	\$ 92,987	\$ 68,567	\$ 85,095	\$ 62,418
Website development costs	75,098	54,141	69,660	48,060
Trademarks	10,774	10,090	10,691	9,955
Other	10,193	7,104	7,021	6,737
	\$ 189,052	\$ 139,902	\$ 172,467	\$ 127,170

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$6,986 and \$13,179 for the three and six months ended June 28, 2014, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$5,846 and \$11,663 for the three and six months ended June 29, 2013, respectively.

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

Remainder of fiscal 2014	\$ 14,180
Fiscal 2015	\$ 19,252
Fiscal 2016	\$ 10,829
Fiscal 2017	\$ 4,147
Fiscal 2018 and thereafter	\$ 742



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**5. Long-Term Debt**

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

	June 28, 2014		December 28, 2013	
	Balance	Effective Rate	Balance	Effective Rate
Revolving Facility due April 2, 2018	\$ 0	0.00%	\$ 0	0.00%
Tranche B-1 Term Facility due April 2, 2016	297,000	3.09%	298,500	2.97%
Tranche B-2 Term Facility due April 2, 2020	2,079,000	3.93%	2,089,500	3.75%
<b>Total Debt</b>	<b>2,376,000</b>	<b>3.82%</b>	<b>2,388,000</b>	<b>3.49%</b>
<b>Less Current Portion</b>	<b>30,000</b>		<b>30,000</b>	
<b>Total Long-Term Debt</b>	<b>\$ 2,346,000</b>		<b>\$ 2,358,000</b>	

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

At June 28, 2014, the Company had \$2,376,000 outstanding under the WWI Credit Facility, consisting entirely of term loans and there were no loans outstanding under the Revolving Facility. In addition, at June 28, 2014, the Revolving Facility had \$1,554 in issued but undrawn letters of credit outstanding thereunder and \$248,446 in available unused commitments thereunder. The proceeds from borrowings under the Revolving Facility (including swing line loans and letters of credit) will be used for working capital and general corporate purposes.

Borrowings under the New Credit Agreement bear interest at a rate equal to, at the Company's option, LIBOR plus an applicable margin or a base rate plus an applicable margin. LIBOR under the Tranche B-2 Term Facility is subject to a minimum interest rate of 0.75% and the base rate under the Tranche B-2 Term Facility is subject to a minimum interest rate of 1.75%. The applicable margin relating to both of the Term Facilities will increase by 25 basis points in the event that the Company receives a corporate rating of BB- (or lower) from S&P



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and a corporate rating of Ba3 (or lower) from Moody's. On February 21, 2014, both S&P and Moody's issued revised corporate ratings of the Company of B+ and B1, respectively. As a result, effective February 21, 2014, the applicable margin on borrowings under the Tranche B-1 Term Facility went from 2.75% to 3.00% and on borrowings under the Tranche B-2 Term Facility went from 3.00% to 3.25%. The applicable margin relating to the Revolving Facility will fluctuate depending upon the Company's Consolidated Leverage Ratio (as defined in the New Credit Agreement). At June 28, 2014, borrowings under the Tranche B-1 Term Facility bore interest at LIBOR plus an applicable margin of 3.00% and borrowings under the Tranche B-2 Term Facility bore interest at LIBOR plus an applicable margin of 3.25%. Based on the Company's Consolidated Leverage Ratio as of June 28, 2014, had there been any borrowings under the Revolving Facility, it would have borne interest at LIBOR plus an applicable margin of 2.25% or base rate plus an applicable margin of 1.25%. On a quarterly basis, the Company will pay a commitment fee to the lenders under the Revolving Facility in respect of unutilized commitments thereunder, which commitment fee will fluctuate depending upon the Company's Consolidated Leverage Ratio. Based on the Company's Consolidated Leverage Ratio as of June 28, 2014, the commitment fee was 0.40% per annum. The Company also will pay customary letter of credit fees and fronting fees under the Revolving Facility.

The New Credit Agreement contains customary covenants including covenants that, in certain circumstances, restrict the Company's ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell its assets and enter into consolidations, mergers and transfers of all or substantially all of its assets. The Revolving Facility requires the Company to not exceed a specified Consolidated Leverage Ratio, but only if borrowings under the Revolving Facility exceed 20.0% of revolving commitments as of the end of such fiscal quarter. As of June 28, 2014, borrowings in excess of \$50,000 would require us to not exceed such ratio. As of June 28, 2014, there were no borrowings under our Revolving Facility and total letters of credit issued were \$1,554. The Term Facilities do not require the Company to maintain any financial ratios. The WWI Credit Facility 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 June 28, 2014 and December 28, 2013, the Company's debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with the Company's variable-rate borrowings. The average interest rate on the Company's debt, exclusive of the impact of swaps, was approximately 3.89% and 3.65% per annum at June 28, 2014 and December 28, 2013, respectively. The average interest rate on our debt including the impact of swaps was approximately 4.08% per annum at December 28, 2013. The Company's forward starting swap became effective on March 31, 2014. The average interest rate on our debt including the impact of swaps was approximately 4.92% per annum at June 28, 2014.

**6. Earnings Per Share**

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 28, 2014</b>	<b>June 29, 2013</b>	<b>June 28, 2014</b>	<b>June 29, 2013</b>
<b>Numerator:</b>				
Net income	\$ 54,002	\$ 64,916	\$ 75,533	\$ 113,669
<b>Denominator:</b>				
Weighted average shares of common stock outstanding	56,624	56,045	56,525	55,923
Effect of dilutive common stock equivalents	33	280	60	353
Weighted average diluted common shares outstanding	56,657	56,325	56,585	56,276
<b>Earnings per share</b>				
Basic	\$ 0.95	\$ 1.16	\$ 1.34	\$ 2.03
Diluted	\$ 0.95	\$ 1.15	\$ 1.33	\$ 2.02

The number of anti-dilutive common stock equivalents excluded from the calculation of the weighted average number of common shares for diluted EPS was 3,350 and 1,335 for the three months ended June 28, 2014 and June 29, 2013, respectively, and 2,762 and 1,275 for the six months ended June 28, 2014 and June 29, 2013, respectively.

**7. Stock Plans**

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

**8. Income Taxes**

The effective tax rates for the three and six months ended June 28, 2014 were 34.4% and 36.2%, respectively. The effective tax rate for both the three and six months ended June 29, 2013 was 38.5%. For both the three and six months ended June 28, 2014, the primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were state income taxes and increases in our valuation allowances offset by a net tax benefit associated with the closure of our China business and lower rates in certain foreign jurisdictions. For both the three and six months ended June 29, 2013, the primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were state income taxes and increases in valuation allowances, offset by lower rates in certain foreign jurisdictions. During the



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three months ended June 28, 2014 the Company recorded a \$1,500 increase to its valuation allowance related to tax benefits for foreign losses that are not expected to be realized. The recognition of this valuation allowance should have occurred in prior periods as the losses were incurred. However, the impact is not material to any previously issued period or the expected full year 2014 financial statements. As a result, the Company corrected this error in the second quarter of fiscal 2014.

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**9. Legal**

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

In August 2013, the Company was contacted by plaintiffs' counsel in the previously filed and settled *Sabatino v. Weight Watchers North America, Inc.* case ( *Sabatino* ), threatening to file a new class action on behalf of the Company's current and former service providers in California asserting various wage and hour claims, including but not limited to claims for unpaid overtime and minimum wage violations, which allegedly accrued after the effective date of the *Sabatino* settlement. On March 17, 2014, the parties came to an agreement in principle to settle the matter on a class-wide basis for \$1,688. On April 29, 2014, the parties executed a Memorandum of Understanding to document the terms and conditions of settlement and, the following day, plaintiffs filed a complaint regarding the claims at issue in the Northern District of California. On June 11, 2014, the parties filed a formal settlement agreement and other required documents for the Court's preliminary approval. On July 21, 2014, the parties received the Court's preliminary approval of the settlement agreement. A hearing seeking the Court's final approval of the settlement is scheduled for December 2014. The Company believes that its previously recorded reserve is adequate with respect to this matter.

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

In March 2014, two substantially identical putative class action complaints alleging violation of the federal securities laws were filed by individual shareholders against the Company, certain of the Company's current and former officers and directors, and the Company's controlling shareholder, in the United States District Court for the Southern District of New York. The complaints were purportedly filed on behalf of all purchasers of the Company's common stock, no par value per share, between February 14, 2012 and October 30, 2013, inclusive (the *Class* ). The complaints allege that, during that 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*. In June 2014, the Court consolidated the cases and appointed lead plaintiffs and lead counsel. The Company continues to believe that the suits are without merit and intends to defend them vigorously.

*New York State Department of Taxation and Finance Matter*

In 2010, the New York State Department of Taxation and Finance ( *NYSDTF* ) initiated an audit of the Online products (Online memberships and eTools) being sold by WeightWatchers.com to determine whether such products should be subject to New York state sales tax. On August 26, 2011, the NYSDTF issued a letter to the Company setting forth its position as to why the Online products sold by its Online subsidiary should be taxable. After discussions, the parties entered into a settlement agreement which included the following material terms: (1) the NYSDTF would not initiate any legal proceedings against the Company for any alleged unpaid sales taxes for its Online products; (2) the Company agreed to pay the NYSDTF \$1,748 in lieu of claims of unpaid sales taxes; (3) the Company agreed to impose a sales tax for its Online products sold to New York-based customers going forward; and (4) the NYSDTF agreed that the Company could challenge the taxability of future versions of the Company's Online products. On April 28, 2014, the Company sent the NYSDTF a signed copy of the settlement agreement, and the corresponding settlement payment. The Company updated its systems to begin charging sales tax to Online customers in New York effective June 1, 2014.

*Other Litigation Matters*

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



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**10. Derivative Instruments and Hedging**

As of June 28, 2014 and June 29, 2013, the Company had in effect interest rate swaps with notional amounts totaling \$1,500,000 and \$468,750, respectively. In January 2009, the Company entered into a forward-starting interest rate swap with an effective date of January 4, 2010 and a termination date of January 27, 2014. Effective April 2, 2013, due to the Company's debt refinancing, the Company ceased the application of hedge accounting for this swap. Accordingly, changes in the fair value of this swap were recorded in earnings subsequent to April 2, 2013 and were immaterial for the six months ended June 28, 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 is \$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 June 28, 2014 and December 28, 2013, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive income (loss) in the amounts of \$20,243 (\$33,186 before taxes) and \$4,603 (\$7,546 before taxes), respectively.

The Company is hedging forecasted transactions for periods not exceeding the next seven years. The Company expects approximately \$11,685 (\$19,156 before taxes) of derivative losses included in accumulated other comprehensive income (loss) at June 28, 2014, based on current market rates, will be reclassified into earnings within the next 12 months.

**11. Fair Value Measurements**

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

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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The fair value of the Company's long-term debt is determined by utilizing average bid prices on or near the end of each fiscal quarter (Level 2 input). As of June 28, 2014 and June 29, 2013, the fair value of the Company's long-term debt was approximately \$1,928,087 and \$2,394,323, respectively.

