WEIGHT WATCHERS INTERNATIONAL INC
Form 10-Q
November 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011

OR

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

For the transition period from to

Commission File Number: 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

11 Madison Avenue, 17th 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 x 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 x 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 x	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 x

The number of shares of common stock outstanding as of October 31, 2011 was 73,574,725.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS AT

(IN THOUSANDS)

	$1,091,987 **October 1, 2011**	$1,091,987 **January 1, 2011**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 61,421	$ 40,534
Receivables, net	38,782	43,722
Inventories, net	38,454	40,571
Prepaid income taxes	4,491	11,619
Deferred income taxes	19,841	19,800
Prepaid expenses and other current assets	26,304	34,196
TOTAL CURRENT ASSETS	189,293	190,442
Property and equipment, net	32,527	30,930
Franchise rights acquired	760,633	765,864
Goodwill	49,989	51,425
Trademarks and other intangible assets, net	35,241	29,962
Deferred financing costs, net and other noncurrent assets	18,816	23,364
TOTAL ASSETS	$ 1,086,499	$ 1,091,987
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	$ 92,292	$ 197,524
Accounts payable	32,618	39,589
Dividend payable	13,117	13,158
Derivative payable	28,997	39,753
UK self-employment liability	43,795	40,782
Accrued liabilities	167,214	132,028
Income taxes payable	420	2,613
Deferred revenue	103,142	73,688
TOTAL CURRENT LIABILITIES	481,595	539,135
Long-term debt	974,508	1,167,561
Deferred income taxes	89,895	62,807
Other	11,010	13,208
TOTAL LIABILITIES	1,557,008	1,782,711

TOTAL DEFICIT		
Common stock, $0 par value; 1,000,000 shares authorized; 111,988 shares issued	0	0
Treasury stock, at cost, 38,415 shares at October 1, 2011 and 38,618 shares at January 1, 2011	(1,794,945)	(1,794,066)
Retained earnings	1,325,581	1,103,817
Accumulated other comprehensive loss	(1,145)	(4,517)
TOTAL WEIGHT WATCHERS INTERNATIONAL, INC. DEFICIT	(470,509)	(694,766)
Noncontrolling interest	0	4,042
TOTAL DEFICIT	(470,509)	(690,724)
TOTAL LIABILITIES AND TOTAL DEFICIT	$ 1,086,499	$ 1,091,987

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Meeting fees, net	$ 233,400	$ 190,586	$ 771,898	$ 623,037
Product sales and other, net	93,132	79,529	346,442	295,957
Internet revenues	101,902	60,491	299,538	176,350
Revenues, net	428,434	330,606	1,417,878	1,095,344
Cost of meetings, products and other	162,861	142,233	555,095	464,386
Cost of Internet revenues	14,390	9,864	41,309	29,097
Cost of revenues	177,251	152,097	596,404	493,483
Gross profit	251,183	178,509	821,474	601,861
Marketing expenses	61,514	39,418	232,329	170,574
Selling, general and administrative expenses	51,370	48,644	159,786	137,258
Operating income	138,299	90,447	429,359	294,029
Interest expense	13,655	19,032	46,826	57,320
Other (income) expense, net	285	(611)	54	1,025
Income before income taxes	124,359	72,026	382,479	235,684
Provision for income taxes	43,709	28,016	141,796	91,648
Net income	80,650	44,010	240,683	144,036
Net loss attributable to the noncontrolling interest	0	427	523	1,281
Net income attributable to Weight Watchers International, Inc.	$ 80,650	$ 44,437	$ 241,206	$ 145,317
Earnings per share attributable to Weight Watchers International, Inc.				
Basic	$ 1.10	$ 0.59	$ 3.29	$ 1.90
Diluted	$ 1.09	$ 0.59	$ 3.26	$ 1.90
Weighted average common shares outstanding				
Basic	73,567	75,127	73,265	76,310
Diluted	74,263	75,328	74,040	76,490
Dividends declared per common share	$ 0.18	$ 0.18	$ 0.53	$ 0.53

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

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Nine Months Ended	
	October 1, 2011	October 2, 2010
Cash provided by operating activities	$ 374,948	$ 234,895
Investing activities:		
Capital expenditures	(12,950)	(6,607)
Capitalized software expenditures	(17,526)	(9,291)
Other items, net	(544)	(15)
Cash used for investing activities	(31,020)	(15,913)
Financing activities:		
Payments of long-term debt	(298,285)	(64,098)
Payment of dividends	(38,745)	(40,395)
Payments to acquire treasury stock	(34,924)	(76,891)
Deferred financing costs	0	(11,378)
Investment and advances from noncontrolling interest	0	2,512
Proceeds from stock options exercised	41,428	39
Tax benefit from restricted stock units vested and stock options exercised	6,617	0
Cash used for financing activities	(323,909)	(190,211)
Effect of exchange rate changes on cash and cash equivalents and other	868	(1,973)
Net increase in cash and cash equivalents	20,887	26,798
Cash and cash equivalents, beginning of period	40,534	46,137
Cash and cash equivalents, end of period	$ 61,421	$ 72,935

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. Basis of Presentation

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

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

On February 5, 2008, Weight Watchers Asia Holdings Ltd. (Weight Watchers Asia), a direct, wholly-owned subsidiary of the Company, and Danone Dairy Asia (Danone 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 Asia owned 51% and 49%, respectively, of the joint venture entity, Weight Watchers Danone China Limited (together with all of its businesses, the China Joint Venture). On April 27, 2011, Weight Watchers Asia entered into a share purchase agreement with Danone Asia, pursuant to which Weight Watchers Asia acquired Danone Asia s 49% minority equity interest in the China Joint Venture as of that date. Because the Company had a direct controlling financial interest in the China Joint Venture, it consolidated the entity from the first quarter of fiscal 2008. Effective April 27, 2011, the date of the acquisition of Danone Asia s minority equity interest by Weight Watchers Asia, the Company no longer accounts for a non-controlling interest in the China Joint Venture.

These statements should be read in conjunction with the Company s Annual Report on Form 10-K for fiscal 2010, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

2. Summary of Significant Accounting Policies

In September 2011, the Financial Accounting Standards Board (the FASB) issued updated guidance on the periodic testing of goodwill for impairment. This guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is applicable for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

In June 2011, the FASB issued authoritative guidance requiring companies to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of the guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Since the guidance amends the disclosure requirements concerning comprehensive income, its adoption will not affect the consolidated financial position, results of operations or cash flows of the Company.

In May 2011, the FASB issued authoritative fair value guidance entitled Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs . Some of the amendments included in the guidance clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company is still evaluating the potential future effects of this guidance.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

In January 2010, the FASB issued authoritative guidance revising certain disclosure requirements concerning fair value measurements. The guidance requires an entity to disclose separately significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and to disclose the reasons for such transfers. It also requires the presentation of purchases, sales, issuances and settlements within Level 3, on a gross basis rather than a net basis. These new disclosure requirements were effective for the Company beginning with its first fiscal quarter of 2010, except for the additional disclosure of Level 3 activity, which was effective for fiscal years beginning after December 15, 2010. The Company did not have any such transfers into and out of Levels 1 and 2 during the nine months ended October 1, 2011 and currently does not maintain any assets or liabilities classified as Level 3.

In October 2009, new revenue recognition guidance was issued regarding arrangements with multiple deliverables. The new guidance permits companies to recognize revenue from certain deliverables earlier than previously permitted, if certain criteria are met. The new guidance is effective for fiscal years beginning on or after June 15, 2010 and did not have a material impact on the Company s financial position, results of operations or cash flows.

For a discussion of the Company s other significant accounting policies, see Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of the Company s Annual Report on Form 10-K for fiscal 2010.

3. Acquisitions of Franchisees and Minority Equity Interest in China Joint Venture

Acquisitions of Franchisees

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

Acquisition of Minority Equity Interest in China Joint Venture

On April 27, 2011, Weight Watchers Asia entered into a share purchase agreement with Danone Asia to acquire Danone Asia s 49% minority equity interest in the China Joint Venture for consideration of $1. As a result of the acquisition, the Company now owns 100% of the China Joint Venture. In connection with the acquisition, the noncontrolling interest that had been reflected on the Company s balance sheet was reclassified to retained earnings.

4. Goodwill and Intangible Assets

For the nine months ended October 1, 2011, the change in goodwill was due to the closing of the Company s Finland business and foreign currency fluctuations. The Company s goodwill by reportable segment at October 1, 2011 was $23,789 related to its WWI segment and $26,200 related to its WW.com segment. Franchise rights acquired are due to acquisitions of the Company s franchised territories. For the nine months ended October 1, 2011, the change in franchise rights acquired was due to foreign currency fluctuations.

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of $4,313 and $12,161 for the three and nine months ended October 1, 2011, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of $3,349 and $10,366 for the three and nine months ended October 2, 2010, respectively.

