CareDx, Inc.
Form 424B5
September 22, 2016
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Filed pursuant to Rule 424(b)(5)
Registration No. 333-206277

Prospectus Supplement

(To Prospectus dated December 4, 2015)

CareDx, Inc.

2,250,000 Shares of Common Stock

We are offering 2,250,000 shares of our common stock.

Our common stock is listed on the NASDAQ Global Market under the symbol CDNA. On September 20, 2016, the last reported sale price of our common stock on the NASDAQ Global Market was $4.30 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-10 of this prospectus supplement.

	Per Share	Total
Public offering price	$ 4.00	$ 9,000,000
Underwriting discounts and commissions(1)	$ 0.25	$ 562,500
Proceeds to us before expenses	$ 3.75	$ 8,437,500

(1) We have agreed to reimburse the representative of the underwriters for certain of its expenses. See Underwriting for a description of the compensation to be received by the underwriters.

We have granted the underwriters a 30-day option to purchase up to 337,500 additional shares of common stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any.

As of September 8, 2016, the aggregate market value of our outstanding common stock held by non-affiliates was $73.8 million based on 18,976,343 shares of outstanding common stock, of which 4,183,891 shares are held by affiliates, and a per share price of $4.99, based on the closing bid price of our common stock as quoted on the NASDAQ Global Market on August 5, 2016. We have not offered or sold any securities pursuant to General Instruction I.B.6. of Form S-3 during the 12 calendar months prior to and including the date of this prospectus supplement.

We are an emerging growth company as defined by the Jumpstart Our Business Startups Act of 2012 and, as such, we have elected to comply with certain reduced public company reporting requirements for this prospectus supplement, the accompanying prospectus and future filings.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common stock to the investors in book-entry form through the facilities of The Depository Trust Company on or about September 26, 2016.

Piper Jaffray

The date of this prospectus is September 21, 2016

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a shelf registration statement on Form S-3 that we filed with the U.S. Securities and Exchange Commission, or the SEC, using a shelf registration process. This prospectus supplement describes the specific terms of this offering. The accompanying prospectus, including the documents incorporated by reference therein, provides general information about us, some of which, such as the section therein entitled Plan of Distribution, may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both this prospectus supplement and the accompanying prospectus, combined.

We urge you to carefully read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference herein and therein and the additional information under the headings Where You Can Find More Information and Information Incorporated by Reference before buying any of the securities being offered under this prospectus supplement. These documents contain information you should consider when making your investment decision.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement may add, update or change information contained in the accompanying prospectus. To the extent any information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the information in this prospectus supplement. The information in this prospectus supplement will be deemed to modify or supersede the information in the accompanying prospectus and the documents incorporated by reference therein, except for those documents incorporated by reference therein which we file with the SEC after the date of this prospectus supplement.

You should not assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate on any date subsequent to the date set forth on the front cover of this prospectus supplement and the accompanying prospectus or on any date subsequent to the date of the document incorporated by reference, as applicable. Our business, financial condition, results of operations and prospects may have changed since those dates.

We are offering to sell, and seeking offers to buy, the securities described in this prospectus supplement only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the offering of the securities in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement must inform themselves about, and observe any restrictions relating to, the offering of the securities and the distribution of this prospectus supplement outside the United States. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference into this prospectus supplement or the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

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The names AlloMap, AlloSure, XDx and CareDx are our trademarks.

In this prospectus supplement, except as otherwise indicated or as the context otherwise requires, CareDx, we, our, our company, and us refe
CareDx, Inc., a Delaware corporation, and its consolidated subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about us and this offering and does not contain all of the information that you should consider in making your investment decision. You should carefully read this entire prospectus supplement and the accompanying prospectus, including the risks and uncertainties discussed under the heading Risk Factors beginning on page S-10 of this prospectus supplement, and the information incorporated by reference in this prospectus supplement and the accompanying prospectus, including our financial statements, before making an investment decision.

Overview

We are a transplant diagnostics company with product offerings along the pre- and post-transplant continuum. We focus on discovery, development and commercialization of clinically differentiated, high-value diagnostic surveillance solutions for transplant patients. Our first commercialized testing solution, the AlloMap heart transplant molecular test, or AlloMap, is a gene expression test that helps clinicians monitor and identify heart transplant recipients with stable graft function who have a low probability of moderate-to-severe acute cellular rejection. Since 2008, we have sought to expand the adoption and utilization of our AlloMap solution through ongoing studies to substantiate the clinical utility and actionability of AlloMap, secure positive reimbursement decisions for AlloMap from large private and public payers, develop and enhance our relationships with key members of the transplant community, including opinion leaders at major transplant centers, and explore opportunities and technologies for the development of additional solutions for post-transplant surveillance. We believe the use of AlloMap, in conjunction with other clinical indicators, can help healthcare providers and their patients better manage long-term care following a heart transplant. In particular, we believe AlloMap can improve patient care by helping healthcare providers avoid the use of unnecessary, invasive surveillance biopsies and determine the appropriate dosage levels of immunosuppressants. AlloMap has received 510(k) clearance from the U.S. Food and Drug Administration, or FDA, for marketing and sale as a test to aid in the identification of recipients with a low probability of moderate or severe acute cellular rejection. We are also pursuing the development of additional products for transplant monitoring using a variety of technologies, including AlloSure, our proprietary next-generation sequencing-based test to detect donor derived cell-free DNA, or dd-cfDNA, after transplantation. Through our 2014 acquisition of ImmuMetrix, Inc., or IMX, a privately held development-stage company working on dd-cfDNA-based solutions in transplantation and other fields, we added to our existing know-how, expertise, and intellectual property the ability to apply dd-cfDNA technology to the surveillance of transplant recipients, which has contributed to the development of AlloSure.

In April 2016, we acquired Allenex AB, or Allenex. Through the Allenex acquisition, we also develop, manufacture, market and sell products that increase the chance of successful transplants by facilitating a better match between a donor and a recipient of stem cells and organs. Olerup SSP, a set of Human Leukocyte Antigen, or HLA, typing, is used prior to hematopoietic stem cell/bone marrow transplantation and organ transplantation. Olerup SSP is used to type HLA alleles based on sequence specific primer, or SSP, technology, is one of the market leaders, and has long been a well-established brand name in Europe and select other markets for pre-transplant solutions. We continuously update typing kits to include newly discovered alleles, resulting in what we believe is one of the most up-to-date and comprehensive allele libraries for the SSP technology. We also offer XM-ONE®, which we believe is the first standardized test that quickly identifies a patient s antigens against HLA Class I or Class II, as well as antibodies against a donor s endothelium. This crossmatch test has primarily been used prior to kidney transplants, and more recent clinical trials are further demonstrating its value as a complement to traditional antibody testing prior to these types of transplants. In 2014, Allenex began active development of a new HLA typing product, QTYPE, that uses real-time PCR, or q-PCR, methodology. This technology is based on SSP technology.

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Since 2011, Allenex, through Olerup SSB AB, is the exclusive global distributor of the HLA sequence-based typing products SBT Resolver and Assign SBT from Conexio Genomics, or Conexio, which is an Australian-based company that specializes in the development of sequencing of HLA typing, among other technologies. The distribution agreement continues until April 2018. The focus has been on introducing this new product line to the largest and most automated HLA laboratories in the U.S. and Europe. We recently received a notice that Conexio s SBT products will be discontinued by December 31, 2016. Conexio was acquired by Illumina, Inc. and we are currently negotiating the continuation of our ability to offer SBT products.

Since the launch of AlloMap in January 2005, we have performed more than 88,000 commercial AlloMap tests, including 6,961 tests during the first six months of 2016, in our Brisbane, California laboratory. Since the commercial launch of AlloMap through June 30, 2016, we have received net proceeds of approximately $172.2 million from AlloMap testing revenues. During the first six months of 2016, AlloMap was used in 120 of the approximately 130 heart transplant centers in the United States. As of June 30, 2016, significantly all of our testing and product revenues came from the United States and Europe, and significantly all of our assets and operations are located in the United States and Sweden. In 2013, we began a partnership with Diaxonhit, or DHT, the leading French provider of specialty in-vitro diagnostic solutions for transplantation, to expand our AlloMap offering in Europe for which we have secured a dedicated laboratory. On May 25, 2016, DHT announced that it had entered into a services agreement with University Hospital of Strasbourg to open a center dedicated to AlloMap testing. The lab meets all of the quality and safety requirements to ensure the accuracy and reproducibility of the results of AlloMap. Further, its Strasbourg location is in the heart of Europe, which is ideal for servicing heart transplant centers throughout Europe. As a result of our acquisition of Allenex, we have further increased our international presence.

In addition to our current offering of surveillance solutions, we are also engaged in efforts to develop additional testing solutions in the heart transplant market and new testing solutions in other organ transplant markets. For instance, AlloSure, our development stage transplant surveillance solution, applies proprietary next generation sequencing to detect and quantitate genetic differences between dd-cfDNA in the blood stream emanating from the donor heart. We believe this solution may help determine rejection-specific activity manifested as cell damage in the transplanted heart and other solid organs, irrespective of the type of organ transplanted. In late 2015, we announced the completion of analytical validation of AlloSure. Samples used in the analytical validation included donor recipient pairs with unrelated as well as closely related family members.

As part of our efforts to demonstrate the clinical utility of AlloSure, we initiated the DART trial in May 2015. DART is designed to establish clinical validation, or the clinical performance characteristics of dd-cfDNA in detecting clinical and sub-clinical rejection in kidney allograft recipients. DART is a multicenter observational study of kidney transplant recipients where blood specimens are drawn periodically after transplant during follow up visits and also after treatment for acute rejection. DART is also designed to demonstrate the correlation of dd-cfDNA to renal function through comparison to both serum creatinine and estimated glomerular filtration rate. We expect DART to run for a minimum of 18 months. We completed the first analysis of the data from DART in June 2016. By the time of completion of the first analysis, over 400 patients had enrolled in DART in 14 centers and we had collected specimens from over 1,248 patient visits before enrollment was closed. The study demonstrated increased levels of dd-cfDNA in acute rejection using the non-invasive AlloSure assay. Based on the analytical validity and first analysis clinical validation data, we and the clinical investigators are prioritizing pre-specified analysis plans and plan to submit results for scientific peer-review. Now that we have relevant information from the first analysis, we expect to initiate a second clinical trial to establish the clinical utility of our dd-cfDNA kidney solution and engage with payers in an effort to ensure future access to and reimbursement for this novel non-invasive test for transplant surveillance.

The Centers for Medicare and Medicaid Services, or CMS, recently announced proposed changes in reimbursement for a number of established molecular diagnostic tests, including AlloMap. Under the draft fee schedule, which would become effective on January 1, 2017, AlloMap reimbursement from CMS for patients covered by Medicare would be reduced from $2,821 to $732. If the current proposal is adopted, it could cause us to discontinue testing for Medicare patients. Given the significant portion of payments represented by Medicare, the remaining test revenue may be insufficient to sustain our operations. Additionally, some hospitals may reduce the use of AlloMap if it is not available to all patients, and only to non-Medicare recipients.

Recent Developments

Completion of Allenex Acquisition

On April 14, 2016, we acquired 98.3% of the outstanding common stock of Allenex. Allenex is a transplant diagnostic company based in Stockholm, Sweden with 58 employees that develops, manufactures, and sells products that help match donor organs with potential recipients prior to transplantation. Our combination with Allenex creates an international transplant diagnostics company with product offerings along the pre- and post-transplant continuum. Allenex s Olerup SSP line, which addresses HLA testing, is well recognized by the transplant community. As a result of the acquisition we now have a presence and direct distribution channels in the US and Europe, with additional third party distributors in Europe and other markets around the world. Under the terms of the Conditional Share Purchase Agreements entered into on December 16, 2015, as amended, and the tender offer prospectus dated March 7, 2016, and as a result of the tender offer, the aggregate purchase consideration paid by us was approximately $34.1 million and consisted of (i) $26.9 million of cash, of which approximately $5.7 million was deferred purchase consideration payable to the Midroc Invest AB, FastPartner AB and Xenella Holding AB, or the Majority Shareholders, by no later than March 31, 2017, and (ii) the issuance of 1,375,029 shares of our common stock valued at $7.2 million. Of the total cash consideration, $8.0 million of cash payable to the Majority Shareholders, was deposited into an escrow account by us and subsequently invested in us by the Majority Shareholders through a purchase of our equity securities in a subsequent financing completed on June 15, 2016, or the Subsequent Financing. The Subsequent Financing was completed on June 15, 2016 and is described under the heading Private Placement below. Upon the completion of the Subsequent Financing, certain contingencies in the Conditional Share Purchase Agreements were waived, and the deferred purchase consideration is payable to the Majority Shareholders by no later than March 31, 2017. We determined at the date of the acquisition that those contingencies would be waived. We intend to complete compulsory acquisition proceedings under Swedish law to purchase the remaining 1.7% of the outstanding shares of common stock of Allenex. On June 8, 2016, we delisted Allenex s common stock from Nasdaq Stockholm.

On May 12, 2016, we entered into a First Amendment to the Loan and Security Agreement, or the First Amendment, which amended the Loan and Security Agreement, dated January 30, 2015, by and between us and East West Bank, as the lender, or, as amended or restated from time to time, the Loan Agreement. The First Amendment, among other things, amended the Loan Agreement by modifying certain financial covenants, adding an equity financing covenant, and restricting certain transactions between us and our subsidiaries. On June 27, 2016, we entered into a Second Amendment to Loan and Security Agreement, or the Second Amendment. The Second Amendment, among other things, amended the Loan Agreement to permit certain transactions between us and our subsidiaries and to add intellectual property as collateral security.

Private Placement

On April 14, 2016, we completed a private placement transaction pursuant to which we issued and sold an aggregate of 591,860 Units, or the Private Placement. Each Unit was comprised of: (i) one share of our common stock, (ii) five shares of our Series A Mandatorily Convertible Preferred Stock, or Series A Preferred, and (iii) three warrants, each of which is exercisable for one share of our common stock at an exercise price of $4.98 per share. The purchase price was $23.94 per Unit (the equivalent of $3.99 per share of common stock, assuming conversion of the Series A Preferred). The closing of the Private Placement was conditioned upon the closing of our acquisition of Allenex, the consent of East West Bank, as the lender under the Loan Agreement, to the acquisition of Allenex, and certain other customary closing conditions, all of which occurred on April 14, 2016. The aggregate gross proceeds to us from the Private Placement were approximately $14.2 million, of which $1.8 million was paid in satisfaction of placement agent, escrow agent and legal fees as well as other direct issuance costs. Following the closing of the Private Placement, we agreed to a number of requirements, including submitting the Private Placement to our stockholders for approval pursuant to the rules of The NASDAQ Stock Market LLC, or the Requisite Stockholder Approval, and granting certain registration rights, including the registration of the shares of common stock sold in the Private Placement on a registration statement on Form S-3. On April 14, 2016, we and certain of our stockholders representing a majority of our outstanding shares of common stock entered into voting agreements, pursuant to which each such stockholder agreed to vote certain of our shares of common stock in favor of granting us the Requisite Stockholder Approval. The Requisite Stockholder Approval was obtained on June 16, 2016. On May 27, 2016, we filed a registration statement on Form S-3 with the SEC to register for resale the shares of common stock issued or issuable upon conversion of the Series A Preferred and upon exercise of the warrants sold in the Private Placement, or the 2016 Form S-3. The 2016 Form S-3 was declared effective by the SEC on July 12, 2016.

Upon obtaining the Requisite Stockholder Approval on June 16, 2016, each share of Series A Preferred was converted into one share of our common stock. In addition to the warrants issued to certain accredited investors in the Private Placement, on April 14, 2016, we also issued warrants to purchase an aggregate of 200,000 shares of our common stock to certain of our placement agents, or the Placement Agent Warrants. All of the Private Placement Warrants and Placement Agent Warrants became exercisable after we obtained the Requisite Stockholder Approval on June 16, 2016. The Placement Agent Warrants are exercisable at the same price per share as the Private Placement warrants.

Concurrently, we also entered into Commitment Letters pursuant to which the Majority Shareholders agreed to purchase our equity securities in a subsequent financing, or the Subsequent Financing, which investment was completed on June 15, 2016. Pursuant to the Subsequent Financing, we issued to the Majority Shareholders an additional 334,169 Units, which consisted of (i) an aggregate of 334,169 shares of our common stock, (ii) an aggregate of 1,670,845 shares of Series A Preferred that were all converted into shares of our common stock upon obtaining the Requisite Stockholder Approval on June 16, 2016, and (iii) 1,002,507 warrants, each of which is exercisable for one share of our common stock at the same price per share as the Private Placement warrants.

M.M. Dillon & Co. Group, or M.M. Dillon, an investment banking firm, acted as one of our financial advisors and placement agents in connection with the Private Placement and the Subsequent Financing. A member of our board of directors is a managing director of M.M. Dillon, and, as such, we consider M.M. Dillon to be a related party. As a result of the Private Placement and Subsequent Financing, we paid approximately $1.1 million in placement fees to our placement agents, of which $0.2 million pertained to fees paid to M.M. Dillon. Additionally, M.M. Dillon also received Placement Agent Warrants to purchase 100,000 shares of our common stock.

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We expect to use the proceeds from the Private Placement and the Subsequent Financing to fund the continued development of AlloSure, including a clinical utility trial and future commercialization efforts, and for additional working capital and general corporate purposes.

As a result of certain antidilution provisions contained in warrants issued in the foregoing transactions, upon the closing of this offering, the warrant exercise price will be adjusted from $4.98 to $4.00, the price to the public paid by investors in this offering. Notwithstanding any such adjustment to the warrant exercise price, the number of warrants outstanding will not change as a result of this offering.

Corporate Information

We were originally incorporated in Delaware in December 1998 under the name Hippocratic Engineering, Inc. In April 1999, we changed our name to BioCardia, Inc., in June 2002, we changed our name to Expression Diagnostics, Inc., in July 2007, we changed our name to XDx, Inc. and in March 2014, we changed our name to CareDx, Inc. Our principal executive offices are located at 3260 Bayshore Boulevard, Brisbane, California 94005 and our telephone number is (415) 287-2300.

Implications of Being an Emerging Growth Company

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012. We will remain an emerging growth company until the earlier of (1) the beginning of the first fiscal year following the fifth anniversary of our initial public offering, or January 1, 2020, (2) the beginning of the first fiscal year after our annual gross revenue is $1.0 billion or more, (3) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt securities, and (4) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year.

For as long as we remain an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies , including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, reduced disclosure obligations regarding executive compensation and financial statements in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote to approve executive compensation and shareholder approval of any golden parachute payments not previously approved. We intend to take advantage of these reporting exemptions until we are no longer an emerging growth company.

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The Offering

Common stock offered by us	2,250,000 shares
Common stock to be outstanding immediately after this offering	21,175,076 shares
Option to purchase additional shares	We have granted the underwriters a 30-day option to purchase up to 337,500 additional shares of common stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any.
Use of proceeds	We estimate the net proceeds from this offering will be approximately $7.8 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to fund the continued development of AlloSure, including a clinical utility trial and future commercialization efforts, and for working capital and general corporate purposes. See Use of Proceeds beginning on page S-60 of this prospectus supplement.
Trading market	Our common stock is listed on the NASDAQ Global Market under the symbol CDNA.
Risk factors	Investing in our securities involves a high degree of risk. See Risk Factors beginning on page S-10 of this prospectus supplement.

The number of shares of our common stock that will be outstanding immediately after this offering is based on 18,925,076 shares of common stock outstanding as of June 30, 2016, and excludes:

- 141,000 shares of our common stock issuable upon the vesting of restricted stock units outstanding under our 2016 Inducement Plan as of June 30, 2016, with a weighted-average grant date fair value of $5.93 per share;
- 1,015,083 shares of our common stock issuable upon the exercise of stock options outstanding under our 2014 Equity Incentive Plan as of June 30, 2016, at a weighted-average exercise price of $5.95 per share;
- 144,445 shares of our common stock issuable upon the vesting of restricted stock units outstanding under our 2014 Equity Incentive Plan as of June 30, 2016, with a weighted-average grant date fair value of $5.63 per share;
- 731,983 shares of our common stock issuable upon the exercise of stock options outstanding under our 2008 Equity Incentive Plan as of June 30, 2016, at a weighted-average exercise price of $7.28 per share;

74,584 shares of our common stock issuable upon the exercise of stock options outstanding under our 1998 Stock Plan as of June 30, 2016, at a weighted-average exercise price of $3.37 per share;

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- 20,460 shares of our common stock issuable upon the exercise of stock options outstanding under the ImmuMetrix 2013 Equity Incentive Plan as of June 30, 2016, at a weighted-average exercise price of $2.06 per share;

- 14,500 shares of our common stock reserved for issuance under our 2016 Inducement Plan as of June 30, 2016;

- 356,414 shares of our common stock reserved for issuance under our 2014 Equity Incentive Plan as of June 30, 2016;

- 474,614 shares of our common stock reserved for issuance under our 2014 Employee Stock Purchase Plan as of June 30, 2016; and

- 3,279,157 shares of our common stock issuable upon the exercise of outstanding warrants as of June 30, 2016, at a weighted-average exercise price of $6.46 per share.

In addition, under the terms of the warrants to purchase an aggregate of 2,778,087 shares of common stock issued by us in April 2016 and June 2016, upon the closing of this offering, the warrant exercise price will be adjusted from $4.98 to $4.00, the price to the public paid by investors in this offering. Notwithstanding any such adjustment to the warrant exercise price, the number of warrants outstanding will not change as a result of this offering.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise by the underwriters of their option to purchase additional shares to cover over-allotments, if any.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Before investing in our common stock, you should consider carefully the risks described below, together with all of the other information contained in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein. Some of these factors relate principally to our business and the industry in which we operate. Other factors relate principally to your investment in our securities. The risks and uncertainties described therein and below are not the only ones we face. If any of the matters included in these risks were to occur, our business, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. In such case, you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially and adversely affect our business and operations.

Risks Related to Our Business

We have a history of losses, and we expect to incur net losses for the next several years.

We have incurred substantial net losses since our inception, and we expect to continue to incur additional losses for the next several years. For the six months ended June 30, 2016 and June 30, 2015, our net loss was $20.2 million and $5.5 million, respectively. As of June 30, 2016, we had an accumulated deficit of $193.3 million. For the year ended December 31, 2015, our net loss was $13.7 million. As of December 31, 2015, we had an accumulated deficit of $173.1 million. We expect to continue to incur significant operating expenses and anticipate that our expenses will increase due to costs relating to, among other things:

- researching, developing, validating and commercializing potential new diagnostic solutions, including additional expenses in connection with our continuing development of AlloSure and other future diagnostic solutions;
- developing, presenting and publishing additional clinical and economic utility data intended to increase payer coverage and clinician adoption of our current and future solutions;
- expansion of our operating capabilities;
- maintenance, expansion and protection of our intellectual property portfolio and trade secrets;
- the process of integrating the Allenex business and the associated potential disruptions to our business;
- future clinical trials;
- expansion of the size and geographic reach of our sales force and our marketing capabilities to commercialize our existing and future solutions;
- employment of additional clinical, quality control, scientific, customer service, laboratory, billing and reimbursement and management personnel; and
- employment of operational, financial, accounting and information systems personnel, consistent with expanding our operations and our status as a public company.

Even if we achieve significant revenues, we may not become profitable, and even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain consistently profitable could adversely affect the market price of our common stock and could significantly impair our ability to raise capital, expand our business or continue to pursue our growth strategy.

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We will require additional financing.

On April 14, 2016, we acquired 98.3% of the outstanding common stock of Allenex AB, or Allenex. Under the terms of the Conditional Share Purchase Agreements entered into on December 16, 2015, as amended and the tender offer prospectus dated March 7, 2016, and as a result of the tender offer, the aggregate purchase consideration paid by us was approximately $34.1 million and consisted of (i) $26.9 million of cash, of which approximately $5.7 million was deferred purchase consideration payable to Midroc Invest AB, FastPartner AB and Xenella Holding AB, or the Majority Shareholders, by no later than March 31, 2017, and (ii) the issuance of 1,375,029 shares of our common stock valued at $7.2 million. Of the total cash consideration, $8.0 million of cash payable to the Majority Shareholders was deposited into an escrow account by us and subsequently invested in us by the Majority Shareholders through a purchase of our equity securities in a subsequent financing, or the Subsequent Financing. Upon the completion of the Subsequent Financing, certain contingencies in the Conditional Share Purchase Agreements were waived, and the deferred purchase consideration is payable to the Majority Shareholders by no later than March 31, 2017. We determined at the date of the acquisition that these contingencies would be waived. We intend to complete compulsory acquisition proceedings under Swedish law to purchase the remaining shares of Allenex. On June 8, 2016, we delisted Allenex s common stock from Nasdaq Stockholm.

On April 14, 2016, we completed a private placement transaction for the sale of 591,860 Units at a purchase price of $23.94 per Unit, or the Private Placement. The aggregate gross proceeds to us from the Private Placement were approximately $14.2 million. Concurrently, we also entered into Commitment Letters pursuant to which the Majority Shareholders agreed to purchase our equity securities in the Subsequent Financing. We made payments of approximately $1.1 million and $97,000 in placement fees and other offering expenses, respectively, to placement agents as part of closing the sale of the 591,860 Units in the Private Placement. Following the closing of the Private Placement, we agreed to a number of requirements such as submitting the Private Placement to our stockholders for approval pursuant to the rules of The NASDAQ Stock Market LLC, which was obtained on June 16, 2016 and granting certain registration rights, including the registration of shares sold in the Private Placement on a registration statement on Form S-3. On May 27, 2016, we filed a registration statement on Form S-3 with the SEC to register for resale the shares of common stock issued or issuable upon conversion of the Series A Mandatorily Convertible Preferred Stock and upon exercise of the warrants sold in the Private Placement, or the 2016 Form S-3. The 2016 Form S-3 was declared effective by the SEC on July 12, 2016. On June 15, 2016, we completed the Subsequent Financing for the sale of an additional 334,169 Units to the Majority Shareholders. The aggregate gross proceeds to us from the Subsequent Financing were approximately $8.0 million. Securities issued in the Subsequent Financing were issued and sold at the same price and on substantially the same terms as the securities issued in the Private Placement.

We will require additional financing and/or refinancing of our current debt obligations to fund working capital, repay debt and to pay our obligations. We may pursue financing and refinancing opportunities in both the private and public debt and equity markets through sales of debt or equity securities. Additional financing might include one or more offerings and one or more of a combination of discounted or at-the-market common stock, securities convertible into or exchangeable for shares of common stock, warrants or other rights to purchase or acquire common stock.

Absent the receipt of additional financing and provided that Danske Bank A/B, or Danske, does not demand repayment of debt, we expect that we will exhaust our cash and cash equivalents in the quarter ended December 31, 2016 unless we substantially reduce our costs and operations, including research and development activities, marketing activities and programs, and other general and administrative expenses. As a result of our obligations and lack of immediately available financial resources, there is uncertainty regarding our ability to maintain liquidity sufficient to operate our business effectively, which raises substantial doubt about our ability to continue as a going concern. If we are unsuccessful in our efforts to raise outside financing, or refinance our indebtedness in the near term, we will be required to significantly reduce or cease operations. The report of our independent registered public accounting firm on our audited financial statements as of and for each of the three years in the period ended December 31, 2015, included in our Annual Report on Form 10-K for the year ended December 31, 2015, included a going concern explanatory paragraph indicating that our recurring losses from operations and need for additional capital raise substantial doubt about our ability to continue as a going concern.

Our ability to raise additional financing for working capital and to refinance our indebtedness will depend, in part, on the conditions of the capital markets. Additional capital may not be available on attractive terms, or at all. Raising additional funds by issuing equity securities would result in dilution to our existing stockholders. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. If we raise additional funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common stock. Any refinancing of our indebtedness could be at significantly higher interest rates, require additional restrictive financial and operational covenants, require us to incur significant transaction fees and also require that we issue warrants or other equity securities, or issue convertible securities. Any debt arrangement we enter into may contain restrictive covenants, including restrictions on the ability of us and our subsidiaries to incur additional debt, grant liens, make investments, including acquisitions and pay dividends and distributions. These restrictions and covenants may restrict our ability to finance our operations and engage in, expand, or otherwise pursue our business activities and strategies. Our ability to comply with these covenants and restrictions may be affected by events beyond our control, and breaches of these covenants and restrictions could result in a default and an acceleration of our obligations under a debt agreement. If we raise additional funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our technologies or our solutions under development, or grant licenses on terms that are not favorable to us, which could lower the economic value of those programs to us. If adequate funds are not available, we would have to curtail our research and development and other activities and this would adversely affect our business and future prospects.

We receive a substantial portion of our revenues from Medicare, and the loss of, or a significant reduction in, reimbursement from Medicare would severely and adversely affect our financial performance.

For the past three months and six months ended June 30, 2016, payments from Medicare for AlloMap represented 48% of post-transplant testing revenue. However, we may not be able to maintain or increase our tests reimbursed by Medicare for a variety of reasons, including changes in reimbursement practices, general policy shifts, or reductions in reimbursement amounts. We cannot predict whether Medicare reimbursements will continue at the same payment amount or with the same breadth of coverage in the future, if at all.

On June 10, 2016, the Centers for Medicare and Medicaid Services, or CMS, announced proposed changes in reimbursement for a number of established molecular diagnostic tests, including AlloMap. Under the draft fee schedule, which would become effective on January 1, 2017, AlloMap reimbursement from CMS for patients covered by Medicare would be reduced from $2,821 to $732. The draft fee schedule was subject to an open comment period through August 10, 2016, and has not yet been adopted as final. If the current proposal is adopted, it could cause us to discontinue testing for Medicare patients because we may incur a loss on any such procedures at that reimbursement rate. Given the significant portion of payments represented by Medicare, our remaining test revenue may be insufficient to sustain our operations. Additionally, some hospitals may reduce the use of AlloMap if it is not available to all patients, and only to non-Medicare recipients.

We are working with industry peers, the medical community, patients, the Coalition for 21st Century Medicine, elected representatives in state and federal government, and other stakeholders in an effort to ensure that value-based reimbursement at the current price is maintained for AlloMap and other molecular diagnostics tests. However, there is no guarantee that these efforts will be successful. Even if the reimbursement levels are increased from the proposed fee schedule, if they are less than the current price, our revenues and our ability to achieve profitability could be impaired, and the market price of our common stock could decline. We may also not be able to maintain or increase the portion of our tests reimbursed by Medicare for a variety of other reasons, including changes in reimbursement practices and general policy shifts.

Our financial results currently are largely dependent on sales of one post-transplant test, AlloMap and Allenex s current Olerup SSP products for pre-transplant matching, and we will need to generate sufficient revenues from these and other solutions and tests we develop to grow our business.

A majority of our revenue is currently dependent on sales of AlloMap for heart transplant recipients and secondarily from sales of Olerup SSP products, and we expect that sales of AlloMap and Olerup SSP products will account for a substantial portion of our revenue for at least the next two years. While we are in the process of commercializing AlloSure for kidney transplant recipients, the first group of patients the test will be available for, even if we are successful in developing this test, we do not expect to receive approval for reimbursement of this test, which will drive its value as a contributor to our revenue stream for at least the next several fiscal quarters. If we are unable to increase sales of AlloMap or Olerup SSP products or successfully develop and commercialize other solutions, tests or enhancements, our revenues and our ability to achieve profitability would be impaired, and the market price of our common stock could decline.

On a five-year rotational basis, Medicare requests bids for its regional Medicare Administrative Contractor, or MAC, services. Medicare reimbursement for AlloMap began in 2006 and has continued through three successive MACs. The MAC for California is currently Noridian Healthcare Solutions. Our current Medicare coverage through Noridian provides for reimbursement for tests performed for qualifying Medicare patients throughout the U.S. so long as the tests are performed in our California laboratory. We cannot predict whether Noridian or any future MAC will continue to provide reimbursement for AlloMap at the same payment amount or with the same breadth of coverage in the future, if at all. Additional changes in the MAC processing Medicare claims for AlloMap could impact the coverage or payment amount for our test and our ability to obtain Medicare coverage for any products we may launch in the future.

Any decision by CMS or its local contractors to reduce or deny coverage for our test would have a significant adverse effect on our revenue and results of operations. Any such decision could also cause affected clinicians treating Medicare covered patients to reduce or discontinue the use of our AlloMap test.

Billing complexities associated with obtaining payment or reimbursement for our current and future solutions may negatively affect our revenue, cash flows and profitability.

Billing for clinical laboratory testing services is complex. In cases where we do not have a contract in place requiring the payment of a fixed fee per test, we perform tests in advance of payment and without certainty as to the outcome of the billing process. In cases where we do receive a fixed fee per test, we may still have disputes over pricing and billing. We receive payment from individual recipients and from a variety of payers, such as commercial insurance carriers and governmental programs, primarily Medicare. Each payer typically has different billing requirements. Among the factors complicating our billing of third-party payers are:

- disputes among payers regarding which party is responsible for payment;

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- disparity in coverage among various payers;

- different process, information and billing requirements among payers; and

- incorrect or missing billing information, which is required to be provided by the prescribing clinician.

Additionally, from time to time, payers change processes that may affect timely payment. These changes may result in uneven cash flow or impact the timing of revenue recognized with these payers. With respect to payments received from governmental programs, factors such as prolonged government shutdown could cause significant regulatory delays or could result in attempts to reduce payments made to us by federal government healthcare programs. In addition, payers may refuse to ultimately make payment if their processes and requirements have not been met on a timely basis. These billing complexities, and the resulted uncertainty in obtaining payment for AlloMap and future solutions, could negatively affect our revenue, cash flows and profitability.

We are subject to legal proceedings that could be time consuming, result in costly litigation and settlements/judgments, require significant amounts of management attention and result in the diversion of significant operational resources, which could adversely affect our business, financial condition and results of operations.

We are currently involved in, and from time to time in the future may become involved in, lawsuits, claims and proceedings incident to the ordinary course of or otherwise in connection with our business. Litigation is inherently unpredictable. For example, on June 14, 2016, Oberland Capital SA Davos LLC, or Oberland, filed a breach of contract claim against us in the Supreme Court of the State of New York, County of New York, or the Oberland Complaint, alleging, among other things, that we breached certain provisions of the amended and restated commitment letter and the restated fee letter that we entered into with Oberland on February 8, 2016. Pursuant to the Oberland Complaint, Oberland is seeking a monetary judgment against us in the amount of at least $1.4 million, plus costs and expenses, including the fees and expenses of Oberland s attorneys. On July 15, 2016, we filed an answer and counterclaims against Oberland, or the Answer, generally denying the claims asserted in the Oberland Complaint and asserting fraudulent inducement and breach of contract counterclaims against Oberland. Pursuant to the Answer, we are seeking dismissal of the Oberland Complaint in its entirety, rescission of all agreements with Oberland and damages of not less than $1.3 million, together with interest and punitive damages, if deemed appropriate under applicable law, and costs and disbursements of the action, including reasonable attorneys fees. On August 4, 2016, Oberland filed a motion to dismiss our counterclaims and affirmative defenses asserted in the Answer. There is no guarantee that we will prevail in this suit or receive any damages or other relief if we do prevail. Moreover, our defense of this lawsuit and others that may be brought against us in the future may be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources, each of which may adversely affect our business, financial condition and results of operations.

In addition, on June 15, 2016, we received a letter from Nasdaq OMX Stockholm AB (the Exchange) regarding our compliance with the requirements of the Nasdaq Stockholm Takeover Rules (the Takeover Rules) and good practice in the securities market in Sweden in connection with our recently completed acquisition of Allenex AB. The Exchange concluded that we violated certain technical provisions of the Takeover Rules, acted contrary to good practice in the securities market in Sweden, and gave us the opportunity to submit our views before it decides whether to refer the matter to its Disciplinary Committee. On July 11, 2016, we submitted a response, which was considered by the Exchange in making a final determination whether to refer the matter to its Disciplinary Committee for further assessment. On September 21, 2016, we received notice from the Exchange that, by letter dated September 20, 2016 from the Exchange to its Disciplinary Committee, the Exchange has referred the

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matter to the Disciplinary Committee and is seeking a ruling from the Disciplinary Committee regarding disciplinary sanction. The Disciplinary Committee has the authority to impose a fine and/or sanctions. Takeover Rules authorize the institution to impose a special fine ranging between SEK 50,000 (approximately $6,000) and SEK 100 million (approximately $12.0 million). We cannot predict the outcome of any Disciplinary Committee review. An adverse determination by the Disciplinary Committee could have a material adverse effect on us.

The development and commercialization of additional diagnostic solutions, including solutions related to the acquisition of Allenex, are a key to our growth strategy. New test development involves a lengthy and complex process, and we may not be successful in our efforts to develop and commercialize additional diagnostic solutions.

Key elements of our strategy are to discover, develop, validate and commercialize a portfolio of new diagnostic solutions in addition to AlloMap and Olerup SSP. While we have engaged in discovery and development activity for AlloSure, our dd-cfDNA solution for solid organ transplant recipients, we will be required to devote considerable additional efforts and resources to the further research and development of this test to demonstrate its clinical validity and utility before it will be fully adopted for use in recipients of various types of donated organs. Our planned new diagnostic solutions for organs other than the heart or kidney, are at much earlier stages of development. dd-cfDNA solutions are a novel technology, and to date have not been used commercially in the field of transplantation surveillance. In connection with the acquisition of Allenex, we acquired two new potential commercial opportunities, QTYPE and XM-ONE, to address pre-transplantation testing needs. In 2014 and 2015, Allenex expended significant energy to develop QTYPE. XM-ONE is a research product for larger medical centers and we are working to establish broader commercial use. We cannot assure you that we will be able to successfully complete development of or commercialize any of our planned future solutions, or that they will prove to be capable of reliably being used for organ surveillance in the heart or in other types of organs. Before we can successfully develop and commercialize any of our currently planned or other new diagnostic solutions, we will need to:

- conduct substantial research and development;
- obtain the necessary testing samples and related data;
- conduct clinical validation studies;
- expend significant funds;
- expand and scale-up our laboratory processes;
- expand and train our sales force;
- gain acceptance from ordering clinicians at a larger number of transplant centers; and
- seek and obtain regulatory clearance or approvals of our new solutions, as required by applicable regulations.