### *Derivative Financial Instruments*

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

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

	Total Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap liability at June 28, 2014	\$ 39,304	\$ 0	\$ 39,304	\$ 0
Interest rate swap liability at December 28, 2013	\$ 7,578	\$ 0	\$ 7,578	\$ 0

**12. Accumulated Other Comprehensive Income**

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

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

	Six Months Ended June 28, 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	(19,872)	2,473	(17,399)
Amounts reclassified from accumulated other comprehensive income, net of tax <sup>(b)</sup>	4,232	0	4,232
Net current period other comprehensive loss	(15,640)	2,473	(13,167)
Ending Balance at June 28, 2014	\$ (20,243)	\$ 15,593	\$ (4,650)

(a) Amounts in parentheses indicate debits

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

Six Months Ended June 29, 2013

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	Loss on Qualifying Hedges	Foreign Currency Translation Adjustments	Total
Beginning Balance at December 29, 2012	\$ (6,602)	\$ 19,461	\$ 12,859
Other comprehensive loss before reclassifications, net of tax	(22)	(5,029)	(5,051)
Amounts reclassified from accumulated other comprehensive income, net of tax <sup>(b)</sup>	3,122	0	3,122
Net current period other comprehensive income (loss)	3,100	(5,029)	(1,929)
Ending Balance at June 29, 2013	\$ (3,502)	\$ 14,432	\$ 10,930

(a) Amounts in parentheses indicate debits

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

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

Details about Other Comprehensive Income Components	Three Months Ended		Six Months Ended		Affected Line Item in the Statement Where Net Income is Presented
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	
	Amounts Reclassified from Accumulated Other Comprehensive Income		Amounts Reclassified from Accumulated Other Comprehensive Income		
Loss on Qualifying Hedges					
Interest rate contracts	\$ (6,117)	\$ (2,460)	\$ (6,937)	\$ (5,117)	Interest expense
	(6,117)	(2,460)	(6,937)	(5,117)	Income before income taxes
	2,386	959	2,705	1,995	Provision for income taxes
	\$ (3,731)	\$ (1,501)	\$ (4,232)	\$ (3,122)	Net income

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

**13. Segment Data**

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

	Total Revenue			
	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
North America	\$ 248,490	\$ 317,805	\$ 512,896	\$ 650,669
United Kingdom	43,428	47,244	85,627	96,189
Continental Europe	84,250	82,430	168,481	164,631
Other	21,379	23,409	39,901	50,189
Total revenue	\$ 397,547	\$ 470,888	\$ 806,905	\$ 961,678





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	Net Income			
	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Segment operating income:				
North America	\$ 88,865	\$ 127,768	\$ 146,673	\$ 230,218
United Kingdom	13,397	9,297	11,851	14,227
Continental Europe	32,075	26,188	37,918	30,277
Other	5,693	4,825	6,781	8,924
Total segment operating income	140,030	168,078	203,223	283,646
General corporate expenses	(25,466)	(14,102)	(37,606)	(26,551)
Interest expense	31,191	26,856	56,453	49,406
Other expense, net	889	(142)	1,159	1,154
Early extinguishment of debt	0	21,685	0	21,685
Gain on Brazil acquisition	0		(10,540)	0
Provision for taxes	28,392	40,661	42,922	71,181
Net Income	54,092	64,916	75,623	113,669
Net income attributable to noncontrolling interest	(90)	0	(90)	0
Net income attributable to Weight Watchers International, Inc.	\$ 54,002	\$ 64,916	\$ 75,533	\$ 113,669

	Depreciation and Amortization			
	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
North America	\$ 8,358	\$ 7,986	\$ 16,336	\$ 16,477
United Kingdom	356	256	714	543
Continental Europe	616	540	1,209	1,098
Other	745	503	1,093	950
Total segment depreciation and amortization	10,075	9,285	19,352	19,068
General corporate depreciation and amortization	4,034	3,722	8,170	6,208
Depreciation and amortization	\$ 14,109	\$ 13,007	\$ 27,522	\$ 25,276

**14. Restructuring Charges**

As previously disclosed, the Company has reviewed its organization and undertook a restructuring which resulted in the elimination of certain positions and the termination of employment of certain employees in the three and six months ended June 28, 2014. In connection with this plan, the Company recorded restructuring charges in connection with employee termination benefit costs of \$6,498 (\$3,964 after tax) and \$10,154 (\$6,199 after tax) during the three and six months ended June 28, 2014, respectively. For the three and six months ended June 28, 2014, these charges impacted cost of revenues by \$3,174 and \$4,686, respectively, and selling, general and administrative expense by \$3,324 and \$5,468,

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respectively. For the three and six months ended June 28, 2014, all restructuring charges were recorded to general corporate expense and therefore there was no impact to the segments.

For the six months ended June 28, 2014, the reconciliation of the liability balance for these restructuring charges was as follows:

Balance as of December 28, 2013	\$ 0
Provision	10,154
Payments	(4,978)
Balance as of June 28, 2014	\$ 5,176

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The Company expects \$4,327 of the liability as of June 28, 2014 to be paid in fiscal 2014 and the remainder to be paid in fiscal 2015. The Company anticipates recording additional restructuring charges in connection with this plan and the related employee termination benefit costs of approximately \$1,800 during the remainder of fiscal 2014.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Except for historical information contained herein, this Quarterly Report on Form 10-Q includes forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including, in particular, the statements about our plans, strategies and prospects under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations. We have generally used the words may, will, could, expect, anticipate, believe, estimate, plan, intend and similar expressions in this Quarterly Report on Form 10-Q to identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

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

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

the ability to successfully implement new strategic initiatives;

the effectiveness of our marketing and advertising programs;

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

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

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

the recognition of asset impairment charges;

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

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

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

the seasonal nature of our business;

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

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

the impact of security breaches or privacy concerns;

the impact of disputes with our franchise operators;

the impact of existing and future laws and regulations;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**NON-GAAP FINANCIAL MEASURES**

To supplement our consolidated results presented in accordance with accounting principles generally accepted in the United States, or GAAP, we have disclosed non-GAAP financial measures of operating results that exclude or adjust certain items. Cost of revenues, gross profit, gross profit margin, selling, general and administrative expenses, operating income, operating income margin, net income and earnings per fully diluted share are discussed in this Quarterly Report on Form 10-Q both as reported (on a GAAP basis) and as adjusted (on a non-GAAP basis) to exclude the impact of expenses associated with our previously disclosed restructuring of our organization. Net income and earnings per fully diluted share are discussed in this Quarterly Report on Form 10-Q both as reported (on a GAAP basis) and as adjusted (on a non-GAAP basis) to exclude the net tax benefit related to an intercompany loan write-off in connection with the closure of our China business and the establishment of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized, the impact of the gain on the Brazil acquisition (as discussed further herein) and the impact from the early extinguishment of debt charge associated with the Company's previously reported debt refinancing. We generally refer to such non-GAAP measures as excluding or adjusting for the impact of restructuring charges and/or the net tax benefit offset by the recognition of a valuation allowance and/or the gain on the Brazil acquisition and/or the impact of the early extinguishment of debt charge. 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





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considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

### **USE OF CONSTANT CURRENCY**

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

### **CRITICAL ACCOUNTING POLICIES**

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

### **RESULTS OF OPERATIONS**

#### **OVERVIEW**

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

Despite our continued focus on cost saving initiatives, the period-over-period revenue decline put substantial pressure on results of operations and caused operating income to decline in the first and second quarters of fiscal 2014 as compared to the prior year period. As part of management's strategy to offset revenue decline, the Company undertook its previously disclosed plan to restructure its organization, which resulted in the elimination of certain positions and employees in the first and second quarters of fiscal 2014. In connection with this plan, the Company recorded restructuring charges in connection with employee termination benefit costs of \$10.2 million (\$6.2 million after tax) during the first half of fiscal 2014. The Company anticipates recording additional restructuring charges in connection with this plan, including the related employee termination benefit costs, of approximately \$1.8 million in the aggregate during the remainder quarters of fiscal 2014. We expect \$4.3 million of the liability as of June 28, 2014 to be paid in fiscal 2014 and the remainder to be paid in fiscal 2015.

As we look forward to fiscal 2015, we expect that we will enter the year with lower active bases in both our meetings and Online businesses as compared to the beginning of fiscal 2014. Irrespective of the recruitments for the remainder of fiscal 2014 and fiscal 2015, we expect the lower active bases at the beginning of fiscal 2015 as compared with the beginning of fiscal 2014 will on their own result in loss of earnings per share, or EPS, of approximately \$0.60. In addition, our continued investment in healthcare and in the new technology platform (while also maintaining the legacy technology platform) will have a negative financial impact on our fiscal 2015 results.

**Table of Contents****THREE MONTHS ENDED JUNE 28, 2014 COMPARED TO THE THREE MONTHS ENDED JUNE 29, 2013**

The table below sets forth selected financial information for the second quarter of fiscal 2014 from our consolidated statements of net income for the three months ended June 28, 2014 versus selected financial information for the second quarter of fiscal 2013 from our consolidated statements of net income for the three months ended June 29, 2013:

**Summary of Selected Financial Data**

	(In millions, except per share amounts)			
	For the Three Months Ended			
	June 28, 2014	June 29, 2013	Increase/ (Decrease)	% Change
Revenues, net	\$ 397.5	\$ 470.9	\$ (73.3)	(15.6%)
Cost of revenues	171.7	187.2	(15.4)	(8.2%)
Gross profit	225.8	283.7	(57.9)	(20.4%)
<i>Gross Margin %</i>	<i>56.8%</i>	<i>60.3%</i>		
Marketing expenses	46.2	70.8	(24.5)	(34.7%)
Selling, general & administrative expenses	65.0	59.0	6.0	10.2%
Operating income	114.6	154.0	(39.4)	(25.6%)
<i>Operating Income Margin %</i>	<i>28.8%</i>	<i>32.7%</i>		
Interest expense	31.2	26.9	4.3	16.1%
Other expense (income), net	0.9	(0.1)	1.0	(726.6%)
Early extinguishment of debt		21.7	(21.7)	(100.0%)
Income before income taxes	82.5	105.6	(23.1)	(21.9%)
Provision for income taxes	28.4	40.7	(12.3)	(30.2%)
Net income	54.1	64.9	(10.8)	(16.7%)
Net income attributable to the noncontrolling interest	(0.1)		(0.1)	
Net income attributable to Weight Watchers International, Inc.	\$ 54.0	\$ 64.9	\$ (10.9)	(16.8%)
Weighted average diluted shares outstanding	56.7	56.3	0.3	0.6%
Diluted EPS	\$ 0.95	\$ 1.15	\$ (0.20)	(17.3%)

Note: Totals may not sum due to rounding.

Certain results for the second quarter of fiscal 2014 are adjusted to exclude the \$6.5 million impact of charges from our restructuring plan and the \$2.4 million net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized. See Non-GAAP Financial Measures above. The table below sets forth a reconciliation of those components of our selected financial data for the three months ended June 28, 2014 that have been adjusted.



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(in millions, except per share amounts)	Cost of Revenues	Gross Profit	Gross Profit Margin	Selling, General and Administrative Expenses	Operating Income	Operating Income Margin	Net Income Attributable to Company	Diluted EPS
<b>Second quarter of fiscal 2014</b>	\$ 171.7	\$ 225.8	56.8%	\$ 65.0	\$ 114.6	28.8%	\$ 54.0	\$ 0.95
Adjustments to Reported Amounts <sup>(1)</sup>								
Restructuring charges <sup>(1)</sup>	(3.2)	3.2		(3.3)	6.5		4.0	0.07
Tax benefit, net <sup>(1)</sup>							(2.4)	(0.04)
<b>Total Adjustments</b>	<b>(3.2)</b>	<b>3.2</b>		<b>(3.3)</b>	<b>6.5</b>		<b>1.6</b>	<b>0.03</b>
<b>Second quarter of fiscal 2014, as adjusted<sup>(1)</sup></b>	<b>\$ 168.6</b>	<b>\$ 229.0</b>	<b>57.6%</b>	<b>\$ 61.7</b>	<b>\$ 121.1</b>	<b>30.5%</b>	<b>\$ 55.6</b>	<b>0.98</b>

Note: Totals may not sum due to rounding

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for the second quarter of fiscal 2014 to exclude the impact of the \$6.5 million (\$4.0 million after tax) of charges associated with our previously disclosed plan to restructure our organization and the \$2.4 million net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized. See Non-GAAP Financials Measures above for an explanation of our use of non-GAAP financial measures.

