

WEIGHT WATCHERS INTERNATIONAL INC  
Form 10-Q  
May 14, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 4, 2009

OR

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

For the transition period from            to

Commission File No. 001-16769

**WEIGHT WATCHERS INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

**Virginia** **11-6040273**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**11 Madison Avenue, 17<sup>th</sup> Floor, New York, New York 10010**  
(Address of principal executive offices) (Zip code)

**Registrant's telephone number, including area code: (212) 589-2700**

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

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

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

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

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

The number of shares of common stock outstanding as of April 30, 2009 was 76,996,895.

**Table of Contents**

**WEIGHT WATCHERS INTERNATIONAL, INC.**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Unaudited Consolidated Balance Sheets at April 4, 2009 and January 3, 2009</u>	2
<u>Unaudited Consolidated Statements of Operations for the three months ended April 4, 2009 and March 29, 2008</u>	3
<u>Unaudited Consolidated Statement of Changes in Total Deficit for the three months ended April 4, 2009 and for the fiscal year ended January 3, 2009</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the three months ended April 4, 2009 and March 29, 2008</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Cautionary Notice Regarding Forward-Looking Statements</u>	16
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
<b><u>PART II - OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3. <u>Defaults Upon Senior Securities</u>	29
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	29
Item 5. <u>Other Information</u>	29
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	
Exhibit Index	

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS AT****(IN THOUSANDS)**

	<b>April 4, 2009</b>	<b>January 3, 2009</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 59,784	\$ 47,322
Receivables, net	40,760	37,850
Inventories, net	34,226	40,121
Prepaid income taxes	20,187	29,782
Deferred income taxes	23,402	32,331
Prepaid expenses and other current assets	35,499	37,635
<b>TOTAL CURRENT ASSETS</b>	<b>213,858</b>	<b>225,041</b>
Property and equipment, net	36,756	37,508
Franchise rights acquired	743,013	743,572
Goodwill	51,299	51,296
Trademarks and other intangible assets, net	34,573	33,531
Deferred income taxes		8,105
Deferred financing costs and other noncurrent assets	7,743	7,699
<b>TOTAL ASSETS</b>	<b>\$ 1,087,242</b>	<b>\$ 1,106,752</b>
<b>LIABILITIES AND TOTAL DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Portion of long-term debt due within one year	\$ 175,625	\$ 162,500
Accounts payable	39,707	33,151
Dividend payable	13,708	13,876
Derivative payable	54,935	61,532
U.K. VAT liability	42,368	42,905
Accrued liabilities	96,459	107,031
Income taxes payable	20,198	14,083
Deferred revenue	84,357	60,046
<b>TOTAL CURRENT LIABILITIES</b>	<b>527,357</b>	<b>495,124</b>
Long-term debt	1,393,250	1,485,000
Deferred income taxes	3,487	2,685
Other	11,502	10,932
<b>TOTAL LIABILITIES</b>	<b>1,935,596</b>	<b>1,993,741</b>

Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

TOTAL DEFICIT		
Dividend to Artal Luxembourg S.A.	(304,835)	(304,835)
Common stock, \$0 par value; 1,000,000 shares authorized; 111,988 shares issued		
Treasury stock, at cost, 34,996 shares at April 4, 2009 and 35,067 shares at January 3, 2009	(1,684,541)	(1,684,828)
Retained earnings	1,164,416	1,131,080
Accumulated other comprehensive loss	(25,929)	(28,933)
TOTAL WEIGHT WATCHERS INTERNATIONAL, INC. DEFICIT	(850,889)	(887,516)
Noncontrolling interest	2,535	527
TOTAL DEFICIT	(848,354)	(886,989)
TOTAL LIABILITIES AND TOTAL DEFICIT	\$ 1,087,242	\$ 1,106,752

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

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

	<b>Three Months Ended</b>	
	<b>April 4, 2009</b>	<b>March 29, 2008</b>
Meeting fees, net	\$ 225,933	\$ 255,498
Product sales and other, net	116,232	135,995
Internet revenues	48,413	45,534
Revenues, net	390,578	437,027
Cost of meetings, products and other	168,887	182,521
Cost of Internet revenues	9,518	8,611
Cost of revenues	178,405	191,132
Gross profit	212,173	245,895
Marketing expenses	74,559	87,051
Selling, general and administrative expenses	43,769	42,832
Operating income	93,845	116,012
Interest expense	16,741	25,317
Other expense/(income), net	503	(2,435)
Income before income taxes	76,601	93,130
Provision for income taxes	29,796	36,129
Net income	46,805	57,001
Net loss attributable to the noncontrolling interest	501	366
Net income attributable to Weight Watchers International, Inc.	\$ 47,306	\$ 57,367
Earnings per share attributable to Weight Watchers International, Inc.		
Basic	\$ 0.61	\$ 0.72
Diluted	\$ 0.61	\$ 0.72
Weighted average common shares outstanding:		
Basic	76,978	79,467
Diluted	77,063	79,774
Dividends declared per common share	\$ 0.18	\$ 0.18

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

**Table of Contents****WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENT OF CHANGES****IN TOTAL DEFICIT****(IN THOUSANDS)**

	Weight Watchers International, Inc.								
	Common Stock		Treasury Stock		Accumulated Other Comprehensive Loss	Dividend to Artal Luxembourg, S.A.	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 29, 2007	111,988	\$	32,578	\$ (1,570,054)	\$ (1,654)	\$ (304,835)	\$ 950,213	\$	\$ (926,330)
Investment by the noncontrolling interest								2,511	2,511
Comprehensive income/(loss):									
Net income/(loss)							204,331	(1,984)	202,347
Translation adjustment, net of taxes of \$3,028					(4,949)				(4,949)
Change in fair value of derivatives accounted for as hedges, net of taxes of \$14,278					(22,330)				(22,330)
<b>Total comprehensive income/(loss)</b>								(1,984)	175,068
Issuance of treasury stock under stock plans			(297)	1,199			6,302		7,501
Tax benefit of restricted stock units vested and stock options exercised							13,621		13,621
Cash dividends declared							(54,689)		(54,689)
Purchase of treasury stock			2,786	(115,973)					(115,973)
Compensation expense on share-based awards							11,302		11,302
Balance at January 3, 2009	111,988	\$	35,067	\$ (1,684,828)	\$ (28,933)	\$ (304,835)	\$ 1,131,080	\$ 527	\$ (886,989)
Investment by the noncontrolling interest								2,509	2,509
Comprehensive income/(loss):									
Net income/(loss)							47,306	(501)	46,805
Translation adjustment, net of taxes of \$762					(1,091)				(1,091)
Change in fair value of derivatives accounted for as hedges, net of taxes of (\$2,618)					4,095				4,095
<b>Total comprehensive income/(loss)</b>								(501)	49,809
Issuance of treasury stock under stock plans			(71)	287			(1,327)		(1,040)
Tax shortfall of restricted stock units vested and stock options exercised							(1,343)		(1,343)
Cash dividends declared							(13,460)		(13,460)
							2,160		2,160



## Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

### Compensation expense on share-based awards

Balance at April 4, 2009	111,988	\$	34,996	\$ (1,684,541)	\$	(25,929)	\$	(304,835)	\$	1,164,416	\$	2,535	\$ (848,354)
--------------------------	---------	----	--------	----------------	----	----------	----	-----------	----	-----------	----	-------	--------------