This process involves a high degree of risk and may take up to several years or more. Our test development and commercialization efforts may be delayed or fail for many reasons, including:

- failure of the test at the research or development stage;

difficulty in accessing suitable testing samples, especially testing samples with known clinical results;

lack of clinical validation data to support the effectiveness of the test;

delays resulting from the failure of third-party suppliers or contractors to meet their obligations in a timely and cost-effective manner;

- failure to obtain or maintain necessary clearances or approvals to market the test; or

- lack of commercial acceptance by patients, clinicians, or third-party payers.

Few research and development projects result in commercial products, and success in early clinical studies often is not replicated in later studies. At any point, we may abandon development of new diagnostic solutions, or we may be required to expend considerable resources repeating clinical trials, which would adversely impact the timing for generating potential revenues from those new diagnostic solutions. In addition, as we develop diagnostic solutions, we will have to make additional investments in our sales and marketing operations, which may be prematurely or unnecessarily incurred if the commercial launch of a test is abandoned or delayed. If a clinical validation study fails to demonstrate the prospectively defined endpoints of the study, we would likely abandon the development of the test or test feature that was the subject of the clinical trial, which could harm our business.

If we do not achieve our projected development goals in the time frames we announce and expect, the commercialization of additional diagnostic solutions by us may be delayed and, as a result, our business will suffer and our stock price may decline.

From time to time, we expect to estimate and publicly announce the anticipated timing of the accomplishment of various clinical and other product development goals. In addition, we have included a discussion of a number of anticipated targets in our Annual Report on Form 10-K for the year ended December 31, 2015, as amended, as originally filed with the SEC on March 29, 2016. The actual timing of accomplishment of these targets could vary dramatically compared to our estimates, in some cases for reasons beyond our control. We cannot assure you that we will meet our projected targets and if we do not meet these targets as publicly announced, the commercialization of our diagnostic solutions may be delayed or may not occur at all and, as a result, our business will suffer and our stock price may decline.

The field of diagnostic testing in transplantation is evolving and is subject to rapid technological change. If we are unable to develop solutions to keep pace with rapid medical and scientific change, our operating results could be harmed.

The field of diagnostic testing in transplantation is evolving. Although there have been few advances in technology relating to organ rejection in transplant recipients, the market for medical diagnostic companies is marked by rapid and substantial technological development and innovations which could make AlloMap, Olerup SSP products, and our solutions in development, outdated. We must continually innovate and expand our test offerings to address unmet needs in monitoring transplant related conditions and in pre-transplant testing. AlloMap, Olerup SSP products and our solutions under development could become obsolete unless we continually innovate and expand our product offerings to include new clinical applications. If we are unable to demonstrate the effectiveness of AlloMap, Olerup SSP products and future diagnostic solutions and tests, if any, compared to new methodologies and technologies, then sales of our solutions and tests could decline, which would harm our business and financial results.

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Our financial results currently are largely dependent on sales of AlloMap and Olerup SSP products, and we will need to generate sufficient revenues from these and other future solutions and tests we develop to grow our business.

Our ability to generate revenue is currently dependent on sales of AlloMap for heart transplant recipients and Olerup SSP products for pre-transplant matching of donors and recipients, and we expect that sales of AlloMap and Olerup SSP products will account for a substantial portion of our revenue for at least the next two years. Although we are working to commercialize AlloSure, our dd-cfDNA-based solution for solid organ transplant recipients and QTYPE for more rapid testing of pre-transplant organs and tissues, even if we are successful in developing these new tests, we expect that adoption will take many quarters during which our financial results will depend on the performance of existing solutions and test. In addition, while we are in the process of commercializing AlloSure for kidney transplant recipients, the first group of patients the test will be available for, even if we are successful in developing this test, we do not expect to receive approval for reimbursement of this test, which will drive its value as a contributor to our revenue stream, for at least the next several fiscal quarters. If we are unable to increase sales of AlloMap and Olerup SSP products or successfully develop and commercialize other solutions, tests or enhancements, our revenues and our ability to achieve profitability would be impaired, and the market price of our common stock could decline.

If clinicians, hospital administrators, medical centers and laboratories do not adopt our diagnostic solutions, we will not achieve future sales growth.

Clinicians and healthcare administrators are traditionally slow to adopt new products, testing practices and clinical treatments, partly because of perceived liability risks and the uncertainty of third-party reimbursement. It is critical to the success of our sales efforts that we continue to educate clinicians, administrators and laboratory directors about AlloMap, AlloSure, Allenex s SSP product line and, subject to their development, our other solutions, and demonstrate the clinical and diagnostic benefits of these solutions and products. We believe that clinicians, transplant centers and laboratories may not use our solutions unless they determine, based on published peer-reviewed journal articles, the experience of other clinicians or laboratory verification, that our solutions provide accurate, reliable and cost-effective information that is useful in pre-transplant matching and monitoring their post-transplant recipients.

We estimate that there are approximately 130 centers managing heart transplant recipients in the United States. In 2015, AlloMap was used in 120 of these centers. However, not all clinicians in these centers are currently using our test. In order for AlloMap sales to grow, we must continue to market to and educate clinicians and administrators at treatment centers that have used our test to increase the number of clinicians ordering our test, the number of recipients tested and the number of tests per recipient. In addition, we must actively solicit additional treatment centers to establish policies and procedures for ordering our test and to encourage clinicians at those centers to incorporate our test into their standard clinical practice. Some of the challenges that our sales team must overcome include explaining the clinical benefits of AlloMap, which is a highly technical product, and changing a 30-year patient management paradigm of using biopsy as the basis of transplant recipient monitoring.

Our Olerup SSP pre-transplant tests are sold to hundreds of laboratories mainly in Europe and the U.S. Laboratories order pre-transplant testing products based on the accuracy, speed and cost of the test together with the cost and availability of equipment on which to run the test. Switching to or adopting our Olerup SSP product often requires the purchase of new and costly testing equipment. To attract new laboratory customers, the performance of our Olerup SSP products must provide an accuracy, speed and/or cost advantage over similar products sold by our competitors.

If clinicians, hospital administrators and laboratories do not adopt and continue to use AlloMap, Olerup SSP products or our future solutions and tests, our business and financial results will suffer.

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Our quarterly operating results may fluctuate significantly or may fall below the expectations of investors or securities analysts, each of which may cause our stock price to fluctuate or decline.

Historically, our financial results have been, and we expect that our operating results will continue to be, subject to quarterly fluctuations. Our net income (loss) and other operating results will be affected by numerous factors, including:

- our ability to successfully market and sell AlloMap and Olerup SSP products;
- our ability to commercialize new diagnostic solutions and tests such as AlloSure and QTYPE;
- the amount of our research and development expenditures;
- the timing of cash collections from third-party payers;
- the extent to which our current test and future solutions, if any, are eligible for coverage and reimbursement from third-party payers;
- the process of integrating new acquisitions, such as Allenex, and the associated potential disruption to our business;
- changes in coverage and reimbursement or in reimbursement-related laws directly affecting our business;
- any intellectual property infringement lawsuit or opposition, interference or cancellation proceeding in which we may become involved or that otherwise may affect our intellectual property position;
- announcements by our competitors of new or competitive products;
- regulatory or legal developments affecting our test or competing products;
- total operating expenses; and
- changes in expectation as to our future financial performance, including financial estimates, publications or research reports by securities analysts.

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

If the utility of AlloMap, AlloSure and our other solutions is not supported by studies published in peer-reviewed medical publications, and then periodically supplemented with additional support in peer-reviewed journals, the rate of adoption of our current and future solutions by

clinicians and treatment centers and the rate of reimbursement of our current and future solutions by payers may be negatively affected.

The results of our clinical trials involving AlloMap have been presented at major medical society congresses and published in peer-reviewed publications in leading medical journals. We need to maintain a continued presence in peer-reviewed publications to promote clinician adoption and favorable reimbursement decisions. We believe that peer-reviewed journal articles that provide evidence of the utility of our solutions or the technology underlying AlloMap or our other solutions are very important to the commercial success of our solutions. Clinicians typically take a significant amount of time to adopt new products, testing practices and clinical treatments, partly because of perceived liability risks and the uncertainty of third-party reimbursement. It is critical to the success of our sales efforts that we educate a sufficient number of clinicians and administrators about AlloMap, AlloSure and our future solutions, and demonstrate the clinical benefits of these solutions. Clinicians may not adopt, and third-party payers may not cover or adequately reimburse for, our current and future solutions unless they determine, based on published peer-reviewed journal articles and the experience of other clinicians, that our diagnostic current and future solutions provide accurate, reliable and cost-effective information that is useful in monitoring transplant recipients and making informed and timely treatment decisions.

The administration of clinical and economic utility studies is expensive and demands significant attention from our management team. Data collected from these studies may not be positive or consistent with our existing data, or may not be statistically significant or compelling to the medical community. If the results obtained from our ongoing or future studies are inconsistent with certain results obtained from our previous studies, adoption of our current and future solutions would suffer and our business would be harmed. While we have had success in generating peer-reviewed publications regarding AlloMap, peer-reviewed publications regarding AlloSure and our future solutions may be limited by many factors, including delays in the completion of, poor design of, or lack of compelling data from clinical studies that would be the subject of the article. If our current and future solutions or the technology underlying AlloMap, AlloSure or our future solutions do not receive sufficient favorable exposure in peer-reviewed publications, the rate of clinician adoption and positive reimbursement coverage decisions could be negatively affected. The publication of clinical data in peer-reviewed journals is a crucial step in commercializing and obtaining reimbursement for diagnostic solutions such as ours, and our inability to control when, if ever, results are published may delay or limit our ability to derive sufficient revenue from any product that is the subject of a study.

We are in the process of completing clinical trials demonstrating the clinical validity of AlloSure, our development stage transplant surveillance solution, and clinical performance characteristics of dd-cfDNA. To ensure the success of AlloSure and future tests based on dd-cfDNA, we will need to continue our efforts to complete and publicize research and trials that provide evidence of the utility of dd-cfDNA and validate AlloSure as a solution.

Transplant centers may not adopt AlloMap or our other solutions due to historical practices or due to more favorable reimbursement policies associated with other means of monitoring transplants.

Due to the historically limited monitoring options and the well-established coverage and reimbursement for biopsies, clinicians are accustomed to monitoring for acute cellular rejection in heart transplant recipients by utilizing biopsies. Many clinicians use AlloMap in parallel with biopsies rather than as an alternative to biopsies. While we do not market AlloMap as a biopsy alternative, per se, if treatment center administrators view our test as an alternative to a biopsy and believe they would derive more revenue from the performance of biopsies, such administrators may be motivated to reduce or avoid the use of our test. We cannot provide assurance that our efforts will increase the use of our test by new or existing customers. Our failure to increase the frequency of use of our test by new and existing customers would adversely affect our growth and revenues.

If we are unable to successfully compete with larger and more established players in the clinical surveillance of the transplantation field, we may be unable to increase or sustain our revenues or achieve profitability.

Our AlloMap solution for heart transplant recipients competes against existing diagnostic tests utilized by pathologists, which, in the case of heart transplant rejection, generally involve evaluating biopsy samples to determine the presence or absence of rejection. This practice has been the standard of care in the United States for many years, and we will need to continue to educate clinicians, transplant recipients and payers about the various benefits of our test in order to change clinical practice.

Competition for kidney surveillance diagnostics can also come from biopsies. However, because of the risks and discomforts of the invasive kidney biopsy procedure, as well as the expense and relatively low rate of finding moderate to severe grade rejection, biopsy is not a standard practice for surveillance of transplanted kidneys. Additional competition for kidney surveillance diagnostics currently comes from general, non-specific clinical chemistry tests such as serum creatinine, urine protein, complete blood count, lipid profile and others that are widely ordered by physician offices and routinely performed in clinical reference labs and hospital labs.

We expect the competition for pre- and post-transplant surveillance to increase as there are numerous established and startup companies in the process of developing novel products and services for the transplant market which may directly or indirectly compete with AlloMap or our development pipeline. Allenex has a well-established business with well-known products in the field of HLA typing based on Olerup SSP. However, competition from other companies, especially those with an eye toward transitioning to more automated typing processes, could impact Allenex s ability to maintain market share and its current margins. In addition to companies focused on pre-transplantation such as Thermo Fisher Scientific Inc. s One Lambda and Immucor, Inc. s LIFECODES businesses, companies who have not historically focused on transplantation, but with existing knowledge of dd-cfDNA technology have indicated they are considering this market.

The field of clinical surveillance of transplantation is evolving. New and well established companies are devoting substantial resources to the application of molecular diagnostics to the treatment of medical conditions. Some of these companies may elect to develop and market diagnostic solutions in the post-transplant surveillance market.

The field of clinical surveillance of transplantation is evolving. New and well established companies are devoting substantial resources to the application of molecular diagnostics to the treatment of medical conditions. Some of these companies may elect to develop and market diagnostic solutions in the post-transplant surveillance market.

Many of our potential competitors have greater brand recognition and substantially greater financial and technical resources and development, production and marketing capabilities than we do. Others may develop lower-priced, less complex tests that could be viewed by clinicians and payers as functionally equivalent to our AlloMap test, which could force us to lower the current list price of our test and impact our operating margins and our ability to achieve profitability. If we are unable to compete successfully against current or future competitors, we may be unable to increase market acceptance for and sales of AlloMap and our future solutions, which could prevent us from increasing or sustaining our revenues or achieving profitability and could cause the market price of our common stock to decline.

Our research and development efforts will be hindered if we are not able to acquire or contract with third parties for access to additional tissue and blood samples.

Our clinical development relies on our ability to secure access to tissue and blood samples, as well as recipient information including biopsy results and clinical outcomes from the same patient. Furthermore, the studies through which our future solutions are developed may rely on access to multiple samples from the same recipient over a period of time as opposed to samples at a single point in time or archived samples. We will require additional samples and recipient data for future research, development and validation. Access to recipients and samples on a real-time, or non-archived, basis is limited and often on an exclusive basis, and there is no guarantee that initiatives such as the DART study will be successful in obtaining and validating additional samples. Additionally, the process of negotiating access to new and archived donor and recipient data and samples is lengthy since it typically involves numerous parties and approval levels to resolve complex issues, such as usage rights, institutional review board approval, recipient consent, privacy rights and informed consent of recipients, publication rights, intellectual property ownership and research parameters. If we are not able to acquire or negotiate access to new and archived donor and recipient data and tissue and blood samples with source institutions, or if other laboratories or our competitors secure access to these samples before us, our ability to research, develop and commercialize future solutions such as AlloSure and QTYPE will be limited or delayed.

If we cannot enter into and maintain new clinical collaborations, our efforts to commercialize AlloMap and our development of new products such as AlloSure and QTYPE could be delayed.

In the past, we have entered into clinical trial collaborations with highly regarded academic institutions and leading treatment centers in the transplant field. Our success in the future may depend in part on our ability to enter into agreements with other leading institutions in the transplant field. Securing these agreements can be difficult due to internal and external constraints placed on these organizations. Some organizations may limit the number of collaborations they have with any one company so as to not be perceived as biased or conflicted. Organizations may also have insufficient administrative and related infrastructure to enable collaborations with many companies at once, which can extend the time it takes to develop, negotiate and implement a collaboration. In addition to completing clinical trial collaborations, publication of clinical data in peer-reviewed journals is a crucial step in commercializing and obtaining coverage and reimbursement for solutions such as ours. Our inability to control when, if ever, results of such studies are published may delay or limit our ability to derive sufficient revenues from any test that may result from a collaboration.

From time to time we expect to engage in discussions with potential clinical collaborators, which may or may not lead to collaborations. We cannot guarantee that any discussions will result in clinical collaborations or that any clinical studies which may result will be enrolled or completed in a reasonable time frame or with successful outcomes. Once news of discussions regarding possible collaborations become known in the medical community, regardless of whether the news is accurate, failure to announce a collaborative agreement or the other entity s announcement of a collaboration with an entity other than us may result in adverse speculation about us, our current and future solutions or our technology, resulting in harm to our reputation and our business.

If we are unable to successfully manage our growth and support demand for our tests, our business may suffer.

As the volume of the test that we perform grows, we will need to continue to ramp up our testing capacity, implement increases in scale and related processing, customer service, billing and systems process improvements and expand our internal quality assurance program to support testing on a larger scale. We will also need additional certified laboratory scientists and other scientific and technical personnel to process our tests. We cannot assure you that any increases in scale, related improvements and quality assurance will be successfully implemented or that appropriate personnel will be available. As additional products are developed, we may need to bring new equipment on-line, implement new systems, technology, controls and procedures and hire personnel with different qualifications. We plan to expand our sales force to support additional products. There is significant competition for qualified, productive sales personnel with advanced sales skills and technical knowledge in our field. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training, and retaining sufficient qualified sales personnel.

The value of AlloMap depends, in large part, on our ability to perform AlloMap on a timely basis and at a high quality standard, and on our reputation for such timeliness and quality. Failure to implement necessary procedures, transition to new equipment or processes or to hire new personnel could result in higher costs of processing or an inability to meet market demand in a timely manner. There can be no assurance that we will be able to perform AlloMap or our future solutions, if any, on a timely basis at a level consistent with demand, that our efforts to scale our commercial operations will not negatively

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affect the quality of test results or that we will be successful in responding to the growing complexity of our testing operations. If we encounter difficulty meeting market demand for our current and future solutions, our reputation could be harmed and our future prospects and our business could suffer.

In addition, our growth may place a significant strain on our management, operating and financial systems and our sales, marketing and administrative resources. As a result of our growth, our operating costs may escalate even faster than planned, and some of our internal systems may need to be enhanced or replaced. If we cannot effectively manage our expanding operations and our costs, we may not be able to grow effectively or we may grow at a slower pace, and our business could be adversely affected.

Our past testing revenue growth rates may not be indicative of future growth, and we may not grow at all, and revenue may decline.

From 2014 to 2015, our testing revenue grew from $25.8 million to $27.9 million, which represents annual growth of 8%. For the six months ended June 30, 2015 versus June 30, 2016, our testing revenue declined from $14.1 million to $13.7 million, which represents a decline of 3%. In the future, our revenue may not grow at all and it may decline. We believe that our future revenue will depend on, among other factors:

- the continued usage and acceptance of our current and future solutions;
- demand for our products and services;
- the introduction and acceptance of new or enhanced products or services by us or by competitors;
- our ability to maintain reimbursement for AlloMap and secure reimbursement for our future solutions;
- our ability to anticipate and effectively adapt to developing markets and to rapidly changing technologies;
- our ability to attract, retain and motivate qualified personnel;
- the initiation, renewal or expiration of significant contracts with our commercial partners;
- pricing changes by us, our suppliers or our competitors; and
- general economic conditions and other factors.

We may not be successful in our efforts to manage any of the foregoing, and any failure to be successful in these efforts could materially and adversely affect revenue growth. You should not consider our past revenue growth to be indicative of future growth.

If our sole laboratory facility in the U.S. becomes inoperable, we will be unable to perform AlloMap and future testing solutions, if any, and our business will be harmed.

We perform all of our diagnostic services for the U.S. in our laboratory located in Brisbane, California. Additionally, through our partnership with Diaxonhit we have recently validated a dedicated laboratory for AlloMap testing in Europe through the Strasbourg University Hospital Central Immunology Laboratory. We do not have redundant laboratory facilities. Brisbane, California is situated on or near earthquake fault lines. Our facility and the equipment we use to perform AlloMap would be costly to replace and could require substantial lead time to repair or replace, if damaged or destroyed. Our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, wildfires, flooding and power outages, which may render it difficult or impossible for us to perform our tests for some period of time. The inability to perform our tests may result in the loss of customers or harm our reputation, and we may be unable to regain those customers in the future. Although we possess insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, if at all.

In order to establish a redundant laboratory facility, we would have to spend considerable time and money securing adequate space, constructing the facility, recruiting and training employees, and establishing the additional operational and administrative infrastructure necessary to support a second facility. Additionally, any new clinical laboratory facility opened by us in the U.S. would be required to be certified under the Clinical Laboratory Improvement Amendments, or CLIA, a federal law that regulates clinical laboratories that perform testing on specimens derived from humans for the purpose of providing information for the diagnosis, prevention or treatment of disease. We would also be required to secure and maintain state licenses required by several states, including California, Florida, Maryland, New York and Pennsylvania, which can take a significant amount of time and result in delays in our ability to begin operations at that facility. If we failed to secure any such licenses, we would not be able to process samples from recipients in such states. We also expect that it would be difficult, time-consuming and costly to train, equip and use a third-party to perform tests on our behalf. We could only use another facility with the established state licensures and CLIA certification necessary to perform AlloMap or future solutions following validation and other required procedures. We cannot assure you that we would be able to find another CLIA-certified facility willing or able to adopt AlloMap or future solutions and comply with the required procedures, or that this laboratory would be willing or able to perform the tests for us on commercially reasonable terms.

Any additional laboratories opened in Europe would need to undergo a multi-step validation process demonstrating that AlloMap test results provided from such laboratory are equivalent to AlloMap results generated by our Brisbane, California laboratory. Training and other preparation is required before the laboratory is operational, and any commercial partner in Europe may encounter unanticipated obstacles. We do not have access to redundant facilities in Europe and our exclusive arrangement with Diaxonhit precludes the engagement by us of another collaboration partner whose laboratories we could use in the event that our primary facility is harmed or rendered inoperable. Without immediate access to an alternative facility, any disruption to our European partner s laboratory may result in delays in the delivery of test results, patient claims, loss of customers or harm to our reputation.

Performance issues, service interruptions or price increases by our shipping carriers could adversely affect our business and harm our reputation and ability to provide our services on a timely basis.

Expedited, reliable shipping is essential to our operations. We rely heavily on providers of transport services for reliable and secure point-to-point transport of recipient samples to our laboratory and enhanced tracking of these recipient samples. Should a carrier encounter delivery performance issues such as loss, damage or destruction of a sample, it may be difficult to replace our recipient samples in a timely manner and such occurrences may damage our reputation and lead to decreased demand for our services and increased cost and expense to our business. In addition, any significant increase in shipping rates could adversely affect our operating margins and results of operations. Similarly, strikes, severe weather, natural disasters or other service interruptions affecting delivery services we use would adversely affect our ability to receive and process recipient samples on a timely basis.

Our ability to commercialize the diagnostic solutions that we develop is dependent on our relationships with laboratory services providers and their willingness to support our current and future solutions.

We rely on third-party laboratory services providers to draw the recipient blood samples that are analyzed in our Brisbane, California laboratory. Our business will suffer if these service providers do not support AlloMap or the other solutions that we may develop. For example, these laboratories may determine that the effort to process the samples for our solutions requires too much additional effort. Additionally, if transplant facilities have relationships with large reference laboratories that will not process and send out our specimens, the clinicians at these facilities may deem ordering our tests outside of these relationships too inconvenient for their patients. A lack of acceptance of our current and future solutions by these service providers could result in lower test volume.

If we are unable to raise additional capital on acceptable terms in the future, it may limit our ability to develop and commercialize new diagnostic solutions and technologies, and we may have to curtail or cease operations.

We expect capital outlays and operating expenditures to increase over the next several years as we expand our infrastructure, commercial operations and research and development activities. Specifically, we may need to raise additional capital to, among other things:

- complete development of AlloSure, our proposed dd-cfDNA test for heart and kidney, or develop other solutions for clinical surveillance in transplantation;
- increase our selling and marketing efforts to drive market adoption and address competitive developments;
- expand our clinical laboratory operations;
- fund our clinical validation study activities;
- expand our research and development activities;
- sustain or achieve broader commercialization of AlloMap and our pre-transplant tests or enhancements to those tests;
- acquire or license products or technologies including through acquisitions; and
- finance our capital expenditures and general and administrative expenses.

Our present and future funding requirements will depend on many factors, including:

- the level of research and development investment required to develop our dd-cfDNA test for heart and kidney transplant recipients and additional solutions for the surveillance of transplantation of other organs and our new HLA typing product, QTYPE, that reduces the time required to match donor organs and tissue with potential recipients prior to transplantation and uses real-time PCR;
- costs of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- our need or decision to acquire or license complementary technologies or acquire complementary businesses;

- changes in test development plans needed to address any difficulties in commercialization;
- competing technological and market developments;
- whether our diagnostic solutions become subject to additional FDA or other regulation; and
- changes in regulatory policies or laws that affect our operations.

Additional capital, if needed, may not be available on satisfactory terms, or at all. Furthermore, if we raise additional funds by issuing equity securities, dilution to our existing stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. For example, we have the ability to sell additional shares of our common stock to the public through an at the market offering and a Controlled Equity Offering Sales Agreement with Cantor Fitzgerald & Co. Any shares of common stock issued in the at-the-market offering will result in dilution to the existing stockholders. If we raise additional funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations. If we raise additional funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our technologies or our solutions under development, or grant licenses on terms that are not favorable to us, which could lower the economic value of those programs to us. If adequate funds are not available, we may have to scale back our operations or limit our research and development activities, which may cause us to grow at a slower pace, or not at all, and our business could be adversely affected.

Our debt agreements contain restrictive and financial covenants that may limit our operating flexibility.

Our existing debt agreements with East West Bank and Danske contain certain restrictive covenants that limit our ability to merge with other companies or consummate certain changes of control, acquire other companies, engage in new lines of business, make certain investments, pay dividends, transfer or dispose of assets, amend certain material agreements, incur additional indebtedness or enter into various specified transactions. We therefore may not be able to engage in any of the foregoing transactions unless we obtain the consent of the lender or terminate our existing debt agreements. Our debt agreements also contain certain financial covenants, including minimum revenue requirements, a cap on expenses, a minimum cash flow to debt service ratio and maximum leverage and solvency ratios and are secured by substantially all of our assets. There is no guarantee that we will be able to generate sufficient cash flow or sales to meet the financial covenants or pay the principal and interest under our debt agreements or to satisfy all of the financial covenants. For example, as of February 29, 2016, we were in violation of one of our financial covenants under our loan agreement with East West Bank. This violation was waived and memorialized in a written amendment to the loan agreement dated May 12, 2016 and, as of June 30, 2016, we were in compliance with our debt covenants under our loan agreement with East West Bank. However, as of June 30, 2016, we were in violation of the leverage ratio covenant under our term loan facility with Danske. Danske waived this violation, but there is no assurance that we will be able to comply with the leverage ratio covenant by the next measurement date of September 30, 2016, and Danske has the ability to demand repayment of the debt if the violation is not resolved. If Danske demands repayment of the debt, we may not have sufficient capital to operate. Furthermore, there is no guarantee that future working capital, borrowings or equity financing will be available to repay or refinance the amounts outstanding under our debt agreements.

The loss of key members of our senior management team or our inability to attract and retain highly skilled scientists, clinicians and laboratory and field personnel could adversely affect our business.

Our success depends largely on the skills, experience and performance of key members of our executive management team. The efforts of each of these persons will be critical to us as we continue to develop our technologies and testing processes and as we attempt to transition to a company with more than one commercialized test. If we were to lose one or more of these key employees, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategies.

Our research and development programs and commercial laboratory operations depend on our ability to attract and retain highly skilled scientists and technicians, including geneticists, biostatisticians, engineers, licensed laboratory technicians and chemists. We may not be able to attract or retain qualified scientists and technicians in the future due to the intense competition for qualified personnel among life

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science businesses, particularly in the San Francisco Bay Area. We also face competition from universities, public and private research institutions and other organizations in recruiting and retaining highly qualified scientific personnel.

In addition, our success depends on our ability to attract and retain laboratory and field personnel with extensive experience in post-transplant recipient care and surveillance and close relationships with clinicians, pathologists and other hospital personnel. We may have difficulties locating, recruiting or retaining qualified salespeople, which could cause a delay or decline in the rate of adoption of AlloMap or our future solutions, if any. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will adversely affect our ability to support our discovery, development, verification and commercialization programs.

Recent and future acquisitions and investments could disrupt our business and harm our financial condition and operating results.

Our success will depend, in part, on our ability to expand our existing know-how, expertise and intellectual property in other fields, including for the development of other commercial tests. In some circumstances, we may decide to do so through the acquisition of complementary businesses and technologies rather than through internal development, including, for example, our 2014 acquisition of ImmuMetrix, Inc., a privately held development-stage company working on dd-cfDNA-based solutions in transplantation and other fields, and our recent acquisition of Allenex in April 2016. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not successfully complete acquisitions that we target in the future. The risks we face in connection with acquisitions, including our acquisition of ImmuMetrix, Inc. and our recent acquisition of Allenex, include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- reduction of available cash reserves, assumption of debt or dilutive issuances of equity securities due to payment of consideration;
- coordination of research and development and sales and marketing functions;
- integration of product and service offerings;
- acquired technology or research and development expectations prove unsuccessful;
- retention of key personnel from the acquired company;
- financial reporting, revenue recognition or other financial control deficiencies of the acquired company that we do not adequately address and that cause our reported results to be incorrect or delayed;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties;
- integrating a global workforce of the acquired company into our business;

obtaining the approval of minority shareholders to complete an acquisition; and

commercialization of new products being developed by the acquired company.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. For example, we completed our acquisition of ImmuMetrix, Inc. in June 2014, and some risks remain, including the risks that the intellectual property we acquired in this acquisition may not lead to a successful product, risks associated with milestone payments due under the merger agreement and the probability of achieving them, and the risk that Stanford University could terminate our patent license relating to the diagnosis of rejection in organ transplant recipients using dd-cfDNA if we do not meet certain performance and commercialization conditions. Additionally, the timing of the recent acquisition of Allenex may cause a heightened risk of any or all of the above factors, particularly in the near-term as we attempt to fully integrate the acquired operations. There is also a risk that future acquisitions will result in the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses or the write-off of goodwill and other intangible assets, any of which could harm our business and results of operations.

We may acquire other businesses or assets or form joint ventures that could harm our operating results, dilute your ownership of us, increase our debt or cause us to incur significant expense.

As part of our business strategy, we may pursue acquisitions of complementary businesses and assets, as well as technology licensing arrangements. We also may pursue strategic alliances that leverage our core technology and industry experience to expand our test offerings or distribution. We have limited experience with respect to acquiring other companies and limited experience with respect to the acquisition of strategic assets or the formation of collaborations, strategic alliances and joint ventures. If we make any acquisitions, we may not be able to integrate these acquisitions successfully into our existing business, and we could assume unknown or contingent liabilities. Any future acquisitions by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of an acquired company, product or technology also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license, strategic alliance or joint venture.

For example, on April 14, 2016, we acquired 98.3% of the outstanding common stock of Allenex. Allenex s technology and products are new to us, and accordingly we may need to make substantial investments of resources to support the integration of Allenex, which will result in increased operating expenses and may divert resources and management attention from other areas of our business. Additional unanticipated costs may be incurred in the course of integrating the respective businesses. We cannot make any assurances that these investments will be successful. As a result of any of the aforementioned challenges, as well as other challenges and factors that may be unknown to us, we may not be able to fully realize the anticipated strategic benefits of the acquisition, which includes a complementary product portfolio and significant cross-selling opportunities. If we fail to successfully integrate Allenex, we may not realize the benefits expected from the transaction and our business may be harmed.

To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would dilute your interest in us. If the price of our common stock is low or volatile, we may not be able to acquire other companies using our stock as consideration. Alternatively, it may be necessary for us to raise additional funds for acquisitions through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all.

Defects in AlloMap or our other solutions could result in substantial product liabilities or professional liabilities that exceed our resources.

The marketing, sale and use of AlloMap and our other solutions could lead to the filing of product liability claims if someone were to allege that our test failed to perform as it was designed. For example, a defect in one of our diagnostic solutions could lead to a false positive or false negative result, affecting the eventual diagnosis. Any incomplete or inaccurate analysis on the part of our technicians could also affect the reliability of the test results. A product liability or professional liability claim could result in substantial damages and be costly and time-consuming for us to defend. Although we maintain product and professional liability insurance, our insurance may not fully protect us from the financial impact of defending against product liability or professional liability claims or any judgments, fines or settlement costs arising out of any such claims. Any product liability or professional liability claim brought against us, with or without merit, could increase our insurance rates or prevent us from securing insurance coverage in the future. Additionally, any product liability lawsuit could cause injury to our reputation, result in the suspension of our testing pending an investigation into the cause of the alleged failure, or cause current collaborators to terminate existing agreements and potential collaborators to seek other partners, any of which could negatively impact our results of operations.

Undetected errors or defects in our products could result in voluntary corrective actions or agency enforcement actions, including recall of our products, as well as harm our reputation, decrease market acceptance of our products and expose us to product liability claims.

Our products may contain undetected errors or defects that are not identified until after the products are first introduced. Disruptions or other performance problems with our products, or the perception of disruption or performance problems with our products, may require us to initiate a product recall, such as occurred in April 2016 with respect to one of Allenex s Olerup SSP products, and may damage our customers businesses and harm our reputation. We may also be subject to warranty and liability claims for damages related to errors or defects in our products. A material liability claim, product recall or similar occurrence may cause us to incur significant expense, decrease market acceptance of our products and adversely impact our business and operating results.

In addition, the sale and use of products or services based on our technologies, or activities related to our research and clinical studies could lead to the filing of product liability claims if someone were to allege that one of our products contained a design or manufacturing defect which resulted in the failure to adequately perform the analysis for which it was designed. A product liability claim could result in substantial damages and be costly and time consuming to defend, either of which could materially harm our business or financial condition. We cannot provide assurance that our product liability insurance would adequately protect our assets from the financial impact of defending a product liability claim. In addition, any product liability claim brought against us, with or without merit, could increase our product liability insurance rates and prevent us from securing insurance coverage in the future at reasonable coverage levels, or at all.

We rely extensively on third party service providers. Failure of these parties to perform as expected, or interruptions in our relationship with these providers or their provision of services to us, could interfere with our ability to provide test results.

Our relationship with any of our third party service providers may impair our ability to perform our services. The failure of any of our third party service providers to adequately perform their service obligations may reduce our revenues and increase our expenses or prevent us from providing our services in a timely manner if at all. In addition, our reputation, business and financial performance could be materially harmed if we are unable to, or are perceived as unable to, perform reliable services.

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We rely solely on certain suppliers to supply some of the laboratory instruments and key reagents that we use to perform AlloMap. These sole source suppliers include Thermo Fisher Scientific Inc., which supplies us with instruments, laboratory reagents and consumables, Becton, Dickinson and Company, which supplies us with cell preparation tubes, or CPTs, and Therapak Corporation, which supplies us with a proprietary buffer reagent. One of the reagents supplied to us by Therapak Corporation is, in turn, obtained by Therapak Corporation from Qiagen N.V. and is a proprietary formulation of Qiagen N.V. We have no relationship with or control over, Qiagen N.V. We do not have guaranteed supply agreements with Thermo Fisher Scientific Inc., Becton, Dickinson and Company, Therapak Corporation or Qiagen N.V., which exposes us to the risk that these suppliers may choose to discontinue doing business with us at any time. We periodically forecast our needs to these sole source suppliers and enter into standard purchase orders based on these forecasts.

Additionally, we rely solely on Conexio Genomics, which was recently acquired by Illumina, Inc., for supply of the SBT product line we offer for sequence based typing of HLA alleles, which represented approximately 5% of total revenue in the quarter ended June 30, 2016. We recently received a notice that Conexio s SBT products will be discontinued by December 31, 2016. Our reliance on a sole supplier exposes us to risks, including reduced control over production costs, timely delivery and capacity. It also exposes us to the potential inability to quickly or cost-effectively acquire or replace this product line, if at all, following the notice of discontinuation that we received.

In addition, our ABI 7900 Thermocycler, a real time polymerase chain reaction, or PCR, instrument used in AlloMap, is no longer in production. Thermo Fisher Scientific Inc. has committed to provide service and support of this instrument through 2017. We believe that there are relatively few suppliers other than Thermo Fisher Scientific Inc., Becton, Dickinson and Company and Qiagen N.V. that are currently capable of supplying the instruments, reagents and other supplies necessary for AlloMap. Even if we were to identify secondary suppliers, there can be no assurance that we will be able to enter into agreements with such suppliers on a timely basis on acceptable terms, if at all. If we should encounter delays or difficulties in securing from Thermo Fisher Scientific Inc., Becton, Dickinson and Company or Therapak Corporation, or Therapak Corporation encounters delays or difficulties in securing from Qiagen N.V., the quality and quantity of reagents, supplies or instruments that we require for AlloMap or other solutions we develop, we may need to reconfigure our test processes, which would result in delays in commercialization or an interruption in sales. Clinicians who order AlloMap rely on the continued availability of our test and have an expectation that results will be reported within two to three business days. If we are unable to provide results within a timely manner, clinicians may elect not to use our test in the future and our business and operating results could be harmed.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business or prevent us from accessing critical information and expose us to liability, which could adversely affect our business and our reputation.