Certain results for the second quarter of fiscal 2013 are adjusted to exclude the \$21.7 million impact of the early extinguishment of debt charge. See Non-GAAP Financial Measures above. The table below sets forth a reconciliation of those components of our selected financial data for the three months ended June 29, 2013 that have been adjusted.

(in millions, except per share amounts)	Income Before Taxes	Provision for Income Taxes	Net Income	Diluted EPS
<b>Second quarter of fiscal 2013</b>	\$ 105.6	\$ 40.7	\$ 64.9	\$ 1.15
Adjustments to Reported Amounts <sup>(1)</sup>				
Early extinguishment of debt charge <sup>(1)</sup>	21.7	8.4	13.3	0.24
<b>Total Adjustments</b>	<b>21.7</b>	<b>8.4</b>	<b>13.3</b>	<b>0.24</b>
<b>Second quarter of fiscal 2013, as adjusted <sup>(1)</sup></b>	<b>\$ 127.3</b>	<b>\$ 49.1</b>	<b>\$ 78.3</b>	<b>\$ 1.39</b>

Note: Totals may not sum due to rounding

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

**Consolidated Results***Revenues*

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

Revenues were \$397.5 million in the second quarter of fiscal 2014, as compared to \$470.9 million in the second quarter of fiscal 2013. Excluding the impact of foreign currency, which positively impacted our revenues for the second quarter of fiscal 2014 by \$5.7 million, revenues in the second quarter of fiscal 2014 declined 16.8% versus the prior year period. This revenue decline in the second quarter of fiscal 2014 was driven by revenue declines in the meetings and Online businesses globally, most notably in North America.

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Service revenues for the second quarter of fiscal 2014 were \$318.7 million, a decrease of \$53.7 million, or 14.4%, from \$372.4 million in the prior year period. Excluding the impact of foreign currency, which increased our service revenues for the second quarter of fiscal 2014 by \$3.9 million, service revenues in the second quarter of fiscal 2014 decreased by 15.5% versus the prior year period. The decline in service revenues was driven by a 14.4% decline in total paid weeks in the second quarter of fiscal 2014 to 47.9 million from 56.0 million in the prior year period. The decline in total paid weeks was driven by a 13.7% lower active base at the beginning of the second quarter of fiscal 2014 versus the beginning of the second quarter of fiscal 2013 as well as by the lower recruitments in the second quarter of fiscal 2014 as compared to the prior year period given the continuing challenging competitive environments in our markets.

Our active base is comprised of both active Monthly Pass subscribers and Online subscribers. Active Monthly Pass subscribers declined 10.7% to 1.4 million at the end of the second quarter of fiscal 2014 from 1.6 million at the end of the second quarter of fiscal 2013. Active Online subscribers decreased by 14.1% to 2.0 million at the end of the second quarter of fiscal 2014 from 2.3 million at the end of the second quarter of fiscal 2013. Global attendance decreased 12.9% to 10.3 million in the second quarter of fiscal 2014 from 11.9 million in the second quarter of fiscal 2013.

Product sales and other for the second quarter of fiscal 2014 were \$78.9 million, a decrease of \$19.6 million, or 19.9%, from \$98.5 million in the second quarter of fiscal 2013. Excluding the impact of foreign currency, which increased our product sales and other for the second quarter of fiscal 2014 by \$1.8 million, product sales and other in the second quarter of fiscal 2014 decreased by 21.8% versus the prior year period. In-meeting product sales for the second quarter of fiscal 2014 were \$46.4 million, a decrease of \$10.9 million, or 19.1%, from \$57.3 million in the second quarter of fiscal 2013. Excluding the impact of foreign currency, which increased our in-meeting product sales for the second quarter of fiscal 2014 by \$1.2 million, in-meeting product sales in the second quarter of fiscal 2014 decreased by 21.2% versus the prior year period. This decrease resulted primarily from a 12.9% decline in attendance in the second quarter of fiscal 2014 versus the prior year period. Additionally, product sales per attendee decreased 7.1%, or 9.5% on a constant currency basis, in the second quarter of fiscal 2014 versus the prior year period. This decrease in product sales per attendee in the second quarter of fiscal 2014 was primarily the result of a decline in sales of enrollment-related products in North America.

Other revenues include licensing revenues, franchise royalties, revenues from the sale of products by mail and to our franchisees, Online advertising revenues, and advertising and subscription revenues from our publications and totaled \$32.5 million for the second quarter of fiscal 2014, a decrease of \$8.6 million, or 21.0%, from \$41.2 million for the second quarter of fiscal 2013. Excluding the impact of foreign currency, which increased other revenues for the second quarter of fiscal 2014 by \$0.7 million, other revenues were 22.6% lower in the second quarter of fiscal 2014 compared to the prior year period. Our licensing revenues decreased by 23.6% in the second quarter of fiscal 2014 versus the prior year period driven in large part by the timing of brand marketing related activities across many of our markets. Franchise royalties and sales of products to our franchisees declined in the aggregate by 23.6% in the second quarter of fiscal 2014 versus the prior year period. This decline in franchise royalties and sales of products to our franchisees was driven in part by our recent franchise acquisitions. Our by mail product sales and subscription revenues from our publications also declined in the aggregate by 13.4% in the second quarter of fiscal 2014 versus the prior year period.

See Segment Results for additional details on revenues.

*Cost of Revenues and Gross Profit*

Total cost of revenues in the second quarter of fiscal 2014 was \$171.7 million, a decline of \$15.4 million from \$187.2 million in the prior year period. Excluding the impact of restructuring charges, total cost of revenues in the second quarter of fiscal 2014 would have been \$168.6 million, a decline of \$18.6 million, or 9.9%, versus the prior year period. Excluding the impact of restructuring charges, gross profit for the second quarter of fiscal 2014 would have been \$229.0 million, a decrease of \$54.7 million, or 19.3%, from \$283.7 million in the second quarter of fiscal 2013. Excluding the positive impact of foreign currency for the second quarter of fiscal 2014 of \$3.2 million and the negative impact of restructuring charges, gross profit in the second quarter of fiscal 2014 decreased by \$57.9 million, or 20.4%, versus the prior year period. Gross margin in the second quarter of fiscal 2014 was 56.8%. Excluding the impact of restructuring charges, gross margin in the second quarter of fiscal 2014 was 57.6%, as compared to gross

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margin of 60.3% in the second quarter of fiscal 2013. Gross margin compression was driven primarily by the decline in the North America gross margin which was partially offset by the mix shift toward the higher margin Continental Europe business. The decline in North America gross margin was driven primarily by the lower average number of members per meeting and the impact of the US service provider compensation changes. In addition, given that revenues in our Online business were flat as a percentage of total revenues, we did not benefit from a mix shift to our higher gross margin Online business in the second quarter of fiscal 2014 as compared to the prior year period where we had experienced this benefit.

### *Marketing*

Marketing expenses for the second quarter of fiscal 2014 were \$46.2 million, a decrease of \$24.5 million, or 34.7%, versus the second quarter of fiscal 2013. Excluding the impact of foreign currency, which increased marketing expenses for the second quarter of fiscal 2014 by \$0.8 million, marketing expenses were 35.8% lower in the second quarter of fiscal 2014 compared to the prior year period. The decline was primarily driven by lower TV media which resulted from first-time integrated TV spots for both our meetings and Online businesses in several markets. In addition, lower and more efficient digital marketing spend and timing of brand marketing promotions in the United States, the United Kingdom and Germany contributed to this decline. Marketing expenses as a percentage of revenue were 11.6% in the second quarter of fiscal 2014 as compared to 15.0% in the prior year period.

### *Selling, General and Administrative*

Selling, general and administrative expenses were \$65.0 million for the second quarter of fiscal 2014 versus \$59.0 million for the second quarter of fiscal 2013, an increase of \$6.0 million, or 10.2%. Excluding the impact of the restructuring charges and foreign currency, second quarter of fiscal 2014 selling, general and administrative expenses increased by 3.5% versus the second quarter of fiscal 2013. Higher stock compensation expense, as we cycled against forfeitures in the prior year quarter, higher bonus expense and higher spend in connection with our healthcare and technology initiatives more than offset savings associated with our restructuring and other cost saving initiatives. Selling, general and administrative expenses as a percentage of revenue for the second quarter of fiscal 2014 increased to 16.4% from 12.5% for the second quarter of fiscal 2013. Excluding the impact of the restructuring charges, selling, general and administrative expenses as a percentage of revenue for the second quarter of fiscal 2014 increased to 15.5% from 12.5% for the second quarter of fiscal 2013.

### *Operating Income*

Operating income for the second quarter of fiscal 2014 was \$114.6 million, a decrease of \$39.4 million, or 25.6%, from \$154.0 million in the second quarter of fiscal 2013. Excluding the impact of the restructuring charges in the second quarter of fiscal 2014, and of foreign currency which positively impacted operating income for the second quarter of fiscal 2014 by \$1.8 million, operating income in the second quarter of fiscal 2014 decreased by \$34.7 million, or 22.5%, versus the prior year period. This decrease in operating income was primarily the result of lower service revenues from both our meetings and Online businesses in North America in the second quarter of fiscal 2014 versus the prior year period. Operating income margin in the second quarter of fiscal 2014 was 28.8%. Excluding the impact of the restructuring charges, our operating income margin in the second quarter of fiscal 2014 decreased to 30.5% from 32.7% in the second quarter of fiscal 2013. This decline in operating income margin was primarily driven by the decline in gross margin and higher selling, general and administrative expenses as a percentage of revenues, partially offset by lower marketing expenses as a percentage of revenues.

### *Interest Expense*

Interest expense was \$31.2 million for the second quarter of fiscal 2014, an increase of \$4.3 million, or 16.1%, from \$26.9 million in the second quarter of fiscal 2013. The increase was primarily driven by our interest rate swap that went into effect on March 31, 2014 offset by the interest rate swap that terminated on January 27, 2014 and higher interest rates on our debt due to a 25 basis point increase related to the issuance of revised corporate ratings by S&P and Moody's on February 21, 2014. Our average debt outstanding decreased by \$37.6 million to \$2,376.1 million in the second quarter of fiscal 2014 from \$2,413.7 million in the second quarter of fiscal 2013. The effective interest rate on our debt increased by 0.24% to 3.89% in the second quarter of fiscal 2014 from 3.65% in the second quarter of fiscal 2013. This increase was primarily as a result of a 25 basis point increase related to the issuance of revised corporate ratings by S&P and Moody's on February 21, 2014. Including the impact of our swaps, our effective interest rate increased to 4.91% in the second quarter of fiscal 2014 from 4.07% in the second quarter of fiscal 2013.

**Table of Contents***Other Income and Expense*

We incurred \$0.9 million of other expense in the second quarter of fiscal 2014 as compared to \$0.1 million of other income in the prior year period related to the impact of foreign currency on intercompany transactions in both periods.