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

**Table of Contents****WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(IN THOUSANDS)**

	<b>Three Months Ended</b>	
	<b>April 4, 2009</b>	<b>March 29, 2008</b>
Cash provided by operating activities	\$ 109,429	\$ 105,475
Investing activities:		
Capital expenditures	(2,575)	(4,753)
Capitalized software expenditures	(2,994)	(961)
Website development expenditures	(1,252)	(1,115)
Cash paid for acquisitions		(12,991)
Other items, net	(228)	107
Cash used for investing activities	(7,049)	(19,713)
Financing activities:		
Payments of long-term debt	(78,625)	(59,625)
Proceeds from stock options exercised	13	4,973
Payment of dividends	(13,629)	(13,918)
Investment and advances from minority shareholder	2,406	317
Cash used for financing activities	(89,835)	(68,253)
Effect of exchange rate changes on cash/cash equivalents and other	(83)	2,030
Net increase in cash and cash equivalents	12,462	19,539
Cash and cash equivalents, beginning of period	47,322	39,823
Cash and cash equivalents, end of period	\$ 59,784	\$ 59,362

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

**Table of Contents**

**WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

**1. Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Weight Watchers International, Inc., and all of its subsidiaries. The term "Company" as used throughout this document is used to indicate Weight Watchers International, Inc. and all of its subsidiaries. The term "WWI" as used throughout this document is used to indicate Weight Watchers International, Inc. and all of its subsidiaries other than WeightWatchers.com, Inc. and all of its subsidiaries. The term "WW.com" as used throughout this document is used to indicate WeightWatchers.com, Inc. and all of its subsidiaries.

As further discussed in Note 4, effective with its formation in February 2008, the Company consolidates the financial statements of its joint venture entity, Weight Watchers Danone China Limited, and its subsidiaries (the "China Joint Venture").

The Company adopted the provisions of Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" an amendment of ARB No. 51 (SFAS 160) on January 4, 2009. This Statement establishes accounting and reporting standards for noncontrolling interests, previously referred to as minority interests. In accordance with the provisions of this Statement, the financial statements for the comparable prior periods as shown in this Quarterly Report on Form 10-Q have been restated to conform to the presentation requirements of SFAS 160.

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

These statements should be read in conjunction with the Company's Annual Report on Form 10-K for fiscal 2008, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

**2. Summary of Significant Accounting Policies**

For a discussion of the Company's significant accounting policies, see "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for fiscal 2008.

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

**3. Acquisitions**

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

On January 31, 2008, the Company acquired substantially all of the assets of its Palm Beach, Florida franchisee, Weight Watchers of Palm Beach County, Inc., for a net purchase price of \$12,936 plus assumed liabilities and transaction costs of \$319. The total purchase price has been allocated to franchise rights acquired (\$12,693), inventory (\$113), fixed assets (\$299) and other current assets (\$150).



**Table of Contents**

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

On June 13, 2008, the Company acquired substantially all of the assets of its Wichita, Kansas franchisee, Weight Watchers of Greater Wichita, Inc., for a net purchase price of \$5,734. The total purchase price has been allocated to franchise rights acquired (\$5,676) and prepaid expenses (\$58).

On June 19, 2008, the Company acquired substantially all of the assets of two of its franchisees, Weight Watchers of Syracuse, Inc. and Dieters of the Southern Tier, Inc., for a combined net purchase price of \$20,935, plus assumed liabilities and transaction costs of \$164. The total purchase price has been allocated to franchise rights acquired (\$20,948), fixed assets (\$36), inventory (\$56) and prepaid expenses (\$59).

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

The Company adopted the provisions of Statement of Financial Accounting Standards No. 141 (Revised 2007), Business Combinations on January 4, 2009, the first day of fiscal 2009. This Statement establishes principles and requirements for how the acquirer (a) recognizes and measures the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired; and (c) determines what information to disclose. The Company will apply the provisions of this Statement for business combinations with an acquisition date on or after January 4, 2009.

**4. China Joint Venture**

On February 5, 2008, Weight Watchers Asia Holdings Ltd. (Weight Watchers Asia), a direct wholly-owned subsidiary of the Company, and Danone Dairy Asia, an indirect wholly-owned subsidiary of Groupe DANONE S.A., entered into a joint venture agreement to establish a weight management business in the People's Republic of China. Pursuant to the terms of the joint venture agreement, Weight Watchers Asia and Danone Dairy Asia own 51% and 49%, respectively, of the China Joint Venture.

Because the Company has a direct controlling financial interest in the China Joint Venture, it began to consolidate this entity in the first quarter of fiscal 2008 under the provisions of Accounting Research Bulletin No. 51, Consolidated Financial Statements.

**5. Goodwill and Intangible Assets**

For the three months ended April 4, 2009, the change in goodwill is due to foreign currency fluctuations. Franchise rights acquired are due to acquisitions of the Company's franchised territories. For the three months ended April 4, 2009, the change in franchise rights acquired is due to foreign currency fluctuations.

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$3,078 and \$2,487 for the three months ended April 4, 2009 and March 29, 2008, respectively.

**Table of Contents**

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

The carrying amount of finite-lived intangible assets as of April 4, 2009 and January 3, 2009 was as follows:

	April 4, 2009		January 3, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Deferred software costs	\$ 40,566	\$ 19,231	\$ 39,027	\$ 17,408
Trademarks	9,350	8,321	9,287	8,233
Website development costs	28,425	17,201	25,847	15,995
Other	5,741	4,756	5,741	4,735
	<b>\$ 84,082</b>	<b>\$ 49,509</b>	<b>\$ 79,902</b>	<b>\$ 46,371</b>

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

Remainder of fiscal 2009	\$ 9,987
Fiscal 2010	\$ 10,837
Fiscal 2011	\$ 8,296
Fiscal 2012	\$ 3,074
Fiscal 2013	\$ 785

**6. Long-Term Debt**

WWI's credit agreement consists of a term loan facility consisting of two tranche A facilities, or Term Loan A and Additional Term Loan A, and a tranche B facility, or Term Loan B, in an aggregate original principal amount of \$1,550,000 and a revolving credit facility, or the Revolver, in the amount of up to \$500,000. We refer to the term loan facility and the Revolver collectively as the WWI Credit Facility. At April 4, 2009, the Company had \$1,568,875 outstanding under the WWI Credit Facility with an additional \$376,057 of availability under the Revolver.

At April 4, 2009, the Term Loan A, Additional Term Loan A and the Revolver bore interest at an initial rate equal to LIBOR plus 1.0% per annum or, at the Company's option, the alternate base rate (as defined in the WWI Credit Facility agreements). At April 4, 2009, the Term Loan B bore interest at an initial rate equal to LIBOR plus 1.5% per annum or, at the Company's option, the alternate base rate (as defined in the WWI Credit Facility agreements). In addition to paying interest on outstanding principal under the WWI Credit Facility, the Company is required to pay a commitment fee to the lenders under the Revolver with respect to the unused commitments at an initial rate equal to 0.20% per annum at April 4, 2009.

The WWI Credit Facility contains customary covenants including covenants that, in certain circumstances, restrict the Company's ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell its assets and enter into consolidations, mergers and transfers of all or substantially all of its assets. The WWI Credit Facility also requires the Company to maintain specified financial ratios and satisfy certain financial condition tests. At April 4, 2009, the Company was in compliance with all of the required financial ratios and also met all of the financial condition tests and expects to continue to do so for the foreseeable future. The WWI Credit

## Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding

**Table of Contents**

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

to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of the Company's existing and future subsidiaries. Substantially all the assets of the Company collateralize the WWI Credit Facility.

On March 20, 2008, Standard & Poor's affirmed its BB+ rating on the WWI Credit Facility. On March 30, 2009, Moody's affirmed its Baa1 rating for the WWI Credit Facility.

**7. Treasury Stock**

On October 9, 2003, the Company, at the direction of its Board of Directors, authorized a program to repurchase up to \$250,000 of the Company's outstanding common stock. On each of June 13, 2005 and May 25, 2006, the Company, at the direction of its Board of Directors, authorized adding \$250,000 to this program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal Group S.A. (together with its parents and subsidiaries, Artal) under the program.