The carrying amount of finite-lived intangible assets as of October 1, 2011 and January 1, 2011 was as follows:

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	October 1, 2011		January 1, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	$ 63,027	$ 41,559	$ 52,293	$ 34,423
Trademarks	9,979	9,195	9,813	8,952
Website development costs	41,757	29,056	35,245	24,350
Other	7,028	6,740	7,033	6,697
	$ 121,791	$ 86,550	$ 104,384	$ 74,422

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

Remainder of fiscal 2011	$ 4,143
Fiscal 2012	$ 12,805
Fiscal 2013	$ 9,528
Fiscal 2014	$ 5,549
Fiscal 2015	$ 2,598

5. Long-Term Debt

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

	October 1, 2011		January 1, 2011	
	Balance	Effective Rate	Balance	Effective Rate
Revolver I due 2011	$ 0	3.25%	$ 1,674	3.25%
Revolver I due 2011	0	1.29%	56,565	1.29%
Revolver II due 2014	0	4.75%	3,326	4.75%
Revolver II due 2014	15,000	2.76%	112,435	2.83%
Term A Loan due 2011	0	1.31%	58,250	1.35%
Additional Term A Loan due 2013	148,749	1.29%	209,053	1.36%
Term B Loan due 2014	238,125	1.66%	240,000	1.86%
Term C Loan due 2015	426,075	2.54%	443,117	2.65%
Term D Loan due 2016	238,851	2.54%	240,665	2.65%
Total Debt	1,066,800	2.14%	1,365,085	2.01%
Less Current Portion	92,292		197,524	
Total Long-Term Debt	$ 974,508		$ 1,167,561	

The Company s credit facilities consist of a term loan facility and a revolving credit facility (collectively, the WWI Credit Facility). During the second quarter of fiscal 2011, the composition of the WWI Credit Facility changed as a result of the Company paying off amounts outstanding under certain tranches of the WWI Credit Facility that matured on June 30, 2011. Immediately prior to the change, the term loan facility consisted of two tranche A loans (Term A Loan and Additional Term A Loan), a tranche B loan (Term B Loan), a tranche C loan (Term C Loan), and a tranche D loan (Term D Loan), and the revolving credit facility (the Revolver) consisted of two tranches (Revolver I and Revolver II). Immediately prior to the change, the total of the outstanding and available credit under the Revolver was up to $500,000, of which the Revolver I was $167,353 and the Revolver II was $332,647.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

On June 30, 2011, each of the Term A Loan and Revolver I matured and was paid in full satisfaction of obligations thereunder ($29,125 and $12,050, respectively). Following the maturity and payment in full of obligations under the Term A Loan, the term loan facility consisted of the Additional Term A Loan, the Term B Loan, the Term C Loan and the Term D Loan. Following the maturity and payment in full of obligations under Revolver I, the Revolver consisted solely of Revolver II, with a total of $332,647 of outstanding and available credit.

At October 1, 2011, the Company had $1,066,800 outstanding under the WWI Credit Facility, a combination of term loans and amounts outstanding under the Revolver II. Revolver II had $15,000 outstanding and $316,620 available.

At October 1, 2011, the Additional Term A Loan bore interest at a rate equal to LIBOR plus 1.00% per annum; the Term B Loan bore interest at a rate equal to LIBOR plus 1.25% per annum; the Term C Loan and Term D Loan bore interest at a rate equal to LIBOR plus 2.25% per annum; and the Revolver II bore interest at a rate equal to LIBOR plus 2.50% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, at October 1, 2011, the Company was required to pay a commitment fee to the lenders under the Revolver II with respect to the unused commitments at a rate equal to 0.50% per annum.

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 October 1, 2011, the Company was in compliance with all of the required financial ratios and also met all of the financial condition tests and expects to continue to do so for the foreseeable future. The WWI Credit Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of the Company s existing and future subsidiaries. Substantially all the assets of the Company collateralize the WWI Credit Facility.

The Company amended the WWI Credit Facility on June 26, 2009 to allow it to make loan modification offers to all lenders of any tranche of term loans or revolving loans to extend the maturity date of such loans and/or reduce or eliminate the scheduled amortization. Any such loan modifications would be effective only with respect to such tranche of term loans or revolving loans and only with respect to those lenders that accept the Company s offer. Loan modification offers may be accompanied by increased pricing and/or fees payable to accepting lenders. This amendment also provides for up to an additional $200,000 of incremental term loan financing through the creation of a new tranche of term loans, provided that the aggregate principal amount of such new term loans cannot exceed the amount then outstanding under the Company s existing revolving credit facility. In addition, the proceeds from such new tranche of term loans must be used solely to repay certain outstanding revolving loans and permanently reduce the commitments of certain revolving lenders.

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

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

2010, the Company had the same amount of debt outstanding under the WWI Credit Facility and amount of availability under the Revolver as it had immediately prior to such conversions. In connection with this loan modification offer, the Company incurred fees of approximately $11,500 during the second quarter of fiscal 2010.

6. Treasury Stock

On October 9, 2003, the Company 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. and its parents and subsidiaries under the program. The repurchase program currently has no expiration date.

During the nine months ended October 1, 2011, the Company purchased 814 shares of its common stock in the open market under the repurchase program for a total cost of $31,550. During the nine months ended October 2, 2010, the Company purchased 2,850 shares of its common stock in the open market under the repurchase program for a total cost of $79,709.

7. Earnings Per Share

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

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

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Numerator:				
Net income attributable to Weight Watchers International, Inc.	$ 80,650	$ 44,437	$ 241,206	$ 145,317
Denominator:				
Weighted average shares of common stock outstanding	73,567	75,127	73,265	76,310
Effect of dilutive common stock equivalents	696	201	775	180
Weighted average diluted common shares outstanding	74,263	75,328	74,040	76,490
EPS attributable to Weight Watchers International, Inc.:				
Basic	$ 1.10	$ 0.59	$ 3.29	$ 1.90
Diluted	$ 1.09	$ 0.59	$ 3.26	$ 1.90

The number of anti-dilutive common stock equivalents excluded from the calculation of weighted average shares for diluted EPS was 234 and 2,317 for the three months ended October 1, 2011 and October 2, 2010, respectively, and 165 and 2,210 for the nine months ended October 1, 2011 and October 2, 2010, respectively.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

8. Stock Plans

On May 6, 2008, May 12, 2004 and December 16, 1999, respectively, the Company s shareholders approved the 2008 Stock Incentive Plan (the 2008 Plan), the 2004 Stock Incentive Plan (the 2004 Plan) and the 1999 Stock Purchase and Option Plan (the 1999 Plan and together with the 2008 Plan and the 2004 Plan, the Stock Plans). These plans are designed to promote the long-term financial interests and growth of the Company by attracting, motivating and retaining employees with the ability to contribute to the success of the business and 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 Stock Plans.

In connection with the Company s annual grant of stock compensation, on March 25, 2011, the Company granted 213 non-qualified stock options and 83 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 $4,368 and $5,359, respectively.

9. Income Taxes

The effective tax rates for the three and nine months ended October 1, 2011 were 35.1% and 37.1%, respectively, and for the three and nine months ended October 1, 2010 were both 38.9%. For the three and nine months ended October 1, 2011, the primary differences between the US federal statutory tax rate and the Company s effective tax rate were state income taxes and increases in valuation allowances, offset by lower rates in certain foreign jurisdictions, the reversal of certain tax reserves due to the expiration of the applicable statutes of limitations and the US tax benefit associated with losses due to the closing of the Company s Finland business. For the three and nine months ended October 2, 2010, the primary differences between the US federal statutory tax rate and the Company s effective tax rate were state income taxes and increases in valuation allowances, offset by lower statutory rates in certain foreign jurisdictions.

10. Legal

UK Self-Employment Matter

In July 2007, Her Majesty s Revenue and Customs (HMRC) issued to the Company notices of determination and decisions that, for the period April 2001 to April 2007, its leaders and certain other service providers in the United Kingdom should have been classified as employees for tax purposes and, as such, the Company should have withheld tax from the leaders and certain other service providers pursuant to the Pay As You Earn (PAYE) and national insurance contributions (NIC) collection rules and remitted such amounts to HMRC. HMRC also issued a claim to the Company in October 2008 in respect of NIC which corresponds to the prior notices of assessment with respect to PAYE previously raised by HMRC.

In September 2007, the Company appealed to the UK First Tier Tribunal (Tax Chamber) (formerly known as the UK VAT and Duties Tribunal and hereinafter referred to as the First Tier Tribunal) HMRC s notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by the Company. In February 2010, the First Tier Tribunal issued a ruling that the Company s UK leaders should have been classified as employees for UK tax purposes and, as such, the Company should have withheld tax from its leaders pursuant to the PAYE and NIC collection rules for the period from April 2001 to April 2007 with respect to services performed by the leaders for the Company. The Company appealed the First Tier Tribunal s adverse ruling to the UK Upper Tribunal (Tax and Chancery Chamber) (the Upper Tribunal), and in October 2011, the Upper Tribunal issued a ruling dismissing the Company s appeal. The Company is considering all of its options in light of the Upper Tribunal s ruling dismissing its appeal.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

In light of the First Tier Tribunal s adverse ruling and in accordance with accounting guidance for contingencies, the Company recorded in the fourth quarter of fiscal 2009 a reserve for the period from April 2001 through the end of fiscal 2009, inclusive of estimated accrued interest. On a quarterly basis, beginning in the first quarter of fiscal 2010 and through the second quarter of fiscal 2011, the Company recorded a reserve for UK withholding taxes with respect to its UK leaders consistent with this ruling. The reserve at the end of the second quarter of fiscal 2011 equaled approximately $43,795 in the aggregate based on the exchange rates at the end of the third quarter of fiscal 2011. As of the beginning of the third quarter of fiscal 2011, the Company employs its UK leaders and therefore has ceased recording any further reserves.