We store sensitive intellectual property and other proprietary business information, including that of our customers, payers and collaboration partners. We manage and maintain our applications and data utilizing a combination of on-site systems, managed data center systems and cloud-based data center systems. These applications and data encompass a wide variety of business critical information, including research and development information, commercial information and business and financial information. We work with a third-party billing agent to collect and store sensitive data, including legally-protected health information, credit card information and personally identifiable information about our customers, payers, recipients and collaboration partners. A data breach or loss of data could have a material adverse effect on our operations, including the potential for material fines and business interruption.

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We face four primary risks relative to protecting critical information: loss of access risk, inappropriate disclosure risk, inappropriate modification risk and the risk of our being unable to identify and audit our controls over the first three risks.

We are highly dependent on information technology networks and systems, including the Internet, to securely process, transmit and store this critical information. Security breaches of this infrastructure, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure or modification of confidential information. The secure processing, storage, maintenance and transmission of this critical information are vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take measures to protect sensitive information from unauthorized access or disclosure, our information technology and infrastructure, and that of our third-party billing and collections provider, may be vulnerable to attacks by hackers or viruses or breached due to employee error, malfeasance or other disruptions.

A security breach or privacy violation that leads to disclosure or modification of or prevents access to consumer information (including personally identifiable information or protected health information) could harm our reputation, compel us to comply with disparate state breach notification laws, require us to verify the correctness of database contents and otherwise subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. If we are unable to prevent such security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties because of lost or misappropriated information, including sensitive consumer data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

Any such breach or interruption could compromise our networks or those of our third-party billing agent, and the information stored there could be inaccessible or could be accessed by unauthorized parties, publicly disclosed, lost or stolen. Any such interruption in access, improper access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, such as the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and regulatory penalties. Unauthorized access, loss or dissemination could also disrupt our operations, including our ability to perform tests, provide test results, bill payers or patients, process claims and appeals, provide customer assistance services, conduct research and development activities, collect, process and prepare company financial information, provide information about our current and future solutions and other patient and clinician education and outreach efforts through our website, and manage the administrative aspects of our business and damage our reputation, any of which could adversely affect our business. Any such breach could also result in the compromise of our trade secrets and other proprietary information, which could adversely affect our competitive position.

In addition, the interpretation and application of consumer, health-related, privacy and data protection laws in the U.S., Europe and elsewhere are often uncertain, contradictory and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. If so, this could result in government-imposed fines or orders requiring that we change our practices, which could adversely affect our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices and compliance procedures in a manner adverse to our business.

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International expansion of our business exposes us to business, regulatory, political, operational, financial and economic risks associated with doing business outside of the United States, some of which may be enhanced by our acquisition of Allenex.

As part of our longer-term growth strategy, we intend to target select international markets to grow our presence outside of the U.S. We currently have a commercial agreement for the promotion of AlloMap in Europe with Diaxonhit and are distributing AlloMap tests directly in Canada. Allenex currently distributes its products in Germany, Austria, Slovenia, Benelux, Canada, China and India. Allenex also sells, via sub-distributors, to certain countries in Central and South America. To promote the growth of our business internationally, we will need to attract additional partners to expand into new markets. Relying on partners for our sales and marketing subjects us to various risks, including:

- our partners may fail to commit the necessary resources to develop a market for our products, may spend the majority of their time selling products unrelated to ours, or may be unsuccessful in marketing our products for other reasons;
- under certain agreements, our partners obligations, including their required level of promotional activities, may be conditioned upon our ability to achieve or maintain a specified level of reimbursement coverage;
- agreements with our partners may terminate prematurely due to disagreements or may result in disputes or litigation with our partners;
- we may not be able to renew existing partner agreements, or enter into new agreements, on acceptable terms;
- our existing relationships with partners may preclude us from entering into additional future arrangements;
- our partners may violate local laws or regulations, potentially causing reputational or monetary damage to our business;
- our partners may engage in sales practices that are locally acceptable but do not comply with standards required under U.S. laws that apply to us; and
- our partners in Europe may be negatively affected by the financial instability of, and austerity measures implemented by, several countries in Europe.

If our present or future partners do not perform adequately, or we are unable to enter into agreements in new markets, we may be unable to achieve revenue growth or market acceptance in jurisdictions in which we depend on partners.

In addition, conducting international operations subjects us to new risks that, generally, we have not faced in the U.S., including:

- uncertain or changing regulatory registration and approval processes associated with AlloMap and other potential diagnostic solutions;
- failure by us to obtain regulatory approvals or adequate reimbursement for the use of our current and future solutions in various countries;

competition from companies located in the countries in which we offer our products may put us at a competitive disadvantage;

financial risks, such as longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

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- logistics and regulations associated with shipping recipient samples, including infrastructure conditions and transportation delays;
- limits in our ability to penetrate international markets if we are not able to process solutions locally;
- difficulties in managing and staffing international operations and assuring compliance with foreign corrupt practices laws;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, tax inefficiencies related to our corporate structure and restrictions on the repatriation of earnings;
- increased financial accounting and reporting burdens and complexities;
- multiple, conflicting and changing laws and regulations such as healthcare regulatory requirements and other governmental approvals, permits and licenses;
- the imposition of trade barriers such as tariffs, quotas, preferential bidding or import or export licensing requirements;
- political and economic instability, including wars, terrorism, and political unrest, general security concerns, outbreak of disease, boycotts, curtailment of trade and other business restrictions;
- fluctuations in currency exchange rates;
- regulatory and compliance risks that relate to maintaining accurate information and control over activities that may fall within the purview of the Foreign Corrupt Practices Act of 1977, its books and records provisions or its anti-bribery provisions, as well as risks associated with other anti-bribery and anti-corruption laws; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of the above could harm our business and, consequently, our revenues and results of operations. Our expanding international operations could be affected by changes in laws, trade regulations, labor and employment regulations, and procedures and actions affecting approval, production, pricing, reimbursement and marketing of our current and future solutions, as well as by inter-governmental disputes. Any of these changes could adversely affect our business. Additionally, operating internationally requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing operations in other countries will produce desired levels of revenue or profitability.

In addition, any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, and restrictions on certain business activities. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our distribution and sales activities.

Our success expanding internationally will depend, in part, on our ability to develop and implement policies and strategies that are effective in anticipating and managing these and other risks in the countries in which we do business. Failure to manage these and other risks may have a material adverse effect on our operations in any particular country and on our business as a whole.

Our operating results may be adversely affected by unfavorable economic and market conditions.

Many of the countries in which we operate, including the U.S. and several of the members of the European Union, have experienced and continue to experience uncertain economic conditions resulting from global as well as local factors. For example, on June 23, 2016, the United Kingdom, or the UK, held a referendum pursuant to which voters elected to leave the European Union, commonly referred to as Brexit. As a result of UK voters election to leave the European Union, the British government is expected to begin negotiating the terms of the UK s future relationship with the European Union. Although the long-term effects of Brexit will depend on any agreements the UK makes to retain access to the European Union markets, Brexit has created additional uncertainties that may ultimately result in new regulatory costs and challenges for companies and increased restrictions on imports and exports throughout Europe, which could adversely affect our ability to conduct and expand our operations in Europe and which may have an adverse effect on our business, financial condition and results of operations. In addition, Brexit may also increase the possibility that other countries may decide to leave the European Union in the future.

Our business or financial results may be adversely impacted by these uncertain economic conditions, including: adverse changes in interest rates, foreign currency exchange rates, tax laws or tax rates; inflation; contraction in the availability of credit in the marketplace due to legislation or other economic conditions, which may potentially impair our ability to access the capital markets on terms acceptable to us or at all; and the effects of government initiatives to manage economic conditions. In addition, we cannot predict how future economic conditions will affect our critical customers, suppliers and distributors and any negative impact on our critical customers, suppliers or distributors may also have an adverse impact on our results of operations or financial condition.

Our insurance policies are expensive and protect us only from some business risks, which will leave us exposed to significant uninsured liabilities.

We do not carry insurance for all categories of risk that our business may encounter. For example, we do not carry earthquake insurance. In the event of a major earthquake in our region, our business could suffer significant and uninsured damage and loss. Some of the policies we currently maintain include general liability, foreign liability, employee benefits liability, property, automobile, umbrella, workers compensation, products liability and directors and officers insurance. We do not know, however, if we will be able to maintain existing insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our cash position and results of operations.

If we use hazardous materials in a manner that causes injury, we could be liable for damages.

Our activities currently require the use of hazardous chemicals. We cannot eliminate the risk of accidental contamination or injury to employees or third parties from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could exceed our resources or any applicable insurance coverage we may have. Additionally, we are subject on an ongoing basis to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products.

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We may use third party collaborators to help us develop, validate or commercialize any new diagnostic solutions, and our ability to commercialize such solutions could be impaired or delayed if these collaborations are unsuccessful.

We may in the future selectively pursue strategic collaborations for the development, validation and commercialization of any new diagnostic solutions we may develop. In any future third party collaboration, we may be dependent upon the success of the collaborators in performing their responsibilities and their continued cooperation. Our collaborators may not cooperate with us or perform their obligations under our agreements with them. We cannot control the amount and timing of our collaborators resources that will be devoted to performing their responsibilities under our agreements with them. Our collaborators may choose to pursue alternative technologies in preference to those being developed in collaboration with us. The development, validation and commercialization of our potential solutions may be delayed if collaborators fail to fulfill their responsibilities in a timely manner or in accordance with applicable regulatory requirements or if they breach or terminate their collaboration agreements with us. AlloMap testing in Europe is being conducted through an exclusive distribution agreement with a sole collaborator. Any issues arising from these arrangements will affect our ability to serve the entire region, and our reputation may suffer even if we subsequently locate new partners, which may permanently affect our business. Disputes with our collaborators could also impair our reputation or result in development delays, decreased revenues and litigation expenses.

Changes in, or interpretations of, accounting rules and regulations could result in unfavorable accounting changes or require us to change our compensation policies.

Accounting methods and policies for diagnostic companies, including policies governing revenue recognition, research and development and related expenses and accounting for stock-based compensation, are subject to further review, interpretation and guidance from relevant accounting authorities, including the SEC. Changes to, or interpretations of, accounting methods or policies may require us to reclassify, restate or otherwise change or revise our financial statements, including those incorporated by reference in this prospectus supplement.

Risks Related to the Allenex Acquisition

Our acquisition opt;;font-size:10pt;font-family:Times New Roman;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">Director

Denis F. Kelly(2)

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Director

Julie Rice

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Director

Thilo Semmelbauer(3)

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Director

Christopher J. Sobecki(3)

60

Director

Oprah Winfrey

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Director

(1) Member of Compensation and Benefits Committee.
(2) Member of Audit Committee.
(3) Member of Nominating and Corporate Governance Committee.

Mindy Grossman. Ms. Grossman has served as a director and our President and Chief Executive Officer since July 2017. Prior to joining us, she served as Chief Executive Officer of HSN, Inc., an interactive, multichannel retailer of fashion, household and lifestyle products, and a member of its Board of Directors from August 2008 to May 2017. Prior to joining HSN, she served as Chief Executive Officer of IAC Retailing, a business segment of HSN's former parent company, IAC/InterActiveCorp, a media and Internet company, from April 2006 to August 2008, and Global Vice President of Nike, Inc.'s apparel business from October 2000 to March 2006. Earlier in her career, Ms. Grossman held various other executive positions in the retail industry, including President and CEO of Polo Jeans Company, Vice President of New Business Development at Polo Ralph Lauren Corporation, President of Chaps Ralph Lauren, and Senior Vice President of Menswear for Warnaco, Inc. Ms. Grossman is a director of Bloomin' Brands, Inc. and Fanatics, Inc. She also serves as Vice Chairman for UNICEF USA.

Nicholas P. Hotchkin. Mr. Hotchkin has served as our Chief Financial Officer since August 2012. In addition to his role as Chief Financial Officer, he was appointed as our President, Emerging Markets in March 2018. He also served as a member of our former Interim Office of the Chief Executive Officer from September 2016 to July 2017. Prior to joining us, Mr. Hotchkin had spent several years at Staples, Inc., a global leader in the office supply industry. Most recently, Mr. Hotchkin served as Senior Vice President of Finance for the U.S. Retail division of Staples based in Massachusetts, a position he held from May 2010 to August 2012. Before assuming that position, he had been Senior Vice President of Finance and Treasurer of Staples, a position he held from November 2006 to April 2010. Prior to joining Staples, Mr. Hotchkin held several corporate finance positions with Delphi Corporation and General Motors Corporation including assignments in the United States, Asia and Europe. Mr. Hotchkin received a B.A. in Economics from Harvard College and an M.B.A. from the Harvard Business School.

Michael F. Colosi. Mr. Colosi has served as our General Counsel and Secretary since May 2014. Prior to joining us, Mr. Colosi most recently served as Senior Vice President, General Counsel and Corporate Secretary of Kenneth Cole Productions, Inc. (KCP), a multi-brand retail, wholesale and licensing company, from March 2007 to February 2014. His service as General Counsel and Secretary of KCP commenced in July 2000 and July 2004, respectively. He also served as Corporate Vice President of KCP from July 2000 to February 2007. Prior to joining KCP, Mr. Colosi was Associate General Counsel and Assistant Secretary for The Warnaco Group, Inc., an international apparel company, from 1996 to 2000. Mr. Colosi received a B.A. in Economics and English from Cornell University and a J.D. from The University of Michigan Law School.

Stacey Mowbray. Ms. Mowbray has served as our President, North America (previously called President, Americas) since March 2016. Prior to that time, Ms. Mowbray served as President and General Manager of Weight Watchers Canada from November 2014 to March 2016. Prior to joining us, Ms. Mowbray was with Second Cup Ltd., a Canadian, publicly traded, specialty coffee business, where she served as Chief Executive Officer from May 2009 to February 2014 and President from February 2008 to May 2009. Prior to joining Second Cup Ltd., Ms. Mowbray was Chief Marketing Officer at Molson Coors Brewing Company and held various senior roles at Cara Operations Limited and PepsiCo Canada. Ms. Mowbray received a Bachelor of Business degree from Wilfrid Laurier University and an M.B.A. from the Schulich School of Business at York University.

Corinne Pollier(-Bousquet). Ms. Pollier has served as our President, International since March 2016. Prior to that time, Ms. Pollier served as our President, Continental Europe & Australia-New Zealand from January 2014 to March 2016, our President, Continental Europe from May 2013 to January 2014, our Senior Vice President of France and Switzerland from October 2008 to May 2013 and our General Manager of France from October 2003 to October 2008. Prior to joining us, from 1991 to 2003, Ms. Pollier was with VIVARTE Group (France), a European retailer of footwear and apparel, where she held various positions in the finance and planning analysis department from 1991 to 1995, various senior positions in the organization and strategy department from 1995 to 2000 and as General Manager of Kookai from 2001 to 2003. Ms. Pollier also held various product management and project management positions for the central buying office of Le Printemps department stores from 1987 to 1991. Ms. Pollier holds a Masters in Management from the HEC Business School Paris.

Raymond Debbane. Mr. Debbane has been the Chairman of our Board of Directors since our acquisition by Artal Luxembourg on September 29, 1999. Mr. Debbane is a co-founder and the Chief Executive Officer of The Invus Group, LLC. Prior to forming The Invus Group, LLC in 1985, Mr. Debbane was a manager and consultant for The Boston Consulting Group in Paris, France. He holds an M.B.A. from Stanford Graduate School of Business, an M.S. in Food Science and Technology from the University of California, Davis and a B.S. in Agricultural Sciences and Agricultural Engineering from American University of Beirut. Mr. Debbane is the Chairman of the Board of Directors of Lexicon Pharmaceuticals, Inc. He is also the Chief Executive Officer and a director of Artal Group S.A., and the Chairman of the Board of Directors of a number of private companies of which Artal or Invus, L.P. are shareholders. Mr. Debbane was previously a director of Ceres, Inc. and Blue Buffalo Pet Products, Inc.

Steven M. Altschuler, M.D. Dr. Altschuler has been a director since September 2012. Since May 2018, Dr. Altschuler has served as a Managing Director, Healthcare Ventures, of Ziff Capital Partners, a private investment firm. He previously served as a consultant to the University of Miami Health Care System from September 2017 through December 2017, the Chief Executive Officer of University of Miami Health Care System and Executive Vice President for Healthcare at the University of Miami from January 2016 to September 2017, and the Chief Executive Officer of The Children's Hospital of Philadelphia (CHOP) from April 2000 until June 2015. Prior to assuming the role of Chief Executive Officer, Dr. Altschuler held several positions at CHOP and the Perelman School of Medicine at the University of Pennsylvania, including Physician-in-Chief/Chair of Pediatrics and chief of the Division of Gastroenterology, Hepatology and Nutrition. Dr. Altschuler received a B.A. in mathematics and an M.D. from Case Western Reserve University. Dr. Altschuler currently serves as Chair of the Board of Directors of Spark Therapeutics, Inc. and as a director of Adtalem Global Education Inc.

Philippe J. Amouyal. Mr. Amouyal has been a director since November 2002. Mr. Amouyal is a Managing Director of The Invus Group, LLC, a position he has held since 1999. Previously, Mr. Amouyal was a Vice President and Director of The Boston Consulting Group in Boston, MA. He holds an M.S. in Engineering and a DEA in Management from Ecole Centrale de Paris and was a Research Fellow at the Center for Policy Alternatives of the Massachusetts Institute of Technology. Mr. Amouyal is a director and member of the Compensation Committee of Lexicon Pharmaceuticals, Inc. as well as a number of private companies of which Artal or Invus, L.P. are shareholders. Mr. Amouyal was previously a director of Blue Buffalo Pet Products, Inc.

Cynthia Elkins. Ms. Elkins has been a director since March 2014. Since March 2018, Ms. Elkins has served as Executive Vice President and Global Head of Cell Therapy Patient Experience of biopharmaceutical company Juno Therapeutics (a Celgene company). Previously, Ms. Elkins served as Chief Information Officer of Juno Therapeutics from December 2017 to March 2018. Prior to joining Juno Therapeutics, Ms. Elkins served as Vice President of IT Americas from March 2011 through December 2016 and Senior Director of IT Enterprise Applications from December 2007 to February 2011 at Genentech, Inc., a biotechnology company and member of the Roche Group. Prior to that, she held various technology leadership positions at Ariba, Inc., ATP Inc., Aspect Telecommunications, VeriFone and Digital Equipment Corporation. Ms. Elkins received a B.S. in Applied Mathematics from the University of California, Los Angeles and an M.B.A. from Santa Clara University.

Jonas M. Fajgenbaum. Mr. Fajgenbaum has been a director since our acquisition by Artal Luxembourg on September 29, 1999. Mr. Fajgenbaum is a Managing Director of The Invus Group, LLC, which he joined in 1996. Prior to joining The Invus Group, LLC, Mr. Fajgenbaum was a consultant for McKinsey & Company in New York from 1994 to 1996. He graduated with a B.S. in Economics with a concentration in Finance from The Wharton School of the University of Pennsylvania and a B.A. in Economics from the University of Pennsylvania. Mr. Fajgenbaum is a director of a number of private companies of which Artal or Invus, L.P. are shareholders.

Denis F. Kelly. Mr. Kelly has been a director since May 2015. Mr. Kelly is affiliated with, and has served as a Managing Partner of, Scura Partners Securities LLC, a private investment banking firm which he co-founded, since 2001. In addition, Mr. Kelly is a Hearing Officer for National Arbitration and Mediation (NAM), one of the leading dispute resolution institutions in the United States. From 1993 to 2001, he was a Managing Director of Prudential Securities Incorporated. Previously, he served as the President and Chief Executive Officer of Denbrook Capital Corporation, a merchant banking firm, from 1991 to 1993. From 1980 to 1991, Mr. Kelly held various positions at Merrill Lynch, including Managing Director of Mergers and Acquisitions and Managing Director of Merchant Banking. Mr. Kelly began his investment banking career at Lehman Brothers in 1974. Mr. Kelly received a B.A. from Amherst College and an M.B.A. from the Wharton School of Business of the University of Pennsylvania. Mr. Kelly is also a director of MSC Industrial Direct Co., Inc., where he serves as a member of the Audit Committee and the chairman of the Compensation Committee. Mr. Kelly previously served as a director of Kenneth Cole Productions, Inc., which is no longer a public company.

Julie Rice. Ms. Rice has been a director since August 2018. Since November 2017, Ms. Rice has served as a Partner at WeWork, a shared workspace company. Since June 2016, she has also served as the Co-Founder of LifeShop LLC, a private investment firm. After co-founding SoulCycle Inc., a fitness company, in 2006, Ms. Rice served as Co-Chief Executive Officer from 2006 to 2015, Chief Talent and Creative Officer from 2015 to 2016 and a member of the board of directors from 2010 to 2018. Previously, Ms. Rice was a Talent Manager at Handprint Entertainment from 1997 to 2004. Ms. Rice received a B.A. in English and Theater from the State University of New York at Binghamton.

Thilo Semmelbauer. Mr. Semmelbauer has been a director since September 2016. He served as a member of our former Interim Office of the Chief Executive Officer from September 2016 to July 2017. He has been involved in technology ventures for over 25 years. From 2015 to 2017, Mr. Semmelbauer was a Venture Partner of Insight Venture Partners, a global private equity and venture capital firm, and he currently continues to act as Senior Advisor to Insight. From 2010 to 2015, he served as President and Chief Operating Officer of Shutterstock, Inc., a global marketplace for licensing images, videos, and music to businesses worldwide. From 2009 to 2010, he served as Executive Vice President, Consumer Business, of TheLadders.com, a career management company. Mr. Semmelbauer was also Weight Watchers International, Inc.'s Global Chief Operating Officer from 2006 to 2008 and Chief Operating Officer for North America from 2004 to 2006, after serving as President and Chief Operating Officer of WeightWatchers.com from 2000 to 2004 where he was part of the founding team. He holds an A.B. in Electrical Engineering and Computer Science from Dartmouth College and a dual M.S. in Management and Electrical Engineering from the Massachusetts Institute of Technology.

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Christopher J. Sobecki. Mr. Sobecki has been a director since our acquisition by Artal Luxembourg on September 29, 1999. He served as a member of our former Interim Office of the Chief Executive Officer from September 2016 to July 2017. Mr. Sobecki is a Managing Director of The Invus Group, LLC, which he joined in 1989. He received an M.B.A. from the Harvard Business School. He also obtained a B.S. in Industrial Engineering from Purdue University. Mr. Sobecki is a director of Lexicon Pharmaceuticals, Inc. and a number of private companies of which Artal or Invus, L.P. are shareholders.

Oprah Winfrey. Ms. Winfrey has been a director since October 2015. Since January 2009, Ms. Winfrey has served as the Chairman of her cable network, OWN: Oprah Winfrey Network, taking on the role of Chief Executive Officer in July 2011. Previously, she founded Harpo, Inc. in 1986, under which she has launched numerous media and entertainment businesses, including O, The Oprah Magazine and Harpo Films, in addition to producing the award-winning talk show 'The Oprah Winfrey Show' for 25 years. Ms. Winfrey is a global media leader, philanthropist, producer and actress. She also has been serving as a member of the Smithsonian's advisory council since 2004.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock has been listed on Nasdaq since October 15, 2018, prior to which it was listed on the New York Stock Exchange. Our common stock trades on Nasdaq under the symbol “WTW.”

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, or Artal Holdings, and its parents and subsidiaries under this program. The repurchase program currently has no expiration date. We repurchased no shares of our common stock during the fourth quarter of fiscal 2018. As of the end of fiscal 2018, $208.9 million remained available to purchase shares of our common stock under the repurchase program.

Holders

The approximate number of holders of record of our common stock as of February 1, 2019 was 194. This number does not include beneficial owners of our securities held in the name of nominees.

Dividends

We do not currently pay a dividend and we have no current plans to pay dividends in the foreseeable future.

Stock Performance Graph

The following graph sets forth the cumulative return on our common stock from December 27, 2013, the last trading day of our 2013 fiscal year, through December 28, 2018, the last trading day of our 2018 fiscal year, as compared to the cumulative return of the Standard & Poor's 500 Index, or the S&P 500 Index, and the cumulative return of the Standard & Poor's MidCap 400 Index, or the S&P MidCap 400 Index. We selected the S&P 500 Index because it is a broad index of equity markets. We selected the S&P MidCap 400 Index, which is generally comprised of issuers having a similar market capitalization with the Company at the times presented and of which we are currently a member, because we believe that there are no other lines of business or published industry indices or peer groups that provide a more meaningful comparison of the cumulative return of our stock. The graph assumes that $100 was invested on December 27, 2013 in each of (1) our common stock, (2) the S&P 500 Index and (3) the S&P MidCap 400 Index, and that all dividends, as applicable, were reinvested.

	Cumulative Total Return ($)					
Company/Index	12.27.13	1.2.15	12.31.15	12.30.16	12.29.17	12.28.18
Weight Watchers International, Inc.	100.00	65.80	69.68	34.99	135.33	126.19
S&P 500 Index	100.00	114.11	115.71	129.55	157.83	149.62
S&P MidCap 400 Index	100.00	110.22	107.91	130.29	151.44	133.29

Item 6. Selected Financial Data
The following schedule sets forth our selected financial data for the last five fiscal years.

SELECTED FINANCIAL DATA

(in millions, except per share amounts)

	Fiscal 2018 (52 weeks)	Fiscal 2017 (52 weeks)	Fiscal 2016 (52 weeks)	Fiscal 2015 (52 weeks)	Fiscal 2014 (53 weeks)
Revenues, net	$1,514.1	$1,306.9	$1,164.9	$1,164.4	$1,479.9
Net income attributable to the Company	$223.7	$163.5	$67.7	$32.9	$117.8
Working capital surplus (deficit) [1]	$25.1	$(134.0)	$(57.2)	$(151.7)	$(29.7)
Total assets[1]	$1,414.5	$1,246.0	$1,271.0	$1,394.3	$1,479.8
Long-term debt[1]	$1,669.7	$1,740.6	$1,981.3	$1,996.4	$2,244.9
Earnings per share:					
Basic	$3.38	$2.54	$1.06	$0.56	$2.08
Diluted	$3.19	$2.40	$1.03	$0.56	$2.08

(1) Pursuant to the retrospective adoption in the first quarter of fiscal 2016 of the Financial Accounting Standards Board guidance on debt issuance costs and classification of deferred tax assets, the Company has reclassified unamortized debt issuance costs and deferred tax assets, respectively, in fiscal 2015 and 2014 from what had been previously reported.

Items Affecting Comparability

Several events occurred during each of the last five fiscal years that affect the comparability of our financial statements. The nature of these events and their impact on underlying business trends are as follows:

Long-Term Debt

During the fourth quarter of fiscal 2017, we incurred fees of $53.8 million in connection with the refinancing of $1,930.4 million of borrowings under our then-existing term loan facility. We wrote-off fees associated with this refinancing which resulted in the Company recording a charge of $10.5 million in early extinguishment of debt in the fourth quarter of fiscal 2017.

On April 1, 2016, we paid in full, with cash on hand, a principal amount of loans equal to $144.3 million, which constituted the entire remaining principal amount of loans outstanding under our then-existing tranche B-1 term facility due April 2, 2016.

During the first quarter of fiscal 2015, we wrote-off fees of $0.3 million, incurred fees of $0.6 million and recorded a gain on early extinguishment of debt of $4.7 million, inclusive of these fees, in connection with the prepayment of $65.6 million in aggregate principal amount of term loans outstanding under our then-existing tranche B-1 term facility. During the second quarter of fiscal 2015, we wrote-off fees of $0.3 million, incurred fees of $0.6 million and recorded a gain on early extinguishment of debt of $6.7 million, inclusive of these fees, in connection with our prepayment of $84.9 million in aggregate principal amount of term loans under our then-existing tranche B-1 term facility.

During the third quarter of fiscal 2014, we wrote-off deferred financing fees of $1.6 million in connection with an amendment to our then-existing revolving credit facility. Concurrently with and in order to effect this amendment, we reduced the amount of our then-existing revolving credit facility from $250.0 million to $50.0 million.

For additional details on the New Credit Facilities entered into during the fourth quarter of fiscal 2017, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-Term Debt" of this Annual Report on Form 10-K.

Early Extinguishment of Debt, Net

Net income and earnings per fully diluted share, or EPS, for the full year of fiscal 2017 were impacted by a $10.5 million ($6.4 million after tax or $0.09 per fully diluted share) early extinguishment of debt charge recorded in the fourth quarter of fiscal 2017 resulting from the write-off of fees in connection with our November 2017 debt refinancing, or the November 2017 debt refinancing. For additional details on this refinancing, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-Term Debt" of this Annual Report on Form 10-K. This charge was offset in part by a $1.6 million ($0.9 million after tax or $0.01 per fully diluted share) gain on early extinguishment of debt recorded in the second quarter of fiscal 2017 in connection with the payment of an aggregate amount of cash proceeds totaling $73.0 million plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay $75.5 million in aggregate principal amount of term loans under our then-existing tranche B-2 term facility.

Net income and EPS for the full year of fiscal 2015 were impacted by an $11.4 million ($7.0 million after tax or $0.12 per fully diluted share) gain on early extinguishment of debt in connection with the payment of an aggregate amount of cash proceeds totaling $134.6 million plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay $148.0 million in aggregate principal amount of term loans under our then-existing tranche B-1 term facility.

Net Tax Benefit

In fiscal 2018, we recognized (i) a $25.3 million, or $0.36 per fully diluted share, tax benefit related to tax windfalls from stock compensation, (ii) an $8.5 million, or $0.12 per fully diluted share, tax benefit due to the reversal of a valuation allowance on foreign tax credits that have been fully utilized, (iii) a $4.3 million, or $0.06 per fully diluted share, tax benefit related to favorable tax return adjustments, (iv) a $3.4 million, or $0.05 per fully diluted share, tax benefit primarily related to the reversal of tax reserves resulting from the closure of various tax audits, (v) a $3.4 million, or $0.05 per fully diluted share, tax benefit due to the reversal of a valuation allowance related to certain net operating losses that are now expected to be realized, and (vi) a $1.9 million, or $0.03 per fully diluted share, tax benefit related to the cessation of operations of our Mexican subsidiary.

In fiscal 2017, we recognized a $56.6 million, or $0.83 per fully diluted share, tax benefit due to the 2017 Tax Act (defined hereafter). We also recognized (i) an $11.6 million, or $0.17 per fully diluted share, tax benefit related to the cessation of operations of our Spanish subsidiary, (ii) a $3.7 million, or $0.05 per fully diluted share, tax benefit due to a change in estimate related to the availability of certain foreign tax credits and (iii) a $2.3 million, or $0.03 per fully diluted share, tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study.

In fiscal 2016, we recognized (i) an $11.4 million, or $0.17 per fully diluted share, net tax benefit due to a research and development credit and a Section 199 deduction for the tax years 2012 through 2015 and (ii) a reversal of a $2.5 million, or $0.04 per fully diluted share, valuation allowance related to tax benefits for foreign losses that are now expected to be realized. These benefits were partially offset by a $2.0 million, or $0.03 per fully diluted share, tax expense for out-of-period adjustments in income taxes in the third quarter of fiscal 2016.

In fiscal 2014, we recognized a $2.4 million, or $0.04 per fully diluted share, 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 not expected to be realized.

Impairment of Goodwill

In fiscal 2017, we recorded a $13.3 million, or $0.20 per fully diluted share, impairment charge for goodwill related to our Brazil reporting unit.

Working Capital

In fiscal 2018, the change in working capital was driven primarily by the increase in cash on hand.

In fiscal 2017, the change in working capital was driven primarily by the November 2017 debt refinancing which resulted in higher debt repayments due in fiscal 2018 (increase in current portion of long-term debt). This, coupled with cash on hand used in connection with debt payments in the second quarter of fiscal 2017 and for such refinancing, increased our working capital deficit.

In fiscal 2016, the change in working capital was driven primarily by the April 1, 2016 payment of a principal amount of loans equal to $144.3 million, which constituted the entire remaining principal amount of loans outstanding under our then-existing tranche B-1 term facility and paying down in the aggregate the outstanding principal amount of $48.0 million on our then-existing revolving credit facility.

In fiscal 2015, the change in working capital was driven in large part by the increase in short-term debt due within one year and the decline in cash resulting from the prepayment of debt during the fiscal year.

Other Comprehensive (Loss) Income

Other comprehensive loss, net of taxes, was $3.2 million in fiscal 2018 as compared to other comprehensive income of $16.6 million in fiscal 2017 primarily due to the negative impact of foreign currency translation adjustments, offset by the positive mark to market of our interest rate swap. In fiscal 2018, foreign currency translation adjustments negatively impacted results by $11.5 million ($8.6 million after tax) as compared to a favorable impact of $9.8 million ($6.0 million after tax) in fiscal 2017 primarily due to the currency revaluation of intercompany receivables and payables. In addition, due to hedge accounting, changes in other comprehensive income increased to $7.2 million ($5.4 million after tax) in fiscal 2018 as compared to an increase of $17.4 million ($10.6 million after tax) in fiscal 2017.

Other comprehensive income, net of taxes, was $16.6 million in fiscal 2017 as compared to $10.6 million in fiscal 2016 primarily due to the positive mark to market of our interest rate swap and to a lesser extent the favorable impact of foreign currency translation adjustments. In fiscal 2017, due to hedge accounting, changes in other comprehensive income increased to $17.4 million ($10.6 million after tax) as compared to an increase of $11.8 million ($7.1 million after tax) in fiscal 2016. In addition, foreign currency translation adjustments favorably impacted results by $9.8 million ($6.0 million after tax) in fiscal 2017 as compared to a favorable impact of $5.6 million ($3.5 million after tax) in fiscal 2016 primarily due to the currency revaluation of intercompany receivables and payables.

Other comprehensive income, net of taxes, was $10.6 million in fiscal 2016 as compared to other comprehensive loss, net of taxes, of $18.3 million in fiscal 2015 primarily due to the positive mark to market of our interest rate swap and to a lesser extent the favorable impact of foreign currency translation adjustments. In fiscal 2016, due to hedge accounting, changes in other comprehensive income increased to $11.8 million ($7.1 million after tax) as compared to a loss of $2.1 million ($1.3 million after tax) in fiscal 2015. In addition, foreign currency translation adjustments favorably impacted results by $5.6 million ($3.5 million after tax) in fiscal 2016 as compared to a loss of $27.8 million ($17.0 million after tax) in fiscal 2015 primarily due to the currency revaluation of intercompany receivables and payables.

Other comprehensive loss, net of taxes, was $18.3 million in fiscal 2015 as compared to $28.9 million in fiscal 2014 primarily due to the unfavorable impact of foreign currency translation adjustments and to a lesser extent the mark to market of our interest rate swap. In fiscal 2015, foreign currency translation adjustments unfavorably impacted results by $27.8 million ($17.0 million after tax) as compared to $19.2 million ($11.7 million after tax) in fiscal 2014 primarily due to the devaluation of the Euro, Canadian dollar, and the British Pound. In addition, due to hedge accounting, changes in other comprehensive loss decreased to $2.1 million ($1.3 million after tax) in fiscal 2015 as compared to $28.3 million ($17.3 million after tax) in fiscal 2014.

Winfrey Transaction

On October 19, 2015, pursuant to the Winfrey Purchase Agreement, we issued and sold to Ms. Winfrey an aggregate of 6.4 million shares of our common stock for an aggregate cash purchase price of $43.2 million.

In consideration of Ms. Winfrey entering into the Strategic Collaboration Agreement and the performance of her obligations thereunder, on October 18, 2015, we granted Ms. Winfrey the Winfrey Option to purchase 3.5 million shares of our common stock at an exercise price of $6.97 per share.

In fiscal 2015, net income and EPS were negatively impacted by expenses of $8.3 million after tax, or $0.14 per fully diluted share, in connection with the Winfrey Transaction. More specifically, we recorded compensation expense of $7.8 million after tax for the full value of the Winfrey Option in the fourth quarter of fiscal 2015 (based on the Black Scholes option pricing model), as well as $0.5 million after tax of expenses for legal, compliance and other fees in connection with the Winfrey Transaction.

See “Item 1. Business—History—Winfrey Transaction” for additional details on the Winfrey Transaction, the purchased shares and the Winfrey Option.

Restructuring Charges

In fiscal 2015 and fiscal 2014, we recorded $8.4 million ($5.1 million after tax or $0.09 per fully diluted share) and $11.8 million ($7.2 million after tax or $0.13 per fully diluted share) of charges, respectively, associated with the previously disclosed restructuring of our organization.

Acquisition of Additional Equity Interest in Brazil and Gain on Brazil Acquisition

Prior to March 12, 2014, the Company had owned 35% of Vigilantes do Peso Marketing Ltda., or 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 $14.2 million. 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 began to consolidate this entity as of the date of acquisition.

As a result of our Brazil acquisition, we adjusted our previously held equity interest to fair value of $11.0 million and recorded a charge of $0.5 million associated with the settlement of the royalty-free arrangement of the Brazilian partnership. The net effect of these items resulted in our recognizing a gain of $10.5 million ($6.4 million after tax or $0.11 per fully diluted share) in fiscal 2014.

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 $9.0 million. Payment was in the form of common stock issued of $4.2 million and cash of $4.8 million. As a result of the acquisition, Wello became a wholly-owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition.

Acquisition of Weilos

On March 11, 2015, the Company acquired for a purchase price of $6.7 million Weilos, Inc., or Weilos, a California-based startup with an online social platform. Payment was in the form of common stock issued of $2.8 million, restricted stock issued of $0.1 million and cash of $2.8 million plus cash in reserves of $1.0 million. As a result of the acquisition, Weilos became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition.