*Tax*

Our effective tax rate was 34.4% for the second quarter of fiscal 2014 as compared to 38.5% for the second quarter of fiscal 2013. The decrease was due mainly to the net tax benefit associated with the closure of our China business that was recorded in the second quarter of fiscal 2014 offset by the recognition of a valuation allowance that was recorded in the second quarter of fiscal 2014 related to tax benefits previously recorded for foreign losses that are not expected to be realized. Excluding the impact of these items, our effective tax rate would have been 37.3%. The table below sets forth an effective tax rate reconciliation of those components of our selected financial data for the three months ended June 28, 2014 that have been adjusted.

	<b>For the Three Months Ended</b>	
	<b>June 28, 2014</b>	<b>June 29, 2013</b>
<b>Effective tax rate second quarter of fiscal 2014</b>	34.4%	38.5%
Adjustments to Reported Amounts <sup>(1)</sup>		
Tax benefit, net <sup>(1)</sup>	2.9%	0.0%
Total Adjustments	2.9%	0.0%
<b>Effective tax rate second quarter of fiscal 2014, as adjusted <sup>(1)</sup></b>	37.3%	38.5%

Note: Totals may not sum due to rounding

<sup>(1)</sup> See Non-GAAP Financials Measures above for an explanation of our use of non-GAAP financial measures.  
*Net Income Attributable to the Company and Earnings Per Share*

Net income attributable to the company in the second quarter of fiscal 2014 declined 16.8% from \$64.9 million in the second quarter of fiscal 2013 to \$54.0 million. Excluding the impact of restructuring charges and the net tax benefit in the second quarter of fiscal 2014 offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized and the early extinguishment of debt in the second quarter of fiscal 2013, net income would have been \$55.6 million in the second quarter of fiscal 2014, a decline of 28.9% versus the prior year period. This decline in net income was primarily driven by the decrease in operating income in the second quarter of fiscal 2014 versus the prior year period.

Earnings per fully diluted share, or EPS, in the second quarter of fiscal 2014 were \$0.95, a decrease of \$0.20 from \$1.15 in the second quarter of fiscal 2013. Excluding the impact of the restructuring charges and the net tax benefit in the second quarter of fiscal 2014 offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized and the early extinguishment of debt in the second quarter of fiscal 2013, EPS would have been \$0.98 in the second quarter of fiscal 2014 as compared to \$1.39 in the prior year period.



**Table of Contents****Segment Results**

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

*Metrics and Business Trends*

The following tables set forth key metrics by reportable segment for the three months ended June 28, 2014 and the percentage change in those metrics versus the relevant prior year period:

(in millions unless otherwise stated)

	Three Months Ended June 28, 2014						Q2 2014		
	GAAP		Constant Currency				Total	Incoming	EOP
	Service Revenues	Product Sales & Other	Total Revenues	Service Revenues	Product Sales & Other	Total Revenues	Paid Weeks	Active Base	Active Base
North America	\$ 209.1	\$ 39.4	\$ 248.5	\$ 210.4	\$ 39.5	\$ 249.9	31.3	2,425.4	2,197.7
UK	30.1	13.3	43.4	27.5	12.1	39.6	5.5	404.3	381.9
CE	65.7	18.5	84.3	62.8	17.6	80.5	9.7	738.5	701.4
Other <sup>(1)</sup>	13.7	7.7	21.4	14.1	7.8	21.9	1.4	77.0	76.1
<b>Total</b>	<b>\$ 318.7</b>	<b>\$ 78.9</b>	<b>\$ 397.5</b>	<b>\$ 314.8</b>	<b>\$ 77.1</b>	<b>\$ 391.9</b>	<b>47.9</b>	<b>3,645.1</b>	<b>3,357.1</b>

	% Change Q2 2014 vs. Q2 2013								
North America	-20.9%	-26.0%	-21.8%	-20.4%	-25.7%	-21.3%	-19.4%	-18.2%	-17.3%
UK	-3.4%	-17.1%	-8.1%	-11.9%	-24.3%	-16.1%	-10.7%	-8.6%	-7.2%
CE	4.2%	-4.3%	2.2%	-0.4%	-8.8%	-2.4%	1.0%	2.5%	1.6%
Other <sup>(1)</sup>	-0.5%	-22.0%	-9.4%	2.4%	-20.6%	-7.2%	1.1%	-19.8%	-13.2%
<b>Total</b>	<b>-14.4%</b>	<b>-19.9%</b>	<b>-15.6%</b>	<b>-15.5%</b>	<b>-21.8%</b>	<b>-16.8%</b>	<b>-14.4%</b>	<b>-13.7%</b>	<b>-12.7%</b>

Note: Totals may not sum due to rounding.

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

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(in millions unless otherwise stated)

	Three Months Ended June 28, 2014			Q2 2014		Three Months Ended June 28, 2014			Q2 2014	
				Incoming					Incoming	
	Meeting Fees		Meeting Paid Weeks	Active Monthly Pass Subscribers	EOP Active Monthly Pass Subscribers	Online Revenues		Online Paid Weeks	Incoming Active Online Subscribers	EOP Active Online Subscribers
	GAAP	Constant Currency				GAAP	Constant Currency			
North America	\$ 129.3	\$ 130.0	13.4	941.3	895.9	\$ 79.8	\$ 80.3	17.9	1,484.1	1,301.8
UK	22.4	20.4	3.4	235.8	223.6	7.8	7.1	2.1	168.5	158.3
CE	38.0	36.2	3.5	256.6	235.5	27.8	26.6	6.2	481.9	465.8
Other <sup>(1)</sup>	9.9	10.0	0.8	34.6	33.3	3.8	4.1	0.6	42.4	42.8
Total	\$ 199.5	\$ 196.7	21.0	1,468.3	1,388.3	\$ 119.2	\$ 118.1	26.9	2,176.8	1,968.8

**% Change Q2 2014 vs. Q2 2013**

North America	-19.8%	-19.3%	-16.9%	-15.9%	-13.8%	-22.7%	-22.2%	-21.1%	-19.7%	-19.5%
UK	-3.0%	-11.4%	-10.1%	-8.6%	-4.6%	-4.7%	-13.0%	-11.6%	-8.7%	-10.6%
CE	0.2%	-4.4%	-3.3%	-1.1%	-1.8%	10.3%	5.5%	3.7%	4.6%	3.3%
Other <sup>(1)</sup>	8.8%	10.4%	14.5%	-19.6%	-17.5%	-18.5%	-13.2%	-12.9%	-19.9%	-9.6%
Total	-13.7%	-14.9%	-12.9%	-12.6%	-10.7%	-15.6%	-16.4%	-15.5%	-14.5%	-14.1%

Note: Totals may not sum due to rounding.

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

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

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

*Second Quarter of Fiscal 2014 North America Performance*

In the second quarter of fiscal 2014, the decline in North America revenues was driven primarily by the decline in service revenues due primarily to the decline in total paid weeks. The decline in North America total paid weeks primarily resulted from the lower active base at the beginning of the second quarter of fiscal 2014 versus the beginning of the second quarter of fiscal 2013 as well as by lower recruitments in the second quarter of fiscal 2014 versus the prior year period. Despite the launch of Simple Start at the beginning of the year, recruitment softness continued in the quarter, impacted by activity monitors and free apps that generated significant consumer interest and influenced trial dynamics in the category. In response to weak recruitment trends early in the second quarter of fiscal 2014, North America adopted the food-focused creative ads from our UK business and continued to explore new promotional tactics.

The decline in North America product sales and other was driven primarily by a decline in in-meeting product sales. In the second quarter of fiscal 2014, in-meeting product sales of \$22.5 million decreased by \$10.0 million, or 30.6%, versus the prior year period. This decrease resulted primarily from a 16.9% attendance decline in the second quarter of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee decreased by 16.5% in the second quarter of fiscal 2014 versus the prior year period driven primarily by a decline in sales of enrollment-related products in North America.

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The Company completed seven franchise acquisitions in North America in fiscal 2013. Franchise acquisitions benefited North America revenues by 0.8% and North America total paid weeks by 0.6% in the second quarter of fiscal 2014.

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*Second Quarter of Fiscal 2014 United Kingdom Performance*

In the second quarter of fiscal 2014, the decline in UK revenues was driven by the decline in UK service revenues and the decline in product sales and other. The decline in UK service revenues was driven primarily by a decline of 11.6% in UK Online paid weeks and 10.1% in UK meetings paid weeks versus the prior year period. Paid weeks performance in the second quarter of fiscal 2014 was driven by the lower active bases in both the meetings and Online businesses at the beginning of the second quarter of fiscal 2014 versus the beginning of the second quarter of fiscal 2013 coupled with lower recruitments in the second quarter of fiscal 2014 as compared to levels in the prior year period. Despite the lower investment in TV media, recruitments, although still negative in the quarter, reflected an improving trend from the first quarter of fiscal 2014. This improved trend in recruitments was driven by the new advertising highlighting the power of food and food choice, new promotional tactics and a focused local marketing campaign to directly combat a strong local competitor.

The decline in UK product sales and other was driven primarily by a decline in licensing revenue and a decline in in-meeting product sales. In the second quarter of fiscal 2014, licensing revenue of \$4.3 million declined \$1.7 million or 27.8% (34.1% on a constant currency basis) from \$6.0 million in the prior period driven by the timing associated with brand marketing as we cycled against a TV campaign in support of our licensing business. In-meeting product sales of \$8.3 million decreased by \$1.1 million, or 11.3%, versus the prior year period. This decrease resulted primarily from a 13.5% attendance decline in the second quarter of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee increased by 2.5%, but declined by 6.4% when excluding the positive impact of foreign currency in the second quarter of fiscal 2014 versus the prior year period driven by the impact of the new Simple Start program on product sales.

*Second Quarter of Fiscal 2014 Continental Europe Performance*

Revenues in Continental Europe in the second quarter of fiscal 2014 increased \$1.8 million, or 2.2%, but declined by 2.4% when excluding the benefit of foreign currency, as compared to the prior year period. The decline in Continental Europe revenues was driven primarily by the decline in product sales and other. Continental Europe service revenues for the second quarter of fiscal 2014 declined 0.4% on a constant currency basis versus the prior year period. Total paid weeks increased by 1.0%, driven by a 3.7% increase in Online paid weeks. Service revenue was negatively impacted, however, by a 3.3% paid weeks decline in the meetings business, which generates more revenue per subscriber per week than the Online business. The increase in total paid weeks was primarily driven by the higher active Online subscriber base at the beginning of the quarter which more than offset a lower Monthly Pass active base and recruitment softness, particularly in Germany in the second quarter of fiscal 2014. Within Continental Europe, France and Sweden delivered strong results driven by effective promotional activities.

The decline in Continental Europe product sales and other was driven primarily by both a decline in licensing revenue, as well as a decline in in-meeting product sales. In the second quarter of fiscal 2014, licensing revenue of \$2.8 million declined \$0.8 million or 21.6% (25.3% on a constant currency basis) from \$3.6 million in the prior period driven by the timing associated with brand marketing as we cycled against a prior year celebrity campaign and website re-launch. In the second quarter of fiscal 2014, in-meeting product sales of \$13.1 million decreased by 0.4%, or 5.0% on a constant currency basis, versus the prior year period. This decrease resulted primarily from a 5.8% attendance decline in the second quarter of fiscal 2014 as compared to the prior year period.

*Second Quarter of Fiscal 2014 Other Performance*

Revenues in Other in the second quarter of fiscal 2014 declined by 9.4%, or 7.2% on a constant currency basis, versus the prior year period. The decline in Other revenue was driven by declines in Asia Pacific and with our franchisees, partially offset by the Brazil acquisition in March 2014 which resulted in the inclusion of that business's results for fiscal 2014 from the date of acquisition forward, whereas in fiscal 2013 the results of that business were not included in the Company's consolidated results but for the Company's proportionate share of the income earned by that business.