Sabatino v. Weight Watchers North America, Inc.

In September 2009, a lawsuit was filed in the Superior Court of California by one of the Company s former leaders alleging violations of certain California wage and hour laws on behalf of herself, and, if approved by the court, other leaders and those employees who have performed the location coordinator function in California since September 17, 2005. In this matter, the plaintiff sought unpaid wages and certain other damages. In October 2009, the Company answered the complaint and removed the case to the U.S. District Court for the Northern District of California (the Federal Court). In July 2010, the plaintiff filed an amended complaint adding two additional named plaintiffs for this matter. In October 2010, the parties engaged in mediation and reached an agreement in principle to settle this matter in its entirety and, accordingly, the Company recorded a reserve with respect to this matter of $6,500. In May 2011, the parties received the Federal Court s final approval of the settlement and the Company made payments in connection with the settlement of approximately $6,364 in the aggregate in the second quarter of fiscal 2011.

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

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

Other Litigation Matters

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

11. Derivative Instruments and Hedging

As of October 1, 2011 and October 2, 2010, the Company had in effect interest rate swaps with notional amounts totaling $800,000 and $1,163,750, respectively. In January 2009, the Company entered into a forward-starting interest rate swap with an effective date of January 4, 2010 and a termination date of January 27, 2014. During the term of this forward-starting interest rate swap, the notional amount will fluctuate. The initial notional amount was $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 October 1, 2011, given the current configuration of its debt, the Company estimates that no derivative gains or losses reported in accumulated other comprehensive income (loss) will be reclassified to the Statements of Income within the next 12 months due to hedge ineffectiveness.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

As of October 1, 2011 and October 2, 2010, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive income (loss) in the amount of $17,607 ($28,864 before taxes) and $32,491 ($53,263 before taxes), respectively. For the three and nine months ended October 1, 2011 and October 2, 2010, there were no fair value adjustments recorded in the Statements of Income since all hedges were considered qualifying and effective.

The Company expects approximately $8,810 ($14,442 before taxes) of derivative losses included in accumulated other comprehensive income (loss) at October 1, 2011, based on current market rates, will be reclassified into earnings within the next 12 months.

12. Fair Value Measurements

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

When measuring fair value, the Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value of Financial Instruments

The Company s significant financial instruments include long-term debt and interest rate swap agreements.

The fair value of the Company s long-term debt is determined by utilizing average bid prices on or near the end of each fiscal quarter. As of October 1, 2011 and October 2, 2010, the fair value of the Company s long-term debt was approximately $1,039,962 and $1,373,789, respectively.

Derivative Financial Instruments

The fair values for the Company s derivative financial instruments are determined using observable current market information such as the prevailing LIBOR interest rate and LIBOR yield curve rates and include consideration of counterparty credit risk. See Note 11 for disclosures related to derivative financial instruments.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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 October 1, 2011	$ 0	$ 0	$ 0	$ 0
Interest rate swap asset at January 1, 2011	$ 0	$ 0	$ 0	$ 0
Interest rate swap liability at October 1, 2011	$ 28,997	$ 0	$ 28,997	$ 0
Interest rate swap liability at January 1, 2011	$ 39,753	$ 0	$ 39,753	$ 0

13. Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net income	$ 80,650	$ 44,010	$ 240,683	$ 144,036
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(6,014)	(4,995)	(3,139)	(2,052)
Current period changes in fair value of derivatives, net of tax	1,021	3,112	6,511	8,755
Total other comprehensive income (loss)	(4,993)	(1,883)	3,372	6,703
Comprehensive income	75,657	42,127	244,055	150,739
Comprehensive loss attributable to the noncontrolling interest	0	427	523	1,281
Comprehensive income attributable to Weight Watchers International, Inc.	$ 75,657	$ 42,554	$ 244,578	$ 152,020

14. Segment Data

The Company has two reportable segments: WWI and WW.com. WWI has multiple operating segments which have been aggregated into one reportable segment. WWI and WW.com are two separate and distinct businesses for which discrete financial information is available. This discrete financial information is maintained and managed separately and is reviewed regularly by the chief operating decision maker. All intercompany activity is eliminated in consolidation.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Information about the Company s reportable segments is as follows:

	Three Months Ended October 1, 2011			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 325,584	$ 102,850	$ 0	$ 428,434
Intercompany revenue	9,613	0	(9,613)	0
Total revenue	$ 335,197	$ 102,850	$ (9,613)	$ 428,434
Depreciation and amortization	$ 8,545	$ 365	$ 0	$ 8,910
Operating income	$ 91,991	$ 46,308	$ 0	$ 138,299
Interest expense				13,655
Other expense, net				285
Provision for taxes				43,709
Net income				$ 80,650
Total assets	$ 955,230	$ 425,925	$ (294,656)	$ 1,086,499

	Three Months Ended October 2, 2010			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 269,603	$ 61,003	$ 0	$ 330,606
Intercompany revenue	5,774	0	(5,774)	0
Total revenue	$ 275,377	$ 61,003	$ (5,774)	$ 330,606
Depreciation and amortization	$ 7,371	$ 843	$ 0	$ 8,214
Operating income	$ 66,340	$ 24,107	$ 0	$ 90,447
Interest expense				19,032
Other income, net				(611)
Provision for taxes				28,016

Net income				$ 44,010
Total assets	$ 1,133,124	$ 263,833	$ (293,900)	$ 1,103,057

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Nine Months Ended October 1, 2011			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 1,114,569	$ 303,309	$ 0	$ 1,417,878
Intercompany revenue	28,549	0	(28,549)	0
Total revenue	$ 1,143,118	$ 303,309	$ (28,549)	$ 1,417,878
Depreciation and amortization	$ 25,395	$ 1,153	$ 0	$ 26,548
Operating income	$ 308,783	$ 120,576	$ 0	$ 429,359
Interest expense				46,826
Other expense, net				54
Provision for taxes				141,796
Net income				$ 240,683
Total assets	$ 955,230	$ 425,925	$ (294,656)	$ 1,086,499

	Nine Months Ended October 2, 2010			
	WWI	WW.com	Intercompany Eliminations	Consolidated
Revenues from external customers	$ 917,330	$ 178,014	$ 0	$ 1,095,344
Intercompany revenue	16,847	0	(16,847)	0
Total revenue	$ 934,177	$ 178,014	$ (16,847)	$ 1,095,344
Depreciation and amortization	$ 22,398	$ 2,964	$ 0	$ 25,362
Operating income	$ 235,900	$ 58,129	$ 0	$ 294,029
Interest expense				57,320
Other expense, net				1,025
Provision for taxes				91,648
Net income				$ 144,036
Total assets	$ 1,133,124	$ 263,833	$ (293,900)	$ 1,103,057

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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;

the impact of security breaches and privacy concerns;

- the impact of disputes with our franchise operators;
- the impact of existing and future laws and regulations;
- the impact of our debt service obligations and restrictive debt covenants;
- the possibility that the interests of our majority owner will conflict with other holders of our common stock; and
- other risks and uncertainties, including those detailed from time to time in our periodic reports filed with the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

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

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

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

fiscal 2014 refers to our fiscal year ended January 3, 2015; and

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

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

You should read the following discussion in conjunction with our Annual Report on Form 10-K for fiscal 2010 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).

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 investors ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Quarterly Report on Form 10-Q, we calculate constant currency by calculating current-year results using prior-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant currency basis as excluding or adjusting for the impact of foreign currency. These results should be considered in addition to, not as a substitute for, results reported in accordance with accounting principles generally accepted in the United

States, or 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.

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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 2010. Our critical accounting policies have not changed since the end of fiscal 2010.

RESULTS OF OPERATIONS

OVERVIEW

Since the second quarter of fiscal 2010, the Company has experienced sustained growth in revenue, volumes, and profitability in each quarter as compared to the prior year periods. The growth trend began with a successful change in marketing strategy in both the meetings business and WeightWatchers.com in North America in the second quarter of fiscal 2010, and accelerated throughout the remainder of fiscal 2010 fueled by the soft launch of a new program platform in North America and the United Kingdom at the end of fiscal 2010. Accordingly, by the end of fiscal 2010, our customer base had grown by more than 20% since the beginning of fiscal 2010.