During the three months ended April 4, 2009 and March 29, 2008, the Company repurchased no shares of its common stock.

**8. Earnings Per Share**

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

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

	<b>Three Months Ended</b>	
	<b>April 4, 2009</b>	<b>March 29, 2008</b>
<b>Numerator:</b>		
Net income attributable to Weight Watchers International, Inc.	\$ 47,306	\$ 57,367
<b>Denominator:</b>		
Weighted average shares of common stock outstanding	76,978	79,467
Effect of dilutive common stock equivalents	85	307
Weighted average diluted common shares outstanding	77,063	79,774
<b>EPS attributable to Weight Watchers International, Inc.:</b>		
Basic	\$ 0.61	\$ 0.72
Diluted	\$ 0.61	\$ 0.72



## Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

The number of anti-dilutive common stock equivalents excluded from the calculation of weighted average shares for diluted EPS was 2,307 and 1,324 for the three months ended April 4, 2009 and March 29, 2008, respectively.

**Table of Contents**

**WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

**9. Stock Plans**

On May 6, 2008, May 12, 2004 and December 16, 1999, the Company's shareholders approved the 2008 Stock Incentive Plan (the 2008 Plan), the 2004 Stock Incentive Plan (the 2004 Plan) and the 1999 Stock Purchase and Option Plan (the 1999 Plan) and together with the 2008 Plan and the 2004 Plan, the Stock Plans, respectively. These Stock Plans are designed to promote the long-term financial interests and growth of the Company by attracting, motivating and retaining employees with the ability to contribute to the success of the business and aligning compensation for the Company's employees over a multi-year period directly with the interests of the shareholders of the Company. The Company's Board of Directors or a committee thereof administers the Stock Plans.

On March 27, 2009, the Company granted 458 non-qualified stock options and 71 restricted stock units (RSUs) to certain employees. The options and RSUs will vest on the third anniversary of the date of grant and the options will expire 10 years from the date of grant. The options and RSUs had an aggregate estimated grant-date fair value of \$2,403 and \$1,245, respectively.

**10. Income Taxes**

The effective tax rate for the three months ended April 4, 2009 and March 29, 2008 was 38.9% and 38.8%, respectively. For the three months ended April 4, 2009 and March 29, 2008, the primary differences between the U.S. federal statutory tax rate and the Company's effective tax rate were state income taxes, offset by lower statutory rates in certain foreign jurisdictions.

**11. Legal**

*U.K. VAT Matter*

In July 2006, the Company filed an amended notice of appeal with the U.K. VAT and Duties Tribunal, or VAT Tribunal, appealing a ruling by Her Majesty's Revenue and Customs, or HMRC, that from April 1, 2005 Weight Watchers meeting fees in the United Kingdom should be fully subject to 17.5% standard rated value added tax, or VAT. For over a decade prior to April 1, 2005, HMRC had determined that Weight Watchers meeting fees in the United Kingdom were only partially subject to 17.5% VAT. In March 2007, the VAT Tribunal ruled that Weight Watchers meetings in the United Kingdom should only be partially subject to 17.5% VAT. The VAT Tribunal's ruling was appealed by HMRC to the High Court of Justice Chancery Division, or the High Court, in May 2007, and in January 2008 the High Court denied HMRC's appeal in part and allowed HMRC's appeal in part. In April 2008, the Company filed an appeal to the Court of Appeal in part against the High Court's ruling and HMRC also filed an appeal to the Court of Appeal in part against the High Court's ruling. In June 2008, the Court of Appeal issued a ruling that Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% VAT, thus reversing in its entirety the VAT Tribunal's 2007 decision in the Company's favor. In July 2008, the Company sought permission from the U.K. House of Lords to appeal the Court of Appeal's ruling, which permission was denied in January 2009.

In light of the Court of Appeal's ruling that Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% VAT and in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), the Company recorded a charge of approximately \$32,500 as an offset to revenue in the second quarter of fiscal 2008 for U.K. VAT liability (including interest) in excess of reserves previously recorded. Beginning in the third quarter of fiscal 2008, in accordance with SFAS 5, the Company recorded as an offset to revenue VAT charges associated with U.K. meeting fees as earned, consistent with the Court of Appeal's ruling.

**Table of Contents**

**WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

However, with respect to U.K. VAT owed for the period prior to July 1, 2005, HMRC has failed to raise a notice of assessment within the statutory three-year time period. In addition, although HMRC raised notices of assessment against the Company with respect to U.K. VAT due for the period July 1, 2005 to September 30, 2005 and for the period October 1, 2005 to December 31, 2005, the Company has asserted that these notices of assessment are invalid and should not have been raised on the grounds that they had been raised outside the relevant statutory time limits. HMRC indicated in November 2008 that it agreed with the Company's assertion that the notice of assessment for the period July 1, 2005 to September 30, 2005 was invalid, and, in February 2009, confirmed that this notice had been formally withdrawn. As a result of the expiration of the statutory time period with respect to U.K. VAT owed prior to October 1, 2005, the Company recorded in the fourth quarter of fiscal 2008 as a benefit to revenue for the periods prior to October 1, 2005 an amount of approximately \$9,200 as an offset against reserves previously recorded including in part the charge recorded against revenue in the second quarter of fiscal 2008 for U.K. VAT liability. In March 2009, HMRC raised a notice of assessment against the Company in respect of U.K. VAT due for the period January 1, 2006 to March 31, 2006, which the Company similarly believes was raised outside the relevant statutory time limits. The Company intends to vigorously challenge any amount of U.K. VAT that HMRC claims to be owed by it for the periods October 1, 2005 to December 31, 2005 and January 1, 2006 to March 31, 2006. Accordingly, the Company filed notices of appeal with the VAT Tribunal against the U.K. VAT assessments issued for the period October 1, 2005 to December 31, 2005 and the period January 1, 2006 to March 31, 2006 in March 2009 and April 2009, respectively.

*U.K. Self-Employment Matter*

In July 2007, HMRC issued to the Company notices of determination and decisions that, for the period April 2001 to April 2007, its leaders and certain other service providers should have been classified as employees for tax purposes and, as such, it should have withheld tax from the leaders and certain other service providers pursuant to the Pay As You Earn, or PAYE, and national insurance contributions, or NIC, collection rules and remitted such amounts to HMRC. HMRC also issued a claim to the Company in October 2008 in respect of NIC which corresponds to the prior notices of assessment with respect to PAYE previously raised by HMRC. As of April 4, 2009, the assessment associated with the notices of determination and decisions and the claim in respect of NIC are approximately \$24,000. It is the Company's view that the U.K. leaders and other service providers identified by HMRC in its notices and in its claim are self-employed and no withholding by the Company was required. In September 2007, the Company appealed HMRC's notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by it and, in July 2008, filed this appeal with the U.K. Special Commissioners. In February 2009, the U.K. Special Commissioners provided notice that the Company's appeal will be heard in June 2009. The Company intends to vigorously pursue its appeal and, although there can be no assurances, the Company believes, based in part upon advice of legal counsel, it will ultimately prevail in its appeal. Accordingly, the Company has not recorded any reserves with respect to this matter. If such appeal is unsuccessful, it is possible that the Company's cash flows and results of operations in a particular fiscal quarter may be adversely affected by this matter. However, it is the opinion of management that the disposition of this matter will not have a material effect on the Company's financial condition or ongoing results of operations or cash flows.

*Other Litigation Matters*

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

**Table of Contents**

**WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

**12. Derivative Instruments and Hedging**

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

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, ( SFAS 133 ), requires companies to recognize the fair value of all derivative instruments as either assets or liabilities on the balance sheet. In accordance with SFAS 133, the Company has designated and accounted for interest rate swaps 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 other comprehensive income and reclassified into earnings in the periods during which the hedged transactions affect earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The fair value of the Company's interest rate swaps is reported in the derivative payable balance on our balance sheet. See Note 13 for a further discussion regarding the fair value of the Company's interest rate swaps. The net effect of the interest payable and receivable under the Company's interest rate swaps is included in interest expense on the statement of operations.