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Other service revenues for the second quarter of fiscal 2014 increased 2.4 % on a constant currency basis as compared to the prior year period. The increase in Other service revenues was driven primarily by an increase of 14.5% in meeting paid weeks partially offset by a 12.9% decline in Online paid weeks, versus the prior year period. Other paid weeks performance in the second quarter of fiscal 2014 was driven by the Brazil acquisition, but partially offset by the lower active bases in both the meetings and Online businesses in Asia Pacific at the beginning of the second quarter of fiscal 2014 versus the beginning of the second quarter of fiscal 2013 coupled with lower recruitments as compared to levels in the prior year period.

Product sales and other in the Other segment for the second quarter of fiscal 2014 declined 22.0%, or 20.6% on a constant currency basis, versus the prior year period. The decline in product sales and other was driven primarily by a decline in revenue from our franchisees and timing of brand revenue from our licensing partners. In the second quarter of fiscal 2014, in-meeting product sales of \$2.4 million increased by \$0.1 million, or 5.0%, versus the prior year period driven by the Brazil acquisition in the first quarter of 2014.

Revenues from our franchisees totaled \$3.0 million in the second quarter of fiscal 2014, a decline of \$1.3 million, or 30.2%, from \$4.4 million in the prior year period, driven in part by the decline in meetings business performance, similar to that which we experienced in North America, and in the number of franchises resulting from the recent acquisitions of several of our franchisees.

**Table of Contents****SIX MONTHS ENDED JUNE 28, 2014 COMPARED TO THE SIX MONTHS ENDED JUNE 29, 2013**

The table below sets forth selected financial information for the first six months of fiscal 2014 from our consolidated statements of net income for the six months ended June 28, 2014 versus selected financial information for the first six months of fiscal 2013 from our consolidated statements of net income for the six months ended June 29, 2013:

**Summary of Selected Financial Data**

	(In millions, except per share amounts)			
	For the Six Months Ended			
	June 28, 2014	June 29, 2013	Increase/ (Decrease)	% Change
Revenues, net	\$ 806.9	\$ 961.7	\$ (154.8)	(16.1%)
Cost of revenues	358.2	394.3	(36.1)	(9.2%)
Gross profit	448.7	567.4	(118.6)	(20.9%)
<i>Gross Margin %</i>	55.6%	59.0%		
Marketing expenses	161.6	193.0	(31.4)	(16.3%)
Selling, general & administrative expenses	121.5	117.3	4.2	3.6%
Operating income	165.6	257.1	(91.5)	(35.6%)
<i>Operating Income Margin %</i>	20.5%	26.7%		
Interest expense	56.5	49.4	7.0	14.3%
Other expense, net	1.2	1.2	0.0	0.5%
Gain on Brazil acquisition	(10.5)		(10.5)	
Early extinguishment of debt		21.7	(21.7)	(100.0%)
Income before income taxes	118.5	184.9	(66.3)	(35.9%)
Provision for income taxes	42.9	71.2	(28.3)	(39.7%)
Net income	75.6	113.7	(38.0)	(33.5%)
Net income attributable to the noncontrolling interest	(0.1)		(0.1)	
Net income attributable to Weight Watchers International, Inc.	\$ 75.5	\$ 113.7	\$ (38.1)	(33.5%)
Weighted average diluted shares outstanding	56.6	56.3	0.3	0.6%
Diluted EPS	\$ 1.33	\$ 2.02	\$ (0.69)	(33.9%)

Note: Totals may not sum due to rounding.

Certain results for the first six months of fiscal 2014 are adjusted to exclude the \$10.2 million impact of charges from our restructuring plan, \$10.5 million related to the gain on the Brazil acquisition and the \$2.4 million net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized. See *Non-GAAP Financial Measures* above. The table below sets forth a reconciliation of those components of our selected financial data for the six months ended June 28, 2014 that have been adjusted.



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(in millions, except per share amounts)	Cost of Revenues	Gross Profit	Gross Profit Margin	Selling, General and Administrative Expenses	Operating Income	Operating Income Margin	Gain on Brazil Acquisition	Net Income Attributable to Company	Diluted EPS
<b>Six months of fiscal 2014</b>	\$ 358.2	\$ 448.7	55.6%	\$ 121.5	\$ 165.6	20.5%	\$ (10.5)	\$ 75.5	\$ 1.33
Adjustments to Reported Amounts <sup>(1)</sup>									
Restructuring charges <sup>(1)</sup>	(4.7)	4.7		(5.5)	10.2			6.2	0.11
Gain on Brazil acquisition <sup>(1)</sup>							(10.5)	(6.4)	(0.11)
Tax benefit, net <sup>(1)</sup>								(2.4)	(0.04)
Total Adjustments	(4.7)	4.7		(5.5)	10.2		(10.5)	(2.5)	(0.04)
<b>Six months of fiscal 2014, as adjusted<sup>(1)</sup></b>	\$ 353.5	\$ 453.4	56.2%	\$ 116.1	\$ 175.8	21.8%	\$	\$ 73.0	1.29

Note: Totals may not sum due to rounding

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for the first six months of fiscal 2014 to exclude the \$10.2 million (\$6.2 million after tax) of charges associated with our previously disclosed plan to restructure our organization, the impact of the gain of \$10.5 million (\$6.4 million after tax) recognized in connection with the Brazil acquisition due to an adjustment of our previously held equity interest to fair value offset by a charge associated with the settlement of the royalty-free arrangement of the Brazilian partnership and the \$2.4 million net tax benefit related to an intercompany loan write-off in connection with the closure of our China business partially offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized. See Non-GAAP Financials Measures above for an explanation of our use of non-GAAP financial measures.

Certain results for the first six months of fiscal 2013 are adjusted to exclude the \$21.7 million impact of the early extinguishment of debt charge. See Non-GAAP Financial Measures above. The table below sets forth a reconciliation of those components of our selected financial data for the three months ended June 29, 2013 that have been adjusted.

(in millions, except per share amounts)	Income Before Taxes	Provision for Income Taxes	Net Income	Diluted EPS
<b>Six months of fiscal 2013</b>	\$ 184.9	\$ 71.2	\$ 113.7	\$ 2.02
Adjustments to Reported Amounts <sup>(1)</sup>				
Early extinguishment of debt charge <sup>(1)</sup>	21.7	8.4	13.3	0.24
Total Adjustments	21.7	8.4	13.3	0.24
<b>Six months of fiscal 2013, as adjusted<sup>(1)</sup></b>	\$ 206.5	\$ 79.6	\$ 127.0	\$ 2.26

Note: Totals may not sum due to rounding

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

**Consolidated Results**



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### *Revenues*

Revenues were \$806.9 million in first six months of fiscal 2014, as compared to \$961.7 million in the first six months of fiscal 2013. Excluding the impact of foreign currency, which positively impacted our revenues for the first six months of fiscal 2014 by \$7.4 million, revenues in the first six months of fiscal 2014 declined 16.9% versus the prior year period. This revenue decline in the first six months of fiscal 2014 was driven by revenue declines in the meetings and Online businesses globally, most notably in North America.

Service revenues for the first six months of fiscal 2014 were \$635.4 million, a decrease of \$108.6 million, or 14.6%, from \$743.9 million in the prior year period. Excluding the impact of foreign currency, which increased our service revenues for the first six months of fiscal 2014 by \$4.6 million, service revenues in the first six months of fiscal 2014 decreased by 15.2% versus the prior year period. The decline in service revenues was driven by a 14.1% decline in total paid weeks in the first six months of fiscal 2014 to 95.5 million from 111.2 million in the prior year period. The decline in total paid weeks

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was driven by an 8.6% lower active base at the beginning of the first six months of fiscal 2014 versus the beginning of the first six months of fiscal 2013 as well as by the lower recruitments in the first six months of fiscal 2014 as compared to the prior year period given the continuing challenging competitive environments in our markets.

Our active base is comprised of both active Monthly Pass subscribers and Online subscribers. Active Monthly Pass subscribers declined 10.7% to 1.4 million at the end of the first six months of fiscal 2014 from 1.6 million at the end of the first six months of fiscal 2013. Active Online subscribers decreased by 14.1% to 2.0 million at the end of the first six months of fiscal 2014 from 2.3 million at the end of the first six months of fiscal 2013. Global attendance decreased 14.7% to 21.2 million in the first six months of fiscal 2014 from 24.9 million in the first six months of fiscal 2013.

Product sales and other for the first six months of fiscal 2014 were \$171.6 million, a decrease of \$46.2 million, or 21.2%, from \$217.8 million in the first six months of fiscal 2013. Excluding the impact of foreign currency, which increased our product sales and other for the first six months of fiscal 2014 by \$2.8 million, product sales and other in the first six months of fiscal 2014 decreased by 22.5% versus the prior year period. In-meeting product sales for the first six months of fiscal 2014 were \$101.8 million, a decrease of \$29.7 million, or 22.6%, from \$131.5 million in the first six months of fiscal 2013. Excluding the impact of foreign currency, which increased our in-meeting product sales for the first six months of fiscal 2014 by \$1.9 million, in-meeting product sales in the first six months of fiscal 2014 decreased by 24.1% versus the prior year period. This decrease resulted primarily from a 14.7% decline in attendance in the first six months of fiscal 2014 versus the prior year period. Additionally, product sales per attendee decreased 9.2%, or 10.9% on a constant currency basis, in the first six months of fiscal 2014 versus the prior year period. This decrease in product sales per attendee in the first six months of fiscal 2014 was primarily the result of a decline in sales of enrollment-related products in North America.

Other revenues totaled \$69.8 million for the first six months of fiscal 2014, a decrease of \$16.5 million, or 19.1%, from \$86.2 million for the first six months of fiscal 2013. Excluding the impact of foreign currency, which increased other revenues for the first six months of fiscal 2014 by \$0.9 million, other revenues were 20.2% lower in the first six months of fiscal 2014 compared to the prior year period. Our licensing revenues decreased by 17.2% in the first six months of fiscal 2014 versus the prior year period driven in large part by the timing of brand marketing related activities across many of our markets. Franchise royalties and sales of products to our franchisees declined in the aggregate by 32.1% in the first six months of fiscal 2014 versus the prior year period. This decline in franchise royalties and sales of products to our franchisees was driven in part by our recent franchise acquisitions. Our by mail product sales and subscription revenues from our publications also declined in the aggregate by 14.6% in the first six months of fiscal 2014 versus the prior year period.

See Segment Results for additional details on revenues.

*Cost of Revenues and Gross Profit*

Total cost of revenues in the first six months of fiscal 2014 was \$358.2 million, a decline of \$36.1 million from \$394.3 million in the prior year period. Excluding the impact of restructuring charges, total cost of revenues in the first six months of fiscal 2014 would have been \$353.5 million, a decline of \$40.8 million, or 10.4%, versus the prior year period. Excluding the impact of restructuring charges, gross profit for the first six months of fiscal 2014 would have been \$453.4 million, a decrease of \$114.0 million, or 20.1%, from \$567.4 million in the first six months of fiscal 2013. Excluding the positive impact of foreign currency for the first six months of fiscal 2014 of \$3.8 million and the negative impact of restructuring charges, gross profit in the first six months of fiscal 2014 decreased by \$117.8 million, or 20.8%, versus the prior year period. Gross margin in the first six months of fiscal 2014 was 55.6%. Excluding the impact of restructuring charges, gross margin in the first six months of fiscal 2014 was 56.2%, as compared to gross margin of 59.0% in the first six months of fiscal 2013. Gross margin compression was driven primarily by the decline in the North America gross margin, which was partially offset by an increase in gross margin in Continental Europe. The decline in North America gross margin was driven primarily by the lower average number of members per meeting and the impact of the US service provider compensation changes. In addition, given the lower revenue in our Online business, the mix shift to our higher gross margin Online business in the first six months of fiscal 2014 did not provide the same degree of benefit to gross margin as we had experienced in the prior year period.