In January 2011, we began marketing campaigns for our new program launches which accelerated period-over-period volume growth in the North American and UK meetings and WeightWatchers.com businesses to historically high levels in the first quarter of fiscal 2011. As a result, on a consolidated Company basis, revenues and volumes grew in all three quarters of fiscal 2011 as compared to the prior year periods. For the first nine months of fiscal 2011 in total, revenues increased 29.4% and paid weeks increased 39.5% versus the comparable prior year period. Our gross margin for the first nine months of fiscal 2011 improved to 57.9%, up from 54.9% in the first nine months of fiscal 2010.

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 1, 2011 COMPARED TO THE THREE MONTHS ENDED OCTOBER 2, 2010

The table below sets forth selected financial information for the third quarter of fiscal 2011 from our consolidated statements of income for the three months ended October 1, 2011 versus selected financial information for the third quarter of fiscal 2010 from our consolidated statements of income for the three months ended October 2, 2010:

Summary of Selected Financial Data

	(In millions, except per share amounts) For the Three Months Ended			
	October 1, 2011	**October 2, 2010**	**Increase/ (Decrease)**	**% Change**
Revenues, net	$ 428.4	$ 330.6	$ 97.8	29.6%
Cost of revenues	177.3	152.1	25.2	16.5%
Gross profit	251.2	178.5	72.7	40.7%
Gross Margin %	*58.6%*	*54.0%*		
Marketing expenses	61.5	39.4	22.1	56.1%
Selling, general & administrative expenses	51.4	48.6	2.7	5.6%
Operating income	138.3	90.4	47.9	52.9%
Operating Income Margin %	*32.3%*	*27.4%*		
Interest expense	13.7	19.0	(5.4)	(28.3%)
Other (income) expense, net	0.3	(0.6)	0.9	146.6%
Income before income taxes	124.4	72.0	52.3	72.7%
Provision for income taxes	43.7	28.0	15.7	56.0%
Net income	80.7	44.0	36.6	83.3%
Net loss attributable to the noncontrolling interest		0.4	(0.4)	(100.0%)
Net income attributable to the Company	$ 80.7	$ 44.4	$ 36.2	81.5%
Weighted average diluted shares outstanding	74.3	75.3	(1.1)	(1.4%)
Diluted EPS	$ 1.09	$ 0.59	$ 0.50	84.1%

Note: Totals may not sum due to rounding.

Consolidated Results

Revenues

Net revenues were $428.4 million in the third quarter of fiscal 2011, an increase of $97.8 million, or 29.6%, from $330.6 million in the third quarter of fiscal 2010. Excluding the impact of foreign currency, which increased our revenues for the third quarter of fiscal 2011 by $11.2 million, revenues grew 26.2% versus the prior year period. Revenue growth in the third quarter was driven by effective marketing and continued consumer interest in our brand and approach to weight loss, particularly in our North American and UK meetings and WeightWatchers.com businesses, which also benefited from new program launches. As a result, third quarter fiscal 2011 global paid weeks grew 38.1%, global attendance grew 8.7%, and end of period active Online subscribers grew 63.6% in comparison to third quarter fiscal 2010 levels, despite weak performance in Continental Europe. In our Continental European meetings business, ineffective marketing campaigns resulted in revenue, paid weeks and attendance declines in the third quarter of 2011 versus the prior year period.

Gross Profit and Operating Income

Gross profit for the third quarter of fiscal 2011 of $251.2 million increased $72.7 million, or 40.7%, from $178.5 million in the third quarter of fiscal 2010. Our operating income for the third quarter of fiscal 2011 was $138.3 million, an increase of $47.9 million, or 52.9%, from $90.4 million in the third quarter of fiscal 2010. Our gross margin in the third quarter of fiscal 2011 increased by 460 basis points versus the prior year period to 58.6%, driving operating income margin expansion of 490 basis points versus the prior year period to 32.3% in the third quarter of fiscal 2011. Margin expansion was the result of

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operating leverage gained from higher attendances per meeting and high growth in our higher margin WeightWatchers.com business. In addition, the third quarter of fiscal 2010 included $6.5 million of expense, included in both cost of revenues and selling, general and administrative expense, associated with the previously disclosed settlement of the California litigation (See Item 1. Legal Proceedings Sabatino v. Weight Watchers North America, Inc.), which lowered our operating income margin in that quarter by 197 basis points. In the third quarter of fiscal 2011, marketing expense increased as a percentage of revenues but selling, general and administrative expenses declined by a greater degree as a percentage of revenues as compared to the comparable prior year period.

Net Income and Earnings Per Share

The benefits derived from operating income growth, along with lower interest expense, resulted in net income growth versus the prior year period of 81.5% in the third quarter of fiscal 2011 to $80.7 million, up from $44.4 million in the third quarter of fiscal 2010. Earnings per fully diluted share in the third quarter of fiscal 2011 were $1.09, up $0.50 from $0.59 in the third quarter of fiscal 2010. The third quarter of fiscal 2011 earnings per fully diluted share included a $0.05 tax benefit associated with the closing of our Finland business, while the third quarter of fiscal 2010 earnings per fully diluted share included a $0.05 charge associated with the settlement of the previously disclosed California litigation. The favorable impact of foreign currency contributed $1.8 million to net income in the third quarter of fiscal 2011, or $0.02 per fully diluted share.

Components of Revenue and Volumes

We derive our revenues principally from meeting fees, products sold in meetings, Internet revenues, and licensed products sold in retail channels. In addition, we generate other revenue from royalties paid to us by our franchisees, subscriptions to our branded magazines, and advertising in our publications.

Meeting Fees

Global meeting fees for the third quarter of fiscal 2011 were $233.4 million, an increase of $42.8 million, or 22.5%, from $190.6 million in the prior year period. Excluding the impact of foreign currency, which increased our global meeting fees by $6.1 million, global meeting fees in the third quarter of fiscal 2011 increased by 19.3% versus the prior year period. Global meeting paid weeks grew 19.7% in the third quarter of fiscal 2011 to 24.9 million, up from 20.8 million in the prior year period. The increase versus the prior year period in meeting fees and meeting paid weeks was driven by enrollment growth in the quarter, a larger meeting membership base at the beginning of the quarter versus the prior period, and a larger number and proportion of members participating in Monthly Pass commitment plans versus the prior year period. The meeting membership base has grown steadily over the past several quarters as a result of strong enrollments. Enrollments were fueled by the ongoing positive impact of new program innovations launched in late fiscal 2010 in North America and the United Kingdom and by highly effective marketing since the beginning of the year. In addition, the number and proportion of members purchasing Monthly Pass, who have a longer tenure and contribute higher lifetime revenue, was significantly higher in the third quarter of 2011 as compared to the third quarter of 2010. Global attendance in our meetings business increased 8.7% to 12.6 million in the third quarter of fiscal 2011 from 11.6 million in the third quarter of fiscal 2010.

In the NACO meetings business, meeting fees for the third quarter of fiscal 2011 were $161.2 million, an increase of $32.4 million, or 25.1%, from $128.9 million for the third quarter of fiscal 2010. Excluding the impact of foreign currency, which increased NACO meeting fees by $0.7 million, NACO meeting fees in the third quarter of fiscal 2011 grew by 24.6% versus the prior year period. NACO meeting paid weeks grew by 25.9% to 16.6 million in the third quarter 2011, up from 13.2 million in the third quarter 2010. Meeting fees and meeting paid weeks increased in the quarter as a result of enrollment growth, a larger membership base at the beginning of the quarter versus the prior period, and a larger number and proportion of members participating in Monthly Pass commitment plans versus the prior year period. These increases versus the prior year period were driven by our highly successful launch of the ***PointsPlus*** program at the end of fiscal 2010, and our effective marketing campaign strategy, which raised the profile and attraction of our offerings to both former members and new customers. In the third quarter of fiscal 2011, NACO attendance increased 13.6% to 7.9 million, up from 7.0 million in the third quarter of fiscal 2010.

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Our international meeting fees in the third quarter of fiscal 2011 were $72.2 million, an increase of $10.4 million, or 16.9%, from $61.7 million in the prior year period. Excluding the impact of foreign currency, which increased international meeting fees by $5.4 million, international meeting fees grew by 8.2% in the third quarter of fiscal 2011 versus the prior year period. International meeting paid weeks increased by 9.0%, and international attendance increased by 1.2%, in the third quarter of fiscal 2011 versus the comparable prior year quarter. The growth in international meeting fees and paid weeks was driven by the United Kingdom s strong performance, which was partially offset by weakness in Continental Europe.

In the third quarter of fiscal 2011, UK meeting fees increased by 29.5% to $29.4 million. Excluding the impact of foreign currency, which increased UK meeting fees by $1.1 million, UK meeting fees grew by 24.9% in the third quarter of fiscal 2011 versus the prior year period. UK meeting paid weeks in the third quarter of fiscal 2011 grew 18.1% versus the prior year period. UK meeting fees and meeting paid weeks continued to benefit from growth in the membership base, driven by the ***ProPoints*** program which launched in late 2010. Attendance in the United Kingdom increased by 10.1% in the quarter versus the comparable prior year period.