As of April 4, 2009 and March 29, 2008, the Company had in effect an interest rate swap with a notional amount of \$900,000. In addition, in January 2009, the Company entered into a forward-starting interest rate swap with an effective date of January 4, 2010 and a termination date of January 27, 2014. During the term of this forward-starting interest rate swap, the notional amount will fluctuate. The initial notional amount is \$425,000 and the highest notional amount will be \$755,000.

The Company is hedging forecasted transactions for periods not exceeding the next five years. At April 4, 2009, given the current configuration of its debt, the Company estimates that no derivative gains or losses reported in accumulated other comprehensive loss will be reclassified to the statement of operations within the next twelve months.

As of April 4, 2009, cumulative losses for qualifying hedges were reported as a component of accumulated other comprehensive loss in the amount of \$33,231 (\$54,480 before taxes). As of March 29, 2008, cumulative losses for qualifying hedges were reported as a component of accumulated other comprehensive loss in the amount of \$32,097 (\$52,620 before taxes). For the three months ended April 4, 2009 and March 29, 2008, there were no fair value adjustments recorded in the statement of operations since all hedges were considered qualifying.

**13. Fair Value Measurements**

On December 30, 2007, the Company adopted the provisions of FASB Statement No. 157, Fair Value Measurements ( SFAS 157 ), which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 defines fair value as the exchange price

**Table of Contents**

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

that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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.

*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 12 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 liability at April 4, 2009	\$ 54,935		\$ 54,935	
Interest rate swap liability at January 3, 2009	\$ 61,532		\$ 61,532	

On February 12, 2008, the FASB issued Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 to fiscal 2009 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis. The Company adopted this Staff Position beginning December 30, 2007 and deferred the application of SFAS 157 to goodwill and other intangible assets until the first day of fiscal 2009.

**Table of Contents**

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

**14. Comprehensive Income**

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

	<b>Three Months Ended</b>	
	<b>April 4, 2009</b>	<b>March 29, 2008</b>
Net income	\$ 46,805	\$ 57,001
Other comprehensive income/(loss):		
Foreign currency translation adjustments, net of tax	(1,091)	(1,219)
Current period changes in fair value of derivatives, net of tax	4,095	(17,104)
<b>Total other comprehensive income/(loss)</b>	<b>3,004</b>	<b>(18,323)</b>
Comprehensive income	49,809	38,678
Comprehensive loss attributable to the noncontrolling interest	(501)	(366)
Comprehensive income attributable to Weight Watchers International, Inc.	\$ 49,308	\$ 38,312

**15. Segment Data**

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

**Table of Contents**

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

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

	<b>Three Months Ended April 4, 2009</b>			
	<b>WWI</b>	<b>WW.com</b>	<b>Intercompany Eliminations</b>	<b>Consolidated</b>
Revenues from external customers	\$ 341,427	\$ 49,151	\$	\$ 390,578
Intercompany revenue	4,581		(4,581)	
<b>Total revenue</b>	<b>346,008</b>	<b>49,151</b>	<b>(4,581)</b>	<b>390,578</b>
Depreciation and amortization	5,553	1,226		6,779
<b>Operating income</b>	<b>83,590</b>	<b>10,255</b>		<b>93,845</b>
Interest expense				16,741
Other expense, net				503
Provision for taxes				29,796
<b>Net income</b>				<b>\$ 46,805</b>
Total assets	\$ 1,228,292	\$ 157,804	\$ (298,854)	\$ 1,087,242

	<b>Three Months Ended March 29, 2008</b>			
	<b>WWI</b>	<b>WW.com</b>	<b>Intercompany Eliminations</b>	<b>Consolidated</b>
Revenues from external customers	\$ 390,504	\$ 46,523	\$	\$ 437,027
Intercompany revenue	4,352	105	(4,457)	
<b>Total revenue</b>	<b>394,856</b>	<b>46,628</b>	<b>(4,457)</b>	<b>437,027</b>
Depreciation and amortization	4,923	1,455		6,378
<b>Operating income</b>	<b>105,732</b>	<b>10,280</b>		<b>116,012</b>
Interest expense				25,317
Other income, net				(2,435)
Provision for taxes				36,129

Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

Net income					\$ 57,001
Total assets		\$ 1,269,370	\$ 120,043	\$ (294,307)	\$ 1,095,106



**Table of Contents**

**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

the effectiveness of our marketing and advertising programs;

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

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

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

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

the seasonal nature of our business;

the impact of events that discourage people from gathering with others;

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

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

risks associated with unauthorized penetration of our information security;

the impact of disputes with our franchise operators;

the impact of existing and future laws and regulations;

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

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

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

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

**Table of Contents**

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

Weight Watchers International, Inc. is a Virginia corporation with its principal executive offices in New York, New York. In this Quarterly Report on Form 10-Q unless the context indicates otherwise: we, us, our and the Company refer to Weight Watchers International, Inc. and all its subsidiaries consolidated for purposes of its financial statements, including WeightWatchers.com, Inc. and all of its subsidiaries; Weight Watchers International and WWI refer to Weight Watchers International, Inc. and all of its subsidiaries other than WeightWatchers.com, Inc. and all of its subsidiaries; WW.com refers to WeightWatchers.com, Inc. and all of its subsidiaries; NACO" refers to our North American Company-owned meeting operations; and China Joint Venture refers to Weight Watchers Danone China Limited and all of its subsidiaries.

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

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

fiscal 2007 refers to our fiscal year ended December 29, 2007;

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

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

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

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

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

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

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

You should read the following discussion in conjunction with our Annual Report on Form 10-K for fiscal 2008 that includes additional information about us, our results of operations, our financial position and our cash flows, and with our unaudited consolidated financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q (collectively, the Consolidated Financial Statements).

**NON-GAAP FINANCIAL MEASURES**

To supplement the Company's consolidated statements of operations presented in accordance with accounting principles generally accepted in the United States, or GAAP, the Company has disclosed non-GAAP measures of operating results that exclude or adjust certain items. Net revenues, net income and diluted earnings per share are discussed in this Quarterly Report on Form 10-Q as reported (on a GAAP basis), excluding the impact of the previously disclosed cost savings initiatives from the first quarter of fiscal 2009 results, and adjusting the first quarter of fiscal 2008 results to include the impact of the previously reported adverse U.K. VAT ruling. Management believes these non-GAAP financial measures provide useful supplemental information to investors regarding the performance of the Company's business and are useful for period-over-period comparisons of the performance of the Company's business. While the Company believes that these financial measures are useful in evaluating



## **Table of Contents**

the Company's 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. See Results of Operations for the Three Months Ended April 4, 2009 Compared to the Three Months Ended March 29, 2008 below for a reconciliation of the non-GAAP financial measures excluding the impact of the cost savings initiatives from the first quarter of 2009 results and including the impact of the adverse U.K. VAT ruling for the first quarter of 2008 to the most directly comparable GAAP measures.

### **USE OF CONSTANT CURRENCY**

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

### **CRITICAL ACCOUNTING POLICIES**

For a discussion of the critical accounting policies affecting us, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of our Annual Report on Form 10-K for fiscal 2008. Our critical accounting policies have not changed since the end of fiscal 2008.

### **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 4, 2009 COMPARED TO THE THREE MONTHS ENDED MARCH 29, 2008**

For the three months ended April 4, 2009, our reported revenues were \$390.6 million, a decrease of \$46.4 million, or 10.6%, as compared to the three months ended March 29, 2008. Net income for the three months ended April 4, 2009 on an as reported basis was \$47.3 million, a decrease of \$10.1 million, or 17.6%, from \$57.4 million for the three months ended March 29, 2008.