Acquisition of Kurbo

On August 10, 2018, the Company acquired substantially all of the assets of Kurbo Health, Inc., or Kurbo, a family-based healthy lifestyle coaching program, for a net purchase price of $3.1 million. Payment was in the form of cash. The acquisition of Kurbo has been accounted for under the purchase method of accounting. Kurbo became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition.

Franchisee Acquisitions

The following are our acquisitions since the beginning of fiscal 2014:

Acquisition of South Carolina Franchise. On December 10, 2018, we acquired substantially all of the assets of our franchisee for certain territories in South Carolina, At Goal, Inc., for a purchase price of $4.0 million.

Acquisition of Miami Franchise. On June 27, 2016, we acquired substantially all of the assets of our franchisee for certain territories in South Florida, Weight Watchers of Greater Miami, Inc., for a purchase price of $3.3 million, or the Miami Acquisition.

These acquisitions were financed through cash from operations. These acquisitions have been accounted for as purchases and financial results have been included in our consolidated operating results since their respective dates of acquisition.

Item 7.Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the “Selected Financial Data” included in Item 6 of this Annual Report on Form 10-K and our consolidated financial statements and related notes included in Item 15 of this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements discussed in “Cautionary Notice Regarding Forward-Looking Statements” and elsewhere in this Annual Report on Form 10-K should be read as applying to all forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include, without limitation, those discussed in “Risk Factors” included in Item 1A of this Annual Report on Form 10-K.

Overview

We are a global wellness company and the world’s leading commercial weight management program. We are focused on inspiring people to adopt healthy habits for real life. With over five decades of weight management experience, expertise and know-how, we have established Weight Watchers as one of the most recognized and trusted brand names among weight-conscious consumers. In 2018, we announced new articulations of our brands, including our evolving focus on WW, to further reinforce our mission to focus on overall health and wellness. We educate our members and provide them with guidance and an inspiring community to enable them to develop healthy habits. WW-branded services and products include digital offerings provided through our websites, mobile sites and apps, workshops conducted by us and our franchisees, consumer products sold direct to consumers, licensed and endorsed products sold in retail channels, and publications. Our primary sources of revenue are subscriptions for our digital products and for our workshops. Our “Digital” business refers to providing subscriptions to our digital product offerings, including the Personal Coaching + Digital product. Our “Studio + Digital” business refers to providing access to our weekly in-person workshops combined with our digital subscription product offerings to commitment plan subscribers. Our “Studio + Digital” business also includes the provision of access to workshops for members who do not subscribe to commitment plans, including our “pay-as-you-go” members.

We operate in numerous countries around the world, including through our franchise operations. We have four reportable segments based on an integrated geographical structure as follows: North America, Continental Europe (CE), United Kingdom and Other. See the section entitled “Business—Business Organization and Global Operations” in Item 1 of this Annual Report on Form 10-K for further information on these reportable segments and the countries in which we operate.

Components of our Results of Operations

Revenues

We derive our revenues principally from:

- Service Revenues. Our “Service Revenues” consist of “Digital Subscription Revenues” and “Studio + Digital Fees”. “Digital Subscription Revenues” consist of the fees associated with subscriptions for our Digital offerings, including our Personal Coaching + Digital product. “Studio + Digital Fees” consist of the fees associated with our subscription plans for combined workshops and digital offerings and other payment arrangements for access to workshops.
- In-workshop product sales. We sell a range of consumer products, including bars, snacks, cookbooks, kitchen tools and other products from time to time.

- Licensing, franchise royalties and other. We license our trademarks and other intellectual property in certain categories of food, beverages and other relevant consumer products and services. We also endorse or co-brand with carefully selected branded consumer products and services. In addition, our franchisees typically pay us a royalty fee of 10% of their Studio + Digital fee revenues as well as purchase products for sale in their workshops.

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We also generate other revenues including revenues from sales of products online through our ecommerce platform, magazine subscriptions, publishing and third-party advertising in publications and on our websites and sales from the By Mail product.

The following table sets forth our revenues by category for the past three fiscal years.

Revenue Sources

(in millions)

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Service Revenues	$1,273.2	$1,081.7	$949.1
In-workshop product sales	148.9	137.9	125.5
Licensing, franchise royalties and other	92.1	87.3	90.3
Total	$1,514.1	$1,306.9	$1,164.9

Note: Totals may not sum due to rounding.

From fiscal 2016 through fiscal 2018, our revenues increased at a compound annual rate of 14.0% driven primarily by an increase in Service Revenues. Additional revenue details are as follows:

- Service Revenues. Service Revenues increased at a compound annual rate of 15.8% from fiscal 2016 through fiscal 2018 due to an increase in Total Paid Weeks. Total Paid Weeks increased as a result of year-over-year recruitment growth and a higher number of End of Period Subscribers, in each case on a year-over-year basis. Led by our North America business, recruitment growth in fiscal 2016 was driven by the successful launch of our Beyond the Scale program, coupled with the successful response to our advertising, including television advertising featuring Ms. Winfrey in certain key markets. In fiscal 2017, recruitment growth continued in North America and expanded to all of our other major markets. In fiscal 2018, recruitment growth continued in all of our major markets driven by the successful launch of our new program known as WW Freestyle in the majority of our markets. In addition, member retention improved in both fiscal 2017 and fiscal 2018 across all our major markets. Recruitment and retention continue to be a key strategic focus.
- In-workshop product sales. In-workshop product sales increased at a compound annual rate of 8.9% from fiscal 2016 through fiscal 2018. This increase was driven primarily by an increase in the number of our Studio + Digital subscribers.
- Licensing, franchise royalties and other. All other revenues increased 1.0% on a compound annual rate from fiscal 2016 through fiscal 2018. This increase was driven primarily by our franchisees' performance during this period. This increase was offset in part by a decrease in licensing revenues which declined at a compound annual rate of 15.2% from fiscal 2016 through fiscal 2018. Our licensing business was negatively impacted by increased competition in the category.

Cost of Revenues

Total cost of revenues primarily consists of expenses to operate our studios and workshops, costs to sell consumer products and costs to develop and operate our websites and digital products. Operating costs primarily consist of salary expense paid to operations management, commissions and expenses paid to our employees, coaches and guides, studio room rent, customer service costs (both in-house and third-party), program material expenses, depreciation and amortization associated with field automation, credit card and fulfillment fees and training and other expenses. Operating costs also include costs associated with our 24/7 Expert Chat and Personal Coaching + Digital offerings. Cost to sell products includes costs of products purchased from our third-party suppliers, inventory reserves, royalties, and inbound and outbound shipping and related costs incurred in making our products available for sale or use. Costs to operate our websites include salaries and related benefits, depreciation and amortization of website development, credit card processing fees and other costs incurred in developing our digital offerings.

Marketing Expenses

Marketing expenses primarily consist of costs to produce advertising and marketing materials as well as media costs to advertise our brand and products across multiple platforms (e.g. broadcast, digital, electronic customer relationship marketing (eCRM), direct mail, social media and public relations), costs paid to third-party agencies who help us develop our marketing campaigns and strategy, expenses in support of market research, as well as costs incurred in connection with local marketing and promotions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of compensation, benefits and other related costs, including stock-based compensation, third-party consulting, temp help, audit, legal and litigation expenses as well as facility costs and depreciation and amortization of systems in support of the business infrastructure and offices globally. Selling, general and administrative expenses also include amortization expense of certain of our intangible assets and certain one-time transaction expenses.

Gross Margin

The following table sets forth our gross profit and gross margin for the past three fiscal years:

(in millions except percentages)	2018	2017	2016
Gross Profit	$866.4	$692.6	$585.5
Gross Margin	57.2 %	53.0 %	50.3 %

Note: Totals may not sum due to rounding.

In fiscal 2017, the gross margin increase from fiscal 2016 was driven primarily by improved operating leverage and a mix shift to the higher margin Digital business. This expansion was partially offset by lower revenues in our high margin licensing business.

In fiscal 2018, the gross margin increase from fiscal 2017 was driven primarily by the mix shift to the higher margin Digital business and improved operating leverage across our businesses.

Operating Income Margin

The following table sets forth our operating income for the past three fiscal years, as adjusted to exclude the impairment charge for goodwill related to our Brazil reporting unit:

(in millions except percentages)	2018	2017	2016
Operating Income	$389.0	$267.3	$200.8

Operating Income Margin	25.7 %	20.5 %	17.2 %
Adjustments to Reported Amounts [1]			
Goodwill impairment	—	13.3	—
Operating Income, as adjusted [1]	$389.0	$280.6	$200.8
Operating Income Margin impact from above adjustment [1]	0.0 %	(1.0 %)	0.0 %
Operating Income Margin, as adjusted [1]	25.7 %	21.5 %	17.2 %

Note: Totals may not sum due to rounding.

[1] The "As adjusted" measure is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2017 to exclude the $13.3 million goodwill impairment charge related to our Brazil reporting unit. See "Non-GAAP Financial Measures" below for an explanation of our use of non-GAAP financial measures.

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In fiscal 2017, the increase in operating income margin from fiscal 2016 was driven by an increase in gross margin and a decrease in marketing expenses as a percentage of revenue, both as compared to the prior year.

In fiscal 2018, the increase in operating income margin from fiscal 2017 was driven primarily by an increase in gross margin as compared to the prior year.

Material Trends

Performance Indicators

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

- Revenues— Our “Service Revenues” consist of “Digital Subscription Revenues” and “Studio + Digital Fees”. “Digital Subscription Revenues” consist of the fees associated with subscriptions for our Digital offerings, including our Personal Coaching + Digital product. “Studio + Digital Fees” consist of the fees associated with our subscription plans for combined workshops and digital offerings and other payment arrangements for access to workshops. In addition, “product sales and other” consists of sales of consumer products in workshops and via ecommerce, revenues from licensing, magazine subscriptions, publishing and third-party advertising in publications and on our websites and sales from the By Mail product, other revenues, and, in the case of the consolidated financial results and Other reportable segment, franchise fees with respect to commitment plans and commissions.
- Paid Weeks—The “Paid Weeks” metric reports paid weeks by WW customers in Company-owned operations for a given period as follows: (i) “Digital Paid Weeks” is the total paid subscription weeks for our digital subscription products (including Personal Coaching + Digital); (ii) “Studio + Digital Paid Weeks” is the sum of total paid commitment plan weeks which include workshops and digital offerings and total "pay-as-you-go" weeks; and (iii) “Total Paid Weeks” is the sum of Digital Paid Weeks and Studio + Digital Paid Weeks.
- Incoming Subscribers—“Subscribers” refer to Digital subscribers and Studio + Digital subscribers who participate in recur bill programs in Company-owned operations. The “Incoming Subscribers” metric reports WW subscribers in Company-owned operations at a given period start as follows: (i) “Incoming Digital Subscribers” is the total number of Digital, including Personal Coaching + Digital, subscribers; (ii) “Incoming Studio + Digital Subscribers” is the total number of commitment plan subscribers that have access to combined workshops and digital offerings; and (iii) “Incoming Subscribers” is the sum of Incoming Digital Subscribers and Incoming Studio + Digital Subscribers. Recruitment and retention are key drivers for this metric.
- End of Period Subscribers—The “End of Period Subscribers” metric reports WW subscribers in Company-owned operations at a given period end as follows: (i) “End of Period Digital Subscribers” is the total number of Digital, including Personal Coaching + Digital, subscribers; (ii) “End of Period Studio + Digital Subscribers” is the total number of commitment plan subscribers that have access to combined workshops and digital offerings; and (iii) “End of Period Subscribers” is the sum of End of Period Digital Subscribers and End of Period Studio + Digital Subscribers. Recruitment and retention are key drivers for this metric.
- Gross profit and operating expenses as a percentage of revenue.

Market Trends

We believe that our revenues and profitability can be sensitive to major trends in the wellness and weight management industries. In particular, we believe that our business could be adversely impacted by:

- increased competition from hardware and software-based mobile app and web-based programs and approaches;
- increased consumer interest in fad diets and weight loss trends;
- the development of more effective or more favorably perceived weight management methods, including pharmaceuticals;

- a failure to develop and market new, innovative services and products or to successfully expand into new channels of distribution or respond to consumer trends, including consumer focus on integrated lifestyle and fitness approaches;
- a failure to successfully implement new strategic initiatives;
- a decrease in the effectiveness of our marketing, advertising, and social media programs;
- an impairment of our brands and other intellectual property;
- a failure of our technology or systems to perform as designed; and
- a downturn in general economic conditions or consumer confidence.

North America Metrics and Business Trends

In fiscal 2016, North America Total Paid Weeks increased 9.2% versus the prior year. The increase in North America Total Paid Weeks primarily resulted from higher recruitments in each quarter of fiscal 2016 versus the comparable prior year quarter. This increase in recruitments was driven by the successful launch of our Beyond the Scale program, which included the launch of SmartPoints, in late fiscal 2015 and to a lesser extent increased promotional activities. This launch, coupled with the successful response to our strategic collaboration with Ms. Winfrey, drove momentum in our North America business.

In fiscal 2017, North America Total Paid Weeks increased 18.4% versus the prior year. The increase in North America Total Paid Weeks was driven by both the higher number of Incoming Subscribers at the beginning of fiscal 2017 versus the beginning of fiscal 2016 and higher recruitments in fiscal 2017 versus the prior year. The higher recruitments were a continuation of the positive trend which began in the fourth quarter of fiscal 2015. This recruitment increase was further accelerated by the successful launch of our WW Freestyle program in late fiscal 2017.

In fiscal 2018, North America Total Paid Weeks increased 26.3% versus the prior year. The increase in North America Total Paid Weeks was driven by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017, higher Digital recruitments versus the prior year driven by the successful launch of our new WW Freestyle program, and improved retention versus the prior year.

Continental Europe Metrics and Business Trends

In fiscal 2016, Continental Europe Total Paid Weeks declined 0.2% versus the prior year, driven by a decline in Studio + Digital Paid Weeks of 5.1% partially offset by an increase in Digital Paid Weeks of 2.4% versus the prior year. This decline in Studio + Digital Paid Weeks was driven by the lower number of Incoming Studio + Digital Subscribers at the start of fiscal 2016 versus the start of fiscal 2015 coupled with lower Studio + Digital recruitments in fiscal 2016 as compared to the prior year. The increase in Digital Paid Weeks was driven by improved recruitments in the Digital business in fiscal 2016 versus the prior year.

In fiscal 2017, Continental Europe Total Paid Weeks increased 20.4% versus the prior year, driven by the higher number of Incoming Subscribers at the beginning of fiscal 2017 versus the beginning of fiscal 2016, improved retention in fiscal 2017 versus the prior year and recruitment strength in our Digital business in fiscal 2017 versus the prior year.

In fiscal 2018, Continental Europe Total Paid Weeks increased 30.6% versus the prior year, driven by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017, higher recruitments versus the prior year driven by the successful launch of our new program, and improved retention versus the prior year.

United Kingdom Metrics and Business Trends

In fiscal 2016, UK Total Paid Weeks declined 5.0% versus the prior year. Total Paid Weeks performance in fiscal 2016 was driven by the lower number of Incoming Subscribers at the beginning of fiscal 2016 versus the beginning of fiscal 2015 coupled with lower recruitments, primarily in the Studio + Digital business in fiscal 2016 as compared to the prior year reflecting the impact of a direct competitor.

In fiscal 2017, UK Total Paid Weeks increased 6.4% versus the prior year. Total Paid Weeks performance in fiscal 2017 was driven primarily by recruitment strength in our Digital business.

In fiscal 2018, UK Total Paid Weeks increased 13.2% versus the prior year. The increase in UK Total Paid Weeks was driven by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017, recruitment strength in our Digital business versus the prior year driven by the successful launch of our new program, and improved retention versus the prior year.

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. Operating income and operating income margin are discussed in this Annual Report on Form 10-K both as reported (on a GAAP basis) and as adjusted (on a non-GAAP basis), as applicable, for fiscal 2017 to exclude the impairment charge for our goodwill related to our Brazil reporting unit. We generally refer to such non-GAAP measures as excluding or adjusting for the impact of the goodwill impairment charge. We also present within this Annual Report on Form 10-K the non-GAAP financial measures earnings before interest, taxes, depreciation, amortization and stock-based compensation (“EBITDAS”), earnings before interest, taxes, depreciation, amortization, stock-based compensation and goodwill impairment (“Adjusted EBITDAS”) and net debt. See “—Liquidity and Capital Resources—EBITDAS, Adjusted EBITDAS and Net Debt” for the calculations. Our management believes these non-GAAP financial measures provide useful 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 non-GAAP financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

Use of Constant Currency

As exchange rates are an important factor in understanding period-to-period comparisons, we believe in certain cases the presentation of results on a constant currency basis in addition to reported results helps improve investors’ ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Annual Report on Form 10-K, 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 and are not meant to be considered in isolation. 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

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to inventories, the impairment analysis for goodwill and other indefinite-lived intangible assets, share-based compensation, income taxes, tax contingencies and litigation. We base our estimates on historical experience and on various other factors and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following accounting policies are most important to the portrayal of our financial condition and results of operations and require our most significant judgments and estimates.

Revenue Recognition

We earn revenue from subscriptions for our digital products and by conducting workshops, for which we charge a fee, predominantly through commitment plans, prepayment plans or the “pay-as-you-go” arrangement. We also earn revenue by selling consumer products (including publications) in our workshops, online through our ecommerce platform and to our franchisees, collecting commissions from franchisees, collecting royalties related to licensing agreements, selling magazine subscriptions, publishing, selling advertising space on our websites and in copies of our publications and By Mail product sales.

Commitment plan revenues, prepaid workshop fees and magazine subscription revenue is recorded to deferred revenue and amortized into revenue as control is transferred over the period earned since these performance obligations are satisfied over time. Digital subscription revenues, consisting of the fees associated with subscriptions for our Digital products, including our Personal Coaching + Digital product, are deferred and recognized on a straight-line basis as control is transferred over the subscription period. One-time Digital sign-up fees are considered immaterial in the context of the contract and the related revenue is recorded to deferred revenue and amortized into revenue over the commitment period. In the Studio + Digital business, we generally charge non-refundable registration and starter fees in exchange for access to our digital subscription products, an introductory information session and materials we provide to new members. Revenue from these registration and starter fees is considered immaterial in the context of the contract and is recorded to deferred revenue and amortized into revenue over the commitment period. Revenue from “pay-as-you-go” workshop fees, consumer product sales and By Mail, commissions and royalties is recognized at the point in time control is transferred, which is when services are rendered, products are shipped to customers and title and risk of loss passes to the customers, and commissions and royalties are earned, respectively. Revenue from advertising in magazines is recognized when advertisements are published. Revenue from magazine sales is recognized when the magazine is sent to the customer. For revenue transactions that involve multiple performance obligations, the amount of revenue recognized is determined using the relative fair value approach, which is generally based on each performance obligation’s stand-alone selling price. Discounts to customers, including free registration offers, are recorded as a deduction from gross revenue in the period such revenue was recognized. Revenue from advertising on our websites is recognized when the advertisement is viewed by the user.

We grant refunds in aggregate amounts that historically have not been material. Because the period of payment of the refund generally approximates the period revenue was originally recognized, refunds are recorded as a reduction of revenue over the same period.

Goodwill and Franchise Rights Acquired Impairment Test

We review goodwill and other indefinite-lived intangible assets, including franchise rights acquired with indefinite lives, for potential impairment on at least an annual basis or more often if events so require. We performed fair value impairment testing as of May 6, 2018 and May 7, 2017, each the first day of fiscal May, on our goodwill and other indefinite-lived intangible assets. In addition, for our Brazil reporting unit only, given the ongoing challenging economic environment, the negative performance trends and our reduced expectations regarding the future impact of our business growth strategies in the country, we performed an interim goodwill impairment analysis at December 30, 2017. In performing the interim goodwill impairment analysis for our Brazil reporting unit at December 30, 2017, we recorded a $13.3 million impairment charge.

In performing our goodwill impairment analysis for our reporting units for fiscal 2018 and fiscal 2017 no impairment was identified as the respective fair values of each reporting unit exceeded its carrying value. In performing the impairment analysis for our franchise rights acquired with indefinite lives for fiscal 2018 and fiscal 2017, we determined that the carrying amounts of these units of account did not exceed their respective fair values and therefore no impairment existed.

With respect to our impairment analysis, a change in the underlying assumptions would likely cause a change in the results of the impairment assessments and, as such, could result in an impairment of those assets, which would impact earnings. We would also be required to reduce the carrying amounts of the related assets on our balance sheet. We continue to evaluate these assumptions and believe that they are appropriate.

In performing our annual impairment analysis, we also considered the trading value of both our equity and debt. If the trading values of both our equity and debt were to significantly decline from their current levels, we may have to take an impairment charge at the appropriate time, which could be material. For additional information on risks associated with our recognizing asset impairment charges, see “Item 1A. Risk Factors” of this Annual Report on Form 10-K.

The following is a more detailed discussion of our goodwill and franchise rights acquired impairment analysis.

Goodwill

In performing the impairment analysis for goodwill, the fair value for our reporting units is estimated using a discounted cash flow approach. This approach involves projecting future cash flows attributable to the reporting unit and discounting those estimated cash flows using an appropriate discount rate. The estimated fair value is then compared to the carrying value of the reporting unit. We have determined the appropriate reporting unit for purposes of assessing annual impairment to be the country for all reporting units. The values of goodwill in the United States, Canada, Brazil and other countries as of the December 29, 2018 balance sheet date were $98.9 million, $39.3 million, $4.6 million and $9.7 million, respectively.

Based on the results of our annual impairment test performed for all of our reporting units, except for Brazil, as of the December 29, 2018 balance sheet date, we estimated that for reporting units that hold 97.0% of our goodwill, those units had a fair value at least 50% higher than the respective reporting unit’s carrying amount. Based on the results of our annual impairment test performed for our Brazil reporting unit as of the December 29, 2018 balance sheet date, we estimated that this reporting unit holds 3.0% of our goodwill, and the fair value of this reporting unit was approximately 10% higher than its carrying value.

For all of our reporting units except for Brazil (see below), we estimated future cash flows by utilizing the historical debt-free cash flows (cash flows provided by operating activities less capital expenditures) attributable to that country and then applied expected future operating income growth rates for such country. We utilized operating income as the basis for measuring our potential growth because we believe it is the best indicator of the performance of our business. We then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company’s peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data. The cost of debt was determined by estimating our current borrowing rate.

The following are the more significant assumptions utilized in our annual impairment analyses (except for Brazil) for fiscal 2018 and fiscal 2017:

	June 30, 2018	July 1, 2017
Debt-Free Cumulative Annual Cash Flow Growth Rate	3.8% to 5.4%	3.6% to 4.1%
Discount Rate	8.7%	8.9%

As it relates to our impairment analysis for Brazil, we estimated future debt free cash flows in contemplation of our growth strategies for that market. In developing these projections, we considered the historical impact of similar growth strategies in other markets as well as the current market conditions in Brazil. We then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company’s peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data including the current economic conditions in Brazil and the country specific risk thereon, all as reflected in the discount rate. A further risk premium was included to reflect the risk associated with the significantly higher growth rates projected in the May 7, 2017 annual impairment test. The cost of debt was determined by estimating the Company’s current borrowing rate.

For Brazil, the following are the more significant assumptions utilized in our interim impairment analysis as of December 30, 2017 and our annual impairment analyses for fiscal 2018 and fiscal 2017:

	June 30, 2018	December 30, 2017	July 1, 2017
Cumulative Annual Revenue Cash Flow Growth Rate	14.8%	16.8%	19.4%
Average Operating Income Margin	3.7%	(0.4%)	18.6%
Average Operating Income Margin Range	(17.3%) to 16.5%	(16.3%) to 13.8%	(10.8%) to 31.0%
Discount Rate	16.2%	17.0%	16.9%

Franchise Rights Acquired

Finite-lived franchise rights acquired are amortized over the remaining contractual period, which is generally less than one year. Indefinite-lived franchise rights acquired are tested on an annual basis for impairment. In performing the impairment analysis for our indefinite-lived franchise rights acquired, the fair value for our franchise rights acquired is estimated using a discounted cash flow approach referred to as the hypothetical start-up approach for our franchise rights related to our Studio + Digital business and a relief from royalty methodology for our franchise rights related to our Digital business. The aggregate estimated fair value for these rights is then compared to the carrying value of the unit of account for those franchise rights. We have determined the appropriate unit of account for purposes of assessing impairment to be the combination of the rights in both the Studio + Digital business and Digital business in the country in which the acquisitions have occurred. The book values of these franchise rights in the United States, Canada, United Kingdom, Australia, and New Zealand at December 29, 2018 were $671.9 million, $52.9 million, $11.4 million, $6.3 million, and $4.7 million, respectively.

Based on the results of our fiscal 2018 annual impairment analysis, none of our material franchise rights acquired are at risk of impairment.

In our hypothetical start-up approach analysis for fiscal 2018, we assumed that the year of maturity was reached after 7 years. Subsequent to the year of maturity, we estimated future cash flows for the Studio + Digital business in each country based on assumptions regarding revenue growth and operating income margins. The cash flows associated with the Digital business were based on the expected Digital revenue for such country and the application of a market-based royalty rate. The cash flows for the Studio + Digital and Digital businesses were discounted utilizing rates consistent with those utilized in the goodwill impairment analysis.

In performing this impairment analysis for fiscal 2018, for the year of maturity, we assumed Studio + Digital revenue (comprised of Studio + Digital Fees and revenues from products sold to members in workshops) growth of 37.2% to 59.3% in the year of maturity from fiscal 2017, in each case, earned in the applicable country and assumed cumulative annual revenue growth rates for the years beyond the year of maturity of 1.7%. For the year of maturity and beyond, we assumed operating income margin rates of 7.7% to 24.9%.

Other Significant Accounting Policies

Information concerning other significant accounting policies affecting us is set forth in Note 2 of our audited consolidated financial statements, contained in Part IV, Item 15 of this Annual Report on Form 10-K.

RESULTS OF OPERATIONS FOR FISCAL 2018 (52 weeks) COMPARED TO FISCAL 2017 (52 weeks)

The table below sets forth selected financial information for fiscal 2018 from our consolidated statements of net income for fiscal 2018 versus selected financial information for fiscal 2017 from our consolidated statements of net income for fiscal 2017.

Summary of Selected Financial Data

	(In millions, except per share amounts)				% Change
	Fiscal 2018	Fiscal 2017	Increase/ (Decrease)	% Change	Constant Currency
Revenues, net	$1,514.1	$1,306.9	$ 207.2	15.9 %	14.7 %
Cost of revenues	647.7	614.3	33.4	5.4 %	4.5 %
Gross profit	866.4	692.6	173.8	25.1 %	23.8 %
Gross Margin %	57.2 %	53.0 %			
Marketing expenses	226.3	200.8	25.5	12.7 %	10.3 %
Selling, general & administrative expenses	251.1	211.2	39.9	18.9 %	18.6 %
Goodwill Impairment	0.0	13.3	(13.3)	(100.0%)	(100.0%)
Operating income	389.0	267.3	121.7	45.5 %	44.2 %
Operating Income Margin %	25.7 %	20.5 %			
Interest expense	142.3	112.8	29.6	26.2 %	26.2 %
Other expense, net	2.6	0.5	2.1	100.0 % *	100.0% *
Early extinguishment of debt, net	0.0	9.0	(9.0)	(100.0%)	(100.0%)
Income before income taxes	244.1	145.1	99.0	68.2 %	65.8 %
Provision for (benefit from) income taxes	20.5	(18.2)	38.7	(100.0%)*	(100.0%)*
Net income	223.6	163.3	60.3	36.9 %	35.4 %
Net loss attributable to the noncontrolling interest	0.2	0.2	(0.0)	(8.2 %)	4.4 %
Net income attributable to Weight Watchers International, Inc.	$223.7	$163.5	$ 60.2	36.8 %	35.4 %
Weighted average diluted shares outstanding	70.1	68.2	1.9	2.7 %	2.7 %
Diluted earnings per share	$3.19	$2.40	$ 0.80	33.2 %	31.8 %

Note: Totals may not sum due to rounding.

*Note: Percentage in excess of 100.0%.

Certain results for fiscal 2017 are adjusted to exclude the $13.3 million impairment charge for goodwill related to our Brazil reporting unit. See “Non-GAAP Financial Measures” above. The table below sets forth a reconciliation of certain of those components of our selected financial data for the fiscal year ended December 30, 2017 which have been adjusted.

(in millions except percentages)	Operating Income	Operating Income Margin	
Fiscal 2017	$ 267.3	20.5	%
Adjustments to Reported Amounts [1]			
Goodwill impairment	13.3		
Total Adjustments [1]	13.3		
Fiscal 2017, as adjusted [1]	$ 280.6	21.5	%

Note: Totals may not sum due to rounding.

[1] The “As adjusted” measure is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2017 to exclude the $13.3 million impairment charge for goodwill related to our Brazil reporting unit. See “Non-GAAP Financial Measures” above for an explanation of our use of non-GAAP financial measures.

Consolidated Results

Revenues

Revenues in fiscal 2018 were $1,514.1 million, an increase of $207.2 million, or 15.9%, versus fiscal 2017. Excluding the impact of foreign currency, which positively impacted our revenues for fiscal 2018 by $14.9 million, revenues in fiscal 2018 would have increased 14.7% versus the prior year. This increase was driven by revenue growth in all major markets. See “—Segment Results” for additional details on revenues.

Cost of Revenues and Gross Profit

Total cost of revenues in fiscal 2018 increased $33.4 million, or 5.4%, versus the prior year. Gross profit increased $173.8 million, or 25.1%, in fiscal 2018 compared to fiscal 2017 primarily due to the increase in revenues. Excluding the impact of foreign currency, which positively impacted gross profit for fiscal 2018 by $9.1 million, gross profit in fiscal 2018 would have increased 23.8% versus the prior year. Gross margin in fiscal 2018 increased 4.2% to 57.2% versus 53.0% in fiscal 2017. Gross margin expansion was driven primarily by improved operating leverage and a mix shift to the higher margin Digital business.

Marketing

Marketing expenses for fiscal 2018 increased $25.5 million, or 12.7%, versus fiscal 2017. Excluding the impact of foreign currency, which increased marketing expenses for fiscal 2018 by $4.8 million, marketing expenses in fiscal 2018 would have increased 10.3% versus fiscal 2017. This increase in marketing expense was largely due to investments in both digital marketing initiatives and evolving our brand. Marketing expenses as a percentage of revenue decreased to 14.9% in fiscal 2018 as compared to 15.4% in fiscal 2017.

Selling, General and Administrative

Selling, general and administrative expenses for fiscal 2018 increased $39.9 million, or 18.9%, versus fiscal 2017. Excluding the impact of foreign currency, which increased selling, general and administrative expenses for fiscal 2018 by $0.7 million, selling, general and administrative expenses for fiscal 2018 would have increased 18.6% versus the prior year. The increase in selling, general and administrative expenses in fiscal 2018 was driven primarily by higher compensation and incentive-related costs as well as investments in strategic initiatives. Selling, general and administrative expenses as a percentage of revenue for fiscal 2018 increased to 16.6% from 16.2% for fiscal 2017.

Impairment

In performing our interim impairment analysis for our Brazil reporting unit, we determined that, based on the fair values calculated, the carrying amount of goodwill related to our Brazil reporting unit exceeded our fair value and recorded an impairment charge of $13.3 million for fiscal 2017.

Operating Income

Operating income for fiscal 2018 increased $121.7 million, or 45.5%, versus fiscal 2017. Excluding the $13.3 million impairment charge for goodwill related to our Brazil reporting unit from fiscal 2017 and the impact of foreign currency, which positively impacted operating income for fiscal 2018 by $3.6 million, operating income in fiscal 2018 would have increased 37.3% versus the prior year. This increase in operating income was driven by higher operating income in both North America and Continental Europe as compared to the prior year. Operating income margin for fiscal 2018 increased 5.2% to 25.7% from 20.5% for fiscal 2017. This increase in operating income margin was driven by an increase in gross margin as compared to the prior year.

Interest Expense

Interest expense in fiscal 2018 increased $29.6 million, or 26.2%, versus fiscal 2017. The increase in interest expense was driven primarily by higher interest expense arising from the interest rates under our New Term Loan Facility and on our Notes in connection with our November 2017 debt refinancing. The effective interest rate on our debt, based on interest incurred (which includes amortization of our deferred financing costs and debt discount) and our average borrowings during fiscal 2018 and fiscal 2017 and excluding the impact of our interest rate swap, increased to 7.63% per annum at fiscal 2018 year end from 4.96% per annum at fiscal 2017 year end. Including the impact of our interest rate swap, the effective interest rate on our debt, based on interest incurred (which includes amortization of our deferred financing costs and debt discount) and our average borrowings during fiscal 2018 and fiscal 2017, increased to 7.79% per annum at fiscal 2018 year end from 5.78% per annum at fiscal 2017 year end. See "—Liquidity and Capital Resources—Long-Term Debt" for additional details regarding our current and prior credit facilities and our Notes, including interest rates on our debt outstanding, and payments on our debt. For additional details on our interest rate swap, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in this Annual Report on Form 10-K.

Other Expense, Net

Other expense, net, which consists primarily of the impact of foreign currency on intercompany transactions, increased by $2.1 million in fiscal 2018 to $2.6 million from $0.5 million in the prior year.

Tax

Our effective tax rate for fiscal 2018 was 8.4% as compared to (12.6%) for fiscal 2017. The effective tax rate in fiscal 2018 was impacted by (i) a $25.3 million tax benefit related to tax windfalls from stock compensation, (ii) an $8.5 million tax benefit due to the reversal of a valuation allowance related to foreign tax credits that have been fully utilized, (iii) a $4.3 million tax benefit related to favorable tax return adjustments, (iv) a $3.4 million tax benefit primarily related to the reversal of tax reserves resulting from the closure of various tax audits, (v) a $3.4 million tax benefit due to the reversal of a valuation allowance related to certain net operating losses that are now expected to be realized, and (vi) a $1.9 million tax benefit related to the cessation of operations of our Mexican subsidiary.

As previously disclosed, on December 22, 2017, the Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, was signed into law making significant changes to the Internal Revenue Code. For additional details on the 2017 Tax Act, see Note 12 of our consolidated financial statements, contained in Part IV, Item 15 of this Annual Report on Form 10-K. The 2017 Tax Act benefited our tax expense by $56.6 million for fiscal 2017, such benefit being comprised of the following items: (i) a $68.7 million tax benefit related to the revaluation of deferred tax liabilities to reflect the decrease in the corporate tax rate from 35% to 21%, (ii) a $9.0 million charge to record a valuation allowance against foreign tax credit carryforwards that as a result of the 2017 Tax Act are no longer expected to be realized, and (iii) a net charge of $3.1 million related to other 2017 Tax Act items, which include the transition tax on foreign earnings.

In addition, the effective tax rate for fiscal 2017 was impacted by the following one-time discrete items: (i) an $11.6 million tax benefit related to the cessation of operations of our Spanish subsidiary; (ii) a $3.7 million tax benefit due to a change in estimate related to the availability of certain foreign tax credits; and (iii) a $2.3 million tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study.

Net Income Attributable to the Company and Earnings Per Share

Net income attributable to the Company in fiscal 2018 increased $60.2 million, or 36.8%, from fiscal 2017. Excluding the impact of foreign currency, which positively impacted net income attributable to the Company in fiscal 2018 by $2.4 million, net income attributable to the Company in fiscal 2018 would have increased by 35.4% versus the prior year.

Earnings per fully diluted share, or EPS, in fiscal 2018 was $3.19 compared to $2.40 in fiscal 2017. EPS for fiscal 2018 included: (i) a $0.25 tax benefit from Ms. Winfrey's exercise of a portion of her stock options; (ii) a $0.12 tax benefit due to the reversal of a valuation allowance related to foreign tax credits that have been fully utilized; (iii) a $0.06 tax benefit related to favorable tax return adjustments; and (iv) a $0.05 tax benefit due to the reversal of a valuation allowance related to certain net operating losses that are now expected to be realized.

EPS for fiscal 2017 included an $0.83 tax benefit related to the 2017 Tax Act and the following additional significant items: (i) a tax benefit of $0.18 that was offset by $0.01 of expense, both related to the cessation of operations of our Spanish subsidiary; (ii) a $0.05 tax benefit due to a change in estimate related to the availability of certain foreign tax credits; and (iii) a $0.03 tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study. EPS for fiscal 2017 also included the following one-time items: (i) a $0.20 impairment charge for goodwill related to our Brazil reporting unit and (ii) a $0.09 write-off due to our November 2017 debt refinancing that was offset by a $0.01 gain related to our previously disclosed debt prepayment in the second quarter of fiscal 2017.

Segment Results

Metrics and Business Trends

The following tables set forth key metrics by reportable segment for fiscal 2018 and the percentage change in those metrics versus the prior year:

(in millions except percentages and as noted)

	Fiscal 2018 GAAP			Constant Currency			Total		
	Service Revenues	Product Sales & Other	Total Revenues	Service Revenues	Product Sales & Other	Total Revenues	Paid Weeks	Incoming Subscribers (in thousands)	EOP Subscribers
North America	$901.1	$146.2	$1,047.3	$900.8	$146.1	$1,047.0	151.2	2,116.4	2,558.5
CE	257.1	47.2	304.3	247.9	44.6	292.5	51.4	723.2	940.2
UK	78.2	28.8	107.1	75.3	27.5	102.8	19.8	296.1	333.7
Other [(1)]	36.8	18.6	55.5	38.3	18.8	57.0	5.4	78.3	100.0
Total	$1,273.2	$240.9	$1,514.1	$1,262.2	$237.1	$1,499.3	227.9	3,213.9	3,932.3
	% Change Fiscal 2018 vs. Fiscal 2017								
North America	16.2 %	8.2 %	15.0 %	16.2 %	8.2 %	15.0 %	26.3 %	23.1 %	20.9 %
CE	31.3 %	8.7 %	27.2 %	26.6 %	2.6 %	22.3 %	30.6 %	28.1 %	30.0 %
UK	6.2 %	9.4 %	7.1 %	2.2 %	4.4 %	2.8 %	13.2 %	11.7 %	12.7 %
Other [(1)]	(0.6 %)	(8.0 %)	(3.2 %)	3.3 %	(7.4 %)	(0.5 %)	9.1 %	8.4 %	27.8 %
Total	17.7 %	7.0 %	15.9 %	16.7 %	5.3 %	14.7 %	25.5 %	22.6 %	22.4 %

Note: Totals may not sum due to rounding.