In contrast to the North American and UK markets, which implemented successful marketing strategies for recruiting new customers and former members, the Continental European meetings business is still in the process of developing effective marketing campaigns. In the third quarter of fiscal 2011, Continental European meeting fees increased by 1.1% to $30.9 million. Excluding the impact of foreign currency, which increased Continental European meeting fees by $2.8 million, Continental European meeting fees declined by 8.0% in the third quarter of fiscal 2011 as compared to the prior year period. This decline reflects a 6.0% decrease in meeting paid weeks versus the prior year period. Continental Europe s attendance level declined by 15.1% in the third quarter of 2011 versus the prior year period.

In-Meeting Product Sales

Global in-meeting product sales for the third quarter of fiscal 2011 were $61.3 million, an increase of $9.1 million, or 17.4%, from $52.2 million in the third quarter of fiscal 2010. Excluding the impact of foreign currency, which increased in-meeting product sales by $2.0 million, global in-meeting product sales rose 13.6% versus the prior year period from the combination of 8.7% meeting attendance growth and higher product sales per attendee. On a per attendee basis, third quarter 2011 global in-meeting product sales increased 8.0%, or 4.5% on a constant currency basis, versus the prior year period. This increase in products sales per attendee was primarily the result of increased sales of our higher-priced enrollment products partially offset by some contraction in sales of lower-priced consumable products.

In NACO, third quarter 2011 in-meeting product sales of $34.3 million increased by $6.2 million, or 22.3%, versus the prior year period on the strength of 13.6% attendance growth and a 7.7% increase in in-meeting product sales per attendee.

International in-meeting product sales were $27.0 million in the third quarter of fiscal 2011, an increase of 11.7% versus the prior year period, or 3.9% on a constant currency basis. This increase was driven by attendance growth of 1.2% and an increase in product sales per attendee as compared to the prior year period. Strength in attendance and per attendee in-meeting product sales in the United Kingdom in the quarter was partially offset by weakness in Continental Europe.

Internet Revenues

Internet revenues, which include subscription revenues from sales of Weight Watchers Online and Weight Watchers eTools as well as Internet advertising revenues, increased significantly in the third quarter of fiscal 2011, up $41.4 million, or 68.5%, to $101.9 million versus $60.5 million for the third quarter of fiscal 2010. Excluding the impact of foreign currency, which increased Internet revenues by $2.0 million, Internet revenues grew by 65.1% in the third quarter of fiscal 2011 versus the prior year period. Online paid weeks increased 66.6% in the third quarter of fiscal 2011 versus the comparable prior year period and end of period active Online subscribers grew, up 63.6%, from approximately 1.1

million subscribers in the third quarter of fiscal 2010 to approximately 1.7 million subscribers in the third quarter of fiscal 2011. This increase was driven primarily by continued strong marketing campaigns starting in the second quarter of 2010 in the US and UK markets which also benefited from the new program launches at the end of fiscal 2010. In addition, sign-ups grew in Continental Europe, reflecting the effectiveness of our marketing efforts in online channels in these markets.

Other Revenues

Other revenues, comprised primarily of licensing revenues, franchise royalties, revenues from the sale of products by mail and to our franchisees, and revenues from our publications, were $31.9 million for the third quarter of fiscal 2011, an increase of $4.5 million, or 16.6%, from $27.3 million for the third quarter of fiscal 2010. Excluding the impact of foreign currency, other revenues were 12.4% higher in the third quarter of fiscal 2011 than the prior year period. The new program launches have provided ongoing benefit to our other revenues. Franchise commissions and sales of products to our franchisees grew in the aggregate by 32.6%, or 30.3% on a constant currency basis, in the third quarter 2011 versus the prior year period. Our by mail product sales and revenues from our publications also rose, by 26.7% in the aggregate, or 21.5% on a constant currency basis, over the prior year third quarter level. While global licensing revenues in the third quarter of fiscal 2011 were down 1.1% on a constant currency basis versus the prior year period, UK licensing revenues increased. In North America and most other markets, however, licensing revenues decreased driven partially by pricing challenges in a tough economic environment.

Components of Expenses and Margins

Cost of Revenues and Gross Margin

Total cost of revenues in the third quarter of fiscal 2011 was $177.3 million, an increase of $25.2 million, or 16.5%, from $152.1 million in the prior year period. Cost of revenues grew at a slower pace than revenues, due to efficiencies we gained from higher average attendance in our meetings and due to WeightWatchers.com s cost of revenues being largely fixed. Gross profit for the third quarter of fiscal 2011 of $251.2 million increased $72.7 million, or 40.7%, from $178.5 million in the third quarter of fiscal 2010. Gross margin in the third quarter of fiscal 2011 was 58.6%, as compared to 54.0% in the third quarter of 2010, partially as a result of the higher margin WeightWatchers.com business becoming a larger component of our revenue mix. Of this gross margin increase, 50 basis points resulted from a charge included in the third fiscal quarter of fiscal 2010 associated with the previously disclosed settlement of the California litigation.

Marketing

Marketing expenses for the third quarter of fiscal 2011 were $61.5 million, an increase of $22.1 million, or 56.1%, versus the third quarter of fiscal 2010, or 52.7% on a constant currency basis. Included in our 2011 marketing expenses is a first time significant investment in marketing the Weight Watchers Online product to men, a new initiative in fiscal 2011 focused on building awareness and communicating the relevance of the Weight Watchers brand to the male demographic. This initiative, which is a component of our growth strategy for 2012 and beyond, accounted for 13.1% of the increase in marketing expenses in the third quarter of fiscal 2011 versus the prior year period. The remainder of our marketing in the quarter drove enrollment growth in our meetings businesses in North America and the United Kingdom, and subscriber growth in our WeightWatchers.com business. Marketing expenses as a percentage of revenues were 14.4% in the third quarter of fiscal 2011 as compared to 11.9% in the prior year period.

Selling, General and Administrative

Selling, general and administrative expenses were $51.4 million for the third quarter of fiscal 2011 versus $48.6 million for the third quarter of fiscal 2010, an increase of $2.7 million, or 5.6%. On a constant currency basis, third quarter of fiscal 2011 selling, general and administrative expenses increased by 2.5% versus the third quarter of fiscal 2010, which included $4.9 million of expenses associated with

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the previously disclosed settlement of the California litigation. In the third quarter of fiscal 2011, selling, general and administrative expenses increased 14.0% primarily in support of growth initiatives, including technology for the development of our mobile platforms and additions to staff in support of business development. Selling, general and administrative expenses as a percentage of revenues for the third quarter of fiscal 2011 decreased to 12.0% from 14.7% for the third quarter of fiscal 2010.

Operating Income Margin

Our operating income margin in the third quarter of fiscal 2011 increased to 32.3%, up 490 basis points from 27.4% in the third quarter of fiscal 2010. Margin expansion in the quarter was attributable to the favorable impact on gross margin of operating leverage gained from higher attendances per meeting and strong growth in our higher margin WeightWatchers.com business. Marketing expense increased as a percentage of revenue in the third quarter of fiscal 2011 as compared to the prior year period, but was offset by the decline in selling, general and administrative expenses as a percentage of revenues in the third quarter of fiscal 2011 as compared to the prior year period.

Interest Expense and Other

Interest expense was $13.7 million for the third quarter of fiscal 2011, a decrease of $5.4 million, or 28.3%, from $19.0 million in the third quarter of fiscal 2010. Our average debt outstanding decreased in the quarter from $1.4 billion in the third quarter of fiscal 2010 to $1.1 billion in the third quarter of fiscal 2011, including $197.5 million of scheduled repayments since January 2011. In addition, the notional value of our interest rate swaps declined, driving a lower effective interest rate in the quarter, down to 4.43% from 5.06% in the third quarter of fiscal 2010.

We reported $0.3 million of other expense in the third quarter of fiscal 2011 as compared to $0.6 million of other income in the third quarter of fiscal 2010, primarily reflecting the increased impact of foreign currency on intercompany transactions.

Tax

Our effective tax rate was 35.1% for the third quarter of fiscal 2011 as compared to 38.9% for the third quarter of fiscal 2010. In the third quarter of fiscal 2011, we recorded a tax benefit of $3.5 million associated with the closure of our Finland business. Excluding this benefit, our effective tax rate for the third quarter of fiscal 2011 would have been 38.0%. The difference in period-over-period effective tax rates after this adjustment is primarily due to the benefit of reversing certain tax reserves upon the expiration of the applicable statutes of limitations.