The table below shows our consolidated statements of operations for the three months ended April 4, 2009 versus the three months ended March 29, 2008 on both a GAAP basis and an adjusted basis. See Non-GAAP Financial Measures above. In the adjusted statements of operations, we have reflected the impact of restructuring charges we recorded in the first quarter of fiscal 2009 associated with our first quarter cost savings initiatives. In addition, we have adjusted first quarter of fiscal 2008 to include a \$2.3 million offset to revenue associated with the previously reported adverse U.K. VAT ruling. The results for the first quarter of fiscal 2008, as reported, did not include the offset to revenue of \$2.3 million for the U.K. VAT ruling as it was recorded in the second quarter of fiscal 2008 when we received the ruling.

**Table of Contents**

	(In millions, except per share amounts)					
	Three Months Ended April 4, 2009			Three Months Ended March 29, 2008		
	As Reported	Impact of Restructuring	As Adjusted <sup>(1)</sup>	As Reported	Impact of U.K. VAT Ruling	As Adjusted <sup>(1)</sup>
Revenues, net	\$ 390.6		\$ 390.6	\$ 437.0	\$ (2.3)	\$ 434.7
Cost of revenues	178.4		178.4	191.1		191.1
Gross profit	212.2		212.2	245.9	(2.3)	243.6
Marketing expenses	74.6		74.6	87.1		87.1
Selling, general and administrative expenses	43.8	(3.1)	40.7	42.8		42.8
Operating income	93.8	3.1	96.9	116.0	(2.3)	113.7
Interest expense	16.7		16.7	25.3		25.3
Other expense/(income), net	0.5		0.5	(2.4)		(2.4)
Income before income taxes	76.6	3.1	79.7	93.1	(2.3)	90.8
Provision for income taxes	29.8	1.2	31.0	36.1	(0.7)	35.4
Net income	46.8	1.9	48.7	57.0	(1.6)	55.4
Net loss attributable to the noncontrolling interest	(0.5)		(0.5)	(0.4)		(0.4)
Net income attributable to Weight Watchers International, Inc.	\$ 47.3	\$ 1.9	\$ 49.2	\$ 57.4	\$ (1.6)	\$ 55.8
Weighted average diluted shares outstanding	77.1	77.1	77.1	79.8	79.8	79.8
Diluted EPS attributable to Weight Watchers International, Inc.	\$ 0.61	\$ 0.02	\$ 0.64	\$ 0.72	\$ (0.02)	\$ 0.70

(1) With respect to the table above, as adjusted is a non-GAAP financial measure that adjusts the consolidated statements of operations to exclude the impact of restructuring charges from the results of operations for the three months ended April 4, 2009 and include the impact of the U.K. VAT ruling in the results of operations for the three months ended March 29, 2008. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures.

After adjusting our reported revenues in each period for these items as described above and shown in the table, fiscal 2009 first quarter revenues would have been \$390.6 million compared to \$434.7 million in the comparable period of 2008, a decline of 10.1%. The largest component of the decline in revenues in the first fiscal quarter of 2009 versus the prior year period was the unfavorable impact of foreign currency exchange rates which reduced our revenues by \$35.4 million, or 8.1%. In the first quarter of fiscal 2009, the average exchange rate from the British pound to the U.S. dollar dropped by 27.4% and the average exchange rate from the Euro to the U.S. dollar dropped by 13.0% versus the prior year first quarter.

After adjusting the first quarter of fiscal 2008 for the offset to revenue for the U.K. VAT ruling as shown in the table, and also excluding from first quarter of fiscal 2009 the negative impact of foreign currency as noted above, first quarter fiscal 2009 revenues were \$426.0 million, down 2.0% from \$434.7 million in first quarter of fiscal 2008 on an adjusted basis.

Reported net income for the three months ended April 4, 2009 of \$47.3 million declined \$10.1 million, or 17.6%, from \$57.4 million for the three months ended March 29, 2008. Net income in the quarter was reduced by \$1.9 million of after-tax restructuring charges, as described above and shown in the table. As a result, reported unadjusted diluted earnings per share including \$0.02 of negative impact of restructuring charges were \$0.61, a decline of 15.3% from last year's first quarter diluted earnings per share of \$0.72.

When we adjust the first quarter of fiscal 2009 for the \$0.02 of restructuring charges and the first quarter of fiscal 2008 for the \$0.02 associated with the U.K. VAT ruling, diluted earnings per share in the first quarter ended April 4, 2009 were \$0.64 as compared to \$0.70 in the prior year fiscal quarter. If we also adjust for the negative impact of foreign currency exchange rates, which reduced earnings by \$0.05 per share, 2009

Edgar Filing: WEIGHT WATCHERS INTERNATIONAL INC - Form 10-Q

adjusted diluted earnings per share of \$0.69 were down just \$0.01 from \$0.70 in first quarter of fiscal 2008.

---

**Table of Contents****Components of Revenue and Volumes**

For the three months ended April 4, 2009, global meeting fees as reported were \$225.9 million, a decrease of \$29.6 million, or 11.6%, from the prior year quarter, or 10.8% after adjusting the 2008 quarter for the U.K. VAT ruling as explained above. On a constant currency basis, fiscal 2009 first quarter global meeting fees totaled \$245.5 million as compared to \$253.2 million for the comparable 2008 period as adjusted for the U.K. VAT ruling, a decrease of \$7.7 million, or 3.0%.

Global meeting paid weeks were 23.7 million in the first quarter of fiscal 2009 versus 24.2 million in the comparable prior year quarter, a 1.8% decline, while global attendance declined 4.7% to 16.7 million in the first fiscal quarter 2009 versus 17.5 million in first fiscal quarter of 2008. Two events in the first quarter of fiscal 2009 had the impact of boosting attendance and paid weeks volumes on a relative basis when comparing to the prior year period. The week leading into Easter, which is a typically slow week for the meeting business, was in the first quarter of fiscal 2008 versus in the second quarter of fiscal 2009, thus creating a benefit to first quarter of fiscal 2009. In addition, the first week of fiscal 2008 included December 30, 31 and January 1, the end of the Christmas/New Year's holiday period when attendance is at a low point; the first week of fiscal 2009, on the other hand, began January 4, after the holiday period had passed and when our business is historically stronger. Without the benefit of Easter occurring two weeks later in 2009, and the later start to fiscal 2009 relative to fiscal 2008, global meeting paid weeks and attendances would have been lower than the prior year period. The declining volume trends pushed first quarter global meeting fees down, but the increased acceptance of Monthly Pass in our international markets mitigated part of the decline. We now have Monthly Pass outside the United States, in the United Kingdom, Germany, and Australia, each of which launched in the third quarter of fiscal 2007, and in France, which launched during the second quarter of fiscal 2008. The average meeting fee per attendance, excluding the negative impact of foreign currency and adjusting fiscal 2008 for the U.K. VAT ruling increased 1.8% in the midst of difficult economic conditions globally.

In NACO, meeting fees for the three months ended April 4, 2009 were \$155.9 million, down \$10.4 million, or 6.3%, from \$166.3 million for the three months ended March 29, 2008. Attendances of 10.0 million and paid weeks of 15.1 million declined at a similar rate versus the prior year period, down 5.4% and 5.5%, respectively. Without the benefit of prior year acquisitions, NACO attendances and paid weeks were down approximately 7.2% and 6.7%, respectively. As a result of the general economic slowdown, it is generally acknowledged that consumers have significantly reduced their discretionary spending. We believe this has had the impact of deferring weight loss efforts on the part of some consumers, particularly potential new members, whose decision to spend on any new service or product is likely to be highly scrutinized in this environment. First quarter of fiscal 2009 Monthly Pass retention has softened slightly versus the first quarter of fiscal 2008 level, but is consistent with the trend that began in the third quarter of fiscal 2008.