[(1)] Represents Australia, New Zealand and emerging markets operations and franchise revenues.

(in millions except percentages and as noted)

Fiscal 2018 Digital Subscription Revenue		Digital	Incoming	EOP	Studio + Digital Fees		Studio + Digital	Incoming	EOP
GAAP	Constant Currency	Paid Weeks	Digital Subscribers (in thousands)	Digital Subscribers	GAAP	Constant Currency	Paid Weeks	Studio + Digital Subscribers (in thousands)	Studio + Digital Subscribers

North America	$378.7	$378.6	93.9	1,250.6	1,648.4	$522.4	$522.2	57.3	865.8	910.1
CE	149.6	144.6	38.8	534.6	730.3	107.5	103.3	12.6	188.5	209.9
UK	25.6	24.6	8.9	134.3	160.1	52.7	50.6	10.9	161.7	173.6
Other (1)	14.0	14.4	2.9	44.3	55.3	22.9	23.8	2.5	34.0	44.7
Total	$567.8	$562.3	144.6	1,963.9	2,594.0	$705.4	$699.9	83.3	1,250.1	1,338.4
	% Change Fiscal 2018 vs. Fiscal 2017									
North America	34.6 %	34.5 %	38.9 %	28.2 %	31.8 %	5.8 %	5.7 %	10.0%	16.4 %	5.1 %
CE	46.6 %	41.7 %	38.2 %	36.1 %	36.6 %	14.7 %	10.2 %	11.6%	9.8 %	11.3 %
UK	19.0 %	14.7 %	24.2 %	21.8 %	19.2 %	1.0 %	(2.9 %)	5.4 %	4.5 %	7.3 %
Other (1)	18.6 %	22.7 %	27.5 %	9.0 %	24.9 %	(9.6 %)	(5.8 %)	(6.4 %)	7.7 %	31.6 %
Total	36.2 %	34.9 %	37.5 %	29.3 %	32.1 %	6.1 %	5.3 %	9.1 %	13.4 %	7.1 %

Note: Totals may not sum due to rounding.

(1) Represents Australia, New Zealand and emerging markets operations and franchise revenues.

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North America Performance

The increase in North America revenues in fiscal 2018 versus the prior year was driven primarily by the increase in Service Revenues. This increase in Service Revenues in fiscal 2018 versus the prior year was driven primarily by the increase in Digital Subscription Revenues and to a lesser extent an increase in Studio + Digital Fees. The increase in North America Total Paid Weeks was driven by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017, higher Digital recruitments versus the prior year driven by the successful launch of our new WW Freestyle program, and improved retention in fiscal 2018 versus the prior year.

The increase in North America consumer product sales and other in fiscal 2018 versus the prior year was driven by an increase in in-workshop product sales.

Continental Europe Performance

The increase in Continental Europe revenues in fiscal 2018 versus the prior year was driven primarily by the increase in Service Revenues. This increase in Service Revenues in fiscal 2018 versus the prior year was driven primarily by the increase in Digital Subscription Revenues. The increase in Continental Europe Total Paid Weeks was driven by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017, higher Digital recruitments versus the prior year driven by the successful launch of our new WW Freestyle program and improved retention in fiscal 2018 versus, the prior year.

The increase in Continental Europe product sales and other in fiscal 2018 versus the prior year was driven primarily by an increase in product sales through our ecommerce platforms.

United Kingdom Performance

The increase in UK revenues in fiscal 2018 versus the prior year was driven primarily by the increase in Service Revenues. This increase in Service Revenues in fiscal 2018 versus the prior year was driven primarily by the increase in Digital Subscription Revenues. The increase in UK Total Paid Weeks was driven by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017, higher Digital recruitments versus the prior year driven by the successful launch of our new WW Freestyle program, and improved retention in fiscal 2018 versus the prior year.

The increase in UK product sales and other in fiscal 2018 versus the prior year was driven by an increase in product sales, partially offset by a decline in licensing revenue.

Other Performance

Other revenues declined in fiscal 2018 versus the prior year. Although Service Revenues increased on a constant currency basis in fiscal 2018 versus the prior year, the decrease in Product Sales and Other more than offset such increase. The increase in Other Total Paid Weeks was driven primarily by the higher number of Incoming Subscribers at the beginning of fiscal 2018 versus the beginning of fiscal 2017 and higher Digital recruitments versus the prior year driven by the successful launch of our new WW Freestyle program in fiscal 2018.

RESULTS OF OPERATIONS FOR FISCAL 2017 (52 weeks) COMPARED TO FISCAL 2016 (52 weeks)

The table below sets forth selected financial information for fiscal 2017 from our consolidated statements of net income for fiscal 2017 versus selected financial information for fiscal 2016 from our consolidated statements of net income for fiscal 2016.

Summary of Selected Financial Data

	(In millions, except per share amounts) Fiscal 2017	Fiscal 2016	Increase/ (Decrease)	% Change	% Change Constant Currency
Revenues, net	$1,306.9	$1,164.9	$ 142.0	12.2 %	12.1 %
Cost of revenues	614.3	579.4	34.9	6.0 %	6.0 %
Gross profit	692.6	585.5	107.1	18.3 %	18.1 %
Gross Margin %	53.0 %	50.3 %			
Marketing expenses	200.8	194.4	6.4	3.3 %	3.5 %
Selling, general & administrative expenses	211.2	190.3	20.9	11.0 %	10.8 %
Goodwill impairment	13.3	—	13.3	100.0 %	100.0 %
Operating income	267.3	200.8	66.5	33.1 %	32.5 %
Operating Income Margin %	20.5 %	17.2 %			
Interest expense	112.8	115.2	(2.4)	(2.1 %)	(2.1 %)
Other expense, net	0.5	1.5	(1.0)	69.0 %	69.0 %
Early extinguishment of debt, net	9.0	—	9.0	100.0 % *	100.0 % *
Income before income taxes	145.1	84.1	61.0	72.5 %	70.9 %
(Benefit from) provision for income taxes	(18.2)	16.6	(34.9)	(100.0 %)*	(100.0 %)*
Net income	163.3	67.5	95.8	100.0 %	100.0 %
Net loss attributable to the noncontrolling interest	0.2	0.2	0.0	(4.5 %)	(13.3)%
Net income attributable to Weight Watchers International, Inc.	$163.5	$67.7	$ 95.8	100.0 % *	100.0 % *
Weighted average diluted shares outstanding	68.2	65.9	2.4	3.6 %	3.6 %
Diluted earnings per share	$2.40	$1.03	$ 1.37	100.0 %	100.0 %

Note: Totals may not sum due to rounding.

*Note: Percentage in excess of 100.0%.

Certain results for fiscal 2017 are adjusted to exclude the $13.3 million impairment charge for goodwill related to our Brazil reporting unit. See "Non-GAAP Financial Measures" above. The table below sets forth a reconciliation of certain of those components of our selected financial data for the fiscal year ended December 30, 2017 which have been adjusted.

(in millions except percentages)	Operating Income	Operating Income Margin	
Fiscal 2017	$ 267.3	20.5	%
Adjustments to Reported Amounts [1]			
Goodwill impairment	13.3		
Total Adjustments [1]	13.3		
Fiscal 2017, as adjusted [1]	$ 280.6	21.5	%

Note: Totals may not sum due to rounding.

[1] The "As adjusted" measure is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2017 to exclude the $13.3 million impairment charge for goodwill related to our Brazil reporting unit. See "Non-GAAP Financial Measures" above for an explanation of our use of non-GAAP financial measures.

Consolidated Results

Revenues

Revenues in fiscal 2017 were $1,306.9 million, an increase of $142.0 million, or 12.2%, versus fiscal 2016. Excluding the impact of foreign currency, which positively impacted our revenues for fiscal 2017 by $1.4 million, revenues in fiscal 2017 would have increased 12.1% versus the prior year. This increase was driven by revenue growth, on a constant currency basis, in all major markets. See "—Segment Results" for additional details on revenues.

Cost of Revenues and Gross Profit

Total cost of revenues in fiscal 2017 increased $34.9 million, or 6.0%, versus the prior year. Gross profit increased $107.1 million, or 18.3%, in fiscal 2017 compared to fiscal 2016 primarily due to the increase in revenues. Excluding the impact of foreign currency, which positively impacted gross profit for fiscal 2017 by $1.3 million, gross profit in fiscal 2017 would have increased 18.1% versus the prior year. Gross margin in fiscal 2017 increased 2.7% to 53.0% versus 50.3% in fiscal 2016. Gross margin expansion was driven primarily by improved operating leverage and a mix shift to the higher margin Digital business. This expansion was partially offset by lower revenues in our high margin licensing business.

Marketing

Marketing expenses for fiscal 2017 increased $6.4 million, or 3.3%, versus fiscal 2016. Excluding the impact of foreign currency, which decreased marketing expenses for fiscal 2017 by $0.4 million, marketing expenses in fiscal 2017 would have increased 3.5% versus fiscal 2016. Marketing expenses as a percentage of revenue decreased to 15.4% in fiscal 2017 as compared to 16.7% in the prior year.

Selling, General and Administrative

Selling, general and administrative expenses for fiscal 2017 increased $20.9 million, or 11.0%, versus fiscal 2016. Excluding the impact of foreign currency, which increased selling, general and administrative expenses for fiscal 2017 by $0.3 million, selling, general and administrative expenses in fiscal 2017 would have increased 10.8% versus the prior year. The increase in selling, general and administrative expenses in fiscal 2017 was driven primarily by higher compensation and incentive related costs. Selling, general and administrative expenses as a percentage of revenue for fiscal 2017 decreased to 16.2% from 16.3% for fiscal 2016.

Impairment

In performing our interim impairment analysis for our Brazil reporting unit, we determined that, based on the fair values calculated, the carrying amount of goodwill related to our Brazil reporting unit exceeded our fair value and recorded an impairment charge of $13.3 million for fiscal 2017.

Operating Income

Operating income for fiscal 2017 increased $66.5 million, or 33.1%, versus fiscal 2016. Excluding the $13.3 million impairment charge for goodwill related to our Brazil reporting unit and the impact of foreign currency, which positively impacted operating income for fiscal 2017 by $1.3 million, operating income in fiscal 2017 would have increased 39.0% versus the prior year. This increase in operating income was driven by higher operating income in all major markets as compared to the prior year. Operating income margin increased 3.2% for fiscal 2017 compared to fiscal 2016. This increase in operating income margin was driven primarily by an increase in gross margin and a decrease in marketing expenses as a percentage of revenue, both as compared to the prior year.

Interest Expense

Interest expense in fiscal 2017 decreased $2.4 million, or 2.1%, versus fiscal 2016. The decrease in interest expense was driven primarily by (i) the decrease in the notional amount of our interest rate swap from $1.5 billion to $1.25 billion and (ii) the decrease in our average debt outstanding under our then-existing tranche B-2 term facility which decreased to $2.0 billion in the first nine months of fiscal 2017 from $2.1 billion in fiscal 2016. The increase in LIBOR rates partially offset the benefits set forth in items (i) and (ii). These decreases were also offset by the higher interest expense arising from the interest rates under our New Term Loan Facility and on our Notes in connection with our November 2017 debt refinancing. The effective interest rate on our debt, based on interest incurred (which includes amortization of our deferred financing costs and debt discount) and our average borrowings during fiscal 2017 and fiscal 2016 and excluding the impact of our interest rate swap, increased to 4.96% per annum at fiscal 2017 year end from 4.38% per annum at fiscal 2016 year end. Including the impact of our interest rate swap, our effective interest rate on our debt, based on interest incurred (which includes amortization of our deferred financing costs and debt discount) and our average borrowings during fiscal 2017 and fiscal 2016, increased to 5.78% per annum at fiscal 2017 year end from 5.56% per annum at fiscal 2016 year end. See "—Liquidity and Capital Resources—Long-Term Debt" for additional details regarding our current and prior credit facilities and our notes, including interest rates on our debt outstanding, and on payments on our debt. For additional details on our interest rate swap, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in this Annual Report on Form 10-K.

Early Extinguishment of Debt, Net

In the fourth quarter of fiscal 2017, we wrote-off $10.5 million of fees in connection with our November 2017 debt refinancing that we recorded as an early extinguishment of debt charge.

In May 2017, we paid an aggregate amount of cash proceeds totaling $73.0 million plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay $75.5 million in aggregate principal amount of term loans under our then-existing tranche B-2 term facility. As a result of this prepayment, in the second quarter of fiscal 2017, we wrote-off fees of $0.6 million, incurred fees of $0.3 million and recorded a gain on early extinguishment of debt of $1.6 million, inclusive of these fees.

Other Expense, Net

Other expense, net, which consists primarily of the impact of foreign currency on intercompany transactions, decreased by $1.0 million in fiscal 2017 to $0.5 million as compared to $1.5 million in the prior year.

Tax

Our effective tax rate for fiscal 2017 was (12.6%) as compared to 19.8% for fiscal 2016. On December 22, 2017, the 2017 Tax Act was signed into law making significant changes to the Internal Revenue Code. For additional details on the 2017 Tax Act, see Note 12 of our consolidated financial statements, contained in Part IV, Item 15 of this Annual Report on Form 10-K. The 2017 Tax Act benefited our tax expense by $56.6 million for fiscal 2017, such benefit being comprised of the following items: (i) a $68.7 million tax benefit related to the revaluation of deferred tax liabilities to reflect the decrease in the corporate tax rate from 35% to 21%, (ii) a $9.0 million charge to record a valuation allowance against foreign tax credit carryforwards that as a result of the 2017 Tax Act are no longer expected to be realized and (iii) a net charge of $3.1 million related to other 2017 Tax Act items, which include the transition tax on foreign earnings. In addition, the effective tax rate for fiscal 2017 was impacted by the following one-time discrete items: (i) an $11.6 million tax benefit related to the cessation of operations of our Spanish subsidiary; (ii) a $3.7 million tax benefit due to a change in estimate related to the availability of certain foreign tax credits and (iii) a $2.3 million tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study.

The effective tax rate for fiscal 2016 was impacted by: (i) an $11.4 million net tax benefit due to a research and development credit and a Section 199 deduction for tax years 2012 through 2015 and (ii) the reversal of a $2.5 million valuation allowance related to tax benefits for foreign losses that are now expected to be realized. These benefits were partially offset by $2.0 million of out-of-period adjustments in income taxes in fiscal 2016.

Net Income Attributable to the Company and Earnings Per Share

Net income attributable to the Company in fiscal 2017 increased $95.8 million, or 141.5%, from fiscal 2016. Excluding the impact of foreign currency, which positively impacted net income attributable to the Company in fiscal 2017 by $0.8 million, net income attributable to the Company in fiscal 2017 would have increased by 140.4% versus the prior year.

EPS in fiscal 2017 was $2.40 compared to $1.03 in fiscal 2016. EPS for fiscal 2017 included an $0.83 tax benefit related to the 2017 Tax Act and the following additional significant items: (i) a tax benefit of $0.18 that was offset by $0.01 of expense, both related to the cessation of operations of our Spanish subsidiary; (ii) $0.05 tax benefit due to a change in estimate related to the availability of certain foreign tax credits and (iii) $0.03 tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study. EPS for fiscal 2017 also included the following one-time items: (i) $0.20 impairment charge for goodwill related to our Brazil reporting unit and (ii) $0.09 write-off due to our November 2017 debt refinancing that was offset by a $0.01 gain related to our previously disclosed debt prepayment in the second quarter of fiscal 2017. For fiscal 2016, our tax rate of 19.8% benefited from a (i) $0.17 net tax benefit in connection with a research and development credit and a Section 199 deduction for the tax years 2012 through 2015 and (ii) $0.04 benefit for the reversal of a valuation allowance related to tax benefits for foreign losses that are now expected to be realized, partially offset by a $0.03 expense for out-of-period tax adjustments.

Segment Results

Metrics and Business Trends

The following tables set forth key metrics by reportable segment for fiscal 2017 and the percentage change in those metrics versus the prior year:

(in millions except percentages and as noted)

	Fiscal 2017 GAAP Service Revenues	Product Sales & Other	Total Revenues	Constant Currency Service Revenues	Product Sales & Other	Total Revenues	Total Paid Weeks	Incoming Subscribers (in thousands)	EOP Subscribers
North America	$775.2	$135.1	$910.3	$774.2	$135.0	$909.2	119.7	1,719.2	2,116.4
CE	195.8	43.5	239.2	192.3	43.1	235.4	39.4	564.7	723.2
UK	73.6	26.4	100.0	77.5	27.9	105.4	17.5	265.1	296.1
Other (1)	37.0	20.3	57.3	35.6	19.9	55.5	5.0	72.2	78.3
Total	$1,081.7	$225.2	$1,306.9	$1,079.5	$225.9	$1,305.5	181.5	2,621.1	3,213.9
	% Change Fiscal 2017 vs. Fiscal 2016								
North America	14.6 %	10.4 %	14.0 %	14.5 %	10.2 %	13.8 %	18.4 %	12.3 %	23.1 %
CE	18.9 %	(5.4 %)	13.6 %	16.8 %	(6.2 %)	11.8 %	20.4 %	6.4 %	28.1 %
UK	0.5 %	(4.4 %)	(0.8 %)	5.7 %	1.4 %	4.6 %	6.4 %	0.8 %	11.7 %
Other (1)	6.4 %	2.3 %	4.9 %	2.3 %	0.5 %	1.6 %	3.9 %	12.2 %	8.4 %
Total	14.0 %	4.4 %	12.2 %	13.7 %	4.7 %	12.1 %	17.1 %	9.7 %	22.6 %

Note: Totals may not sum due to rounding.

(1)Represents Australia, New Zealand and emerging markets operations and franchise revenues.

(in millions except percentages and as noted)

	Fiscal 2017 Digital Subscription Revenue GAAP	Constant Currency	Digital Paid Weeks	Incoming Digital Subscribers (in thousands)	EOP Digital Subscribers	Studio + Digital Fees GAAP	Constant Currency	Studio+ Digital Paid Weeks	Incoming Studio + Digital Subscribers (in thousands)	EOP Studio + Digital Subscribers
North	$281.4	$281.1	67.6	975.3	1,250.6	$493.8	$493.1	52.1	743.9	865.8

America										
CE	102.0	100.0	28.1	393.0	534.6	93.7	92.3	11.3	171.7	188.5
UK	21.5	22.5	7.2	110.3	134.3	52.2	55.0	10.3	154.8	161.7
Other [(1)]	11.8	11.4	2.3	40.6	44.3	25.3	24.2	2.7	31.6	34.0
Total	$416.7	$415.0	105.2	1,519.1	1,963.9	$665.0	$664.6	76.4	1,102.0	1,250.1

	% Change Fiscal 2017 vs. Fiscal 2016									
North America	17.7 %	17.5 %	22.3 %	10.0 %	28.2 %	12.9 %	12.8 %	13.6 %	15.3 %	16.4 %
CE	36.0 %	33.3 %	29.3 %	9.7 %	36.1 %	4.5 %	2.9 %	2.7 %	(0.4 %)	9.8 %
UK	14.4 %	19.9 %	16.0 %	0.3 %	21.8 %	(4.2 %)	0.9 %	0.6 %	1.1 %	4.5 %
Other [(1)]	8.5 %	5.0 %	1.9 %	9.3 %	9.0 %	5.4 %	1.0 %	5.6 %	16.2 %	7.7 %
Total	21.2 %	20.7 %	23.1 %	9.2 %	29.3 %	9.9 %	9.8 %	9.7 %	10.4 %	13.4 %

Note: Totals may not sum due to rounding.

(1) Represents Australia, New Zealand and emerging markets operations and franchise revenues.

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North America Performance

The increase in North America revenues in fiscal 2017 versus the prior year was driven primarily by the increase in Service Revenues. The increase in North America Total Paid Weeks was driven by both the higher number of Incoming Subscribers at the beginning of fiscal 2017 versus the beginning of fiscal 2016 and higher recruitments and improved retention in fiscal 2017 versus the prior year.

The increase in North America product sales and other in fiscal 2017 versus the prior year was driven primarily by an increase in product sales, partially offset by a decline in licensing revenue.

Continental Europe Performance

The increase in Continental Europe revenues in fiscal 2017 versus the prior year was driven primarily by the increase in Service Revenues. This increase in Service Revenues in fiscal 2017 versus the prior year was driven primarily by the increase in Digital Subscription Revenues. The increase in Continental Europe Total Paid Weeks was driven primarily by the higher number of Incoming Subscribers at the beginning of fiscal 2017 versus the beginning of fiscal 2016, improved retention in fiscal 2017 versus the prior year and recruitment strength in our Digital business in fiscal 2017 versus the prior year.

The increase in Continental Europe revenues was partially offset by the decline in Continental Europe product sales and other in fiscal 2017 versus the prior year.

United Kingdom Performance

The decline in UK revenues in fiscal 2017 versus the prior year was driven by the negative impact of foreign currency. Excluding the impact of foreign currency, UK revenues would have increased, driven by an increase in Service Revenues on a constant currency basis. This increase in Service Revenues on a constant currency basis was the result of recruitment strength in our Digital business in fiscal 2017 versus the prior year and improved retention in fiscal 2017 versus the prior year.

The decrease in UK product sales and other in fiscal 2017 versus the prior year was driven by the negative impact of foreign currency. Excluding the impact of foreign currency, UK in-workshop and other products sales would have increased primarily due to an increase in product sales. This increase would have been almost entirely offset by the decline in licensing revenue.

Other Performance

The increase in Other revenues in fiscal 2017 versus the prior year was driven primarily by the increase in Service Revenues. The increase in Other Total Paid Weeks was driven primarily by the higher number of Incoming Subscribers at the beginning of fiscal 2017 versus the beginning of fiscal 2016.

The increase in product sales and other in fiscal 2017 versus fiscal 2016 was driven primarily by an increase in in-workshop product sales and commissions from our franchisees partially offset by a decline in licensing revenue.

Liquidity and Capital Resources

Cash flows provided by operating activities have historically supplied, and are expected to continue to supply, us with our primary source of liquidity. We use these cash flows, supplemented with long-term debt and short-term borrowings, to fund our operations and global strategic initiatives, pay down debt and engage in selective acquisitions.

We believe that cash generated by operations during fiscal 2018, our cash on hand of approximately $237.0 million at December 29, 2018, our $148.8 million of availability under our New Revolving Credit Facility and our continued cost focus will provide us with sufficient liquidity to meet our obligations for the next twelve months.

As market conditions warrant, we may, from time to time, seek to purchase our outstanding debt securities or loans, including the Notes and borrowings under the New Credit Facilities. Such transactions could be privately negotiated or open market transactions, pursuant to tender offers or otherwise. Subject to any applicable limitations contained in the agreements governing, or terms of, our indebtedness, any such purchases made by us may be funded by the use of cash on our balance sheet or the incurrence of new secured or unsecured debt. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material. Any such purchases may equate to a substantial amount of a particular class or series of debt, which may reduce the trading liquidity of such class or series.

Balance Sheet Working Capital

The following table sets forth certain relevant measures of our balance sheet working capital deficit, excluding cash and cash equivalents and current portion of long-term debt at:

	December 29, 2018	December 30, 2017	Increase/ (Decrease)
	(in millions)		
Total current assets	$366.4	$ 209.0	$ 157.4
Total current liabilities	341.3	343.0	(1.7)
Working capital surplus (deficit)	25.1	(134.0)	(159.1)
Cash and cash equivalents	237.0	83.1	153.9
Current portion of long-term debt	77.0	82.8	(5.8)
Working capital deficit, excluding cash and cash equivalents and current portion of long-term debt	$(134.9)	$ (134.3)	$ 0.5

Note: Totals may not sum due to rounding.

The following table sets forth a summary of the primary factors contributing to the $0.5 million increase in our working capital deficit, excluding cash and cash equivalents and current portion of long-term debt:

	December 29, 2018	December 30, 2017	Increase/ (Decrease)	Impact to Working Capital Deficit
	(in millions)			
Deferred revenue	$53.5	$ 74.3	$ (20.8)	$ (20.8)
Derivative payable, net	$2.1	$ 12.2	$ (10.1)	$ (10.1)
Operational liabilities and other, net of assets	$62.0	$ 74.8	$ (12.8)	$ (12.8)
Accrued interest	$28.7	$ 10.8	$ 17.8	$ 17.8
Income taxes payable	$22.6	$ 5.7	$ 16.9	$ 16.9

Prepaid income taxes	$34.0	$ 43.4	$ (9.5)	$ 9.5
Working capital deficit change, excluding cash and cash equivalents and current portion of long-term debt				$ 0.5

Note: Totals may not sum due to rounding.

The decrease in deferred revenue was driven primarily by a change in the timing of when we recur bill our subscribers. The increase in accrued interest was driven by the November 2017 debt refinancing and the timing of payments. Income taxes payable increased due to improvement in business performance as well as timing of payments. The decreases in prepaid income taxes and operational liabilities and other, net of assets, were driven primarily by timing of payments.

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Cash Flows

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

	December 29, 2018	December 30, 2017	December 31, 2016
	(in millions)		
Net cash provided by operating activities	$295.6	$ 222.3	$ 119.0
Net cash used for investing activities	$(64.0)	$ (40.8)	$ (37.5)
Net cash used for financing activities	$(74.4)	$ (211.5)	$ (212.2)

Operating Activities

Fiscal 2018

Cash flows provided by operating activities of $295.6 million in fiscal 2018 reflected an increase of $73.3 million from $222.3 million of cash flows provided by operating activities in fiscal 2017. The increase in cash provided by operating activities was primarily the result of $60.3 million of higher net income attributable to the Company in fiscal 2018 as compared to the prior year.

Fiscal 2017

Cash flows provided by operating activities of $222.3 million for fiscal 2017 reflected an increase of $103.3 million from $119.0 million of cash flows provided by operating activities in fiscal 2016. The increase in cash provided by operating activities was primarily the result of $95.8 million of higher net income attributable to the Company in fiscal 2017 as compared to the prior year.

Fiscal 2016

Cash flows provided by operating activities of $119.0 million for fiscal 2016 reflected an increase of $64.2 million from $54.8 million of cash flows provided by operating activities for fiscal 2015. The increase in cash provided by operating activities was primarily the result of $34.7 million of higher net income attributable to the Company in fiscal 2016 as compared to the prior year and the year-over-year working capital benefit of $41.2 million.

Investing Activities

Fiscal 2018

Net cash used for investing activities totaled $64.0 million in fiscal 2018, an increase of $23.2 million as compared to fiscal 2017. This increase was primarily attributable to higher capital expenditures for technology, investments in intellectual property and cash paid for acquisitions in fiscal 2018 as compared to the prior year. For additional information on our acquisitions, see "Item 6. Selected Financial Data."

Fiscal 2017

Net cash used for investing activities totaled $40.8 million in fiscal 2017, an increase of $3.3 million as compared to fiscal 2016. This increase was primarily attributable to higher capital expenditures for technology in fiscal 2017, which were partially offset by the Miami Acquisition in fiscal 2016. For additional information on our acquisitions, see "Item 6. Selected Financial Data."

Fiscal 2016

Net cash used for investing activities totaled $37.5 million in fiscal 2016, a decrease of $2.8 million as compared to fiscal 2015. Due to the significant progress against our previously disclosed transformation plan in fiscal 2015, our expenditures on technology and operating infrastructure declined in fiscal 2016 as compared to fiscal 2015.

Financing Activities

Fiscal 2018

Net cash used for financing activities totaled $74.4 million in fiscal 2018, primarily due to $25.0 million of net repayments on the outstanding principal amount on the New Revolving Credit Facility and $57.8 million used for scheduled debt repayments under our New Term Loan Facility, which was partially offset by $33.4 million in proceeds from stock options exercised in fiscal 2018.

Fiscal 2017

Net cash used for financing activities totaled $211.5 million in fiscal 2017, primarily related to (i) in connection with the November 2017 debt refinancing, the payment in full of the $1,930.4 million of outstanding borrowings under our then-existing tranche B-2 term facility and the aggregate payment of $53.8 million for financing costs and (ii) the previously disclosed debt prepayment and other scheduled debt repayments of an aggregate $88.4 million with respect to our then-existing tranche B-2 term facility during fiscal 2017. These payments were offset by the proceeds we received from the issuance of long-term debt totaling $1,840.0 million and the draw down on the New Revolving Credit Facility of $25.0 million in connection with the November 2017 debt refinancing.

Fiscal 2016

Net cash used for financing activities totaled $212.2 million in fiscal 2016, primarily due to the April 1, 2016 payment of a principal amount of loans equal to $144.3 million, which constituted the entire remaining principal amount of loans outstanding under the then-existing tranche B-1 term facility, paying down in the aggregate the outstanding principal amount of $48.0 million on our then-existing revolving credit facility, and other scheduled debt repayments of $21.0 million in connection with our then-existing tranche B-2 term facility. These payments were offset by a tax benefit for restricted stock units vested and stock options exercised of $1.0 million in fiscal 2016.

Long-Term Debt

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

The following schedule sets forth our long-term debt obligations at December 29, 2018:

Long-Term Debt

At December 29, 2018

(Balances in millions)

	Balance
New Term Loan Facility due	$1,482.3

November 29, 2024	
Notes due December 1, 2025	300.0
Total	1,782.3
Less: Current Portion	77.0
Unamortized Deferred Financing Costs	9.5
Unamortized Debt Discount	26.0
Total Long-Term Debt	$1,669.7

Note: Totals may not sum due to rounding.

On November 29, 2017, we refinanced our then-existing credit facilities consisting of $1,930.4 million of borrowings under a term loan facility and an undrawn $50.0 million revolving credit facility with $1,565.0 million of borrowings under our new credit facilities, consisting of a $1,540.0 million term loan facility and a $150.0 million revolving credit facility (of which $25.0 million was drawn upon at the time of the November 2017 debt refinancing) (collectively, referred to herein as the New Credit Facilities), and $300.0 million in aggregate principal amount of 8.625% Senior Notes due 2025, or the Notes. During the fourth quarter of fiscal 2017, we incurred fees of $53.8 million (which included $30.8 million of a debt discount) in connection with the November 2017 debt refinancing. In addition, we recorded a loss on early extinguishment of debt of $10.5 million in connection thereto. This early extinguishment of debt write-off was comprised of $5.7 million of deferred financing fees paid in connection with the November 2017 debt refinancing and $4.8 million of pre-existing deferred financing fees.

Senior Secured Credit Facilities

The New Credit Facilities were issued under a new credit agreement, dated November 29, 2017, or the Credit Agreement, among the Company, as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., or JPMorgan Chase, as administrative agent and an issuing bank, Bank of America, N.A., as an issuing bank, and Citibank, N.A., as an issuing bank. The New Credit Facilities consist of (1) $1,540.0 million in aggregate principal amount of senior secured tranche B term loans due in 2024, or the New Term Loan Facility and (2) a $150.0 million senior secured revolving credit facility (which includes borrowing capacity available for letters of credit) due in 2022, or the New Revolving Credit Facility.

As of December 29, 2018, we had $1,482.3 million of debt outstanding under the New Credit Facilities with $148.8 million of availability and $1.2 million in issued but undrawn letters of credit outstanding under the New Revolving Credit Facility. The outstanding balance as of December 30, 2017 of $25.0 million under the New Revolving Credit Facility was included in the current portion of long-term debt due to our then intent to repay our borrowings within twelve months.

All obligations under the Credit Agreement are guaranteed by, subject to certain exceptions, each of the Company's current and future wholly-owned material domestic restricted subsidiaries. All obligations under the Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and each guarantor, subject to customary exceptions, including:

- a pledge of 100% of the equity interests directly held by the Company and each guarantor in any wholly-owned domestic material subsidiary of the Company or any guarantor (which pledge, in the case of any non-U.S. subsidiary of a U.S. subsidiary, will not include more than 65% of the voting stock of such first-tier non-U.S. subsidiary), subject to certain exceptions; and

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a security interest in substantially all other tangible and intangible assets of the Company and each guarantor, subject to certain exceptions.

Under the terms of the Credit Agreement, depending on our Consolidated Leverage Ratio (as defined in the Credit Agreement), on an annual basis on or about the time we are required to deliver our financial statements for any fiscal year, we are obligated to offer to prepay a portion of the outstanding principal amount of the New Term Loan Facility in an aggregate amount determined by a percentage of our annual excess cash flow (as defined in the Credit Agreement) (said payment referred to herein as a Cash Flow Sweep).

Borrowings under the New Term Loan Facility bear interest at a rate per annum equal to, at our option, either (1) an applicable margin plus a base rate determined by reference to the highest of (a) 0.50% per annum plus the higher of (i) the Federal Funds Effective Rate and (ii) the Overnight Bank Funding Rate as determined by the Federal Reserve Bank of New York, (b) the prime rate of JPMorgan Chase and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%; provided that such rate is not lower than a floor of 1.75% or (2) an applicable margin plus a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, provided that LIBOR is not lower than a floor of 0.75%. Borrowings under the New Revolving Credit Facility bear interest at a rate per annum equal to an applicable margin based upon a leverage-based pricing grid, plus, at our option, either (1) a base rate determined by reference to the highest of (a) 0.50% per annum plus the higher of (i) the Federal Funds Effective Rate and (ii) the Overnight Bank Funding Rate as determined by the Federal Reserve Bank of New York, (b) the prime rate of JPMorgan Chase and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00% or (2) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs. As of December 29, 2018, the applicable margins for the LIBOR rate borrowings under the New Term Loan Facility and the New Revolving Credit Facility were 4.75% and 2.25%, respectively. In the event that LIBOR is phased out as is currently expected, the Credit Agreement provides that the Company and the administrative agent may amend the Credit Agreement to replace the LIBOR definition therein with a successor rate subject to notifying the lending syndicate of such change and not receiving within five business days of such notification objections to such replacement rate from lenders holding at least a majority of the aggregate principal amount of loans and commitments then outstanding under the Credit Agreement. If the Company fails to do so, its borrowings will be based off of the alternative base rate plus a margin.

On a quarterly basis, we pay a commitment fee to the lenders under the New Revolving Credit Facility in respect of unutilized commitments thereunder, which commitment fee fluctuates depending upon our Consolidated Leverage Ratio. Based on our Consolidated Leverage Ratio as of December 29, 2018, the commitment fee was 0.35% per annum.

The Credit Agreement contains other customary terms, including (1) representations, warranties and affirmative covenants, (2) negative covenants, including limitations on indebtedness, liens, mergers, acquisitions, asset sales, investments, distributions, prepayments of subordinated debt, amendments of material agreements governing subordinated indebtedness, changes to lines of business and transactions with affiliates, in each case subject to baskets, thresholds and other exceptions, and (3) customary events of default.

The availability of certain baskets and the ability to enter into certain transactions are also subject to compliance with certain financial ratios. In addition, the New Revolving Credit Facility includes a maintenance covenant that will require, in certain circumstances, compliance with certain first lien secured net leverage ratios.

As of December 29, 2018, we were in compliance with all applicable covenants in the Credit Agreement governing the New Credit Facilities.

Senior Notes

The Notes were issued pursuant to an Indenture, dated as of November 29, 2017, or the Indenture, among the Company, the guarantors named therein and The Bank of New York Mellon, as trustee. The Indenture contains customary covenants, events of default and other provisions for an issuer of non-investment grade debt securities. These covenants include limitations on indebtedness, liens, mergers, acquisitions, asset sales, investments, distributions, prepayments of subordinated debt and transactions with affiliates, in each case subject to baskets, thresholds and other exceptions.

The Notes accrue interest at a rate per annum equal to 8.625% and are due on December 1, 2025. Interest on the Notes is payable semi-annually on June 1 and December 1 of each year, beginning on June 1, 2018. On or after December 1, 2020, the Company may on any one or more occasions redeem some or all of the Notes at a purchase price equal to 104.313% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date, such optional redemption price decreasing to 102.156% on or after December 1, 2021 and to 100.000% on or after December 1, 2022. Prior to December 1, 2020, the Company may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Notes with an amount not to exceed the net proceeds of certain equity offerings at 108.625% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the redemption date. Prior to December 1, 2020, the Company may redeem some or all of the Notes at a make-whole price plus accrued and unpaid interest, if any, to, but not including, the redemption date. If a change of control occurs, the Company must offer to purchase for cash the Notes at a purchase price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the purchase date. Following the sale of certain assets and subject to certain conditions, the Company must offer to purchase for cash the Notes at a purchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The Notes are guaranteed on a senior unsecured basis by the Company's subsidiaries that guarantee the New Credit Facilities.

Outstanding Debt

At December 29, 2018, we had $1,782.3 million outstanding under the New Credit Facilities and the Notes, consisting of the New Term Loan Facility of $1,482.3 million, $0.0 million drawn down on the New Revolving Credit Facility and $300.0 million in aggregate principal amount of Notes issued and outstanding.