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RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED OCTOBER 1, 2011 COMPARED TO THE NINE MONTHS ENDED OCTOBER 2, 2010

The table below sets forth selected financial information for the first nine months of fiscal 2011 from our consolidated statements of income for the nine months ended October 1, 2011 versus selected financial information for the first nine months of fiscal 2010 from our consolidated statements of income for the nine months ended October 2, 2010:

Summary of Selected Financial Data

	(In millions, except per share amounts) For the Nine Months Ended			
	October 1, 2011	October 2, 2010	Increase/ (Decrease)	% Change
Revenues, net	$ 1,417.9	$ 1,095.3	$ 322.5	29.4%
Cost of revenues	596.4	493.4	102.9	20.9%
Gross profit	821.5	601.9	219.6	36.5%
Gross Margin %	*57.9%*	*54.9%*		
Marketing expenses	232.3	170.6	61.8	36.2%
Selling, general & administrative expenses	159.8	137.3	22.5	16.4%
Operating income	429.4	294.0	135.3	46.0%
Operating Income Margin %	*30.3%*	*26.8%*		
Interest expense	46.8	57.3	(10.5)	(18.3%)
Other (income) expense, net	0.1	1.0	(1.0)	(94.7%)
Income before income taxes	382.5	235.7	146.8	62.3%
Provision for income taxes	141.8	91.7	50.1	54.7%
Net income	240.7	144.0	96.6	67.1%
Net loss attributable to the noncontrolling interest	0.5	1.3	(0.8)	(59.2%)
Net income attributable to the Company	$ 241.2	$ 145.3	$ 95.9	66.0%
Weighted average diluted shares outstanding	74.0	76.5	(2.5)	(3.2%)
Diluted EPS	$ 3.26	$ 1.90	$ 1.36	71.5%

Note: Totals may not sum due to rounding.

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Consolidated Results

Revenues

Net revenues were $1,417.9 million in the first nine months of fiscal 2011, an increase of $322.5 million, or 29.4%, from $1,095.3 million in the first nine months of fiscal 2010. Excluding the impact of foreign currency, which increased our revenues for the first nine months of fiscal 2011 by $35.6 million, revenues grew 26.2% versus the prior year period. Revenue growth in the period was driven by strong momentum beginning at the start of the first nine months of fiscal 2011 from the new program launches at the end of fiscal 2010 in our North American and UK meetings and WeightWatchers.com businesses, and further supported by effective marketing and public relations activities in these markets in the period.

In the first nine months of fiscal 2011, on a consolidated Company basis, global paid weeks grew 39.5%, global attendance grew 13.6% and end of period active Online subscribers grew 63.6% in comparison to the first nine months of fiscal 2010, despite weak performance in our Continental European meetings business. In the first quarter of fiscal 2011, when we launched our marketing campaigns for the new programs in North America and the United Kingdom, strong enrollments and sign-ups of new and former customers drove global paid weeks up 39.7%, global attendance up 20.3% and end of period active Online subscribers up 86.6% versus the comparable prior year period. Growth trends in meeting enrollments and Online sign-ups have moderated somewhat in both the second and third quarters of fiscal 2011 from the historically high levels experienced in the first quarter of fiscal 2011, but remain strong despite lapping the one year anniversary of North America s successful new marketing strategy launched in the second quarter of fiscal 2010.

Gross Profit and Operating Income

Gross profit for the first nine months of fiscal 2011 of $821.5 million increased $219.6 million, or 36.5%, from $601.9 million in the first nine months of fiscal 2010. Operating income for the first nine months of fiscal 2011 was $429.4 million, an increase of $135.3 million, or 46.0%, from $294.0 million in the first nine months of fiscal 2010. Our gross margin in the first nine months of fiscal 2011 increased by 300 basis points versus the prior year period to 57.9%, driving operating income margin expansion of 340 basis points versus the prior year period to 30.3% in the first nine months of fiscal 2011. Margin expansion was primarily the result of operating leverage gained from higher attendances per meeting and high growth in our higher margin WeightWatchers.com business. In addition, the operating income margin further expanded as a result of a reduction in selling, general and administrative expenses as a percentage of revenues as compared to the prior year period, which more than offset an increase in marketing as a percentage of revenues versus the prior year period. It should be noted that the nine months of fiscal 2010 included $6.5 million of expense, included in both cost of revenues and selling, general and administrative expense, associated with the previously disclosed settlement of the California litigation which lowered our operating income margin in that quarter by 59 basis points.

Net Income and Earnings Per Share

The benefits derived from operating income growth, along with lower interest expense, resulted in net income growth in the first nine months of fiscal 2011 of 66.0% versus the prior year period to $241.2 million, up from $145.3 million in the first nine months of fiscal 2010. Earnings per fully diluted share in the first nine months of fiscal 2011 were $3.26, up $1.36 from $1.90 in the first nine months of fiscal 2010. The 2011 earnings per fully diluted share included a $0.05 tax benefit associated with the closing of our Finland business, while the 2010 earnings per fully diluted share included a $0.05 charge associated with the previously disclosed settlement of the California litigation. In addition, foreign currency provided a $0.07 benefit per fully diluted share in the first nine months of fiscal 2011.

Components of Revenue and Volumes

We derive our revenues principally from meeting fees, products sold in meetings, Internet revenues, and licensed products sold in retail channels. In addition, we generate other revenue from royalties paid to us by our franchisees, subscriptions to our branded magazines, and advertising in our publications.

Meeting Fees

Global meeting fees for the first nine months of fiscal 2011 were $771.9 million, an increase of $148.9 million, or 23.9%, from $623.0 million in the prior year period. Excluding the impact of foreign currency, which increased our global meeting fees by $19.6 million, global meeting fees in the first nine months of fiscal 2011 increased 20.7% versus the prior year period as a result of strong enrollment growth. The new program launches in our North American and UK markets in late fiscal 2010, combined with effective marketing and public relations throughout the period, were the key drivers of this growth during the first nine months of 2011. In addition, the number and proportion of our new and existing meeting members purchasing Monthly Pass increased in the first nine months of 2011 versus the corresponding prior year period. Monthly Pass purchasers have a longer tenure, and accordingly, contribute higher lifetime revenue on average than those who pay for attendance on a week-to-week basis.

As a result of the enrollment strength and the increase in Monthly Pass purchasers, global meeting paid weeks rose 21.3% to 81.1 million in the first nine months of fiscal 2011, up from 66.9 million in the prior year period. This growth rate in meeting paid weeks marks a significant improvement from the low growth rates experienced on average throughout fiscal 2010. Global attendance in our meetings business increased by 13.6% to 45.6 million in the first nine months of fiscal 2011, from 40.1 million in the first nine months of fiscal 2010. In our North American and UK markets, the new programs not only attracted new customers to the meetings business, but also increased meeting attendance by our existing members. In the first nine months of 2011, our Continental European market experienced paid weeks and attendance declines versus the first nine months of fiscal 2010, as a result of lapping a new program launch in the prior year period. This market is still in the process of developing effective marketing campaigns.

In NACO, meeting fees for the first nine months of fiscal 2011 were $534.9 million, an increase of $120.2 million, or 29.0%, from $414.8 million for the first nine months of fiscal 2010. Excluding the impact of foreign currency, which increased NACO meeting fees by $2.2 million, NACO meeting fees grew by 28.4% in the first nine months of fiscal 2011 versus the prior year period. Meeting fees grew primarily from the positive impact on enrollments of the highly successful new ***PointsPlus*** program, which launched in late fiscal 2010, our effective marketing campaign strategy which has raised the profile and attraction of our offerings to both former members and new customers, and increased purchases of the Monthly Pass commitment plan. As a result of these factors, NACO meeting paid weeks increased 30.2% in the first nine months of fiscal 2011 versus the prior year period to 54.0 million, and attendance grew 22.7% in the first nine months of fiscal 2011 versus the prior year period to 28.8 million.

Our international meeting fees in the first nine months of fiscal 2011 were $237.0 million, an increase of $28.7 million, or 13.8%, from $208.3 million in the prior year period. Excluding the impact of foreign currency, which increased international meeting fees by $17.4 million, international meeting fees grew by 5.4% in the first nine months of fiscal 2011 versus the prior year period. International meeting paid weeks increased 6.7% versus the prior year period to 27.1 million in the first nine months of fiscal 2011, driven primarily by the performance of the UK meetings business. International attendance increased only slightly, by 0.8%, to 16.8 million in the period versus 16.7 million in the first nine months of fiscal 2010, as a result of declines in the Continental European meetings business.

The UK meetings business benefited from the impact of its new ***ProPoints*** program, which launched in late fiscal 2010 and drove meeting fee and paid weeks growth in that market. UK meeting fees in the first nine months of fiscal 2011 grew by 32.6%, or 25.8% on a constant currency basis, as compared to the prior year period, with paid weeks up 18.6% and attendance up 13.8% in the first nine months of fiscal 2011.

The growth in the UK meetings business was partially offset by declining meeting fees and paid weeks volume in the period in Continental Europe, which was cycling against a year earlier, less successful program launch, and which has not developed sufficiently effective marketing campaigns. Continental European meeting fees in the first nine months of fiscal 2011 decreased by 5.2%, or 12.0% on a constant currency basis, as compared to the prior year period, with paid weeks declining 11.2% and attendance declining 17.9% in the period.

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In-Meeting Product Sales

Global in-meeting product sales for the first nine months of fiscal 2011 were $234.9 million, an increase of $34.5 million, or 17.2%, from $200.4 million in the first nine months of fiscal 2010. Excluding the impact of foreign currency, which increased in-meeting product sales by $6.9 million, global in-meeting product sales rose 13.8% in the nine month period versus the comparable prior year period. On a per attendee basis, global in-meeting product sales increased 3.2% in the first nine months of fiscal 2011 versus the prior year period, but only 0.2% on a constant currency basis. The new program innovation in our North American and UK markets generated growth in sales of higher-priced starter kits and other enrollment products to both new and existing meeting members; however, this growth was partially offset by lower demand for consumable products.