Our reported international meeting fees were \$70.0 million for the three months ended April 4, 2009, a decrease of \$19.2 million, or 21.5%, from the prior year quarter. On a constant currency basis and after adjusting the first quarter of fiscal 2008 for the U.K. VAT ruling, our international meeting fees were \$87.8 million in the first quarter of fiscal 2009, an increase of \$0.9 million, or 1.0%, from \$86.9 million in the prior year period. Monthly Pass in the United Kingdom, Germany and France enabled international meeting fee revenue growth in the first quarter of fiscal 2009 despite the overall attendance decline of 3.8% in the period versus the comparable prior year period. Monthly Pass drove the 5.5% increase in total paid weeks in our international meeting business versus the prior year period, with the United Kingdom up 8.1% and Continental Europe up 4.4%.



---

## **Table of Contents**

Global product sales for the three months ended April 4, 2009 were \$92.5 million, down \$17.6 million, or 16.0%, from \$110.1 million in the first quarter of fiscal 2008. Global in-meeting product sales per attendee, which grew substantially through much of last year, posted a less than 1.0% increase in the first quarter of fiscal 2009 on a constant currency basis. This was driven by our NACO in-meeting product sales performance, which declined 12.7% in local currencies. Despite the soft economies in many of the countries in which we operate, in-meeting product sales per attendee in our international business were strong in the first quarter of fiscal 2009, posting growth of 9.6% on a constant currency basis versus the prior year first quarter. In total, international product sales, which decreased on an as reported basis by 17.2%, or \$9.0 million, from the prior year quarter to \$43.4 million, grew 3.4% in local currencies in the three months ended April 4, 2009. In NACO, product sales in total declined 14.9%, or \$8.6 million, versus the prior year period to \$49.1 million in the first quarter of fiscal 2009, primarily due to lower attendance and a shift in product mix away from our higher priced enrollment products.

Internet revenues, which include subscription revenue from sales of Weight Watchers Online and Weight Watchers eTools, as well as Internet advertising revenue, grew \$2.9 million, or 6.4%, to \$48.4 million for the three months ended April 4, 2009 from \$45.5 million for the three months ended March 29, 2008. On a constant currency basis, Internet revenues rose 11.0% in the first quarter of fiscal 2009 versus the prior year period. End-of-period active Weight Watchers Online subscribers increased 11.1%, from 784,000 at March 29, 2008 to 871,000 at April 4, 2009. Strong signup volumes in most geographies, combined with the launch of Weight Watchers Online in France and the Netherlands in the first quarter of 2008, contributed to this growth.

Other revenue, comprised primarily of licensing and revenues from our publications, was \$19.7 million for the three months ended April 4, 2009, a decrease of \$1.0 million, or 4.8%, from \$20.7 million in the first quarter of fiscal 2008. Excluding the negative impact of foreign currency, other revenues increased 6.3%. Despite the general economic slowdown, our licensing revenues in the first quarter of fiscal 2009 increased 5.3%, or \$0.9 million, globally in constant currency versus the prior year period, to \$15.7 million, with particular strength in the United States, from direct licenses as well as endorsements, and in the United Kingdom, which posted higher royalties across many of its licenses.

Franchise royalties for the first quarter of fiscal 2009 were \$2.7 million domestically and \$1.4 million internationally. Total franchise royalties of \$4.1 million in the first quarter were \$1.1 million, or 21.2%, lower than the prior year quarter, or 15.6% lower in local currencies. Excluding lost commissions resulting from franchise acquisitions which occurred in fiscal 2008, franchise royalties declined 10.6% on a constant currency basis, with demonstrable impact from the weakened U.S. economy.

## **Expenses and Margins**

Cost of revenues was \$178.4 million for the three months ended April 4, 2009, a decrease of \$12.7 million, or 6.6%, from \$191.1 million for the three months ended March 29, 2008. Gross profit margin of 54.3% in the first quarter of fiscal 2009 was down 190 basis points from the first quarter of fiscal 2008. The impact of the U.K. VAT ruling to first quarter of fiscal 2008 revenues lowered the gross margin for that period by 20 basis points. While lower attendance per meeting was a major causal factor, given that meetings were kept open for service reasons, in-meeting product promotions in the United States also put pressure on gross margin. In addition, we had higher rental expense in some of our overseas locations where we have been selectively upgrading venues, and we incurred some charges in NACO associated with the cost of rolling out broadband access to our meeting room locations.

Marketing expenses for the three months ended April 4, 2009 decreased \$12.5 million, or 14.4%, to \$74.6 million, from \$87.1 million for the three months ended March 29, 2008. Excluding the impact of foreign currency, marketing spend was lower by \$5.6 million, or 6.4%, in the first quarter of fiscal 2009 versus the prior year period. This was partially the result of the timing of Easter which was two weeks later this year and is traditionally the kick-off of our spring advertising campaigns around the world. In

---

**Table of Contents**

addition, we have used part of the savings from marketing efficiency for incremental marketing investment in WW.com and in some of our European countries. Marketing as a percentage of revenues declined to 19.1% in the first quarter of fiscal 2009 as compared to 19.9% in the prior year period.

Selling, general and administrative expenses were \$43.8 million for the three months ended April 4, 2009 versus \$42.8 million for the three months ended March 29, 2008, an increase of \$1.0 million, or 2.3%. Our selling, general and administrative expenses include \$3.1 million of restructuring charges associated with our cost savings initiatives implemented in the first quarter of fiscal 2009 and a \$3.6 million benefit from foreign currency. Excluding the restructuring charges, selling, general and administrative expenses were \$40.7 million for the first quarter of fiscal 2009, a decrease of \$2.1 million, or 4.9%, from the prior year quarter, despite expenses related to our China Joint Venture and increased depreciation resulting from our information technology investments. On a reported basis, our selling, general and administrative expenses were 11.2% of revenues for the first quarter of fiscal 2009. Excluding the restructuring charges from our first quarter of fiscal 2009 results and including the adjustment for the U.K. VAT ruling in our first quarter of fiscal 2008 results, selling, general and administrative expenses were 10.4% of revenues in the first quarter of fiscal 2009 versus 9.9% in the prior year period.

Our reported operating income for the first quarter of fiscal 2009 was \$93.8 million, a decrease of \$22.2 million, or 19.1%, from the prior year quarter due mainly to volume declines. Excluding the impact of foreign currency, and after adjusting for restructuring charges in the first quarter of fiscal 2009 and the U.K. VAT ruling in the first quarter of fiscal 2008, our operating income declined by \$10.6 million, or 9.3%, from \$113.7 million in the first quarter of fiscal 2008 to \$103.1 million in the first quarter of fiscal 2009. Our reported operating income margin for the first quarter of fiscal 2009 was 24.0%, a decrease of 250 basis points from 26.5% in the first quarter of fiscal 2008. Excluding the impact of foreign currency and restructuring charges in the first quarter of fiscal 2009 and the adjustment for the U.K. VAT ruling in the first quarter of fiscal 2008, our adjusted operating income margin declined 200 basis points from 26.2% in the first quarter of fiscal 2008 to 24.2% in the first quarter of fiscal 2009 due mainly to gross margin decline.

Interest expense was \$16.7 million for the first quarter of fiscal 2009, a decrease of \$8.6 million, or 34.0%, from \$25.3 million in the first quarter of fiscal 2008. We benefited from a 196 basis point reduction in our average effective interest rate, down from 6.01% in the first quarter last year to 4.05% in this year's first quarter as a result of lower market rates. The average effective interest rate for the first quarter of fiscal 2009 declined versus the prior year quarter both as a result of a reduction in LIBOR, and of the 25 basis point drop in our interest rate spread over LIBOR for the Term Loan A, Additional Term Loan A and Revolver, which took effect at the end of February 2008. Our debt outstanding at the end of the first quarter of fiscal 2009 was \$1.569 billion as compared to \$1.648 billion at the end of fiscal 2008. We made debt payments of \$78.6 million in the first quarter of fiscal 2009.