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**Table of Contents***Marketing*

Marketing expenses for the first six months of fiscal 2014 were \$161.6 million, a decrease of \$31.4 million, or 16.3%, versus the first six months of fiscal 2013. Excluding the impact of foreign currency, which increased marketing expenses for the first six months of fiscal 2014 by \$1.6 million, marketing expenses were 17.1% lower in the first six months of fiscal 2014 compared to the prior year period. The decline was primarily driven by lower TV media and production costs which resulted from first-time integrated TV spots for both our meetings and Online businesses in several markets. Marketing expenses as a percentage of revenue were 20.0% in the first six months of fiscal 2014 as compared to 20.1% in the prior year period.

*Selling, General and Administrative*

Selling, general and administrative expenses were \$121.5 million for the first six months of fiscal 2014 versus \$117.3 million for the first six months of fiscal 2013, an increase of \$4.2 million, or 3.6%. Excluding the impact of the restructuring charges and foreign currency, first six months of fiscal 2014 selling, general and administrative expenses decreased by 1.7% versus the first six months of fiscal 2013. In addition to one-time compensation and other costs in the prior year period partially offset by the acceleration of bonus into the first half of fiscal 2014, the decrease in expenses was driven by our cost saving initiatives which included lower discretionary and compensation spend across the Company. These savings were partially offset by higher spend in connection with our healthcare initiatives. Selling, general and administrative expenses as a percentage of revenue for the first six months of fiscal 2014 increased to 15.1% from 12.2% for the first six months of fiscal 2013. Excluding the impact of the restructuring charges, selling, general and administrative expenses as a percentage of revenue for the first six months of fiscal 2014 increased to 14.4% from 12.2% for the first six months of fiscal 2013.

*Operating Income*

Operating income for the first six months of fiscal 2014 was \$165.6 million, a decrease of \$91.5 million, or 35.6%, from \$257.1 million in the first six months of fiscal 2013. Excluding the impact of the restructuring charges in the first six months of fiscal 2014, and of foreign currency which positively impacted operating income for the first six months of fiscal 2014 by \$1.5 million, operating income in the first six months of fiscal 2014 decreased by \$82.9 million, or 32.2%, versus the prior year period. This decrease in operating income was primarily the result of lower service revenues from both our meetings and Online businesses in North America in the first six months of fiscal 2014 versus the prior year period. Operating income margin in the first six months of fiscal 2014 was 20.5%. Excluding the impact of the restructuring charges, our operating income margin in the first six months of fiscal 2014 decreased to 21.8% from 26.7% in the first six months of fiscal 2013. This decline in operating income margin was primarily driven by the decline in gross margin, and higher selling, general and administrative expenses as a percentage of revenues, as compared to the prior year period.

*Interest Expense*

Interest expense was \$56.5 million for the first six months of fiscal 2014, an increase of \$7.0 million, or 14.3%, from \$49.4 million in the first six months of fiscal 2013. The increase was primarily driven by higher interest rates on our debt as a result of our April 2, 2013 debt refinancing, a 25 basis point increase related to the issuance of revised corporate ratings by S&P and Moody's on February 21, 2014 and our interest rate swap that went into effect on March 31, 2014 partially offset by the interest rate swap that terminated on January 27, 2014. Our average debt outstanding decreased by \$24.4 million to \$2,379.1 million in the first six months of fiscal 2014 from \$2,403.5 million in the first six months of fiscal 2013. The effective interest rate on our debt increased by 0.49% to 3.82% in the first six months of fiscal 2014 from 3.33% in the first six months of fiscal 2013 primarily as a result of our April 2, 2013 debt refinancing, a 25 basis point increase related to the issuance of revised corporate ratings by S&P and Moody's on February 21, 2014 and our interest rate swap that went into effect on March 31, 2014 partially offset by the interest rate swap that terminated on January 27, 2014. Including the impact of our swaps, our effective interest rate increased to 4.40% in the first six months of fiscal 2014 from 3.76% in the first six months of fiscal 2013.

*Gain on Brazil Acquisition*

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

**Table of Contents***Other Income and Expense*

We incurred \$1.2 million of other expense in both the first six months of fiscal 2014 and in the first six months of fiscal 2013 related to the impact of foreign currency on intercompany transactions in both periods.

*Tax*

Our effective tax rate was 36.2% for the first six months of fiscal 2014 as compared to 38.5% for the first six months of fiscal 2013. The decrease was due mainly to the net tax benefit associated with the closure of our China business that was recorded in the first six months of fiscal 2014 offset by the recognition of a valuation allowance that was recorded in the first six months of fiscal 2014 related to tax benefits previously recorded for foreign losses that are not expected to be realized. Excluding the impact of these items, our effective tax rate would have been 38.2%. The table below sets forth an effective tax rate reconciliation of those components of our selected financial data for the six months ended June 28, 2014 that have been adjusted.

	<b>For the Six Months Ended</b>	
	<b>June 28, 2014</b>	<b>June 29, 2013</b>
<b>Effective tax rate six months of fiscal 2014</b>	36.2%	38.5%
Adjustments to Reported Amounts <sup>(1)</sup>		
Tax benefit, net <sup>(1)</sup>	2.0%	0.0%
Total Adjustments	2.0%	0.0%
<b>Effective tax rate six months of fiscal 2014, as adjusted<sup>(1)</sup></b>	38.2%	38.5%

Note: Totals may not sum due to rounding

(1) See *Non-GAAP Financials Measures* above for an explanation of our use of non-GAAP financial measures.

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

Net income in the first six months of fiscal 2014 declined 33.5% from \$113.7 million in the first six months of fiscal 2013 to \$75.5 million. Excluding the impact of restructuring charges, the impact of the gain on the Brazil acquisition and the net tax benefit in the first six months of fiscal 2014 offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized and the early extinguishment of debt in the first six months of fiscal 2013, net income would have been \$73.0 million in the first six months of fiscal 2014, a decline of 42.5% versus the prior year period. This decline in net income was primarily driven by the decrease in operating income in the second quarter of fiscal 2014 versus the prior year period.

Earnings per fully diluted share, or EPS, in the first six months of fiscal 2014 were \$1.33, a decrease of \$0.69 from \$2.02 in the first six months of fiscal 2013. Excluding the impact of the restructuring charges, the gain on the Brazil acquisition and the net tax benefit in the first six months of fiscal 2014 offset by the recognition of a valuation allowance related to tax benefits for foreign losses that are not expected to be realized and the early extinguishment of debt in the first six months of fiscal 2013, EPS would have been \$1.29 in the first six months of fiscal 2014 as compared to \$2.26 in the prior year period.

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**Segment Results**
*Metrics and Business Trends*

The following tables set forth key metrics by reportable segment for the six months ended June 28, 2014 and the percentage change in those metrics versus the relevant prior year period:

(in millions unless otherwise stated)

	Six Months Ended June 28, 2014						First Half 2014		
	GAAP			Constant Currency			Total Paid Weeks	Incoming Active Base	EOP Active Base
	Service Revenues	Product Sales & Other	Total Revenues	Service Revenues	Product Sales & Other	Total Revenues			
North America	\$ 425.7	\$ 87.2	\$ 512.9	\$ 428.7	\$ 87.5	\$ 516.3	63.5	2,066.1	2,197.7
UK	57.9	27.8	85.6	53.5	25.7	79.2	10.7	297.4	381.9
CE	127.2	41.2	168.5	122.1	39.5	161.6	18.8	528.4	701.4
Other <sup>(1)</sup>	24.6	15.3	39.9	26.5	16.1	42.6	2.4	71.1	76.1
<b>Total</b>	<b>\$ 635.4</b>	<b>\$ 171.6</b>	<b>\$ 806.9</b>	<b>\$ 630.8</b>	<b>\$ 168.8</b>	<b>\$ 799.5</b>	<b>95.5</b>	<b>2,962.9</b>	<b>3,357.1</b>

% Change First Half 2014 vs. First Half 2013									
North America	-19.9%	-26.6%	-21.2%	-19.4%	-26.3%	-20.6%	-18.3%	-12.3%	-17.3%
UK	-7.3%	-17.8%	-11.0%	-14.3%	-23.9%	-17.7%	-13.1%	-14.3%	-7.2%
CE	4.7%	-4.4%	2.3%	0.5%	-8.4%	-1.8%	1.9%	14.6%	1.6%
Other <sup>(1)</sup>	-13.2%	-30.6%	-20.8%	-6.5%	-27.2%	-15.6%	-8.6%	-7.1%	-13.2%
<b>Total</b>	<b>-14.6%</b>	<b>-21.2%</b>	<b>-16.1%</b>	<b>-15.2%</b>	<b>-22.5%</b>	<b>-16.9%</b>	<b>-14.1%</b>	<b>-8.6%</b>	<b>-12.7%</b>

Note: Totals may not sum due to rounding.

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

	Six Months Ended June 28, 2014			First Half 2014		Six Months Ended June 28, 2014			First Half 2014	
				Incoming Active	EOP				Incoming Active	EOP
	Meeting Fees GAAP	Constant Currency	Meeting Paid Weeks	Monthly Pass Subscribers	Active Monthly Pass Subscribers	Online Revenues GAAP	Constant Currency	Online Paid Weeks	Active Online Subscribers	Active Online Subscribers
North America	\$ 261.6	\$ 263.4	26.6	833.2	895.9	\$ 164.1	\$ 165.3	36.9	1,232.9	1,301.8
UK	43.0	39.7	6.6	166.0	223.6	14.9	13.8	4.1	131.4	158.3
CE	74.8	71.7	6.9	183.6	235.5	52.4	50.4	11.9	344.8	465.8
Other <sup>(1)</sup>	17.2	18.3	1.3	33.9	33.3	7.4	8.2	1.1	37.1	42.8
<b>Total</b>	<b>\$ 396.6</b>	<b>\$ 393.1</b>	<b>41.5</b>	<b>1,216.7</b>	<b>1,388.3</b>	<b>\$ 238.8</b>	<b>\$ 237.7</b>	<b>54.0</b>	<b>1,746.2</b>	<b>1,968.8</b>

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	<b>% Change First Half 2014 vs. First Half 2013</b>									
North America	-20.0%	-19.5%	-17.6%	-11.7%	-13.8%	-19.8%	-19.2%	-18.8%	-12.6%	-19.5%
UK	-7.9%	-14.9%	-13.9%	-18.7%	-4.6%	-5.5%	-12.7%	-11.8%	-8.0%	-10.6%
CE	0.3%	-3.8%	-3.2%	-0.9%	-1.8%	11.7%	7.3%	5.1%	25.0%	3.3%
Other <sup>(1)</sup>	-8.8%	-3.0%	-1.9%	-3.4%	-17.5%	-21.9%	-13.3%	-15.5%	-10.2%	-9.6%
Total	-15.1%	-15.8%	-14.5%	-11.1%	-10.7%	-13.7%	-14.1%	-13.9%	-6.7%	-14.1%

Note: Totals may not sum due to rounding.