At the end of fiscal 2018 and fiscal 2017, our debt consisted of both fixed and variable-rate instruments. At the end of fiscal 2016, our debt consisted entirely of variable-rate instruments. An interest rate swap was entered into to hedge a portion of the cash flow exposure associated with our variable-rate borrowings. Further information regarding our interest rate swap can be found in Part IV, Item 15 of this Annual Report on Form 10-K under Note 18 "Derivative Instruments and Hedging" in the Notes to the Consolidated Financial Statements. The weighted average interest rate (which includes amortization of deferred financing costs and debt discount) on our outstanding debt, exclusive of the impact of the swap, was approximately 7.73%, 7.12% and 4.41% per annum at December 29, 2018, December 30, 2017 and December 31, 2016, respectively, based on interest rates on the applicable dates. The weighted average interest rate (which includes amortization of deferred financing costs and debt discount) on our outstanding debt, including the impact of the swap, was approximately 7.46%, 7.34% and 5.32% per annum at December 29, 2018, December 30, 2017 and December 31, 2016, respectively, based on interest rates on the applicable dates.

Dividends

We do not currently pay a dividend and we have no current plans to pay dividends in the foreseeable future. Any future determination to declare and pay dividends will be made at the sole discretion of our Board of Directors, after taking into account our financial condition and results of operations, capital requirements, contractual, legal, tax and regulatory restrictions, the provisions of Virginia law affecting the payment of distributions to shareholders and such other factors our Board of Directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants in our existing indebtedness, including the New Credit Facilities and the Indenture governing the Notes, and may be limited by the agreements governing other indebtedness we or our subsidiaries incur in the future.

EBITDAS, Adjusted EBITDAS and Net Debt

We define EBITDAS, a non-GAAP financial measure, as earnings before interest, taxes, depreciation, amortization and stock-based compensation and Adjusted EBITDAS, a non-GAAP financial measure, as earnings before interest, taxes, depreciation, amortization, stock-based compensation and goodwill impairment.

The table below sets forth the calculations for EBITDAS and Adjusted EBITDAS for the fiscal years ended:

(in millions)

	December 29, 2018	December 30, 2017	December 31, 2016
Net Income	$ 223.7	$ 163.5	$ 67.7
Interest	142.3	112.8	115.2
Taxes	20.5	(18.2)	16.6
Depreciation and Amortization	44.1	50.9	52.6
Stock-based Compensation	20.2	14.9	6.5
EBITDAS	$ 450.8	$ 323.9	$ 258.7
Goodwill Impairment (1)	—	13.3	—
Adjusted EBITDAS	$ 450.8	$ 337.2	$ 258.7

Note: Totals may not sum due to rounding.

(1) The "Adjusted EBITDAS" measure is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2017 to exclude the $13.3 million impairment charge for goodwill related to our Brazil reporting unit. See "Non-GAAP Financial Measures" above for an explanation of our use of non-GAAP financial measures.

Reducing leverage is a capital structure priority for the Company. As of December 29, 2018 our net debt/Adjusted EBITDAS ratio was 3.3x.

The table below sets forth the calculation for net debt, a non-GAAP financial measure:

(in millions)

	December 29, 2018
Total debt	$ 1,782.3
Less: Unamortized deferred financing costs	9.5
Less: Unamortized debt discount	26.0
Less: Cash on hand	237.0
Net debt	$ 1,509.7

Note: Totals may not sum due to rounding.

We present EBITDAS, Adjusted EBITDAS and net debt/EBITDAS because we consider them to be useful supplemental measures of our performance. In addition, we believe EBITDAS, Adjusted EBITDAS and net debt/EBITDAS are useful to investors, analysts and rating agencies in measuring the ability of a company to meet its debt service obligations. See "—Non-GAAP Financial Measures" herein for an explanation of our use of these non-GAAP financial measures.

Contractual Obligations

We are obligated under non-cancelable agreements primarily for office and rent facilities operating leases. Consolidated rent expense charged to operations under all our leases for fiscal 2018 was approximately $44.1 million.

The following table summarizes our future contractual obligations as of the end of fiscal 2018:

		Payment Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
		(in millions)			
Long-Term Debt[1]					
Principal	$1,782.3	$77.0	$173.3	$154.0	$1,378.0
Interest	741.9	131.0	268.9	220.1	121.9
Operating leases and non-cancelable agreements	185.0	63.3	60.8	23.2	37.7
Total [2]	$2,709.2	$271.3	$503.0	$397.3	$1,537.6

Note: Totals may not sum due to rounding.

[1] Due to the fact that a portion of our debt is variable rate based, we have assumed for purposes of this table that the interest rate on all of our debt as of the end of fiscal 2018 remains constant for all periods presented.

[2] The provision for income tax contingencies included in other long-term liabilities on the consolidated balance sheet is not included in the table above due to the fact that the Company is unable to estimate the timing of payment for this liability.

We currently plan to meet our long-term debt obligations by using cash flows provided by operating activities and opportunistically using other means to repay or refinance our obligations as we determine appropriate. We believe that cash flows from operating activities, together with cash on hand, will provide sufficient liquidity for the next 12 months to fund currently anticipated capital expenditure and working capital requirements, as well as debt service requirements.

Acquisition of Kurbo

On August 10, 2018, the Company acquired substantially all of the assets of Kurbo, a family-based healthy lifestyle coaching program, for a net purchase price of $3.1 million.

Franchise Acquisitions

On December 10, 2018, we acquired substantially all of the assets of our franchisee for certain territories in South Carolina, At Goal, Inc., for a purchase price of $4.0 million.

On June 27, 2016, we acquired substantially all of the assets of our franchisee for certain territories in South Florida, Weight Watchers of Greater Miami, Inc., for a purchase price of $3.3 million.

Factors Affecting Future Liquidity

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

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in arrangements 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.

Related Parties

For a discussion of related party transactions affecting us, see "Item 13. Certain Relationships and Related Transactions, and Director Independence" in Part III of this Annual Report on Form 10-K.

Seasonality

Our business is seasonal due to the importance of the winter season to our overall recruitment environment. Historically, we experience our highest level of recruitment during the first quarter of the year, which is supported with the highest concentration of advertising spending. Therefore, our number of End of Period Subscribers in the first quarter of the year is typically higher than the number in other quarters of the year, reflecting a decline over the course of the year.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk
We are exposed to market risks relating to interest rate changes and foreign currency fluctuations. All of our market risk sensitive instruments were entered into for purposes other than trading. The Company's exposure to market risk as of the end of fiscal 2018 is described below.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to interest expense of variable rate debt, in particular changes in LIBOR or the base rates which are used to determine the applicable interest rates for borrowings under the New Credit Facilities.

On July 26, 2013, in order to hedge a portion of our variable rate debt, we entered into a forward-starting interest rate swap with an effective date of March 31, 2014 and a termination date of April 2, 2020. The initial notional amount of this swap was $1.5 billion. During the term of this swap, the notional amount decreased from $1.5 billion effective March 31, 2014 to $1.25 billion on April 3, 2017 and will decrease to $1.0 billion on April 1, 2019. This interest rate swap effectively fixes the variable interest rate on the notional amount of this swap at 2.41%. This swap qualifies for hedge accounting and, therefore, changes in the fair value of this swap have been recorded in accumulated other comprehensive loss. As of the end of fiscal 2018, we had $1,482.3 million of variable rate debt, of which $232.3 million remained unhedged.

As of December 29, 2018, borrowings under the New Credit Facilities bore interest at LIBOR plus an applicable margin of 4.75%. For the New Term Loan Facility, the minimum interest rate for LIBOR applicable to such facility pursuant to the terms of the Credit Agreement is set at 0.75%, referred to herein as the LIBOR Floor. In addition, as of December 29, 2018, our interest rate swap in effect had a notional amount of $1.25 billion. Accordingly, as of December 29, 2018, based on the amount of variable rate debt outstanding and the then-current LIBOR rate, after giving consideration to the impact of the interest rate swap and the LIBOR Floor, a hypothetical 75 basis point increase in interest rates would have increased annual interest expense by approximately $1.7 million and a hypothetical 75 basis point decrease in interest rates would have decreased annual interest expense by approximately $4.8 million. This increase is driven primarily by the interest rate applicable to our New Term Loan Facility. This decrease is driven primarily by the lower variable rate debt balance resulting from the November 2017 debt refinancing.

There have been no material changes to the Company's exposure to market risk from the end of fiscal 2017 as compared to the end of fiscal 2018.

Foreign Currency Risk

Other than inter-company transactions between our domestic and foreign entities, we generally do not have significant transactions that are denominated in a currency other than the functional currency applicable to each entity. As a result, substantially all of our revenues and expenses in each jurisdiction in which we operate are in the same functional currency. In general, we are a net receiver of currencies other than the US dollar. Accordingly, changes in exchange rates may negatively affect our revenues and gross margins as expressed in US dollars. In the future, we may enter into forward and swap contracts to hedge transactions denominated in foreign currencies to reduce the currency risk associated with fluctuating exchange rates. Realized and unrealized gains and losses from any of these transactions may be included in net income for the period.

Fluctuations in currency exchange rates, particularly with respect to the euro, canadian dollar and pound sterling, may impact our shareholders' equity. The assets and liabilities of our non-US subsidiaries are translated into US dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated into US dollars at the average exchange rate for the period. The resulting translation adjustments are recorded in shareholders' equity as a component of accumulated other comprehensive loss. In addition, exchange rate fluctuations will cause the US dollar translated amounts to change in comparison to prior periods.

Item 8. Financial Statements and Supplementary Data
This information is incorporated by reference to our consolidated financial statements on pages F-1 through F-40 and our financial statement schedule on page S-1, including the report thereon of PricewaterhouseCoopers LLP on pages F-2 and F-3.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. 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 SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our 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 our principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 29, 2018, the end of fiscal 2018. Based upon that evaluation and subject to the foregoing, our principal executive officer and our principal financial officer concluded that, as of the end of fiscal 2018, the design and operation of our disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Our management assessed the effectiveness of our internal control over financial reporting as of December 29, 2018, the end of fiscal 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on this assessment, our management, under the supervision and with the participation of our principal executive officer and our principal financial officer, concluded that, as of December 29, 2018, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 29, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on pages F-2 and F-3 to our consolidated financial statements.

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.

Item 9B. Other Information

None.

PART III

Items 10, 11, 12, 13 and 14. Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters; Certain Relationships and Related Transactions, and Director Independence; Principal Accountant Fees and Services

Information called for by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K is incorporated by reference from our definitive Proxy Statement to be filed in connection with our 2019 Annual Meeting of Shareholders pursuant to Regulation 14A, except that (i) certain of the information regarding our directors and executive officers called for by Items 401(a), (b) and (e) of Regulation S-K has been included in Part I of this Annual Report on Form 10-K; (ii) the information regarding certain Company equity compensation plans called for by Item 201(d) of Regulation S-K is set forth below and (iii) the information regarding our Amended and Restated Code of Business Conduct and Ethics, or the Code of Business Conduct and Ethics, called for by Item 406 of Regulation S-K is set forth below.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 29, 2018:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(c)	
Equity compensation plans approved by security holders	4,829,158	(1)	$ 10.80	(2)	4,286,633	(3)
Equity compensation plans not approved	500,000	(4)	$ 60.00	(5)	—	

by security holders			
Total	5,329,158	$ 15.42 (6)	4,286,633

(1) Consists of 1,180,477 shares of our common stock issuable upon the exercise of outstanding stock options awarded under our Second Amended and Restated 2014 Stock Incentive Plan, or 2014 Plan, and our 2008 Stock Incentive Plan, or 2008 Plan; 2,108,081 shares of our common stock issuable upon the exercise of the Winfrey Option granted pursuant to the Winfrey Option Agreement; 880,635 shares of our common stock issuable upon the vesting of restricted stock units, or RSUs, awarded under our 2014 Plan; and 659,965 shares of our common stock issuable upon the vesting of performance-based stock units, or PSUs, awarded under our 2014 Plan. The number of shares to be issued in respect of PSUs has been calculated based on the assumption that the maximum level of performance applicable to the PSUs will be achieved. The Winfrey Option was approved by the written consent of Artal Luxembourg which, as of the date thereof, controlled a majority of the voting power of our outstanding common stock. For additional details on the Winfrey Option and Winfrey Option Agreement, see "Item 1. Business—History—Winfrey Transaction" of this Annual Report on Form 10-K.

(2) Reflects the weighted average exercise price of outstanding stock options of $15.86, RSUs of $0, and PSUs of $0.

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(3) Consists of shares of our common stock available for future issuance under our 2014 Plan, pursuant to various awards the Compensation and Benefits Committee may make, including non-qualified stock options, incentive stock options, stock appreciation rights, RSUs, restricted stock, performance-based awards and other equity-based awards. In connection with the initial approval of our 2014 Plan on May 6, 2014, our 2014 Plan replaced our 2008 Plan and our 2004 Stock Incentive Plan with respect to prospective equity grants.
(4) Consists of 500,000 shares of our common stock issuable upon the exercise of a stock option granted on July 5, 2017 to Ms. Grossman in connection with her appointment as our President and Chief Executive Officer. This stock option was granted in reliance on the employment inducement exemption provided under the New York Stock Exchange Listed Company Manual Rule 303A.08. This stock option has a seven year term and proportionately vests annually over a four year period beginning with the first anniversary of Ms. Grossman's July 5, 2017 employment commencement date. While the stock option was not awarded pursuant to our 2014 Plan, it is subject to the same terms and conditions of the 2014 Plan.
(5) Reflects the weighted average exercise price of outstanding stock options of $60.00.
(6) Reflects the weighted average exercise price of outstanding stock options of $21.69, RSUs of $0, and PSUs of $0.

Code of Business Conduct and Ethics

We have adopted the Code of Business Conduct and Ethics for our officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, and our employees and directors. Our Code of Business Conduct and Ethics is available on our corporate website at corporate.ww.com/govdocs.

In addition to any disclosures required under the Exchange Act, the date and nature of any substantive amendment of our Code of Business Conduct and Ethics or waiver thereof applicable to any of our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K of the Exchange Act, will be disclosed within four business days of the date of such amendment or waiver on our corporate website at corporate.ww.com/govdocs and corporate.ww.com/corporate-actions//Index?KeyGenPage=1073752069, respectively. In the case of a waiver, the name of the person to whom the waiver was granted will also be disclosed on our corporate website within four business days of the date of such waiver.

PART IV

Item 15. Exhibits and Financial Statement Schedules
(a)

1. Financial Statements
The financial statements listed in the Index to Financial Statements and Financial Statement Schedule on page F-1 are filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedule
The financial statement schedule listed in the Index to Financial Statements and Financial Statement Schedule on page F-1 is filed as part of this Annual Report on Form 10-K.

3. Exhibits
The exhibits listed in the Exhibit Index are filed as part of this Annual Report on Form 10-K.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE COVERED BY

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Items 15(a) (1) & (2)

All other schedules are omitted for the reason that they are either not required, not applicable, not material or the information is included in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Weight Watchers International, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Weight Watchers International, Inc. and its subsidiaries (the "Company") as of December 29, 2018 and December 30, 2017, and the related consolidated statements of net income, comprehensive income, changes in total deficit and cash flows for each of the three fiscal years in the period ended December 29, 2018, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 29, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 26, 2019

We have served as the Company's auditor since 1999.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT

(IN THOUSANDS)

	December 29, 2018	December 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 236,974	$ 83,054
Receivables (net of allowances: December 29, 2018 - $1,743 and December 30, 2017 - $2,001)	27,247	23,913
Inventories	25,851	31,728
Prepaid income taxes	33,997	43,488
Prepaid expenses and other current assets	42,355	26,805
TOTAL CURRENT ASSETS	366,424	208,988
Property and equipment, net	52,202	47,978
Franchise rights acquired	751,134	754,040
Goodwill	152,519	156,281
Other intangible assets, net	57,162	46,536
Deferred income taxes	16,230	12,447
Other noncurrent assets	18,870	19,730
TOTAL ASSETS	$ 1,414,541	$ 1,246,000
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	$ 77,000	$ 82,750
Accounts payable	27,098	24,356
Salaries and wages payable	64,600	62,179
Accrued marketing and advertising	14,052	18,154
Accrued interest	28,651	10,834
Other accrued liabilities	48,218	52,516
Derivative payable	5,578	12,171
Income taxes payable	22,618	5,735
Deferred revenue	53,501	74,332
TOTAL CURRENT LIABILITIES	341,316	343,027
Long-term debt, net	1,669,708	1,740,612
Deferred income taxes	190,258	143,591
Other	18,289	30,289
TOTAL LIABILITIES	2,219,571	2,257,519
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	3,913	4,467
TOTAL DEFICIT		
Common stock, $0 par value; 1,000,000 shares authorized; 120,352	0	0

shares issued at December 29, 2018 and 118,947 shares issued at December 30, 2017		
Treasury stock, at cost, 53,396 shares at December 29, 2018 and 54,258 shares at December 30, 2017	(3,175,624)	(3,208,836)
Retained earnings	2,382,438	2,203,317
Accumulated other comprehensive loss	(15,757)	(10,467)
TOTAL DEFICIT	(808,943)	(1,015,986)
TOTAL LIABILITIES AND TOTAL DEFICIT	$ 1,414,541	$ 1,246,000

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME FOR THE FISCAL YEARS ENDED

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 29, 2018	December 30, 2017	December 31, 2016
Service revenues, net	$1,273,196	$ 1,081,679	$ 949,121
Product sales and other, net	240,925	225,232	215,781
Revenues, net	1,514,121	1,306,911	1,164,902
Cost of services	508,477	486,293	468,761
Cost of product sales and other	139,234	127,969	110,640
Cost of revenues	647,711	614,262	579,401
Gross profit	866,410	692,649	585,501
Marketing expenses	226,319	200,797	194,398
Selling, general and administrative expenses	251,106	211,224	190,292
Goodwill impairment	0	13,323	0
Operating income	388,985	267,305	200,811
Interest expense	142,346	112,784	115,160
Other expense, net	2,578	472	1,524
Early extinguishment of debt, net	0	8,969	0
Income before income taxes	244,061	145,080	84,127
Provision for (benefit from) income taxes	20,493	(18,237)	16,634
Net income	223,568	163,317	67,493
Net loss attributable to the noncontrolling interest	181	197	206
Net income attributable to Weight Watchers International, Inc.	$223,749	$ 163,514	$ 67,699
Earnings Per Share attributable to Weight Watchers International, Inc.			
Basic	$3.38	$ 2.54	$ 1.06
Diluted	$3.19	$ 2.40	$ 1.03
Weighted average common shares outstanding			
Basic	66,280	64,329	63,742
Diluted	70,115	68,248	65,897

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FISCAL YEARS ENDED

(IN THOUSANDS)

	December 29, 2018	December 30, 2017	December 31, 2016
Net income	$ 223,568	$ 163,317	$ 67,493
Other comprehensive (loss) gain:			
Foreign currency translation (loss) gain	(11,462)	9,848	5,556
Income tax benefit (expense) on foreign currency translation (loss) gain	2,906	(3,840)	(2,089)
Foreign currency translation (loss) gain, net of taxes	(8,556)	6,008	3,467
Gain on derivatives	7,205	17,393	11,821
Income tax expense on gain on derivatives	(1,827)	(6,783)	(4,688)
Gain on derivatives, net of taxes	5,378	10,610	7,133
Total other comprehensive (loss) gain	(3,178)	16,618	10,600
Comprehensive income	220,390	179,935	78,093
Net loss attributable to the noncontrolling interest	181	197	206
Foreign currency translation loss (gain), net of taxes attributable to the noncontrolling interest	373	35	(455)
Comprehensive loss (income) attributable to the noncontrolling interest	554	232	(249)
Comprehensive income attributable to Weight Watchers International, Inc.	$ 220,944	$ 180,167	$ 77,844

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL DEFICIT

(IN THOUSANDS)

		Weight Watchers International, Inc.						
	Redeemable Noncontrolling Interest	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 2, 2016	$ 4,450	118,855	$ 0	55,301	$(3,247,406)	$ (37,265)	$1,994,513	$(1,290,158)
Comprehensive income	249					10,145	67,699	77,844
Issuance of treasury stock under stock plans				(280)	10,060		(12,173)	(2,113)
Tax benefit of restricted stock units vested and stock options exercised							327	327
Compensation expense on share-based awards							6,527	6,527
Issuance of common stock pursuant to acquisition of Weilos		92					0	0
Balance at December 31, 2016	$ 4,699	118,947	$ 0	55,021	$(3,237,346)	$ (27,120)	$2,056,893	$(1,207,573)
Comprehensive income	(232)					16,653	163,514	180,167
Issuance of treasury stock under				(763)	28,510		(32,039)	(3,529)

stock plans								
Compensation expense on share-based awards							14,949	14,949
Balance at December 30, 2017	$ 4,467	118,947	$ 0	54,258	$(3,208,836)	$ (10,467)	$2,203,317	$(1,015,986)
Comprehensive income	(554)					(2,805)	223,749	220,944
Issuance of treasury stock under stock plans				(862)	33,212		(30,618)	2,594
Compensation expense on share-based awards							20,188	20,188
Issuance of common stock		1,405					9,796	9,796
Cumulative effect of revenue accounting change							2,933	2,933
Cumulative effect of tax accounting change						(2,485)	(46,927)	(49,412)
Balance at December 29, 2018	$ 3,913	120,352	$ 0	53,396	$(3,175,624)	$ (15,757)	$2,382,438	$(808,943)

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED

(IN THOUSANDS)

	December 29, 2018	December 30, 2017	December 31, 2016
Operating activities:			
Net income	$ 223,568	$ 163,317	$ 67,493
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	44,061	50,880	52,633
Amortization of deferred financing costs and debt discount	8,539	6,112	6,116
Goodwill impairment	0	13,323	0
Impairment of intangible and long-lived assets	27	682	615
Write-off of net assets due to cessation of Spain operations	0	70	0
Share-based compensation expense	20,188	14,949	6,527
Deferred tax (benefit) provision	(13,673)	(48,216)	11,093
Allowance for doubtful accounts	130	(587)	363
Reserve for inventory obsolescence	7,906	7,823	5,109
Foreign currency exchange rate loss	2,036	202	1,270
Early extinguishment of debt, net	0	8,969	0
Changes in cash due to:			
Receivables	(7,999)	5,444	(37)
Inventories	(1,148)	(4,504)	(9,513)
Prepaid expenses	(3,991)	(4,359)	(14,755)
Accounts payable	2,224	(14,507)	461
Accrued liabilities	16,600	4,414	(8,823)
Deferred revenue	(17,198)	8,298	1,212
Other long term assets and liabilities, net	(13,001)	5,683	1,512
Income taxes	27,323	4,281	(2,232)
Cash provided by operating activities	295,592	222,274	119,044
Investing activities:			
Capital expenditures	(19,050)	(13,732)	(5,556)
Capitalized software expenditures	(27,763)	(26,916)	(28,785)
Cash paid for acquisitions	(7,100)	0	(2,898)
Other items, net	(10,045)	(143)	(291)
Cash used for investing activities	(63,958)	(40,791)	(37,530)
Financing activities:			
Net (payments) borrowings on revolver	(25,000)	25,000	(48,000)
Proceeds from new long term debt	0	1,840,000	0
Financing costs and debt discount	0	(53,636)	0
Payments on long-term debt	(57,750)	(2,018,773)	(165,323)
Taxes paid related to net share settlement of equity awards	(25,020)	(9,548)	0
Excess tax benefit of share-based compensation	0	0	973

Proceeds from stock options exercised	33,417	5,475	139
Payment of dividends	0	0	(11)
Cash used for financing activities	(74,353)	(211,482)	(212,222)
Effect of exchange rate changes on cash and cash equivalents	(3,361)	4,397	(2,162)
Net increase (decrease) in cash and cash equivalents	153,920	(25,602)	(132,870)
Cash and cash equivalents, beginning of fiscal year	83,054	108,656	241,526
Cash and cash equivalents, end of fiscal year	$ 236,974	$ 83,054	$ 108,656

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

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT 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 "WW" as used throughout these notes are used to indicate Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements. The Company's "Digital" business refers to providing subscriptions to the Company's digital product offerings, including the Personal Coaching + Digital product. The Company's "Studio + Digital" business refers to providing access to the Company's weekly in-person workshops combined with the Company's digital subscription product offerings to commitment plan subscribers. The "Studio + Digital" business also includes the provision of access to workshops for members who do not subscribe to commitment plans, including the Company's "pay-as-you-go" members.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include all of the Company's majority-owned subsidiaries. All entities acquired, and any entity of which a majority interest was acquired, are included in the consolidated financial statements from the date of acquisition. All intercompany accounts and transactions have been eliminated in consolidation.

Out-of-Period Adjustments:

In fiscal 2016, the Company identified and recorded out-of-period adjustments related to (i) income tax errors primarily related to reversing a foreign tax receivable originally recorded in fiscal 2008 that should have been reversed in fiscal 2009; (ii) errors in the prior period tax provision identified upon filing of the tax return and (iii) technology expenses that should have been capitalized in fiscal 2015. The impact of correcting these errors, which were immaterial to prior period financial statements and corrected in fiscal 2016, increased income before income taxes by $347, increased provision for income taxes by $2,138 and decreased net income attributable to the Company by $1,791.

2. Summary of Significant Accounting Policies

Fiscal Year:

The Company's fiscal year ends on the Saturday closest to December 31st and consists of either 52 or 53-week periods. Fiscal year 2018, fiscal year 2017 and fiscal year 2016 all contained 52 weeks.

Use of Estimates:

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates and judgments, including those related to inventories, the impairment analysis for goodwill and other indefinite-lived intangible assets, share-based compensation, income taxes, tax contingencies and litigation. The Company bases its estimates on historical experience and on various other factors and assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts could differ from these estimates.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT AMOUNTS)

Translation of Foreign Currencies:

For all foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated into US dollars using the exchange rate in effect at the end of each reporting period. Income statement accounts are translated at the average rate of exchange prevailing during each reporting period. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss.

Foreign currency gains and losses arising from the translation of intercompany receivables and intercompany payables with the Company's international subsidiaries are recorded as a component of other expense, net, unless the receivable or payable is considered long-term in nature, in which case the foreign currency gains and losses are recorded as a component of accumulated other comprehensive loss.

Cash Equivalents:

Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less. Cash balances may, at times, exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions. Cash includes balances due from third-party credit card companies.

Inventories:

Inventories, which consist of finished goods, are stated at the lower of cost or net realizable value on a first-in, first-out basis, net of reserves for obsolescence and shrinkage.

Property and Equipment:

Property and equipment are recorded at cost. For financial reporting purposes, equipment is depreciated on the straight-line method over the estimated useful lives of the assets (3 to 10 years). Leasehold improvements are amortized on the straight-line method over the shorter of the term of the lease or the useful life of the related assets. Expenditures for new facilities and improvements that substantially extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Impairment of Long Lived Assets:

The Company reviews long-lived assets, including amortizable intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable.

In fiscal 2018, fiscal 2017 and fiscal 2016, the Company recorded impairment charges of $0, $674 and $484, respectively, related to internal-use computer software that was not expected to provide substantive service potential.

In fiscal 2018, fiscal 2017 and fiscal 2016, the Company recorded impairment charges of $27, $8 and $131, respectively, related to property, plant and equipment that were expected to be disposed of before the end of their estimated useful lives.

Goodwill and Franchise Rights Acquired:

The Company reviews goodwill and other indefinite-lived intangible assets, including franchise rights acquired with indefinite lives, for potential impairment on at least an annual basis or more often if events so require. The Company performed fair value impairment testing as of May 6, 2018 and May 7, 2017, each the first day of fiscal May, on its goodwill and other indefinite-lived intangible assets. In addition, for the Company's Brazil reporting unit only, given the ongoing challenging economic environment, the negative performance trends and the Company's reduced expectations regarding the future impact of its business growth strategies in the country, the Company performed an interim goodwill impairment analysis at December 30, 2017. In performing the interim goodwill impairment analysis for its Brazil reporting unit, the Company recorded a $13,323 impairment charge at December 30, 2017.

In performing its annual impairment analysis as of May 6, 2018 and May 7, 2017, the Company determined that the carrying amounts of its goodwill reporting units and franchise rights acquired with indefinite lives units of account did not exceed their respective fair values and therefore, no impairment existed.

For all reporting units, except for Brazil, there was significant headroom in the impairment analysis. Based on the results of the Company's annual impairment test performed for all of its reporting units except for Brazil, as of the December 29, 2018 balance sheet date, the Company estimated that for reporting units that hold approximately 97.0% of the Company's goodwill, those units had a fair value at least 50% higher than the respective reporting unit's carrying amount. Based on the results of the Company's annual impairment test performed for its Brazil reporting unit, the fair value of this reporting unit exceeded its carrying value by approximately 10.0% and accordingly a relatively small change in the underlying assumptions would likely cause a change in the results of the impairment assessment and, as such, could result in an impairment of the goodwill related to Brazil, for which the carrying amount is $5,001.

When determining fair value, the Company utilizes various assumptions, including projections of future cash flows, growth rates and discount rates. A change in these underlying assumptions would cause a change in the results of the tests and, as such, could cause fair value to be less than the carrying amounts and result in an impairment of those assets. In the event such a result occurred, the Company would be required to record a corresponding charge, which would impact earnings. The Company would also be required to reduce the carrying amounts of the related assets on its balance sheet. The Company continues to evaluate these assumptions and believes that these assumptions are appropriate.

The following is a discussion of the goodwill and franchise rights acquired impairment analysis.

Goodwill

In performing the impairment analysis for goodwill, the fair value for the Company's reporting units is estimated using a discounted cash flow approach. This approach involves projecting future cash flows attributable to the reporting unit and discounting those estimated cash flows using an appropriate discount rate. The estimated fair value is then compared to the carrying value of the reporting units. The Company has determined the appropriate reporting unit for purposes of assessing annual impairment to be the country for all reporting units. For all of the Company's reporting units except for Brazil (see below), the Company estimated future cash flows by utilizing the historical debt-free cash flows (cash flows provided by operating activities less capital expenditures) attributable to that country and then applied expected future operating income growth rates for such country. The Company utilized operating income as the basis for measuring its potential growth because it believes it is the best indicator of the performance of its business. The Company then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company's peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data. The cost of debt was determined by estimating the Company's current borrowing rate.

As it relates to the impairment analysis for Brazil, the Company estimated future debt free cash flows in contemplation of its growth strategies for that market. In developing these projections, the Company considered the historical impact of similar growth strategies in other markets as well as the current market conditions in Brazil. The Company then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company's peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data including the current economic conditions in Brazil and the country specific risk thereon. A further risk premium was included to reflect the risk associated with the significantly higher growth rates projected in the May 7, 2017 annual impairment test. The cost of debt was determined by estimating the Company's current borrowing rate.

The book values of goodwill in the United States, Canada, Brazil and other countries at December 29, 2018 were $98,857, $39,300, $4,584 and $9,778, respectively, totaling $152,519 and the values at December 30, 2017 were $97,755, $42,634, $5,372 and $10,520, respectively, totaling $156,281.

Franchise Rights Acquired

Finite-lived franchise rights acquired are amortized over the remaining contractual period, which is generally less than one year. Indefinite-lived franchise rights acquired are tested on an annual basis for impairment.

In performing the impairment analysis for indefinite-lived franchise rights acquired, the fair value for franchise rights acquired is estimated using a discounted cash flow approach referred to as the hypothetical start-up approach for franchise rights related to the Company's Studio + Digital business and a relief from royalty methodology for franchise rights related to the Company's Digital business. The aggregate estimated fair value for these rights is then compared to the carrying value of the unit of account for those franchise rights. The Company has determined the appropriate unit of account for purposes of assessing impairment to be the combination of the rights in both the Studio + Digital business and the Digital business in the country in which the acquisitions have occurred. The book values of these franchise rights in the United States, Canada, United Kingdom, Australia, and New Zealand at December 29, 2018 were $671,914, $52,919, $11,441, $6,327 and $4,747, respectively, totaling $747,348 and the values at December 30, 2017 were $671,914, $57,408, $12,680, $7,018 and $5,020, respectively, totaling $754,040.

In its hypothetical start-up approach analysis for fiscal 2018, the Company assumed that the year of maturity was reached after 7 years. Subsequent to the year of maturity, the Company estimated future cash flows for the Studio + Digital business in each country based on assumptions regarding revenue growth and operating income margins. The cash flows associated with the Digital business were based on the expected Digital revenue for such country and the application of a market-based royalty rate. The cash flows for the Studio + Digital and Digital businesses were discounted utilizing rates consistent with those utilized in the goodwill impairment analysis.

Other Intangible Assets:

Other finite-lived intangible assets are amortized using the straight-line method over their estimated useful lives of 3 to 20 years. The Company expenses all software costs (including website development costs) incurred during the preliminary project stage and capitalizes all internal and external direct costs of materials and services consumed in developing software (including website development costs) once the development has reached the application development stage. Application development stage costs generally include software configuration, coding, installation to hardware and testing. These costs are amortized over their estimated useful life of 3 years for website development costs and from 3 to 5 years for all other software costs. All costs incurred for upgrades, maintenance and enhancements, including the cost of website content, which do not result in additional functionality, are expensed as incurred.

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Revenue Recognition:

WW earns revenue from subscriptions for the Company's digital products and by conducting workshops, for which it charges a fee, predominantly through commitment plans, prepayment plans or the "pay-as-you-go" arrangement. WW also earns revenue by selling consumer products (including publications) in its workshops, online through its ecommerce platform and to its franchisees, collecting commissions from franchisees, collecting royalties related to licensing agreements, selling magazine subscriptions, publishing, selling advertising space on its websites and in copies of its publications and By Mail product sales.

Commitment plan revenues, prepaid workshop fees and magazine subscription revenue is recorded to deferred revenue and amortized into revenue as control is transferred over the period earned since these performance obligations are satisfied over time. Digital subscription revenues, consisting of the fees associated with subscriptions for the Company's Digital products, including its Personal Coaching + Digital product, are deferred and recognized on a straight-line basis as control is transferred over the subscription period. One-time Digital sign-up fees are considered immaterial in the context of the contract and the related revenue is recorded to deferred revenue and amortized into revenue over the commitment period. In the Studio + Digital business, WW generally charges non-refundable registration and starter fees in exchange for access to the Company's digital subscription products, an introductory information session and materials it provides to new members. Revenue from these registration and starter fees is considered immaterial in the context of the contract and is recorded to deferred revenue and amortized into revenue over the commitment period. Revenue from "pay-as-you-go" workshop fees, consumer product sales and By Mail, commissions and royalties is recognized at the point in time control is transferred, which is when services are rendered, products are shipped to customers and title and risk of loss passes to the customers, and commissions and royalties are earned, respectively. Revenue from advertising in magazines is recognized when advertisements are published. Revenue from magazine sales is recognized when the magazine is sent to the customer. For revenue transactions that involve multiple performance obligations, the amount of revenue recognized is determined using the relative fair value approach, which is generally based on each performance obligation's stand-alone selling price. Discounts to customers, including free registration offers, are recorded as a deduction from gross revenue in the period such revenue was recognized. Revenue from advertising on its websites is recognized when the advertisement is viewed by the user.

The Company grants refunds in aggregate amounts that historically have not been material. Because the period of payment of the refund generally approximates the period revenue was originally recognized, refunds are recorded as a reduction of revenue over the same period.

Advertising Costs:

Advertising costs consist primarily of broadcast and digital media. All costs related to advertising are expensed in the period incurred, except for media production-related costs, which are expensed the first time the advertising takes place. Total advertising expenses for the fiscal years ended December 29, 2018, December 30, 2017 and

December 31, 2016, were $218,062, $193,423 and $186,614, respectively.

Income Taxes:

Deferred income tax assets and liabilities result primarily from temporary differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which differences are expected to reverse. If it is more-likely-than-not that some portion of a deferred tax asset will not be realized, a valuation allowance is recognized. The Company considers historic levels of income, estimates of future taxable income and feasible tax planning strategies in assessing the need for a tax valuation allowance.

The Company recognizes a benefit for uncertain tax positions when a tax position taken or expected to be taken in a tax return is more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the provision for income taxes on its consolidated statements of net income.

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In addition, assets and liabilities acquired in purchase business combinations are assigned their fair values and deferred taxes are provided for lower or higher tax bases.

Derivative Instruments and Hedging:

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

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

The fair value of the Company’s interest rate swap is reported as a component of accumulated other comprehensive loss on its balance sheet. See Note 17 for a further discussion regarding the fair value of the Company’s interest rate swap. The net effect of the interest payable and receivable under the Company’s interest rate swap is included in interest expense on the consolidated statements of net income.

Deferred Financing Costs:

Deferred financing costs consist of fees paid by the Company as part of the establishment, exchange and/or modification of the Company’s long-term debt. During the fourth quarter of fiscal 2017, the Company incurred fees of $53,832 (which includes $30,800 of a debt discount) in connection with the November 2017 debt refinancing (as described in Note 8). In addition, the Company recorded a loss on extinguishment of debt of $10,524 in connection thereto. This early extinguishment of debt write-off was comprised of $5,716 of deferred financing fees paid in connection with the November 2017 debt refinancing and $4,808 of pre-existing deferred financing fees. During the fiscal year ended December 30, 2017 in connection with the prepayment of debt, the Company wrote-off deferred financing fees of $618, incurred fees of $305 and recorded a gain on early extinguishment of debt of $1,554, inclusive of these fees. Amortization expense for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $8,539, $6,112 and $6,116, respectively.