For the first quarter of fiscal 2009, we reported other expense of \$0.5 million, versus other income of \$2.4 million in the first quarter of fiscal 2008. The change is primarily the result of the impact of foreign currency exchange rates on intercompany transactions.

The effective tax rate on our reported results for the first quarter of fiscal 2009 was 38.9%, versus 38.8% in the first quarter of fiscal 2008.

---

**Table of Contents**

**LIQUIDITY AND CAPITAL RESOURCES**

*Sources and Uses of Cash*

For the three months ended April 4, 2009, cash and cash equivalents were \$59.8 million, an increase of \$12.5 million from the end of fiscal 2008. Cash flows provided by operating activities were \$109.4 million, exceeding the period's \$47.3 million net income by \$62.1 million. The excess of cash over net income arose from changes in our working capital, as described below under *Balance Sheet*, and differences between book and cash taxes. Net cash used for investing and financing activities combined totaled \$96.9 million. Investing activities utilized \$7.1 million, including \$6.8 million for capital spending. Net cash used for financing activities totaled \$89.8 million, including dividend payments of \$13.6 million and long-term debt payments of \$78.6 million.

For the three months ended March 29, 2008, cash and cash equivalents were \$59.4 million, an increase of \$19.5 million from December 29, 2007. Cash flows provided by operating activities were \$105.5 million, exceeding the period's \$57.4 million net income by \$48.1 million. The excess of cash over net income arose from changes in our working capital and differences between book and cash taxes. Funds used for investing and financing activities combined totaled \$88.0 million. Investing activities utilized \$19.7 million, including \$13.0 million for franchise acquisitions and \$6.8 million for capital spending. Cash used for financing activities totaled \$68.3 million, including dividend payments of \$13.9 million and long-term debt payments of \$59.6 million.

*Balance Sheet*

Comparing our balance sheet at April 4, 2009 with that at January 3, 2009, our cash balance increased by \$12.5 million. Our working capital deficit at April 4, 2009 was \$313.5 million, including \$59.8 million of cash (as noted above), as compared to \$270.1 million at January 3, 2009, including \$47.3 million of cash. Excluding the change in cash, the working capital deficit increased by \$55.9 million during the first quarter of fiscal 2009.

Of the \$55.9 million increase in negative working capital, approximately \$31.4 million related to operational items, \$13.1 million represented increases in the current portion of our long-term debt and \$18.5 million was due to higher prepaid and deferred income taxes. Negative working capital decreased by \$6.6 million due to changes in our derivative payable, as a result of fluctuations in the interest rate yield curve, and decreased \$0.5 million due to the decrease in the U.K. VAT liability. The \$31.4 million of operational items is in keeping with the normal seasonality of the business and includes \$24.3 million higher deferred revenue for member prepayments associated with our commitment plans. In addition, the movement of our receivable, inventory and payables balances was typical. Inventories declined \$5.9 million and net payables and accrued expenses were \$4.1 million higher. The \$2.9 million growth in the receivables balance in the quarter was partially offsetting.

*Long-Term Debt*

As of April 4, 2009, our credit facility consisted of a term loan facility consisting of two tranche A facilities, or Term Loan A and Additional Term Loan A, and a tranche B facility, or Term Loan B, in an aggregate original principal amount of \$1,550.0 million and a revolving credit facility, or the Revolver, in the amount of up to \$500.0 million, collectively, the WWI Credit Facility. At April 4, 2009, we had \$1,568.9 million outstanding under the WWI Credit Facility with an additional \$376.1 million of availability under the Revolver.

At April 4, 2009 and January 3, 2009, our debt consisted entirely of variable-rate instruments. Interest rate swaps are entered into to hedge a portion of the cash flow exposure associated with our variable-rate borrowings. The average interest rate on our debt was approximately 2.1% and 4.7% per annum at April 4, 2009 and January 3, 2009, respectively.

**Table of Contents**

The following schedule sets forth our long-term debt obligations and interest rates at April 4, 2009:

**Long-Term Debt**

**At April 4, 2009**

**(Balances in millions)**

	<b>Balance</b>	<b>Interest Rate</b>
Revolver due 2011	\$ 122.0	1.56%
Term Loan A due 2011	284.4	1.56%
Additional Term Loan A due 2013	673.7	2.25%
Term Loan B due 2014	488.8	2.38%
<b>Total Debt</b>	<b>1,568.9</b>	
Less Current Portion	175.6	
<b>Total Long-Term Debt</b>	<b>\$ 1,393.3</b>	

At April 4, 2009, the Term Loan A, Additional Term Loan A and the Revolver bore interest at an initial rate equal to LIBOR plus 1.0% per annum or, at our option, the alternate base rate (as defined in the WWI Credit Facility agreements). At April 4, 2009, the Term Loan B bore interest at an initial rate equal to LIBOR plus 1.5% per annum or, at our option, the alternate base rate (as defined in the WWI Credit Facility agreements). In addition to paying interest on outstanding principal under the WWI Credit Facility, we are required to pay a commitment fee to the lenders under the Revolver with respect to the unused commitments at an initial rate equal to 0.20% per year at April 4, 2009.

The WWI Credit Facility contains customary covenants, including covenants that, in certain circumstances, restrict our ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell our assets and enter into consolidations, mergers and transfers of all or substantially all of our assets. The WWI Credit Facility also requires us to maintain specified financial ratios and satisfy financial condition tests. At April 4, 2009, we were in compliance with all of the required financial ratios and also met all of the financial condition tests and we expect to continue to do so for the foreseeable future. The WWI Credit Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of our existing and future subsidiaries. Substantially all of our assets collateralize the WWI Credit Facility.

On March 20, 2008, Standard & Poor's affirmed its BB+ rating on the WWI Credit Facility. On March 30, 2009, Moody's affirmed its Ba1 rating for the WWI Credit Facility.

**Table of Contents**

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

**Total Debt Obligation**

(Including Current Portion)

**As of April 4, 2009**

(in millions)

Remainder of fiscal 2009	\$ 121.9
Fiscal 2010	215.0
Fiscal 2011	477.0
Fiscal 2012	229.0
Fiscal 2013	61.0
Thereafter	465.0
<b>Total</b>	<b>\$ 1,568.9</b>

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

*Dividends*

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

Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our financial results, capital requirements and other factors it may deem relevant. Our Board of Directors may decide at any time to increase or decrease the amount of dividends or discontinue the payment of dividends based on these factors. The WWI Credit Facility also contains restrictions on our ability to pay dividends on our common stock.

The WWI Credit Facility provides that we are permitted to pay dividends and extraordinary dividends so long as we are not in default under the WWI Credit Facility agreements. However, payment of extraordinary dividends shall not exceed \$150 million in any fiscal year if net debt to EBITDA (as defined in the WWI Credit Facility agreements) is greater than 3.75:1 and investment grade rating date (as defined in the WWI Credit Facility agreements) has not occurred. We do not expect this restriction to impair our ability to pay dividends, but it could do so.

*Stock Transactions*

On October 9, 2003, our Board of Directors authorized a program to repurchase up to \$250.0 million of our outstanding common stock. On each of June 13, 2005 and May 25, 2006, our Board of Directors authorized adding \$250.0 million to this program. No shares will be purchased from Artal under the program. We repurchased no shares of our common stock during the three months ended April 4, 2009 and March 29, 2008.