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

*First Six Months of Fiscal 2014 North America Performance*

In the first six months of fiscal 2014, the decline in North America revenues was driven primarily by the decline in service revenues. The decline in North America service revenues was driven primarily by the decline in North America total paid weeks. The decline in North America total paid weeks primarily resulted from the lower active base at the beginning of fiscal 2014 versus the beginning of fiscal 2013 as well as by lower recruitments in the first six months of fiscal 2014 versus the prior year period.

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Despite the launch of Simple Start at the beginning of the year, recruitment softness continued in the quarter, impacted by activity monitors and free apps that generated significant consumer interest and influenced trial dynamics in the category. In response to further weakening recruitment trends early in the first quarter of fiscal 2014, North America produced new ads featuring Jessica Simpson and in the second quarter (post-Easter) utilized food-focused advertising adopted from our UK business and introduced new promotional tactics, which included longer-term promotions and flash sales.

The decline in North America product sales and other was driven primarily by a decline in in-meeting product sales. In the first six months of fiscal 2014, in-meeting product sales of \$50.9 million decreased by \$24.3 million, or 32.3%, versus the prior year period. This decrease resulted primarily from an 18.8% attendance decline in the first six months of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee decreased by 16.7% in the second quarter of fiscal 2014 versus the prior year period driven primarily by a decline in sales of enrollment-related products in North America.

The Company completed seven franchise acquisitions in North America in fiscal 2013. Franchise acquisitions benefited North America revenues by 0.9% and North America total paid weeks by 0.7% in the first six months of fiscal 2014.

### *First Six Months of Fiscal 2014 United Kingdom Performance*

In the first six months of fiscal 2014, the decline in UK revenues was driven primarily by the decline in UK service revenues. The decline in UK service revenues was driven primarily by declines of 13.9% in UK meetings paid weeks and 11.8% in UK Online paid weeks versus the prior year period. Paid weeks performance in the first six months of fiscal 2014 was driven by the lower active bases in both the meetings and Online businesses at the beginning of the first six months of fiscal 2014 versus the beginning of the first six months of fiscal 2013 coupled with lower recruitments in the first six months of fiscal 2014 as compared to levels in the prior year period. In response to further weakening recruitment trends, primarily in the meetings business, early in the first quarter of fiscal 2014, the United Kingdom created new advertising highlighting the power of food and food choice, implemented new promotional tactics and invested in a local marketing campaign to directly combat a strong local competitor. As a result of these initiatives, although still negative, the UK experienced an improvement in its recruitment trend in the first six months of fiscal 2014.

The decline in UK product sales and other was driven primarily by both a decline in in-meeting product sales and to a lesser extent a decline in licensing revenue. In the second quarter of fiscal 2014, in-meeting product sales of \$17.6 million decreased by \$3.8 million, or 17.8%, versus the prior year period. This decrease resulted primarily from a 13.4% attendance decline in the first six months of fiscal 2014 as compared to the prior year period. In-meeting product sales per attendee also declined by 5.1% or 12.0% on a constant currency basis, in the first six months of fiscal 2014 versus the prior year period driven by the impact of the new Simple Start program on product sales. Licensing revenue of \$8.7 million declined \$2.1 million or 19.5% (25.6% on a constant currency basis) from \$10.9 million in the prior period driven by the timing associated with brand marketing as we cycled against a TV campaign in support of our licensed business.

### *First Six Months of Fiscal 2014 Continental Europe Performance*

Revenues in Continental Europe in the first six months of fiscal 2014 increased \$3.9 million, or 2.3%, but declined by 1.8% when excluding the benefit of foreign currency, as compared to the prior year period. The decline in Continental Europe revenues was driven primarily by the decline in product sales and other partially offset by an increase in service revenues. Continental Europe service revenues for the second quarter of fiscal 2014 increased 0.5% on a constant currency basis versus the prior year period. The increase in Continental Europe service revenues on a constant currency basis was primarily the result of an increase of 7.3% in Online revenues versus the prior year period. This increase in Online revenues was driven by the higher active Online subscriber base at the start of the year which drove higher Online paid weeks in the quarter as compared to the prior year period. This increase in Online revenue more than offset a lower Monthly Pass active base and recruitment softness, particularly in Germany in the second quarter of fiscal 2014. Within Continental Europe, France and Sweden delivered strong results driven by effective promotional activities.

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The decline in Continental Europe product sales and other was driven primarily by both a decline in in-meeting product sales and to a lesser extent a decline in licensing revenue. In the first six months of fiscal 2014, in-meeting product sales of \$28.9 million decreased by \$0.8 million, or 2.6% (6.6% on a constant currency basis) versus the prior year period. This decrease resulted primarily from a 4.2% attendance decline in the first six months of fiscal 2014 as compared to the prior year period. Licensing revenue of \$5.5 million declined \$0.9 million or 14.4% (18.3% on a constant currency basis) from \$6.4 million in the prior period driven by the timing associated with brand marketing as we cycled against a prior year second quarter celebrity campaign and website re-launch.

### *First Six Months of Fiscal 2014 Other Performance*

Revenues in Other in the first six months of fiscal 2014 declined by 20.8%, or 15.6% on a constant currency basis, versus the prior year period. The decline in Other revenue was driven by declines in Asia Pacific and with our franchisees, partially offset by the Brazil acquisition in March 2014.

Other service revenues for the first six months of fiscal 2014 decreased 6.5% on a constant currency basis as compared to the prior year period. Other paid weeks performance in the first six months of fiscal 2014 was driven by the lower active bases in both the meetings and Online businesses at the beginning of the first six months of fiscal 2014 versus the beginning of the first six months of fiscal 2013 coupled with lower recruitments as compared to levels in the prior year period partially offset by the Brazil acquisition.

Product sales and other in the Other segment for the first six months of fiscal 2014 declined 30.6%, or 27.2% on a constant currency basis, versus the prior year period. The decline in product sales and other was driven primarily by a decline in revenue from our franchisees and to a lesser extent our licensees. In the first six months of 2014, licensing revenue of \$2.3 million declined \$1.4 million or 38.8% due in part to the timing of brand revenue from our licensing partners. In the first six months of fiscal 2014, in-meeting product sales of \$4.4 million decreased by \$0.8 million, or 16.3% (10.9% on a constant currency basis) versus the prior year period driven by the Brazil acquisition in March 2014.

Revenues from our franchisees totaled \$6.3 million in the first six months of fiscal 2014, a decline of \$3.6 million, or 36.4%, from \$9.8 million in the prior year period, driven in part by the decline in meetings business performance, similar to that which we experienced in North America, and in the number of franchises resulting from the recent acquisitions of several of our franchisees.

## **LIQUIDITY AND CAPITAL RESOURCES**

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



**Table of Contents****Balance Sheet Working Capital**

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

	June 28, 2014	December 28, 2013 (in millions)	Increase/ (Decrease)
Total current assets	\$ 399.5	\$ 315.7	\$ 83.8
Total current liabilities	385.7	345.8	39.9
Working capital surplus (deficit)	13.8	(30.1)	(43.9)
Cash and cash equivalents	276.5	174.6	101.9
Current portion of long-term debt	30.0	30.0	0.0
Working capital deficit, excluding cash and cash equivalents and current portion of long-term debt	\$ (232.7)	\$ (174.7)	\$ 58.0

We generally operate with negative working capital. This is driven in part by our commitment plans which are our primary payment method. These plans require members and subscribers to pay us for meetings and subscription products, respectively, before we pay for our obligations in the normal course of business. These prepayments are recorded as a current liability on our balance sheet which results in negative working capital. Our working capital deficit decreased \$43.9 million to a \$13.8 million working capital surplus at June 28, 2014 from a \$30.1 million working capital deficit at December 28, 2013. After making scheduled debt repayments of \$12.0 million in the first six months of fiscal 2014, the current portion of our long-term debt remained at \$30.0 million versus the end of fiscal 2013 as described below (see Long-Term Debt).

Excluding the changes in cash and cash equivalents and current portion of long-term debt from both periods, the working capital deficit at June 28, 2014 increased by \$58.0 million to \$232.7 million from \$174.7 million at December 28, 2013. The primary factors contributing to this increase in our working capital deficit were a \$31.7 million increase in the derivative payable, a \$14.8 million increase in deferred revenue due to the seasonality in our Online and Monthly Pass active bases, a \$12.4 million reduction in inventory and a timing-related increase of \$8.2 million in income tax liabilities offset by a \$9.1 million net decrease to the working capital deficit resulting from other operational items.

These other operational items that resulted in the net decrease of \$9.1 million to the working capital deficit included a \$7.6 million decrease in accounts payable, a \$1.0 million increase in accounts receivable and a \$0.5 million decrease in other accrued liabilities.

**Cash Flows**

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

	June 28, 2014	June 29, 2013 (in millions)
Net cash provided by operating activities	\$ 145.5	\$ 178.0
Net cash used in investing activities	\$ (32.0)	\$ (76.4)
Net cash used in financing activities	\$ (11.9)	\$ (49.6)

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

Cash flows provided by operating activities of \$145.5 million for the first six months of fiscal 2014 decreased by \$32.5 million from \$178.0 million in the first six months of fiscal 2013. The decrease in cash provided by operating activities was primarily the result of lower net income in the first six months of fiscal 2014 as compared to the prior year period.



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The \$145.5 million of cash flows provided by operating activities for the first six months of fiscal 2014 exceeded the period's net income by \$68.9 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital as described above (see Balance Sheet Working Capital) and non-cash expenses.

### *First Six Months of Fiscal 2013*

The \$178.0 million of cash flows provided by operating activities for the first six months of fiscal 2013 exceeded the period's net income by \$64.3 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital, non-cash expenses and differences between book and cash taxes.

### *Investing Activities*

#### *First Six Months of Fiscal 2014*

Net cash used for investing activities totaled \$32.0 million in the first six months of fiscal 2014, a decrease of \$44.4 million as compared to the first six months of fiscal 2013. This decrease was primarily attributable to the net purchase price of \$14.2 million paid less cash acquired of \$2.3 million for our controlling equity interest in our Brazilian partnership in the first six months of fiscal 2014 and \$4.8 million cash paid for Wello in the first six months of fiscal 2014 as compared to the \$35.0 million aggregate purchase price paid for franchise acquisitions completed in the first six months of fiscal 2013. In addition, in the first six months of fiscal 2014, we incurred lower capital expenditures due to the benefit of not having expenditures in connection with the move of our headquarters and our retail initiative as we did in the first six months of fiscal 2013.

#### *First Six Months of Fiscal 2013*

Net cash used for investing activities totaled \$76.4 million in the first six months of fiscal 2013, an increase of \$38.1 million as compared to the first six months of fiscal 2012. This increase was primarily attributable to the \$35.0 million purchase price paid in connection with our acquisition of substantially all of the assets of our Alberta and Saskatchewan, Canada franchisees, Weight Watchers of Alberta Ltd. and Weight Watchers of Saskatchewan Ltd. In addition, we incurred capital expenditures in connection with the move of our headquarters, our retail initiative and capitalized software expenditures to support our customer relationship management platform and other global systems initiatives.

### *Financing Activities*

#### *First Six Months of Fiscal 2014*

Net cash used for financing activities totaled \$11.9 million in the first six months of fiscal 2014, primarily due to payments on term loans under the WWI Credit Facility (as defined hereafter) of \$12.0 million.

#### *First Six Months of Fiscal 2013*

Net cash used for financing activities totaled \$49.6 million in the first six months of fiscal 2013 and included \$44.8 million of deferred financing fees in connection with our April 2013 debt refinancing. Additionally, term loan payments under our then existing credit facility of \$2.41 billion were offset by new borrowings of \$2.40 billion in connection with our April 2013 debt refinancing. In addition, we paid \$9.9 million of dividends to our shareholders, which was offset by \$11.4 million in proceeds we received from stock options exercised and the tax benefit thereon in the first six months of fiscal 2013.