Accumulated Other Comprehensive Loss:

The Company’s accumulated other comprehensive loss includes changes in the fair value of derivative instruments and the effects of foreign currency translations. At December 29, 2018, December 30, 2017 and December 31, 2016, the cumulative balance of changes in fair value of derivative instruments, net of taxes, was $1,175, $5,392 and $16,002, respectively. At December 29, 2018, December 30, 2017 and December 31, 2016, the cumulative balance of the effects of foreign currency translations, net of taxes, was $14,582, $5,075 and $11,118, respectively.

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3. Accounting Standards Adopted in Current Year

In March 2016, the Financial Accounting Standards Board (the "FASB") issued updated guidance on revenue from contracts with customers, which is intended to clarify the implementation guidance on principal versus agent considerations. The amendments in this update do not change the core principle of the guidance, but are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. In April 2016, the FASB issued updated guidance on revenue from contracts with customers, which is intended to clarify guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. In May 2016, the FASB issued updated guidance on revenue from contracts with customers, which is intended to provide narrow scope guidance and practical expedients contained in the new revenue standard. In December 2016, the FASB issued updated guidance on revenue from contracts with customers for technical corrections and improvements on narrow aspects within the original and amended guidance. The amendments in these updates are effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years, with early adoption permitted. On the first day of the first quarter of fiscal 2018, the Company adopted the updated guidance on revenue from contracts with customers on a modified retrospective basis. See Note 4 for further details. Based on the Company's implementation and review of the updated guidance there are no material differences between the updated guidance and the Company's historical revenue accounting for fiscal 2018.

In October 2016, the FASB issued updated guidance on intra-equity transfers of assets other than inventory which is intended to improve the accounting for income tax consequences by eliminating the deferral of tax effects of intra-entity asset transfers other than inventory within the consolidated entity. The current guidance to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. The updated guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years, with early adoption permitted. The updated guidance must be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted this guidance the first day of the first quarter of 2018, and as a result, recorded a net deferred tax liability with a corresponding cumulative adjustment to decrease retained earnings of $46,927 associated with an intra-entity transfer of certain intellectual property rights related to the Company's non-U.S. business to its Canadian entity. Before the 2017 Tax Act was passed, the Company's position was that this transaction was net neutral from a tax perspective and therefore a cumulative effect entry might not be required. However, after further analysis of the new tax law during the first quarter of 2018, the Company concluded an entry to retained earnings was necessary.

In February 2018, the FASB issued updated guidance on tax effects of items within accumulated other comprehensive income resulting from Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"). This update eliminates the stranded tax effects from the Act and permits a company to make an accounting policy election to reclassify those effects from accumulated other comprehensive income ("AOCI") to retained earnings. The updated guidance is effective for the Company beginning in the first quarter of fiscal 2019 and early adoption is permitted. The Company adopted this guidance the first day of the first quarter of fiscal 2018, and the election was made to reclassify the income tax effects of the 2017 Tax Act from accumulated other comprehensive loss to retained earnings, resulting in a $2,485 increase to retained earnings in the consolidated balance sheet. There were no other income tax effects related to the application of the 2017 Tax Act with the adoption of this updated guidance.

In March 2018, the FASB issued guidance pursuant to the amendments issued by the staff of the U.S. Securities and Exchange Commission. The amendments provide guidance on when to record and disclose provisional amounts for certain income tax effects of the 2017 Tax Act. The amendments also require any provisional amounts or subsequent adjustments to be included in net income from continuing operations. Additionally, this guidance discusses required disclosures that an entity must make with regard to the 2017 Tax Act. This guidance is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company adopted this guidance the in the fourth quarter of fiscal 2017 and completed the accounting of the 2017 Tax Act in the fourth quarter of fiscal 2018. See Note 12 for additional information on the 2017 Tax Act.

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In June 2018, the FASB issued updated guidance regarding share-based payment transactions for acquiring goods and services from nonemployees. The updated guidance applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The effective date of the new guidance for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, but no earlier than an entity's adoption date of the revenue guidance. The updated guidance is effective for the Company beginning in the first quarter of fiscal 2019. The Company early adopted this guidance during the third quarter of 2018. The adoption of this guidance had no impact on the consolidated financial statements.

4. Revenue

Adoption of Revenue from Contracts with Customers

On December 31, 2017, the Company adopted the updated guidance on revenue from contracts with customers using the modified retrospective method applied to those contracts which were not completed as of December 31, 2017. Results for reporting periods beginning on or after December 31, 2017 are presented under the updated guidance, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical revenue accounting.

The Company recorded a net increase to opening retained earnings of $2,145 as of December 31, 2017 due to the cumulative impact of adopting the updated guidance, inclusive of a $3,501 decrease to deferred revenue, a decrease of $568 to prepaid expenses and other current assets and an increase to the deferred income tax liability of $788.

Revenue Recognition

Revenues are recognized when control of the promised services or goods is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those services or goods. See Note 2 for further information on the Company's revenue recognition policies.

The following table presents the Company's revenues disaggregated by revenue source:

	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016

Digital Subscription Revenues	$567,767	$ 416,722	$ 343,789
Studio + Digital Fees	705,429	664,957	605,332
Service revenues, net	$1,273,196	$ 1,081,679	$ 949,121
Product sales and other, net	240,925	225,232	215,781
Revenues, net	$1,514,121	$ 1,306,911	$ 1,164,902

The following tables present the Company's revenues disaggregated by segment:

	Fiscal Year Ended December 29, 2018				
	North America	Continental Europe	United Kingdom	Other	Total
Digital Subscription Revenues	$378,678	$ 149,571	$25,557	$13,961	$567,767
Studio + Digital Fees	522,372	107,528	52,676	22,853	705,429
Service revenues, net	$901,050	$ 257,099	$78,233	$36,814	$1,273,196
Product sales and other, net	146,201	47,226	28,839	18,659	240,925
Revenues, net	$1,047,251	$ 304,325	$107,072	$55,473	$1,514,121

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	Fiscal Year Ended December 30, 2017				
	North America	Continental Europe	United Kingdom	Other	Total
Digital Subscription Revenues	$281,432	$ 102,039	$21,477	$11,774	$416,722
Studio + Digital Fees	493,800	93,723	52,161	25,273	664,957
Service revenues, net	$775,232	$ 195,762	$73,638	$37,047	$1,081,679
Product sales and other, net	135,117	43,461	26,351	20,303	225,232
Revenues, net	$910,349	$ 239,223	$99,989	$57,350	$1,306,911

	Fiscal Year Ended December 31, 2016				
	North America	Continental Europe	United Kingdom	Other	Total
Digital Subscription Revenues	$239,145	$ 75,014	$18,780	$10,850	$343,789
Studio + Digital Fees	437,239	89,646	54,473	23,974	605,332
Service revenues, net	$676,384	$ 164,660	$73,253	$34,824	$949,121
Product sales and other, net	122,443	45,930	27,555	19,853	215,781
Revenues, net	$798,827	$ 210,590	$100,808	$54,677	$1,164,902

Information about Contract Balances

For Service Revenues, the Company typically collects payment in advance of providing services. Any amounts collected in advance of services being provided are recorded in deferred revenue. In the case where amounts are not collected, but the service has been provided and the revenue has been recognized, the amounts are recorded in accounts receivable. The opening and ending balances of the Company's deferred revenues are as follows:

	Deferred Revenue	Deferred Revenue-Long Term
Balance as of December 30, 2017	$74,332	$ 2,049
Adoption of accounting standard	(3,501)	0
Net decrease during the period	(17,330)	(1,088)
Balance as of December 29, 2018	$53,501	$ 961

Revenue recognized from amounts included in current deferred revenue as of December 30, 2017 was $70,625 for the fiscal year ended December 29, 2018. The Company's long-term deferred revenue, which is included in other liabilities on the Company's consolidated balance sheet, had a balance of $961 at December 29, 2018 related to upfront payments received as an inducement for entering into certain sales-based royalty agreements with third party licensees. This revenue is amortized on a straight-line basis over the term of the agreements.

Practical Expedients and Exemptions

The Company elected to apply the updated guidance only to contracts that were not completed as of December 31, 2017, the date of adoption. The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. The Company expenses sales commissions when incurred (amortization period would have been one year or less) and these expenses are recorded within selling, general and administrative expenses. The Company treats shipping and handling fees as fulfillment costs and not as a separate performance obligation, and as a result, any fees received from customers are included in the transaction price allocated to the performance obligation of providing goods with a corresponding amount accrued within cost of product sales and other for amounts paid to applicable carriers. Sales tax, value-added tax, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

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5. Acquisitions

Acquisition of Kurbo Health, Inc.

On August 10, 2018, the Company acquired substantially all of the assets of Kurbo Health, Inc. (“Kurbo”), a family-based healthy lifestyle coaching program, for a net purchase price of $3,063. Payment was in the form of cash. The total purchase price of Kurbo has been allocated to goodwill ($1,101), website development ($1,916), prepaid expenses ($78) and other assets ($32) partially offset by deferred revenue ($57) and other liabilities ($7). The acquisition of Kurbo has been accounted for under the purchase method of accounting and, accordingly, earnings of Kurbo have been included in the consolidated operating results of the Company since the date of acquisition. The goodwill will be deductible annually for tax purposes.

Acquisition of Franchisees

On December 10, 2018, the Company acquired substantially all of the assets of its franchisee for certain territories in South Carolina, At Goal, Inc., for a purchase price of $4,000 (the “South Carolina Acquisition”). Payment was in the form of cash ($4,000) and assumed net liabilities ($37). The total purchase price has been allocated to franchise rights acquired ($3,791) and customer relationship value ($209). The acquisition of the franchisee has been accounted for under the purchase method of accounting and, accordingly, earnings of the acquired franchisee have been included in the consolidated operating results of the Company since the date of acquisition.

On June 27, 2016, the Company acquired substantially all of the assets of its franchisee for certain territories in South Florida, Weight Watchers of Greater Miami, Inc., for a purchase price of $3,250 (the “Miami Acquisition”). Payment was in the form of cash ($2,898) plus cash in reserves ($300) and assumed net liabilities of ($52). The total purchase price has been allocated to franchise rights acquired ($114), goodwill ($2,945) and customer relationship value ($191). The acquisition of the franchisee has been accounted for under the purchase method of accounting and, accordingly, earnings of the acquired franchisee have been included in the consolidated operating results of the Company since the date of acquisition. The goodwill will be deductible for tax purposes.

6. Franchise Rights Acquired, Goodwill and Other Intangible Assets

The Company performed its annual impairment review of goodwill and other indefinite-lived intangible assets for fiscal 2018 and fiscal 2017 on May 6 and May 7, respectively. In addition, for the Company’s Brazil reporting unit only, given the ongoing challenging economic environment, the negative performance trends and the Company’s reduced expectations regarding the future impact of its business growth strategies in the country, the Company performed an interim goodwill impairment analysis at December 30, 2017. . In performing the interim goodwill impairment analysis for its Brazil reporting unit, the Company recorded a $13,323 impairment charge at December 30, 2017.

In performing its annual impairment analysis as of May 6, 2018 and May 7, 2017, the Company determined that the carrying amounts of its goodwill reporting units and franchise rights acquired with indefinite lives units of account did not exceed their respective fair values and therefore, no impairment existed

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 fiscal year ended December 29, 2018, the change in the carrying value of franchise rights acquired is due to the franchisee acquisitions as described in Note 5 and the effect of exchange rate changes.

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Goodwill primarily relates to the acquisition of the Company by H.J. Heinz Company in 1978 and the Company's acquisition of WeightWatchers.com, Inc. in 2005, acquisitions of the Company's franchised territories, acquisitions of the majority interest in Vigilantes do Peso Marketing Ltda. ("VPM") and of Knowplicity, Inc., d/b/a Wello, in fiscal 2014 and the acquisition of Weilos, Inc. in fiscal 2015. See Note 5 for additional information about acquisitions by the Company. For the fiscal year ended December 29, 2018, the change in the carrying amount of goodwill is due to the Kurbo acquisition, a franchise acquisition and the effect of exchange rate changes as follows:

	North America	Continental Europe	United Kingdom	Other	Total
Balance as of December 30, 2017	$140,389	$ 7,759	$ 1,253	$6,880	$156,281
Goodwill acquired during the period	1,101	0	0	0	1,101
Effect of exchange rate changes	(3,334)	(517)	(75)	(937)	(4,863)
Balance as of December 29, 2018	$138,156	$ 7,242	$ 1,178	$5,943	$152,519

Finite-lived Intangible Assets

The below table reflects the carrying values of finite-lived intangible assets as of December 29, 2018 and December 30, 2017:

	December 29, 2018		December 30, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	$121,508	$ 102,659	$111,617	$ 94,697
Website development costs	105,710	77,825	90,096	61,125
Trademarks	11,620	11,010	11,231	10,833
Other	13,967	4,149	3,793	3,546
Trademarks and other intangible assets	$252,805	$ 195,643	$216,737	$ 170,201
Franchise rights acquired	8,110	4,319	4,526	4,526
Total finite-lived intangible assets	$260,915	$ 199,962	$221,263	$ 174,727

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of $28,995, $36,040 and $35,752, for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. The franchise rights acquired related to the VPM acquisition were amortized ratably over a 2 year period. The franchise rights acquired related to the Miami Acquisition were amortized ratably over a 3 month period. The franchise rights acquired related to the South Carolina Acquisition will be amortized ratably over an 18 year period.

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

Fiscal 2019	$23,689
Fiscal 2020	$16,232
Fiscal 2021	$7,971
Fiscal 2022	$1,641
Fiscal 2023 and thereafter	$11,420

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7. Property and Equipment

The below table reflects the carrying values of property and equipment as of December 29, 2018 and December 30, 2017:

	December 29, 2018	December 30, 2017
Equipment	$ 75,531	$ 70,126
Leasehold improvements	80,002	71,469
	155,533	141,595
Less: Accumulated depreciation and amortization	(103,331)	(93,617)
	$ 52,202	$ 47,978

Depreciation and amortization expense of property and equipment for the fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016 was $15,066, $14,840 and $16,881, respectively.

8. Long-Term Debt

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

	December 29, 2018				December 30, 2017			
	Principal Balance	Unamortized Deferred Financing Costs	Unamortized Debt Discount	Effective Rate [1]	Principal Balance	Unamortized Deferred Financing Costs	Unamortized Debt Discount	Effective Rate [1]
New Revolving Credit Facility due November 29, 2022	$0	$ 0	$ 0	4.39 %	$25,000	$ 0	$ 0	4.15 %
Former Tranche B-2 Term Facility due April 2, 2020	0	0	0	0.00 %	0	0	0	4.76 %
	1,482,250	8,307	26,033	7.53 %	1,540,000	9,783	30,433	6.84 %

New Term Loan Facility due November 29, 2024								
Notes due December 1, 2025	300,000	1,202	0	8.69 %	300,000	1,422	0	8.82 %
Total	$1,782,250	$ 9,509	$ 26,033	7.63 %	$1,865,000	$ 11,205	$ 30,433	4.96 %
Less: Current Portion	77,000				82,750			
Unamortized Deferred Financing Costs	9,509				11,205			
Unamortized Debt Discount	26,033				30,433			
Total Long-Term Debt	$1,669,708				$1,740,612			

(1) Includes amortization of deferred financing costs and debt discount. For fiscal 2017, the effective interest rate for the tranche B-2 term facility of the Company's then-existing term loan facility was computed based on interest expense incurred over the period for which borrowings were outstanding.

On November 29, 2017, the Company refinanced its then-existing credit facilities (hereinafter referred to as "the November 2017 debt refinancing") consisting of $1,930,386 of borrowings under a term loan facility and an undrawn $50,000 revolving credit facility with $1,565,000 of borrowings under its new credit facilities, consisting of a $1,540,000 term loan facility, and a $150,000 revolving credit facility (of which $25,000 was drawn upon at the time of the November 2017 debt refinancing) (collectively, the "New Credit Facilities"), and $300,000 in aggregate principal amount of 8.625% Senior Notes due 2025 (the "Notes"). During the fourth quarter of fiscal 2017, the Company incurred fees of $53,832 (which included $30,800 of a debt discount) in connection with the November 2017 debt refinancing. In addition, the Company recorded a loss on early extinguishment of debt of $10,524 in connection thereto. This early extinguishment of debt write-off was comprised of $5,716 of deferred financing fees paid in connection with the November 2017 debt refinancing and $4,808 of pre-existing deferred financing fees.

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Senior Secured Credit Facilities

The New Credit Facilities were issued under a new credit agreement, dated November 29, 2017 (the “Credit Agreement”), among the Company, as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A. (“JPMorgan Chase”), as administrative agent and an issuing bank, Bank of America, N.A., as an issuing bank, and Citibank, N.A., as an issuing bank. The New Credit Facilities consist of (1) $1,540,000 in aggregate principal amount of senior secured tranche B term loans due in 2024 (the “New Term Loan Facility”) and (2) a $150,000 senior secured revolving credit facility (which includes borrowing capacity available for letters of credit) due in 2022 (the “New Revolving Credit Facility”).

As of December 29, 2018, the Company had $1,482,250 of debt outstanding under the New Credit Facilities, with $148,841 of availability and $1,159 in issued but undrawn letters of credit outstanding under the New Revolving Credit Facility. The outstanding balance as of December 30, 2017 of $25,000 under the New Revolving Credit Facility was included in the current portion of long-term debt due to the Company’s then intent to repay its borrowings within twelve months on the accompanying consolidated balance sheet included in these consolidated financial statements. There was no outstanding balance under the New Revolving Credit Facility as of December 29, 2018.

All obligations under the Credit Agreement are guaranteed by, subject to certain exceptions, each of the Company’s current and future wholly-owned material domestic restricted subsidiaries. All obligations under the Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and each guarantor, subject to customary exceptions, including:

- a pledge of 100% of the equity interests directly held by the Company and each guarantor in any wholly-owned domestic material subsidiary of the Company or any guarantor (which pledge, in the case of any non-U.S. subsidiary of a U.S. subsidiary, will not include more than 65% of the voting stock of such first-tier non-U.S. subsidiary), subject to certain exceptions; and
- a security interest in substantially all other tangible and intangible assets of the Company and each guarantor, subject to certain exceptions.

Under the terms of the Credit Agreement, depending on the Company’s Consolidated Leverage Ratio (as defined in the Credit Agreement), on an annual basis on or about the time the Company is required to deliver its financial statements for any fiscal year, the Company is obligated to offer to prepay a portion of the outstanding principal amount of the New Term Loan Facility in an aggregate amount determined by a percentage of its annual excess cash flow (as defined in the Credit Agreement) (said payment, a “Cash Flow Sweep”).

Borrowings under the New Term Loan Facility bear interest at a rate per annum equal to, at the Company’s option, either (1) an applicable margin plus a base rate determined by reference to the highest of (a) 0.50% per annum plus the higher of (i) the Federal Funds Effective Rate and (ii) the Overnight Bank Funding Rate as determined by the Federal Reserve Bank of New York, (b) the prime rate of JPMorgan Chase and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%; provided that such rate is not lower than a floor of 1.75% or (2) an applicable margin plus a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, provided that LIBOR is not lower than a floor of 0.75%. Borrowings under the New Revolving Credit Facility bear interest at a rate per annum equal to an applicable margin based upon a leverage-based pricing grid, plus, at the Company's option, either (1) a base rate determined by reference to the highest of (a) 0.50% per annum plus the higher of (i) the Federal Funds Effective Rate and (ii) the Overnight Bank Funding Rate as determined by the Federal Reserve Bank of New York, (b) the prime rate of JPMorgan Chase and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00% or (2) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs. As of December 29, 2018, the applicable margins for the LIBOR rate borrowings under the New Term Loan Facility and the New Revolving Credit Facility were 4.75% and 2.25%, respectively.

On a quarterly basis, the Company pays a commitment fee to the lenders under the New Revolving Credit Facility in respect of unutilized commitments thereunder, which commitment fee fluctuates depending upon the Company's Consolidated Leverage Ratio. Based on the Company's Consolidated Leverage Ratio as of December 29, 2018, the commitment fee was 0.35% per annum.

The Credit Agreement contains other customary terms, including (1) representations, warranties and affirmative covenants, (2) negative covenants, including limitations on indebtedness, liens, mergers, acquisitions, asset sales, investments, distributions, prepayments of subordinated debt, amendments of material agreements governing subordinated indebtedness, changes to lines of business and transactions with affiliates, in each case subject to baskets, thresholds and other exceptions, and (3) customary events of default.

The availability of certain baskets and the ability to enter into certain transactions are also subject to compliance with certain financial ratios. In addition, the New Revolving Credit Facility includes a maintenance covenant that will require, in certain circumstances, compliance with certain first lien secured net leverage ratios.

As of December 29, 2018, the Company was in compliance with all applicable financial covenants in the Credit Agreement governing the New Credit Facilities.

Senior Notes

The Notes were issued pursuant to an Indenture, dated as of November 29, 2017 (the "Indenture"), among the Company, the guarantors named therein and The Bank of New York Mellon, as trustee. The Indenture contains customary covenants, events of default and other provisions for an issuer of non-investment grade debt securities. These covenants include limitations on indebtedness, liens, mergers, acquisitions, asset sales, investments, distributions, prepayments of subordinated debt and transactions with affiliates, in each case subject to baskets, thresholds and other exceptions.

The Notes accrue interest at a rate per annum equal to 8.625% and are due on December 1, 2025. Interest on the Notes is payable semi-annually on June 1 and December 1 of each year, beginning on June 1, 2018. On or after December 1, 2020, the Company may on any one or more occasions redeem some or all of the Notes at a purchase price equal to 104.313% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date, such optional redemption price decreasing to 102.156% on or after December 1, 2021 and to 100.000% on or after December 1, 2022. Prior to December 1, 2020, the Company may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Notes with an amount not to exceed the net proceeds of certain equity offerings at 108.625% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the redemption date. Prior to December 1, 2020, the Company may redeem some or all of the Notes at a make-whole price plus accrued and unpaid interest, if any, to, but not including, the redemption date. If a change of control occurs, the Company must offer to purchase for cash the Notes at a purchase price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the purchase date. Following the sale of certain assets and subject to certain conditions, the Company must offer to purchase for cash the Notes at a purchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the purchase date. The Notes are guaranteed on a senior unsecured basis by the Company's subsidiaries that guarantee the New Credit Facilities.

Outstanding Debt

At December 29, 2018, the Company had $1,782,250 outstanding under the New Credit Facilities and the Notes, consisting of the New Term Loan Facility of $1,482,250, $0 drawn down on the New Revolving Credit Facility and $300,000 in aggregate principal amount of Notes issued and outstanding.

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At December 29, 2018 and December 30, 2017, the Company's debt consisted of both fixed and variable-rate instruments. An interest rate swap was entered into to hedge a portion of the cash flow exposure associated with the Company's variable-rate borrowings. See Note 18 for information on the Company's interest rate swap. The weighted average interest rate (which includes amortization of deferred financing costs and debt discount) on the Company's outstanding debt, exclusive of the impact of the swap, was approximately 7.73% and 7.12% per annum based on interest rates at December 29, 2018 and December 30, 2017, respectively. The weighted average interest rate (which includes amortization of deferred financing costs and debt discount) on the Company's outstanding debt, including the impact of the swap, was approximately 7.46% and 7.34% per annum based on interest rates at December 29, 2018 and December 30, 2017, respectively.

Maturities

At December 29, 2018, the aggregate amounts of the Company's existing long-term debt maturing in each of the next five fiscal years and thereafter were as follows:

2019	$77,000
2020	96,250
2021	77,000
2022	77,000
2023	77,000
2024 and thereafter	1,378,000
	$1,782,250

9. Treasury Stock

On October 9, 2003, the Company's Board of Directors authorized and the Company announced a program to repurchase up to $250,000 of the Company's outstanding common stock. On each of June 13, 2005, May 25, 2006 and October 21, 2010, the Company's Board of Directors authorized and the Company announced adding $250,000 to the program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal Holdings Sp. z o.o., Succursale de Luxembourg and its parents and subsidiaries under the program. The repurchase program currently has no expiration date.

During the fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016, the Company purchased no shares of its common stock in the open market under the repurchase program. As of the end of fiscal 2018, $208,933 remained available to purchase shares of the Company's common stock under the repurchase program.

10. 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 for the fiscal years ended:

	December 29, 2018	December 30, 2017	December 31, 2016
Numerator:			
Net income attributable to			
Weight Watchers International, Inc.	$223,749	$ 163,514	$ 67,699
Denominator:			
Weighted average shares of common stock outstanding	66,280	64,329	63,742
Effect of dilutive common stock equivalents	3,835	3,919	2,155
Weighted average diluted common shares outstanding	70,115	68,248	65,897
Earnings per share attributable to Weight Watchers International, Inc.			
Basic	$3.38	$ 2.54	$ 1.06
Diluted	$3.19	$ 2.40	$ 1.03

The number of anti-dilutive common stock equivalents excluded from the calculation of the weighted average number of common shares for diluted EPS was 419, 1,427 and 1,536 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

11. Stock Plans

Incentive Compensation Plans and Inducement Option

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

Under the 2014 Plan, grants may take the following forms at the Company's Board of Directors' Compensation and Benefit Committee's (the "Compensation Committee") discretion: non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units ("RSUs"), restricted stock and other stock-based awards. As of May 9, 2017, the maximum number of shares of common stock available for grant under the 2014 Plan was 8,500, subject to increase and adjustment as set forth in the 2014 Plan.

Under the 2014 Plan, the Company also grants fully-vested shares of its common stock to certain members of its Board of Directors. Additionally, the Company granted such shares to director members of the Interim Office of the Chief Executive Officer. While these shares are fully vested, the directors are restricted from selling these shares while they are still serving on the Company's Board of Directors. During the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, the Company granted to members of the Company's Board of Directors an aggregate of 11, 30 and 36 fully-vested shares, respectively, and recognized compensation expense of $754, $664 and $451, respectively. During the fiscal year ended December 30, 2017, the Company granted to director members of the Interim Office of the Chief Executive Officer an aggregate of 40 fully vested shares and recognized compensation expense of $604.

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In fiscal 2017, as part of an initial equity award, the Company granted a stock option to purchase 500 shares of its common stock (the "Inducement Option") to its new President and Chief Executive Officer upon commencement of her employment. The Inducement Option vests proportionately over four years on each anniversary of the grant date and expires on the seven-year anniversary of the grant date. While the Inducement Option was granted in reliance on an employment inducement exemption and not awarded pursuant to the 2014 Plan, it is subject to the same terms and conditions of the 2014 Plan.

The Company's long-term equity incentive compensation program has historically included time-vesting non-qualified stock option and/or restricted stock unit (including performance-based stock unit with both time- and performance-vesting criteria ("PSUs")) awards. From time to time, the Company has granted fully-vested shares of its common stock to individuals in connection with special circumstances.

The Company issues common stock for share-based compensation awards from treasury stock. The total compensation cost that has been charged against income for share-based compensation awards was $20,188, $14,949 and $6,527 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. Such amounts have been included as a component of selling, general and administrative expenses. The total income tax benefit recognized in the income statement for all share-based compensation awards was $4,007, $3,580 and $1,849 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. The tax benefits realized from options exercised and RSUs and PSUs vested totaled $30,268, $7,210 and $2,114 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. No compensation costs were capitalized. As of December 29, 2018, there was $41,496 of total unrecognized compensation cost related to the Inducement Option and stock options, RSUs and PSUs granted under the Stock Plans. That cost is expected to be recognized over a weighted-average period of approximately 1.6 years.

Stock Option Awards Under Stock Plans and Inducement Option

Stock Option Awards with Time-Vesting Criteria

Stock options with time-vesting criteria ("Time-Vesting Options") are exercisable based on the terms and conditions outlined in the applicable award agreement. Time-Vesting Options outstanding at December 29, 2018, December 30, 2017 and December 31, 2016 vest over a period of three to five years and the expiration term is seven to ten years. Time-Vesting Options outstanding at December 29, 2018, December 30, 2017 and December 31, 2016 have an exercise price between $3.97 and $63.59 per share. The Company did not grant Time-Vesting Options in fiscal 2018.

The fair value of each of these option awards is estimated on the date of grant using the Black-Scholes option pricing model with the weighted average assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's common stock. Since the Company's option exercise history is limited, it has estimated the expected term of these options (other than the options with a seven-year term) to be the midpoint between the vesting period and the contractual term of each option. For options with a seven-year contractual term, the expected term is equal to 7 years. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant which most closely corresponds to the expected term of the Time-Vesting Options. The dividend yield is based on the Company's historic average dividend yield.

	December 30, 2017	December 31, 2016
Dividend yield	0.0%	0.0%
Volatility	51.3%-51.7%	49.6%-51.4%
Risk-free interest rate	2.17%	1.24%-2.26%
Expected term (years)	6.0-7.0	6.0

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Option Activity

A summary of all option activity under the Stock Plans and with respect to the Inducement Option and the previously disclosed Winfrey Option for the fiscal year ended December 29, 2018 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value
Outstanding at December 30, 2017	5,884	$ 18.17		
Granted	0	$ 0.00		
Exercised	(2,037)	$ 11.89		
Cancelled	(58)	$ 9.21		
Outstanding at December 29, 2018	3,789	$ 21.69	6.2	$ 84,871
Exercisable at December 29, 2018	2,790	$ 13.27	6.5	$ 81,774

The weighted-average grant-date fair value of all options granted was $0.00, $15.21 and $5.79, for the fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively. The total intrinsic value of Time-Vesting Options exercised was $105,647, $5,930 and $117 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

Cash received from Time-Vesting Options exercised during the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $33,385, $5,475 and $139, respectively.

Restricted Stock Unit Awards with Time-Vesting Criteria

RSUs are exercisable based on the terms outlined in the applicable award agreement. The RSUs generally vest over a period of two to four years. The fair value of RSUs is determined using the closing market price of the Company’s common stock on the date of grant. A summary of RSU activity under the Stock Plans for the fiscal year ended December 29, 2018 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 30, 2017	1,077	$ 24.22

Granted	274	$ 63.91
Vested	(379)	$ 22.38
Forfeited	(91)	$ 21.07
Outstanding at December 29, 2018	881	$ 37.91

The weighted-average grant-date fair value of RSUs granted was $63.91, $31.58 and $12.68 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. The total fair value of RSUs vested during the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $8,484, $10,211 and $5,145, respectively.

Performance-Based Stock Unit Awards with Time- and Performance-Vesting Criteria

In fiscal 2018, the Company granted 81.3 PSUs in May 2018 having both time- and performance-vesting criteria. The time-vesting criteria for these PSUs will be satisfied upon continued employment (with limited exceptions) on the third anniversary of the grant date (i.e., May 15, 2021). The performance-vesting criteria for these PSUs will be satisfied if the Company has achieved a certain annual operating income objective for the performance period of fiscal 2020. Pursuant to these awards, the number of PSUs that become vested, if any, upon the satisfaction of both vesting criteria, shall be equal to (x) the target number of PSUs granted multiplied by (y) the applicable achievement percentage, rounded down to avoid the issuance of fractional shares. The applicable achievement percentage shall increase in the event the Company has achieved a certain revenue target during such performance period. The Company is currently accruing compensation expense to what it believes is the probable outcome upon vesting.

In fiscal 2017, the Company granted 98.5 PSUs in May 2017 and 47.9 PSUs in July 2017, all having both time- and performance-vesting criteria. The time-vesting criteria for these PSUs will be satisfied upon continued employment (with limited exceptions) on May 15, 2020. The performance-vesting criteria for these PSUs will be satisfied if the Company has achieved, in the case of the May 2017 awards, certain annual operating income objectives and, in the case of the July 2017 award, certain net income or operating income objectives, as applicable for each performance year, in each fiscal year over a three-year period (i.e., fiscal 2017 through fiscal 2019) (each, a “2017 Award Performance Year”). When the performance measure has been met for a particular 2017 Award Performance Year, that portion of units is “banked” for potential issuance following the satisfaction of the time-vesting criteria. Such portion of units to be “banked” shall be equal to (x) the target number of PSUs granted for the applicable 2017 Award Performance Year multiplied by (y) the applicable achievement percentage, rounded down to avoid the issuance of fractional shares. The Company is currently accruing compensation expense to what it believes is the probable outcome upon vesting.

In fiscal 2016, the Company granted 289.9 PSUs having both time- and performance-vesting criteria. The time-vesting criteria for these PSUs will be satisfied upon continued employment (with limited exceptions) on the third anniversary of the grant date (i.e., May 16, 2019). The performance-vesting criteria for these PSUs will be satisfied if the Company has achieved a Debt Ratio (as defined in the applicable term sheet for these PSU awards and based on a Debt to EBITDAS ratio (each, as defined therein)) at levels at or below 4.5x over the performance period from December 31, 2017 to December 29, 2018. Pursuant to these awards, the number of PSUs that become vested, if any, upon the satisfaction of both vesting criteria, shall be equal to (x) the target number of PSUs granted multiplied by (y) the applicable Debt Ratio achievement percentage, rounded down to avoid the issuance of fractional shares. The Company is currently accruing compensation expense to what it believes is the probable outcome upon vesting.

The fair value of PSUs is determined using the closing market price of the Company’s common stock on the date of grant. A summary of PSU activity under the 2014 Plan for the fiscal year ended December 29, 2018 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 30, 2017	330	$ 19.42
Granted	81	$ 80.18
Vested	0	$ 0
Forfeited	(31)	$ 17.73
Outstanding at December 29, 2018	380	$ 32.56

The weighted-average grant-date fair value of PSUs granted was $80.18, $27.22 and $13.19 during the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. No PSUs vested during the fiscal years ended December 29, 2018 and December 30, 2017. The total fair value of PSUs vested during the fiscal year ended December 31, 2016 was $8.

12. Income Taxes

In December 2017, the 2017 Tax Act was enacted. The 2017 Tax Act includes a number of changes to previous U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The 2017 Tax Act also provides for a one-time transition tax on certain foreign earnings and the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as prospective changes which began in 2018, including repeal of the domestic manufacturing deduction and additional limitations on the deductibility of executive compensation and interest. The 2017 Tax Act also includes foreign provisions that taxes global intangible low-taxed income (“GILTI”) of foreign subsidiaries and provides a special tax deduction for foreign-derived intangible income (“FDII”).

Certain impacts of the 2017 Tax Act generally would have been required to be completed and incorporated into the Company’s fiscal 2017 year-end financial statements. However, due to the complexity of the 2017 Tax Act, the staff of the U.S. Securities and Exchange Commission issued guidance that provided companies with up to a one-year window to finalize the 2017 impact of this new legislation. The Company finalized its accounting related to the 2017 Tax Act during the fourth quarter of fiscal 2018. The impact on the Company’s fiscal 2018 results was a net tax benefit of $2,678, which is related to finalizing the provisional transition tax, and related foreign tax credits, originally recorded as of December 31, 2017.

Additionally, proposed regulations were issued by the IRS throughout 2018. The Company expects these regulations to be finalized in 2019 and such updates, as well as the issuance of future regulations or notices by the IRS, may have an impact on the Company’s fiscal 2018 income tax provision. The Company will assess the impact of any additional guidance when it is issued.

As of December 29, 2018, the Company has made a policy decision to elect to treat taxes due from GILTI as a current period expense.

The following tables summarize the Company’s consolidated provision for U.S. federal, state and foreign taxes on income:

	December 29, 2018	December 30, 2017	December 31, 2016
Current:			
U.S. federal	$ 1,235	$ 9,224	$ (15,254)
State	5,918	1,993	604
Foreign	27,013	18,762	20,191
	$ 34,166	$ 29,979	$ 5,541
Deferred:			
U.S. federal	$ (10,367)	$ (51,788)	$ 10,980
State	(2,566)	481	1,877
Foreign	(740)	3,091	(1,764)
	$ (13,673)	$ (48,216)	$ 11,093
Total tax provision (benefit)	$ 20,493	$ (18,237)	$ 16,634

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The components of the Company’s consolidated income before income taxes consist of the following:

	December 29, 2018	December 30, 2017	December 31, 2016
Domestic	$ 126,171	$ 53,045	$ 26,367
Foreign	117,890	92,035	57,760
	$ 244,061	$ 145,080	$ 84,127

The effective tax rates for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 were 8.4%, (12.6%) and 19.8%, respectively. The difference between the U.S. federal statutory tax rate and the Company’s consolidated effective tax rate is as follows:

The Company’s effective tax rate for the fiscal year ended December 29, 2018 was affected by the following items: (i) a $25,353 tax benefit related to tax windfalls from stock compensation, (ii) a $8,535 tax benefit due to the reversal of a valuation allowance on foreign tax credit carryforwards now expected to be utilized, (iii) a $3,435 tax benefit due to the reversal of a valuation allowance on certain net operating losses that are now expected to be realized, (iv) a $3,430 tax benefit primarily related to the reversal of tax reserves resulting from the closure of various tax audits, (v) a $2,678 tax benefit related to favorable tax return adjustments due to the 2017 Tax Act, and (vi) a $1,858 tax benefit related to the cessation of operations of the Company’s Mexican subsidiary.

The Company’s effective tax rate for the fiscal year ended December 30, 2017 was impacted by the 2017 Tax Act which benefited its tax expense by $56,560 and was comprised of the following items: (i) a $68,654 tax benefit related to the revaluation of deferred tax liabilities to reflect the decrease in the corporate tax rate from 35% to 21%, (ii) a $8,964 charge to record a valuation allowance against foreign tax credit carryforwards that as a result of the 2017 Tax Act are no longer expected to be realized, and (iii) a net charge of $3,130 related to other 2017 Tax Act items, which includes the transition tax on foreign earnings. In addition, the effective tax rate for fiscal 2017 was impacted by the following one-time discrete items (i) an $11,633 tax benefit related to the cessation of operations of the Company’s Spanish subsidiary, (ii) a $3,735 tax benefit due to a change in estimate related to the availability of certain foreign tax credits, and (iii) a $2,255 tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study.