## **Table of Contents**

### **OFF-BALANCE SHEET TRANSACTIONS**

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

### **SEASONALITY**

Our business is seasonal, with revenues generally decreasing at year end and during the summer months. Our advertising schedule supports the three key enrollment-generating seasons of the year: winter, spring and fall, with winter having the highest concentration of advertising spending. The timing of certain holidays, particularly Easter, which precedes the spring marketing campaign and occurs between March 22 and April 25, may affect our results of operations and the year-to-year comparability of our results. For example, in fiscal 2009, Easter fell on April 12, which means that our spring marketing campaign began in the second quarter of fiscal 2009 as opposed to the campaign beginning in the first quarter of fiscal 2008. Our operating income for the first half of the year is generally the strongest. While WW.com experiences similar seasonality in terms of new subscriber signups, its revenue tends to be less seasonal because it amortizes subscription revenue over the related subscription period.

### **AVAILABLE INFORMATION**

Corporate information and our press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments thereto, are available on our website at [www.weightwatchersinternational.com](http://www.weightwatchersinternational.com) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (i.e., generally the same day as the filing). Moreover, we also make available at that site the Section 16 reports filed electronically by our officers, directors and 10 percent shareholders. Usually these are publicly accessible no later than the business day following the filing. We use our website at [www.weightwatchersinternational.com](http://www.weightwatchersinternational.com) as a channel of distribution of material Company information. Financial and other material information regarding Weight Watchers International is routinely posted on and accessible at our website. Our website and the information posted on it or connected to it shall not be deemed to be incorporated herein by reference.

**Table of Contents**

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

The market risk disclosures appearing in Item 7A. Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for fiscal 2008 have not materially changed from January 3, 2009.

Based on the amount of our variable rate debt and interest swap agreements as of April 4, 2009, a hypothetical 50 basis point increase or decrease in interest rates on our variable debt would increase or decrease our annual interest expense by approximately \$3.3 million.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

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

*Changes in Internal Control Over Financial Reporting*

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

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS***U.K. VAT Matter*

In July 2006, we filed an amended notice of appeal with the U.K. VAT and Duties Tribunal, or VAT Tribunal, appealing a ruling by Her Majesty's Revenue and Customs, or HMRC, that from April 1, 2005 Weight Watchers meeting fees in the United Kingdom should be fully subject to 17.5% standard rated value added tax, or VAT. For over a decade prior to April 1, 2005, HMRC had determined that Weight Watchers meeting fees in the United Kingdom were only partially subject to 17.5% VAT. In March 2007, the VAT Tribunal ruled that Weight Watchers meetings in the United Kingdom should only be partially subject to 17.5% VAT. The VAT Tribunal's ruling was appealed by HMRC to the High Court of Justice Chancery Division, or the High Court, in May 2007, and in January 2008 the High Court denied HMRC's appeal in part and allowed HMRC's appeal in part. In April 2008, we filed an appeal to the Court of Appeal in part against the High Court's ruling and HMRC also filed an appeal to the Court of Appeal in part against the High Court's ruling. In June 2008, the Court of Appeal issued a ruling that Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% VAT, thus reversing in its entirety the VAT Tribunal's 2007 decision in our favor. In July 2008, we sought permission from the U.K. House of Lords to appeal the Court of Appeal's ruling, which permission was denied in January 2009.

In light of the Court of Appeal's ruling that Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% VAT and in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), we recorded a charge of approximately \$32.5 million as an offset to revenue in the second quarter of fiscal 2008 for U.K. VAT liability (including interest) in excess of reserves previously recorded. Beginning in the third quarter of fiscal 2008, in accordance with SFAS 5, we recorded as an offset to revenue VAT charges associated with U.K. meeting fees as earned, consistent with the Court of Appeal's ruling.

However, with respect to U.K. VAT owed for the period prior to July 1, 2005, HMRC has failed to raise a notice of assessment within the statutory three-year time period. In addition, although HMRC raised notices of assessment against us with respect to U.K. VAT due for the period July 1, 2005 to September 30, 2005 and for the period October 1, 2005 to December 31, 2005, we have asserted that these notices of assessment are invalid and should not have been raised on the grounds that they had been raised outside the relevant statutory time limits. HMRC indicated in November 2008 that it agreed with our assertion that the notice of assessment for the period July 1, 2005 to September 30, 2005 was invalid, and, in February 2009, confirmed that this notice had been formally withdrawn. As a result of the expiration of the statutory time period with respect to U.K. VAT owed prior to October 1, 2005, we recorded in the fourth quarter of fiscal 2008 as a benefit to revenue for the periods prior to October 1, 2005 an amount of approximately \$9.2 million as an offset against reserves previously recorded including in part the charge recorded against revenue in the second quarter of fiscal 2008 for U.K. VAT liability. In March 2009, HMRC raised a notice of assessment against us in respect of U.K. VAT due for the period January 1, 2006 to March 31, 2006, which we similarly believe was raised outside the relevant statutory time limits. We intend to vigorously challenge any amount of U.K. VAT that HMRC claims to be owed by us for the periods October 1, 2005 to December 31, 2005 and January 1, 2006 to March 31, 2006. Accordingly, we filed notices of appeal with the VAT Tribunal against the U.K. VAT assessments issued for the period October 1, 2005 to December 31, 2005 and the period January 1, 2006 to March 31, 2006 in March 2009 and April 2009, respectively.

*U.K. Self-Employment Matter*

In July 2007, HMRC issued to us notices of determination and decisions that, for the period April 2001 to April 2007, our leaders and certain other service providers should have been classified as employees for tax purposes and, as such, we should have withheld tax from the leaders and certain other service providers pursuant to the Pay As You Earn, or PAYE, and national insurance contributions, or



## **Table of Contents**

NIC, collection rules and remitted such amounts to HMRC. HMRC also issued a claim to us in October 2008 in respect of NIC which corresponds to the prior notices of assessment with respect to PAYE previously raised by HMRC. As of April 4, 2009, the assessment associated with the notices of determination and decisions and the claim in respect of NIC are approximately \$24.0 million. It is our view that the U.K. leaders and other service providers identified by HMRC in its notices and in its claim are self-employed and no withholding by us was required. In September 2007, we appealed HMRC's notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by us and, in July 2008, filed this appeal with the U.K. Special Commissioners. In February 2009, the U.K. Special Commissioners provided notice that our appeal will be heard in June 2009. We intend to vigorously pursue our appeal and, although there can be no assurances, we believe, based in part upon advice of legal counsel, we will ultimately prevail in our appeal. Accordingly, we have not recorded any reserves with respect to this matter. If such appeal is unsuccessful, it is possible that our cash flows and results of operations in a particular fiscal quarter may be adversely affected by this matter. However, it is the opinion of management that the disposition of this matter will not have a material effect on our financial condition or ongoing results of operations or cash flows.

### *Other Litigation Matters*

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

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

There have been no material changes in the risk factors from those detailed in the Company's Annual Report on Form 10-K for fiscal 2008.

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

Nothing to report under this item.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Nothing to report under this item.

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

Nothing to report under this item.

## **ITEM 5. OTHER INFORMATION**

Nothing to report under this item.

## **ITEM 6. EXHIBITS**

<u>Exhibit 31.1</u>	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>Exhibit 31.2</u>	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>Exhibit 32.1</u>	Certification pursuant to 18 U.S.C. Section 1350.
<u>Exhibit 32.2</u>	Certification pursuant to 18 U.S.C. Section 1350.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WEIGHT WATCHERS INTERNATIONAL, INC.

Date: May 14, 2009

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

Date: May 14, 2009

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

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
<u>Exhibit 31.1</u>	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>Exhibit 31.2</u>	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>Exhibit 32.1</u>	Certification pursuant to 18 U.S.C. Section 1350.
<u>Exhibit 32.2</u>	Certification pursuant to 18 U.S.C. Section 1350.