In NACO, in-meeting product sales of $131.5 million in the first nine months of fiscal 2011 increased by $26.6 million, or 25.3%, versus the prior year period, on the strength of higher attendance volumes. NACO s in-meeting product sales per attendee increased 2.1%, or 1.8% on a constant currency basis, versus the comparable prior year period. International in-meeting product sales were $103.4 million in the first nine months of fiscal 2011, an increase of 8.3%, or 1.6% on a constant currency basis, versus the prior year period. On a per attendee basis, international product sales increased 7.5%, or 0.8% on a constant currency basis, versus the prior year period.

Internet Revenues

Internet revenues, which include subscription revenues from sales of Weight Watchers Online and Weight Watchers eTools as well as Internet advertising revenues, increased significantly, up $123.2 million, or 69.9%, to $299.5 million for the first nine months of fiscal 2011 from $176.4 million for the first nine months of fiscal 2010. Excluding the impact of foreign currency, which increased Internet revenues by $5.6 million, Internet revenues grew by 66.7% in the first nine months of fiscal 2011 versus the prior year period. We entered fiscal 2011 with an active Online subscriber base that was 38.2% higher than at the beginning of fiscal 2010, and ended the first nine months of fiscal 2011 with approximately 1.7 million end of period active Online subscribers, up 63.6% from approximately 1.1 million at the end of the third quarter of fiscal 2010. Online paid weeks increased 70.6% in the first nine months of 2011 versus the prior year period. This increase in Online subscribers and paid weeks was driven primarily by continued strong marketing campaigns starting in the second quarter of 2010 in the United States and the United Kingdom, markets which also benefited from the new program launches at the end of fiscal 2010. In addition, sign-ups grew in Continental Europe, reflecting the effectiveness of our marketing efforts in online channels in these markets.

Other Revenues

Other revenues, comprised primarily of licensing revenues, franchise royalties, revenues from the sale of products by mail and to our franchisees, and revenues from our publications, were $111.6 million for the first nine months of fiscal 2011, an increase of $16.0 million, or 16.7%, from $95.6 million for the first nine months of fiscal 2010. Excluding the impact of foreign currency, other revenues were 13.1% higher in the first nine months of fiscal 2011 than the prior year period. The new program in our North American and UK markets also benefited our other revenues. Franchise commissions and sales of products to our franchisees grew in the aggregate by 35.0%, or 32.9% on a constant currency basis, in the first nine months of 2011 versus the prior year period, accounting for $5.3 million of the total increase in other revenues on a constant currency basis for the first nine months of 2011 versus the prior year period. Our by mail product sales and revenues from our publications also rose in the aggregate by 25.6%, or 21.7% on a constant currency basis, over the prior year first nine months level. Global licensing revenues in the first nine months of fiscal 2011, however, were up only slightly, by 2.2%, and were down 1.9% on a constant currency basis, versus the prior year period. UK licensing revenues increased in the first nine months of 2011 versus the prior year period; however, both North America and Continental Europe experienced weak performance, primarily as a result of pricing challenges in a tough economic environment.

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Components of Expenses and Margins

Cost of Revenues and Gross Margin

Total cost of revenues in the first nine months of fiscal 2011 was $596.4 million, an increase of $102.9 million, or 20.9%, from $493.4 million in the prior year period. Cost of revenues grew at a slower rate than net revenues, which increased 29.4% in the first nine months of 2011 versus the prior year period. We gained operating efficiency versus the prior year period because of the increase in average attendance per meeting and despite higher expenses related to ensuring a successful launch of the new program innovation in our North American and UK markets. Gross profit for the first nine months of fiscal 2011 of $821.5 million increased $219.6 million, or 36.5%, from $601.9 million in the first nine months of fiscal 2010, and gross margin expanded to 57.9%, an increase of 300 basis points as compared to 54.9% in the first nine months of fiscal 2010. While operating leverage in the meetings business was a contributor, the increase in gross margin was largely the result of the higher margin WeightWatchers.com business, where cost of revenues is largely fixed, becoming a larger component of our revenue mix.

Marketing

Marketing expenses for the first nine months of fiscal 2011 were $232.3 million, an increase of $61.8 million, or 36.2%, versus the first nine months of fiscal 2010, or 33.5% on a constant currency basis. Included in our first nine months of fiscal 2011 marketing expense was a first time significant investment in marketing the Weight Watchers Online product to men, a new initiative in fiscal 2011 focused on building awareness and communicating the relevance of the Weight Watchers brand to the male demographic. This initiative, which is a component of our growth strategy for 2012 and beyond, accounted for 7.8% of the increase in marketing expenses in the first nine months of fiscal 2011 versus the comparable prior year period. In addition, we increased our marketing investment in the period to support our new program launches and to strengthen recruitment growth during our spring and fall marketing campaigns as well. This strategy proved to be efficient and successful in driving recruitment of both new and rejoining meeting members and Online subscribers. We opportunistically added marketing in the period to leverage positive public relations, such as our ranking as the number one weight-loss diet by U.S. News & World Report magazine. Notwithstanding all of these strategies and initiatives, our marketing cost per customer acquisition declined by 4.0% in the first nine months of fiscal 2011 versus the prior year period. Our marketing expenses as a percentage of revenues were 16.4% in the first nine months of fiscal 2011 as compared to 15.6% in the prior year period, as the revenues from more recent customer acquisitions will accrue over future periods.

Selling, General and Administrative

Selling, general and administrative expenses were $159.8 million for the first nine months of fiscal 2011 versus $137.3 million for the first nine months of fiscal 2010, an increase of $22.5 million, or 16.4%. On a constant currency basis, selling, general and administrative expenses for the first nine months of fiscal 2011 increased by 13.0% versus the first nine months of fiscal 2010. The largest component of the increase was salary related, reflecting higher bonus expense associated with our strong business performance. In addition, the first nine months of fiscal 2011 included expense related to growth initiatives including new business development and technology for the development of our mobile platforms. Selling, general and administrative expenses as a percentage of revenues for the first nine months of fiscal 2011 decreased by 130 basis points to 11.3% from 12.5% for the first nine months of fiscal 2010. It should be noted that the first nine months of fiscal 2010 included $4.9 million of selling, general and administrative expense associated with the previously disclosed settlement of the California litigation, which accounted for 45 basis points of the 130 basis point decrease in selling, general and administrative expenses as a percentage of revenues when comparing the first nine months of fiscal 2011 to the prior year period.

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Operating Income Margin

Our operating income margin in the first nine months of fiscal 2011 increased to 30.3%, up 350 basis points from 26.8% in the first nine months of fiscal 2010. Our operating income margin in the first nine months of 2010 was decreased by 59 basis points as a result of the $6.5 million charge, included in both cost of revenues and selling, general and administrative expense, associated with the previously disclosed settlement of the California litigation. Margin expansion in the first nine months of fiscal 2011 was attributable to the favorable impact on gross margin of operating leverage gained from higher attendances per meeting and strong growth in our higher margin WeightWatchers.com business, where cost of revenues are largely fixed. Marketing expense increased as a percentage of revenues in the first nine months of fiscal 2011 as compared to the prior year period, but was offset by the decline in selling, general and administrative expenses as a percentage of revenues in the first nine months of fiscal 2011 as compared to the prior year period.

Interest Expense and Other

Interest expense was $46.8 million for the first nine months of fiscal 2011, a decrease of $10.5 million, or 18.3%, from $57.3 million in the first nine months of fiscal 2010. Our average debt outstanding decreased for the first nine months of fiscal 2011 to $1.2 billion as compared to $1.4 billion in the first nine months of fiscal 2010, including $197.5 million of scheduled repayments since January 2011. In addition, the notional value of our interest rate swaps declined, driving a lower effective interest rate, to 4.66% in the first nine months of fiscal 2011 versus 5.01% in the first nine months of fiscal 2010.

We reported $0.1 million of other expense in the first nine months of fiscal 2011 as compared to $1.0 million of other expense in the first nine months of fiscal 2010, primarily reflecting the impact of foreign currency on intercompany transactions.