### **Long-Term Debt**

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

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The following schedule sets forth our long-term debt obligations at June 28, 2014:

**Long-Term Debt**

**At June 28, 2014**

(in millions)

	<b>Balance</b>
Revolving Facility due April 2, 2018	\$
Tranche B-1 Term Facility due April 2, 2016	297.0
Tranche B-2 Term Facility due April 2, 2020	2,079.0
<b>Total Debt</b>	<b>2,376.0</b>
Less Current Portion	30.0
<b>Total Long-Term Debt</b>	<b>\$ 2,346.0</b>

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

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

At June 28, 2014, we had \$2,376.0 million outstanding under the WWI Credit Facility, consisting entirely of term loans and there were no loans outstanding under the Revolving Facility. In addition, at June 28, 2014, the Revolving Facility had \$1.6 million in issued but undrawn letters of credit outstanding thereunder and \$248.4 million in available unused commitments thereunder. The proceeds from borrowings under the Revolving Facility (including swing line loans and letters of credit) will be used for working capital and general corporate purposes.

At June 28, 2014 and December 28, 2013, our debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with our variable-rate borrowings. The average interest rate on our debt, exclusive of the impact of swaps, was approximately 3.89% and 3.65% per annum at June 28, 2014 and December 28, 2013, respectively. The average interest rate on our debt including the impact of swaps was approximately 4.08% per annum at December 28, 2013. Our forward starting swap became effective on March 31, 2014. The average interest rate on our debt including the impact of swaps was approximately 4.92% per annum at June 28, 2014.

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Borrowings under the New Credit Agreement bear interest at a rate equal to, at our option, LIBOR plus an applicable margin or a base rate plus an applicable margin. LIBOR under the Tranche B-2 Term Facility is subject to a minimum interest rate of 0.75% and the base rate under the Tranche B-2 Term Facility is subject to a minimum interest rate of 1.75%. The applicable margin relating to both of the Term Facilities will increase by 25 basis points in the event that we receive a corporate rating of BB- (or lower) from S&P and a corporate rating of Ba3 (or lower) from Moody's. On February 21, 2014, both S&P and Moody's issued revised corporate ratings of the Company of B+ and B1, respectively. As a result, effective February 21, 2014, the applicable margin on borrowings under the Tranche B-1 Term Facility went from 2.75% to 3.00% and on borrowings under the Tranche B-2 Term Facility went from 3.00% to 3.25%. The applicable margin relating to the Revolving Facility will fluctuate depending upon our Consolidated Leverage Ratio (as defined in the New Credit Agreement). At June 28, 2014, borrowings under the Tranche B-1 Term Facility bore interest at LIBOR plus an applicable margin of 3.00% and borrowings under the Tranche B-2 Term Facility bore interest at LIBOR plus an applicable margin of 3.25%. Based on our Consolidated Leverage Ratio as of June 28, 2014, had there been any borrowings under the Revolving Facility, it would have borne interest at LIBOR plus an applicable margin of 2.25% or base rate plus an applicable margin of 1.25%.

On a quarterly basis, we will pay a commitment fee to the lenders under the Revolving Facility in respect of unutilized commitments thereunder, which commitment fee will fluctuate, but in no event exceed 0.50% per annum, depending upon our Consolidated Leverage Ratio. At our Consolidated Leverage Ratio as of June 28, 2014, the commitment fee was 0.40% per annum. We also will pay customary letter of credit fees and fronting fees under the Revolving Facility.

The New Credit Agreement contains customary covenants including covenants that, in certain circumstances, restrict our ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell our assets and enter into consolidations, mergers and transfers of all or substantially all of our assets. The Revolving Facility requires us to not exceed a specified Consolidated Leverage Ratio, but only if borrowings under the Revolving Facility exceed 20.0% of revolving commitments as of the end of such fiscal quarter. As of June 28, 2014, the maximum Consolidated Leverage Ratio was 5.00:1.00 and borrowings in excess of \$50 million would require us to not exceed such ratio. As of June 28, 2014, our actual Consolidated Leverage Ratio was 4.73:1.00 and there were no borrowings under our Revolving Facility and total letters of credit issued were \$1.6 million. The requirement to not exceed the Consolidated Leverage Ratio may effectively limit our ability to borrow funds in excess of \$50.0 million under the Revolving Facility. The Term Facilities do not require us to maintain any financial ratios. The WWI Credit Facility is guaranteed by certain of our existing and future subsidiaries. Substantially all of our assets secure the WWI Credit Facility.

The following schedule sets forth our year-by-year debt obligations at June 28, 2014:

**Total Debt Obligation****(Including Current Portion)****At June 28, 2014****(in millions)**

Remainder of fiscal 2014	\$ 18.0
Fiscal 2015	24.0
Fiscal 2016	307.5
Fiscal 2017	21.0
Fiscal 2018	21.0
Thereafter	1,984.5
<b>Total</b>	<b>\$ 2,376.0</b>

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### **Dividends and Stock Transactions**

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

On October 9, 2003, our Board of Directors authorized and we announced a program to repurchase up to \$250.0 million of our outstanding common stock. On each of June 13, 2005, May 25, 2006 and October 21, 2010, our Board of Directors authorized and we announced adding \$250.0 million to this program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal Holdings Sp. z o.o., Succursale de Luxembourg and its parents and subsidiaries under this program. The repurchase program currently has no expiration date. During the six months ended June 28, 2014 and June 29, 2013, the Company repurchased no shares of its common stock in the open market under this program.

The WWI Credit Facility provides that we are permitted to pay dividends and extraordinary dividends, as well as repurchase shares of our common stock, so long as we are not in default under the WWI Credit Facility agreement. However, payment of extraordinary dividends and stock repurchases shall not exceed \$100.0 million in the aggregate in any fiscal year if the Consolidated Leverage Ratio is greater than 3.25:1. As of June 28, 2014, our Consolidated Leverage Ratio was greater than 3.25:1 and we expect that it will remain above 3.25:1 for the foreseeable future.

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

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

### **SEASONALITY**

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

### **AVAILABLE INFORMATION**

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

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

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

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

As of June 28, 2014, based on the amount of our variable rate debt, a hypothetical 50 basis point increase or decrease in interest rates on our variable rate debt would increase or decrease our annual interest expense by approximately \$4.4 million. This change in market risk exposure from the end of fiscal 2013 was due to an increase of the notional amount of our interest rate swap from \$466.3 million at December 28, 2013 to \$1,500.0 million at June 28, 2014.

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

#### *Disclosure Controls and Procedures*

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

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

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

## **PART II OTHER INFORMATION**

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

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

In August 2013, the Company was contacted by plaintiffs' counsel in the previously filed and settled *Sabatino v. Weight Watchers North America, Inc.* case ( *Sabatino* ), threatening to file a new class action on behalf of the Company's current and former service providers in California asserting various wage and hour claims, including but not limited to claims for unpaid overtime and minimum wage violations, which allegedly accrued after the effective date of the *Sabatino* settlement. On March 17,

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2014, the parties came to an agreement in principle to settle the matter on a class-wide basis for \$1.7 million. On April 29, 2014, the parties executed a Memorandum of Understanding to document the terms and conditions of settlement and, the following day, plaintiffs filed a complaint regarding the claims at issue in the Northern District of California. On June 11, 2014, the parties filed a formal settlement agreement and other required documents for the Court's preliminary approval. On July 21, 2014, the parties received the Court's preliminary approval of the settlement agreement. A hearing seeking the Court's final approval of the settlement is scheduled for December 2014. The Company believes that its previously recorded reserve is adequate with respect to this matter.

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

In March 2014, two substantially identical putative class action complaints alleging violation of the federal securities laws were filed by individual shareholders against the Company, certain of the Company's current and former officers and directors, and the Company's controlling shareholder, in the United States District Court for the Southern District of New York. The complaints were purportedly filed on behalf of all purchasers of the Company's common stock, no par value per share, between February 14, 2012 and October 30, 2013, inclusive (the "Class"). The complaints allege that, during that 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. In June 2014, the Court consolidated the cases and appointed lead plaintiffs and lead counsel. The Company continues to believe that the suits are without merit and intends to defend them vigorously.

### *New York State Department of Taxation and Finance Matter*

In 2010, the New York State Department of Taxation and Finance ("NYSDTF") initiated an audit of the Online products (Online memberships and eTools) being sold by WeightWatchers.com to determine whether such products should be subject to New York state sales tax. On August 26, 2011, the NYSDTF issued a letter to the Company setting forth its position as to why the Online products sold by its Online subsidiary should be taxable. After discussions, the parties entered into a settlement agreement which included the following material terms: (1) the NYSDTF would not initiate any legal proceedings against the Company for any alleged unpaid sales taxes for its Online products; (2) the Company agreed to pay the NYSDTF \$1.7 million in lieu of claims of unpaid sales taxes; (3) the Company agreed to impose a sales tax for its Online products sold to New York-based customers going forward; and (4) the NYSDTF agreed that the Company could challenge the taxability of future versions of the Company's Online products. On April 28, 2014, the Company sent the NYSDTF a signed copy of the settlement agreement, and the corresponding settlement payment. The Company updated its systems to begin charging sales tax to Online customers in New York effective June 1, 2014.

### *Other Litigation Matters*

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

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

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



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

On April 16, 2014, the Company issued 207,349 shares of common stock as partial consideration in connection with the acquisition of Wello, a San Francisco-based startup that offers one-on-one and group fitness training online delivered with leading-edge technology. The Company relied on Section 4(a)(2) of the Securities Act of 1933, as amended, as the basis for exemption from registration. In relying upon this exemption, the Company took into account the limited number of persons involved in the transaction, the information regarding the Company furnished to the recipients of the shares, and certain representations and warranties made by such recipients.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Nothing to report under this item.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

On August 4, 2014, the Compensation and Benefits Committee of the Company's Board of Directors approved a modification to the Company's annual performance-based cash bonus plan (the Bonus Plan) to reduce in virtually all cases the maximum target percentage cap that would otherwise have been applicable based on previously-established performance targets. In no instance will any bonus exceed that which would have been payable prior to the modification of the Bonus Plan.

**ITEM 6. EXHIBITS****Exhibit**

<b>Number</b>	<b>Description</b>
*Exhibit 10.1	Form of Amended and Restated Directors Restricted Stock Agreement for Weight Watchers International, Inc. non-employee director restricted stock.
**Exhibit 10.2	Weight Watchers International, Inc. 2014 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-16769) filed with the SEC on May 12, 2014, and incorporated herein by reference).
*Exhibit 31.1	Rule 13a-14(a) Certification by James Chambers, Chief Executive Officer.
*Exhibit 31.2	Rule 13a-14(a) Certification by Nicholas P. Hotchkin, Chief Financial Officer.
*Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*Exhibit 101	
*EX-101.INS	XBRL Instance Document
*EX-101.SCH	XBRL Taxonomy Extension Schema
*EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase
	XBRL Taxonomy Extension Label Linkbase

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\*EX-101.LAB XBRL Taxonomy Extension Presentation Linkbase

\*EX-101.PRE

- \* Filed herewith.
- \*\* Previously filed.  
Represents a management arrangement or compensatory plan.

**Table of Contents**

**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 7, 2014

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

Date: August 7, 2014

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

**Table of Contents****EXHIBIT INDEX**

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