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The Company's effective tax rate for the fiscal year ended December 31, 2016 was affected by a net tax benefit arising from a research and development tax credit and a Section 199 deduction for the tax years 2012 through 2016 and the reversal of a valuation allowance related to tax benefits for foreign losses that are now expected to be realized. These benefits were partially offset by income tax expenses recorded for out-of-period adjustments.

	December 29, 2018		December 30, 2017		December 31, 2016	
U.S. federal statutory tax rate	21.0	%	35.0	%	35.0	%
State income taxes (net of federal benefit)	1.1	%	2.5	%	2.0	%
Cessation of operations	(0.8	%)	(8.0	%)	0.0	%
Research and development credit	(0.5	%)	(1.3	%)	(19.5	%)
Tax windfall on share-based awards	(8.6	%)	(1.1	%)	0.0	%
Reserves for uncertain tax positions	(1.4	%)	(0.2	%)	2.9	%
Tax rate changes	0.3	%	(49.6	%)	0.0	%
(Decrease) increase in valuation adjustment related to foreign tax credits	(3.5	%)	3.5	%	(2.3	%)
GILTI	1.5	%	0.0	%	0.0	%
FDII	(1.9	%)	0.0	%	0.0	%
(Decrease) increase in valuation allowance due to net operating loss	(0.7	%)	3.0	%	0.0	%
Goodwill impairment	0.0	%	3.2	%	0.0	%
Tax return adjustments related to 2017 Tax Act	(1.1	%)	0.0	%	0.0	%
Impact of foreign operations	3.2	%	(0.7	%)	0.0	%
Out-of-period adjustments	0.0	%	0.0	%	2.6	%
Other	(0.2	%)	1.1	%	(0.9	%)
Total effective tax rate	8.4	%	(12.6	%)	19.8	%

The deferred tax assets and liabilities recorded on the Company's consolidated balance sheets are as follows:

	December 29, 2018	December 30, 2017
Interest expense disallowance	$ 22,418	$ 2,452
Operating loss carryforwards	9,862	17,424
Provision for estimated expenses	2,320	2,307

Depreciation	0	1,005
Salaries and wages	2,518	1,579
Share-based compensation	7,666	8,016
Foreign tax credit carryforwards	0	8,964
Other comprehensive income	5,877	4,797
Other	7,481	6,539
Less: valuation allowance	(6,191)	(22,760)
Total deferred tax assets	$ 51,951	$ 30,323
Goodwill and intangible assets	$ (223,938)	$ (166,257)
Depreciation	(1,149)	0
Other	(886)	(1,025)
Total deferred tax liabilities	$ (225,973)	$ (167,282)
Net deferred tax liabilities	$ (174,022)	$ (136,959)

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Certain foreign operations of the Company have generated net operating loss carryforwards. If it has been determined that it is more-likely-than-not that the deferred tax assets associated with these net operating loss carryforwards will not be utilized, a valuation allowance has been recorded. As of December 29, 2018 and December 30, 2017, various foreign subsidiaries had net operating loss carryforwards of approximately $38,098 and $69,359, respectively, some of which have an unlimited carryforward period, while others will begin to expire in fiscal 2019.

As a result of the 2017 Tax Act changing the U.S. to a modified territorial tax system, the Company will no longer assert its $5,190 of undistributed foreign earnings as of December 29, 2018 are permanently reinvested. The Company has considered whether there would be any potential future costs of not asserting indefinite reinvestment and does not expect such costs to be significant.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 29, 2018	December 30, 2017	December 31, 2016
Balance at beginning of year	$ 15,173	$ 10,297	$ 8,261
Increases related to tax positions taken in current year	60	266	1,291
Increases related to tax positions taken in prior years	1,207	7,246	5,508
Reductions related to tax positions taken in prior years	(10,560)	(1,268)	(840)
Reductions related to settlements with tax authorities	(2,215)	0	(1,700)
Reductions related to the expiration of statutes of limitations	0	(1,369)	(2,223)
Balance at end of year	$ 3,665	$ 15,173	$ 10,297

The above reconciliation relating to prior years has been revised to reflect gross amounts. At December 29, 2018, the total amount of unrecognized tax benefits that, if recognized, would affect the Company’s effective tax rate is $2,319. Given the potential outcome of current examinations, it is reasonably possible that the balance of unrecognized tax benefits could significantly change within the next twelve months. However, an estimate of the range of reasonably possible adjustments cannot be made at this time.

In 2018, the Company reached favorable settlements with the IRS for tax years 2012 and 2013, which resulted in a tax benefit of $1,890, and the Netherlands, which resulted in the release of a valuation allowance in the amount of $3,434. The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. At

December 29, 2018, with few exceptions, the Company was no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years prior to 2016, or non-U.S. income tax examinations by tax authorities for years prior to 2014. The Company has no significant non-U.S. jurisdiction audits underway. The tax years 2013 through 2017 remain subject to examination by foreign tax authorities.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The Company had $186 and $515 of accrued interest and penalties at December 29, 2018 and December 30, 2017, respectively. The Company recognized $(65), $63 and $(777) in interest and penalties during the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

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13. Employee Benefit Plans

The Company sponsors the Third Amended and Restated Weight Watchers Savings Plan (the "Savings Plan") for salaried and certain hourly US employees of the Company. The Savings Plan is a defined contribution plan that provides for employer matching contributions of 50% of the employee's tax deferred contributions up to 6% of an employee's eligible compensation for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016. Expense related to these contributions for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $3,405, $2,676 and $1,945, respectively.

During fiscal 2014, the Company received a favorable determination letter from the IRS that qualifies the Savings Plan under Section 401(a) of the Internal Revenue Code.

Pursuant to the Savings Plan, the Company also makes profit sharing contributions for all full-time salaried US employees who are eligible to participate in the Savings Plan (except for certain personnel above a determined compensation level). The profit sharing contribution is a guaranteed monthly employer contribution on behalf of each participant based on the participant's age and a percentage of the participant's eligible compensation. The Savings Plan also has a discretionary supplemental profit sharing employer contribution component that is determined annually by the Compensation and Benefits Committee of the Company's Board of Directors. Expense related to these contributions for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $1,317, $1,195 and $1,027, respectively.

For certain US personnel above a determined compensation level, the Company sponsors the Second Amended and Restated Weight Watchers Executive Profit Sharing Plan ("EPSP"). Under the IRS definition, the EPSP is considered a Nonqualified Deferred Compensation Plan. There is a promise of payment by the Company made on the employees' behalf instead of an individual account with a cash balance. The EPSP provides for a guaranteed employer contribution on behalf of each participant based on the participant's age and a percentage of the participant's eligible compensation. The EPSP has a discretionary supplemental employer contribution component that is determined annually by the Compensation and Benefits Committee of the Company's Board of Directors.

The EPSP is valued at the end of each fiscal month, based on an annualized interest rate of prime plus 2%, with an annualized cap of 15%. Expense related to this commitment for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $2,913, $2,382 and $1,915, respectively.

14. Cash Flow Information

	December 29, 2018	December 30, 2017	December 31, 2016
Net cash paid during the year for:			
Interest expense	$ 119,866	$ 115,233	$ 112,942
Income taxes	$ 12,095	$ 27,282	$ 25,516
Noncash investing and financing activities were as			

follows:

Fair value of net assets acquired in connection with acquisitions	$ 6,026	$ 0	$ 305
Change in Capital expenditures and Capitalized software included in accounts payable and accrued expenses	$ (844)	$ (3,450)	$ 2,098

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15. Commitments and Contingencies

Litigation Matters

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

Commitments

Minimum commitments under non-cancelable obligations, primarily for office and rental facilities operating leases at December 29, 2018, consist of the following:

2019	$63,261
2020	38,491
2021	22,341
2022	14,017
2023	9,192
2024 and thereafter	37,704
Total	$185,006

Total rent expense charged to operations under these operating leases for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016 was $44,130, $42,259 and $40,927, respectively.

16. Segment and Geographic Data

The Company has four reportable segments based on an integrated geographical structure as follows: North America, Continental Europe (CE), United Kingdom and Other. Other consists of Australia, New Zealand 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.

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

Total Revenue, net
for the Year ended

	December 29, 2018	December 30, 2017	December 31, 2016
North America	$ 1,047,251	$ 910,349	$ 798,827
Continental Europe	304,325	239,223	210,590
United Kingdom	107,072	99,989	100,808
Other	55,473	57,350	54,677
Total revenue, net	$ 1,514,121	$ 1,306,911	$ 1,164,902

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	Net Income for the Year ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Segment operating income:			
North America	$351,599	$ 247,587	$ 175,290
Continental Europe	114,708	73,689	51,096
United Kingdom	18,814	19,939	14,199
Other	9,604	(4,358)	8,813
Total segment operating income	494,725	336,857	249,398
General corporate expenses	105,740	69,552	48,587
Interest expense	142,346	112,784	115,160
Other expense, net	2,578	472	1,524
Early extinguishment of debt, net	0	8,969	0
Provision for (benefit from) income taxes	20,493	(18,237)	16,634
Net income	$223,568	$ 163,317	$ 67,493
Net loss attributable to the noncontrolling interest	181	197	206
Net income attributable to Weight Watchers International, Inc.	$223,749	$ 163,514	$ 67,699

	Depreciation and Amortization for the Year ended		
	December 29, 2018	December 30, 2017	December 31, 2016
North America	$37,137	$ 39,501	$ 41,718
Continental Europe	1,347	1,203	1,621
United Kingdom	1,487	1,205	971
Other	597	626	815
Total segment depreciation and amortization	40,568	42,535	45,125
General corporate depreciation and amortization	12,032	14,457	13,624
Depreciation and amortization	$52,600	$ 56,992	$ 58,749

The following tables present information about the Company’s sources of revenue and other information by geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of US export sales.

	Total Revenue, net for the Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Digital Subscription Revenues	$ 567,767	$ 416,722	$ 343,789
Studio + Digital Fees	705,429	664,957	605,332
In-workshop product sales	148,856	137,855	125,508
Licensing, franchise royalties and other	92,069	87,377	90,273
	$ 1,514,121	$ 1,306,911	$ 1,164,902

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	Total Revenue, net for the Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
United States	$974,843	$ 846,249	$ 743,668
Canada	72,408	64,100	55,159
Continental Europe	304,325	239,223	210,590
United Kingdom	107,072	99,989	100,808
Other	55,473	57,350	54,677
	$1,514,121	$ 1,306,911	$ 1,164,902

	Long-Lived Assets		
	December 29, 2018	December 30, 2017	December 31, 2016
United States	$43,772	$ 42,114	$ 43,714
Canada	4,825	2,563	2,730
Continental Europe	1,257	642	716
United Kingdom	1,924	1,920	1,899
Other	424	739	515
	$52,202	$ 47,978	$ 49,574

17. 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 an interest rate swap agreement as of December 29, 2018 and December 30, 2017. The fair value of the Company’s borrowings under the New Revolving

Credit Facility approximated a carrying value of $0 and $25,000 at December 29, 2018 and December 30, 2017, respectively, due to the nature of the debt (Level 2 input).

The fair value of the Company's New Credit Facilities is determined by utilizing average bid prices on or near the end of each fiscal quarter (Level 2 input). As of December 29, 2018 and December 30, 2017, the fair value of the Company's long-term debt was approximately $1,757,717 and $1,810,085, respectively, as compared to the carrying value (net of deferring financing costs and debt discount) of $1,746,708 and $1,798,362, respectively.

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Derivative Financial Instruments

The fair values for the Company's derivative financial instruments are determined using observable current market information such as the prevailing LIBOR interest rate and LIBOR yield curve rates and include consideration of counterparty credit risk. See Note 18 for disclosures related to derivative financial instruments.

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

		Fair Value Measurements Using:		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap asset at December 29, 2018	$3,924	$0	$ 3,924	$ 0
Interest rate swap liability at December 29, 2018	$5,578	$0	$ 5,578	$ 0
Interest rate swap liability at December 30, 2017	$12,171	$0	$ 12,171	$ 0

The Company did not have any transfers into or out of Levels 1 and 2 and did not maintain any assets or liabilities classified as Level 3, during the fiscal years ended December 29, 2018 and December 30, 2017.

18. Derivative Instruments and Hedging

As of December 29, 2018 and December 30, 2017, the Company had in effect an interest rate swap with a notional amount totaling $1,250,000.

On July 26, 2013, in order to hedge a portion of its variable rate debt, the Company entered into a forward-starting interest rate swap with an effective date of March 31, 2014 and a termination date of April 2, 2020. The initial notional amount of this swap was $1,500,000. During the term of this swap, the notional amount decreased from $1,500,000 effective March 31, 2014 to $1,250,000 on April 3, 2017, and will decrease 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 2.41%. This swap qualifies for hedge accounting and, therefore, changes in the fair value of this swap have been recorded in accumulated other comprehensive loss.

On June 11, 2018, in order to hedge a portion of its variable rate debt, the Company entered into a forward-starting interest rate swap (hereinafter referred to as "future swap") with an effective date of April 2, 2020 and a termination date of March 31, 2024. The initial notional amount of this swap is $500,000. During the term of this swap, the notional amount will decrease from $500,000 effective April 2, 2020 to $250,000 on March 31, 2021. This interest rate swap effectively fixes the variable interest rate on the notional amount of this swap at 3.1005%. This swap qualifies for hedge accounting and, therefore, changes in the fair value of this swap have been recorded in accumulated other comprehensive loss.

As of December 29, 2018 and December 30, 2017, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive loss in the amounts of $1,175 ($1,634 before taxes) and $5,392 ($8,839 before taxes), respectively. As of December 29, 2018, the fair value of the Company's currently effective swap includes a current asset of $3,526 and a noncurrent asset of $398, which are included in other current assets and other noncurrent assets, respectively, in the consolidated balance sheet. As of December 29, 2018, the fair value of the Company's future swap was a liability of $5,578, which is included in derivative payable in the consolidated balance sheet. As of December 30, 2017, the fair value of the Company's currently effective swap was a liability of $12,171, which is included in derivative payable in the consolidated balance sheet.

The Company is hedging forecasted transactions for periods not exceeding the next two years. The Company expects approximately $2,555 ($3,425 before taxes) of derivative gains included in accumulated other comprehensive loss at December 29, 2018, based on current market rates, will be reclassified into earnings within the next 12 months.

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19. Accumulated Other Comprehensive Loss

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

Changes in Accumulated Other Comprehensive Loss by Component[(a)]

	Fiscal Year Ended December 29, 2018		
	Loss on Qualifying Hedges	Loss on Foreign Currency Translation	Total
Beginning Balance at December 30, 2017	$(5,392)	$(5,075)	$(10,467)
Other comprehensive income (loss) before reclassifications, net of tax	3,263	(8,556)	(5,293)
Amounts reclassified from accumulated other comprehensive loss, net of tax[(b)]	2,115	0	2,115
Adoption of accounting standard	(1,161)	(1,324)	(2,485)
Net current period other comprehensive income (loss) including noncontrolling interest	4,217	(9,880)	(5,663)
Less: net current period other comprehensive loss attributable to the noncontrolling interest	0	373	373
Ending Balance at December 29, 2018	$(1,175)	$(14,582)	$(15,757)

(a) Amounts in parentheses indicate debits

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

Fiscal Year Ended December 30, 2017

	Loss on Qualifying Hedges	Loss on Foreign Currency Translation	Total
Beginning Balance at December 31, 2016	$(16,002)	$ (11,118)	$(27,120)
Other comprehensive income before reclassifications, net of tax	883	5,221	6,104
Amounts reclassified from accumulated other comprehensive loss, net of tax[(b)]	9,727	787	10,514
Net current period other comprehensive income including noncontrolling interest	10,610	6,008	16,618
Less: net current period other comprehensive income attributable to the noncontrolling interest	0	35	35
Ending Balance at December 30, 2017	$(5,392)	$ (5,075)	$(10,467)

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

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	Fiscal Year Ended December 31, 2016		
	Loss on Qualifying Hedges	Gain (loss) on Foreign Currency Translation	Total
Beginning Balance at January 2, 2016	$(23,135)	$ (14,130)	$(37,265)
Other comprehensive (loss) income before reclassifications, net of tax	(7,730)	3,467	(4,263)
Amounts reclassified from accumulated other comprehensive loss, net of tax[b]	14,863	0	14,863
Net current period other comprehensive income including noncontrolling interest	7,133	3,467	10,600
Less: net current period other comprehensive income attributable to the noncontrolling interest	0	(455)	(455)
Ending Balance at December 31, 2016	$(16,002)	$ (11,118)	$(27,120)

(a) Amounts in parentheses indicate debits

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

Reclassifications out of Accumulated Other Comprehensive Loss[a]

	Fiscal Year Ended			
	December 29, 2018	December 30, 2017	December 31, 2016	
Details about Other Comprehensive	Amounts Reclassified from			Affected Line Item in the

Loss Components	Accumulated Other Comprehensive Loss			Statement Where Net Income is Presented
Loss on Qualifying Hedges				
Interest rate contracts	$(2,835)	$ (15,946)	$ (24,366)	Interest expense
	(2,835)	(15,946)	(24,366)	Income before income taxes
	720	6,219	9,503	Provision for (benefit from) income taxes
	$(2,115)	$ (9,727)	$ (14,863)	Net income
Loss on Foreign Currency Translation	$0	$ (787)	$ 0	Other expense (income), net
	0	(787)	0	Income before income taxes
	0	0	0	Provision for (benefit from) income taxes
	$0	$ (787)	$ 0	Net income

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

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20. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued updated guidance regarding leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but will be updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new guidance for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. In July 2018, the FASB issued updated guidance by providing an entity with an additional and optional transition method to adopt the new lease guidance. The modified retrospective transition approach requires application of the new guidance at the beginning of the earliest comparative period presented and the optional transition method permits an entity to apply the guidance at the adoption date. The updated guidance is effective for the Company beginning in the first quarter of fiscal 2019 and the Company will adopt the guidance as of the first day of the first quarter of fiscal 2019. While the Company is still evaluating the impact that the adoption of this guidance will have on the consolidated financial statements and related disclosures of the Company, the Company currently expects that most of its operating leases will be subject to the updated guidance and that this guidance will have a material impact of approximately $140,000 to $180,000 on its consolidated balance sheet due to the recognition of right of use assets and related obligations. The Company does not expect the adoption of the updated guidance to have a material effect on the consolidated statements of net income or the consolidated statements of cash flows.

21. Related Party

As previously disclosed, on October 18, 2015, the Company entered into the Strategic Collaboration Agreement with Oprah Winfrey, under which she will consult with the Company and participate in developing, planning, executing and enhancing the WW program and related initiatives, and provide it with services in her discretion to promote the Company and its programs, products and services.

In addition to the Strategic Collaboration Agreement, Ms. Winfrey and her related entities provided services to the Company totaling $2,208, $4,266 and $3,453 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively, which services included advertising, production and related fees. During fiscal 2017 and fiscal 2016, the Company also purchased $84 and $627 of books, respectively, authored by Ms. Winfrey, for resale.

The Company's accounts payable to parties related to Ms. Winfrey at December 29, 2018 and December 30, 2017 was $62 and $828, respectively.

In March 2018, as permitted by the transfer provisions set forth in the previously disclosed Share Purchase Agreement, dated October 18, 2015, between the Company and Ms. Winfrey, and the Option Agreement, dated October 18, 2015, between the Company and Ms. Winfrey, Ms. Winfrey sold 954 of the shares she purchased under such purchase agreement and exercised a portion of her stock options resulting in the sale of 1,405 shares issuable under such options, respectively.

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22. Quarterly Financial Information (Unaudited)

The following is a summary of the unaudited quarterly consolidated results of operations for the fiscal years ended December 29, 2018 and December 30, 2017.

	For the Fiscal Quarters Ended			
	March 31, 2018	June 30, 2018	September 29, 2018	December 29, 2018
Fiscal year ended December 29, 2018				
Revenues, net	$408,223	$409,747	$ 365,765	$ 330,386
Gross profit	$221,003	$244,794	$ 215,394	$ 185,220
Operating income	$62,073	$127,708	$ 118,860	$ 80,347
Net income attributable to the Company	$39,112	$70,720	$ 70,132	$ 43,785
Basic earnings per share	$0.60	$1.07	$ 1.05	$ 0.65
Diluted earnings per share	$0.56	$1.01	$ 1.00	$ 0.63

	For the Fiscal Quarters Ended			
	April 1, 2017	July 1, 2017	September 30, 2017	December 30, 2017
Fiscal year ended December 30, 2017				
Revenues, net	$329,063	$341,673	$ 323,687	$ 312,488
Gross profit	$164,097	$189,013	$ 177,088	$ 162,451
Operating income	$30,233	$96,206	$ 91,378	$ 49,488
Net income attributable to the Company	$10,653	$45,173	$ 44,719	$ 62,969
Basic earnings per share	$0.17	$0.70	$ 0.69	$ 0.97
Diluted earnings per share	$0.16	$0.67	$ 0.65	$ 0.91

Basic and diluted EPS are computed independently for each of the periods presented. Accordingly, the sum of the quarterly EPS amounts may not agree to the total for the year.

As discussed in Note 2, the Company recorded an impairment charge for goodwill related to its Brazil reporting unit of $13,323, or $0.19 per fully diluted share, in the fourth quarter of fiscal 2017.

As discussed in Note 8, the Company recorded a write-off of deferred financing costs in connection with the November 2017 debt refinancing of $10,524 ($0.09 per fully diluted share) in the fourth quarter of fiscal 2017.

As discussed in further detail in Note 12, the Company recorded a net tax benefit of $56,560 ($0.82 per fully diluted share) related to the 2017 Tax Act in the fourth quarter of fiscal 2017. The Company also recorded a net tax benefit of $11,633 ($0.17 per fully diluted share) related to the cessation of operations of our Spanish subsidiary in the first quarter of fiscal 2017, a $2,255 ($0.03 per fully diluted share) tax benefit related to the reversal of tax reserves resulting from an updated transfer pricing study in the third quarter of fiscal 2017 and a $3,735 ($0.05 per fully diluted share) tax benefit due to a change in estimate related to the availability of certain foreign tax credits.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(IN THOUSANDS)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions (1)	Balance at End of Period
FISCAL YEAR ENDED DECEMBER 29, 2018					
Allowance for doubtful accounts	$ 2,001	$ 130	$ 0	$ (388)	$ 1,743
Inventory and other reserves	$ 3,984	$ 7,906	$ 0	$ (8,047)	$ 3,843
Tax valuation allowance	$ 22,760	$ 1,893	$ (403)	$ (18,059)	$ 6,191
FISCAL YEAR ENDED DECEMBER 30, 2017					
Allowance for doubtful accounts	$ 2,973	$ (587)	$ 0	$ (385)	$ 2,001
Inventory and other reserves	$ 3,703	$ 7,823	$ 0	$ (7,542)	$ 3,984
Tax valuation allowance	$ 18,277	$ 11,515	$ 1,079	$ (8,111)	$ 22,760
FISCAL YEAR ENDED DECEMBER 31, 2016					
Allowance for doubtful accounts	$ 2,226	$ 363	$ 384	$ 0	$ 2,973
Inventory and other reserves	$ 4,065	$ 5,109	$ 0	$ (5,471)	$ 3,703
Tax valuation allowance	$ 28,280	$ 2,258	$ (483)	$ (11,778)	$ 18,277

(1) Primarily represents the utilization of established reserves, net of recoveries, where applicable.

EXHIBIT INDEX

Exhibit Number	Description
*3.1	Amended and Restated Articles of Incorporation of Weight Watchers International, Inc.
*3.2	Articles of Amendment to the Articles of Incorporation, as Amended and Restated, of Weight Watchers International, Inc. to Create a New Series of Preferred Stock Designated as Series B Junior Participating Preferred Stock, adopted as of November 14, 2001.
**3.3	Amended and Restated Bylaws of Weight Watchers International, Inc., as of November 14, 2013 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed on November 18, 2013 (File No. 001-16769), and incorporated herein by reference).
*4.1	Specimen of stock certificate representing Weight Watchers International, Inc.'s common stock, no par value.
**4.2	Indenture, dated as of November 29, 2017, among Weight Watchers International, Inc., the guarantors party thereto and The Bank of New York Mellon, as trustee, relating to $300.0 million in aggregate principal amount of 8.625% Senior Notes due 2025 ("Note") (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed on November 30, 2017 (File No. 001-16769), and incorporated herein by reference).
**4.3	Form of Note (included in Exhibit 4.2 above)
**10.1	Credit Agreement, dated as of November 29, 2017, among Weight Watchers International, Inc., as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and an issuing bank, Bank of America, N.A., as an issuing bank, and Citibank, N.A., as an issuing bank (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on November 30, 2017 (File No. 001-16769), and incorporated herein by reference).
**10.2	License Agreement, dated as of September 29, 1999, between WW Foods, LLC and Weight Watchers International, Inc. (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-4, as filed on December 2, 1999 (File No. 333-92005), and incorporated herein by reference).
**10.3	LLC Agreement, dated as of September 29, 1999, between H.J. Heinz Company and Weight Watchers International, Inc. (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-4, as filed on December 2, 1999 (File No. 333-92005), and incorporated herein by reference).
**10.4	Operating Agreement, dated as of September 29, 1999, between Weight Watchers International, Inc. and H.J. Heinz Company (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-4, as filed on December 2, 1999 (File No. 333-92005), and incorporated herein by reference).
**10.5	Amendment to Operating Agreement, dated August 4, 2009, by and between Weight Watchers International, Inc. and H.J. Heinz Company (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2009, as filed on November 12, 2009 (File No. 001-16769), and incorporated herein by reference).

**10.6	Amendment to Agreements, dated as of October 1, 2002, by and between Weight Watchers International, Inc., WW Foods, LLC and H.J. Heinz Company (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2009, as filed on November 12, 2009 (File No. 001-16769), and incorporated herein by reference).
**10.7	Registration Rights Agreement, dated as of September 29, 1999, among Weight Watchers International, Inc., H.J. Heinz Company and Artal Luxembourg S.A. (filed as Exhibit 10.38 to Amendment No. 1 to the Company's Registration Statement on Form S-1, as filed on October 29, 2001 (File No. 333-69362), and incorporated herein by reference).

Exhibit Number	Description
**10.8	Corporate Agreement, dated as of November 5, 2001, between Weight Watchers International, Inc. and Artal Luxembourg S.A. (filed as Exhibit 10.36 to Amendment No. 2 to the Company's Registration Statement on Form S-1, as filed on November 9, 2001 (File No. 333-69362), and incorporated herein by reference).
**10.9	Amendment, dated as of July 1, 2005, to the Corporate Agreement, dated as of November 5, 2001, by and between Weight Watchers International, Inc. and Artal Luxembourg S.A. (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2005, as filed on August 11, 2005 (File No. 001-16769), and incorporated herein by reference).
†**10.10	Weight Watchers International, Inc. 2008 Stock Incentive Plan (filed as Appendix A of the Company's Definitive Proxy Statement on Schedule 14A filed on March 31, 2008 (File No. 001-16769), and incorporated herein by reference).
†**10.11	Second Amended and Restated Weight Watchers International, Inc. 2014 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on May 9, 2017 (File No. 001-16769), and incorporated herein by reference).
†**10.12	Form of Term Sheet for Employee Stock Awards and Form of Terms and Conditions for Employee Stock Awards (filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed on February 27, 2006 (File No. 001-16769), and incorporated herein by reference).
†**10.13	Form of Term Sheet for Employee Restricted Stock Unit Awards and Form of Terms and Conditions for Employee Restricted Stock Unit Awards (filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed on February 27, 2006 (File No. 001-16769), and incorporated herein by reference).
†**10.14	Form of Term Sheet for Employee Performance Stock Unit Awards and Form of Terms and Conditions for Employee Performance Stock Unit Awards (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, as filed on November 8, 2016 (File No. 001-16769), and incorporated herein by reference).
†**10.15	Form of Term Sheet for Employee Stock Option Awards and Form of Terms and Conditions for Employee Stock Option Awards (Chief Executive Officer Initial Equity Award—Stock Incentive Plan Award) (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, as filed on April 26, 2017 (File No. 001-16769), and incorporated herein by reference).
†**10.16	Form of Term Sheet for Employee Stock Option Awards and Form of Terms and Conditions for Employee Stock Option Awards (Chief Executive Officer Initial Equity Award—Inducement Grant Award) (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, as filed on April 26, 2017 (File No. 001-16769), and incorporated herein by reference).
†**10.17	Form of Term Sheet for Employee Restricted Stock Unit Awards and Form of Terms and Conditions for Employee Restricted Stock Unit Awards (Chief Executive Officer Initial Equity Award) (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, as filed on April 26, 2017 (File No. 001-16769), and incorporated herein by reference).

†**10.18 2017 Form of Term Sheet for Employee Performance Stock Unit Awards and 2017 Form of Terms and Conditions for Employee Performance Stock Unit Awards (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q, as filed on August 8, 2017 (File No. 001-16769), and incorporated herein by reference).

†**10.19 2017 Form of Term Sheet for Employee Restricted Stock Unit Awards and 2017 Form of Terms and Conditions for Employee Restricted Stock Unit Awards (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q, as filed on August 8, 2017 (File No. 001-16769), and incorporated herein by reference).

Exhibit Number	Description
†**10.20	2017 Form of Term Sheet for Employee Performance Stock Unit Awards and 2017 Form of Terms and Conditions for Employee Performance Stock Unit Awards (Chief Executive Officer Annual Equity Award) (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q, as filed on August 8, 2017 (File No. 001-16769), and incorporated herein by reference).
†**10.21	2017 Form of Term Sheet for Employee Restricted Stock Unit Awards and 2017 Form of Terms and Conditions for Employee Restricted Stock Unit Awards (Chief Executive Officer Annual Equity Award) (filed as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q, as filed on August 8, 2017 (File No. 001-16769), and incorporated herein by reference).
†**10.22	2018 Form of Term Sheet for Employee Performance Stock Unit Awards and 2018 Form of Terms and Conditions for Employee Performance Stock Unit Awards (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, as filed on August 7, 2018 (File No. 001-16769), and incorporated herein by reference).
†**10.23	2018 Form of Term Sheet for Employee Restricted Stock Unit Awards and 2018 Form of Terms and Conditions for Employee Restricted Stock Unit Awards (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, as filed on August 7, 2018 (File No. 001-16769), and incorporated herein by reference).
†**10.24	2018 Form of Term Sheet for Employee Performance Stock Unit Awards and 2018 Form of Terms and Conditions for Employee Performance Stock Unit Awards (Chief Executive Officer Annual Equity Award) (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, as filed on August 7, 2018 (File No. 001-16769), and incorporated herein by reference).
†**10.25	Form of Amended and Restated Restricted Stock Agreement for Weight Watchers International, Inc. non-employee directors and certain members of the former Interim Office of the Chief Executive Officer (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2014, as filed on August 7, 2014 (File No. 001-16769), and incorporated herein by reference).
†**10.26	Second Amended and Restated Weight Watchers Executive Profit Sharing Plan, August 1, 2012 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2012, as filed on November 8, 2012 (File No. 001-16769), and incorporated herein by reference).
†**10.27	Form of Amended and Restated Continuity Agreement, between Weight Watchers International, Inc. and certain key executives (Chief Financial Officer and General Counsel & Secretary) (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2011, as filed on August 11, 2011 (File No. 001-16769), and incorporated herein by reference).
†**10.28	Form of Amended and Restated Continuity Agreement, between Weight Watchers International, Inc. and certain key executives (certain executive officers) (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2011, as filed on August 11, 2011 (File No. 001-16769), and incorporated herein by reference).
†**10.29	Continuity Agreement, dated as of April 21, 2017, by and between Weight Watchers International, Inc. and Mindy Grossman (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed on April 26,

2017 (File No. 001-16769), and incorporated herein by reference).

†**10.30	Employment Agreement, dated as of April 21, 2017, by and between Weight Watchers International, Inc. and Mindy Grossman (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on April 26, 2017 (File No. 001-16769), and incorporated herein by reference).

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Exhibit Number	Description
†**10.31	Offer Letter, dated as of July 2, 2012, by and between Weight Watchers International, Inc. and Nicholas P. Hotchkin (filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012, as filed on February 27, 2013 (File No. 001-16769), and incorporated herein by reference).
†**10.32	Letter Agreement, dated as of May 8, 2013, by and between Weight Watchers International, Inc. and Nicholas Hotchkin (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2013, as filed on August 8, 2013 (File No. 001-16769), and incorporated herein by reference).
†**10.33	Second Letter Agreement, dated as of September 14, 2016, by and between Nicholas Hotchkin and Weight Watchers International, Inc. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, as filed on November 8, 2016 (File No. 001-16769), and incorporated herein by reference).
†**10.34	Offer Letter, dated as of March 3, 2014, by and between Weight Watchers International, Inc. and Michael F. Colosi (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 4, 2015, as filed on May 14, 2015 (File No. 001-16769), and incorporated herein by reference).
†**10.35	Letter Agreement, dated as of May 8, 2017, by and between Stacey Mowbray and Weight Watchers International, Inc. (the "Mowbray Letter Agreement") (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, as filed on May 10, 2017 (File No. 001-16769), and incorporated herein by reference).
†**10.36	First Addendum to the Mowbray Letter Agreement, dated February 8, 2018, by and between Stacey Mowbray and Weight Watchers International, Inc. (filed as Exhibit 10.43 to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017, as filed on February 28, 2018 (File No. 001-16769), and incorporated herein by reference).
†**10.37	Employment Agreement, dated October 6, 2003, by and between Weight Watchers France S.A.R.L. and Corinne Pollier(-Bousquet) (the "Pollier Employment Agreement") (filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016, as filed on March 2, 2016 (File No. 001-16769), and incorporated herein by reference).
†**10.38	Addendum to the Pollier Employment Agreement, dated May 1, 2013, by and between Weight Watchers France S.A.R.L. and Corinne Pollier(-Bousquet) (filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016, as filed on March 2, 2016 (File No. 001-16769), and incorporated herein by reference).
†**10.39	Second Addendum to the Pollier Employment Agreement, effective March 2, 2016, by and between Weight Watchers France S.A.R.L. and Corinne Pollier(-Bousquet) (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, as filed on May 10, 2016 (File No. 001-16769), and incorporated herein by reference).
†**10.40	Letter Agreement, dated as of September 15, 2015, by and between Weight Watchers International, Inc. and Corinne Pollier(-Bousquet) (filed as Exhibit 10.36 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016, as filed on March 2, 2016 (File No. 001-16769), and incorporated herein

by reference).

**10.41	Share Purchase Agreement, dated October 18, 2015, between Weight Watchers International, Inc. and Oprah Winfrey (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on October 19, 2015 (File No. 001-16769), and incorporated herein by reference).

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Exhibit Number	Description
†**10.42	Option Agreement, dated October 18, 2015, between Weight Watchers International, Inc. and Oprah Winfrey (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed on October 19, 2015 (File No. 001-16769), and incorporated herein by reference).
**10.43	Strategic Collaboration Agreement, dated October 18, 2015, between Weight Watchers International, Inc. and Oprah Winfrey (filed as Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016, as filed on March 2, 2016 (File No. 001-16769), and incorporated herein by reference).
*21.1	Subsidiaries of Weight Watchers International, Inc.
*23.1	Consent of Independent Registered Public Accounting Firm.
*31.1	Rule 13a-14(a) Certification by Mindy Grossman, Chief Executive Officer.
*31.2	Rule 13a-14(a) Certification by Nicholas P. Hotchkin, Chief Financial Officer.
*32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*Exhibit 101	
*EX-101.INS	XBRL Instance Document
*EX-101.SCH	XBRL Taxonomy Extension Schema
*EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase
*EX-101.LAB	XBRL Taxonomy Extension Label Linkbase
*EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

Item 16. Form 10-K Summary
None.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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: February 26, 2019	By: /S/ MINDY GROSSMAN
	Mindy Grossman
	President, Chief Executive Officer and Director
	(Principal Executive Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 26, 2019	By: /S/ MINDY GROSSMAN Mindy Grossman President, Chief Executive Officer and Director (Principal Executive Officer)
Date: February 26, 2019	By: /S/ NICHOLAS P. HOTCHKIN Nicholas P. Hotchkin Chief Financial Officer (Principal Financial and Accounting Officer)
Date: February 26, 2019	By: /S/ RAYMOND DEBBANE Raymond Debbane Director
Date: February 26, 2019	By: /S/ STEVEN M. ALTSCHULER Steven M. Altschuler Director
Date: February 26, 2019	By: /S/ PHILIPPE J. AMOUYAL Philippe J. Amouyal Director
Date: February 26, 2019	By: /S/ CYNTHIA ELKINS Cynthia Elkins Director
Date: February 26, 2019	By: /S/ JONAS M. FAJGENBAUM Jonas M. Fajgenbaum Director
Date: February 26, 2019	By: /S/ DENIS F. KELLY Denis F. Kelly Director
Date: February 26, 2019	By: /S/ JULIE RICE Julie Rice Director
Date: February 26, 2019	By: /S/ THILO SEMMELBAUER Thilo Semmelbauer

Director

Date: February 26, 2019	By:	/S/ CHRISTOPHER J. SOBECKI
		Christopher J. Sobecki
		Director
Date: February 26, 2019	By:	/S/ OPRAH WINFREY
		Oprah Winfrey
		Director