Tax

Our effective tax rate was 37.1% for the first nine months of fiscal 2011 as compared to 38.9% for the first nine months of fiscal 2010. For the first nine months of fiscal 2011, we recorded a tax benefit associated with the closure of our Finland business. Excluding this benefit, our effective tax rate for the first nine months of fiscal 2011 would have been 38.0%. The difference in period-over-period effective tax rates after this adjustment is primarily due to the benefit of reversing certain tax reserves upon the expiration of the applicable statutes of limitations.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash Fiscal 2011

Cash and cash equivalents were $61.4 million at the end of the third quarter of fiscal 2011, an increase of $20.9 million from the end of fiscal 2010. Cash flows provided by operating activities for the first nine months of fiscal 2011 were $374.9 million, an increase of $140.0 million, or 59.6%, over the $234.9 million generated in the first nine months of fiscal 2010. The increase of $140.0 million in cash flows provided by operating activities was primarily the result of improvements in our business in the first nine months of fiscal 2011 versus the comparable prior year period. These business improvements included a $95.9 million increase in net income, and $16.5 million of higher deferred income resulting from significant increases in Online subscribers and Monthly Pass members. In addition, in the first nine months of fiscal 2010, there was a $29.1 million payment made which reduced cash flows provided by operating activities in that period. The payment reduced a previously recorded UK value added tax, or VAT, accrual which covered prior periods, and which was made in connection with our previously disclosed adverse UK VAT ruling.

The $374.9 million of cash flows provided by operating activities for the first nine months of fiscal 2011 exceeded net income attributable to the Company by $133.7 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital, as described below (see Balance Sheet Working Capital), and from non-cash expenses and differences between book and cash taxes.

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Net cash used for investing and financing activities combined totaled $354.9 million in the first nine months of fiscal 2011. Net cash used for investing activities was $31.0 million in the first nine months of fiscal 2011, consisting primarily of capital expenditures and capitalized software expenditures. Net cash used for financing activities totaled $323.9 million in the period and consisted primarily of long-term debt payments of $298.3 million, stock repurchases of $34.9 million and dividend payments of $38.7 million. These uses were partially offset by $41.4 million of proceeds from stock options exercised in the first nine months of fiscal 2011.

Sources and Uses of Cash Fiscal 2010

For the nine months ended October 2, 2010, cash and cash equivalents were $72.9 million, an increase of $26.8 million from the end of fiscal 2009. Cash flows provided by operating activities for the nine months ended October 2, 2010 were $234.9 million, exceeding the nine month period s $145.3 million net income attributable to the Company by $89.6 million. Cash flows provided by operating activities included a cash payment of $29.1 million for prior period charges associated with the previously disclosed June 2008 adverse UK tax ruling we received regarding the imposition of UK VAT on our UK meeting fee revenue.

The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital and as a result of differences between book and cash taxes. Net cash used for investing and financing activities combined totaled $206.1 million. Net cash used for investing activities of $15.9 million consisted primarily of capital expenditures. Net cash used for financing activities totaled $190.2 million and consisted primarily of stock repurchases of $76.9 million and dividend payments of $40.4 million, as well as long-term debt payments of $64.1 million and financing costs of $11.4 million in connection with our debt extension.

Balance Sheet Working Capital

On our balance sheet at October 1, 2011, the working capital deficit was $292.3 million, including $61.4 million of cash and cash equivalents and $92.3 million of current portion of long-term debt. At January 1, 2011, our working capital deficit was $348.7 million which included $40.5 million of cash and cash equivalents and $197.5 million of current portion of long-term debt. After making scheduled debt repayments of $197.5 million during the first nine months of fiscal 2011, and because of a refinancing that we undertook in 2010 which changed our debt repayment requirements, the current portion of our long-term debt was significantly reduced by $105.2 million to $92.3 million as described below (see Long-Term Debt). Excluding the changes in cash and cash equivalents and current portion of long-term debt from both periods, the working capital deficit at October 1, 2011 was $261.4 million, an increase of $69.7 million as compared to $191.7 million at January 1, 2011.

The majority of this $69.7 million increase in adjusted working capital deficit (which excludes from working capital the changes in cash and cash equivalents and in the current portion of long-term debt) in the first nine months of 2011 versus the January 1, 2011 level was attributable to growth in our business. Deferred revenue increased by $29.5 million, as we have grown our Online subscriber and Monthly Pass member bases. Payables and accruals were $36.1 million higher, primarily related to compensation, a combination of timing of payments and the impact of better than expected business performance. The remaining $4.1 million of the increase in the adjusted working capital deficit primarily resulted from a decline in prepaid taxes.

Long-Term Debt

Our credit facilities consist of a term loan facility and a revolving credit facility, or collectively, the WWI Credit Facility. During the second quarter of fiscal 2011, the composition of the WWI Credit Facility changed as a result of us paying off amounts outstanding under certain tranches of the WWI

Credit Facility that matured on June 30, 2011. Immediately prior to the change, the term loan facility consisted of two tranche A loans, or Term A Loan and Additional Term A Loan, a tranche B loan, or Term B Loan, a tranche C loan, or Term C Loan, and a tranche D loan, or Term D Loan, and the revolving credit facility, or the Revolver, consisted of two tranches, Revolver I and Revolver II. Immediately prior to the change, the total of the outstanding and available credit under the Revolver was up to $500.0 million, of which the Revolver I was $167.4 million and the Revolver II was $332.6 million.

On June 30, 2011, each of the Term A Loan and Revolver I matured and was paid in full satisfaction of obligations thereunder ($29.1 million and $12.1 million, respectively). Following the maturity and payment in full of obligations under the Term A Loan, the term loan facility consisted of the Additional Term A Loan, the Term B Loan, the Term C Loan and the Term D Loan. Following the maturity and payment in full of obligations under Revolver I, the Revolver consisted solely of Revolver II, with a total of $332.6 million of outstanding and available credit.

At October 1, 2011, we had $1,066.8 million outstanding under the WWI Credit Facility, a combination of term loans and amounts outstanding under the Revolver II. Revolver II had $15.0 million outstanding and $316.6 million available.

At October 1, 2011 and January 1, 2011, 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, exclusive of the impact of swaps, was approximately 2.2% per annum at both October 1, 2011 and January 1, 2011.

The following schedule sets forth our long-term debt obligations (and interest rates, exclusive of the impact of swaps) at October 1, 2011:

Long-Term Debt

At October 1, 2011

(Balances in millions)

	Balance	Alternative Base Rate or LIBOR	Applicable Margin	Interest Rate
Revolver II due 2014	$ 15.0	0.25%	2.50%	2.75%
Additional Term A Loan due 2013	148.7	0.38%	1.00%	1.38%
Term B Loan due 2014	238.1	0.38%	1.25%	1.63%
Term C Loan due 2015	426.1	0.38%	2.25%	2.63%
Term D Loan due 2016	238.9	0.38%	2.25%	2.63%
Total Debt	1,066.8			
Less Current Portion	92.3			
Total Long-Term Debt	$ 974.5			

The WWI Credit Facility provides that term loans and the Revolver bear interest, at our option, at LIBOR plus an applicable margin per annum or the alternative base rate (as defined in the WWI Credit Facility agreement) plus an applicable margin per annum. At October 1, 2011, the Additional Term A Loan bore interest at a rate equal to LIBOR plus 1.00% per annum; the Term B Loan bore interest at a rate equal to LIBOR plus 1.25% per annum; the Term C Loan and Term D Loan bore interest at a rate equal to LIBOR plus 2.25% per annum; and the Revolver II bore interest at a rate equal to LIBOR plus 2.50% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, at October 1, 2011, we were required to pay a commitment fee to the lenders under the Revolver II with respect to the unused commitments at a rate equal to 0.50% per annum.

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The WWI Credit Facility contains customary covenants including covenants that, in certain circumstances, restrict our ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell our assets and enter into consolidations, mergers and transfers of all or substantially all of our assets. The WWI Credit Facility also requires us to maintain specified financial ratios and satisfy certain financial condition tests. At October 1, 2011, we were in compliance with all of the required financial ratios and also met all of the financial condition tests and expect to continue to do so for the foreseeable future. The WWI Credit Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of our existing and future subsidiaries. Substantially all of our assets collateralize the WWI Credit Facility.

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

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

The following schedule sets forth our year-by-year debt obligations at October 1, 2011:

Total Debt Obligation

(Including Current Portion)

At October 1, 2011

(in millions)

Remainder of fiscal 2011	$ 0
Fiscal 2012	124.9
Fiscal 2013	86.0
Fiscal 2014	272.6
Fiscal 2015	354.6
Thereafter	228.7
Total	$ 1,066.8

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

Dividends and Stock Transactions

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

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

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. and its parents and subsidiaries under the program. The repurchase program currently has no expiration date. During the nine months ended October 1, 2011, the Company repurchased in its first quarter 0.8 million shares of its common stock in the open market for a total cost of $31.6 million and in its second and third quarters no shares of its common stock. During the nine months ended October 2, 2010, the Company repurchased in its first quarter no shares of its common stock, in its second quarter 1.1 million shares of its common stock, and in its third quarter 1.7 million shares of its common stock in the open market for a total cost of $79.7 million.

The WWI Credit Facility provides that we are permitted to pay dividends and extraordinary dividends, as well as repurchase shares of our common stock, so long as we are not in default under the WWI Credit Facility agreement. However, payment of extraordinary dividends and stock repurchases shall not exceed $150.0 million in the aggregate in any fiscal year if net debt to EBITDA (as defined in the WWI Credit Facility agreement) is equal to or greater than 3.75:1 and an investment grade rating date (as defined in the WWI Credit Facility agreement) has not occurred. We currently do not expect this restriction to impair our ability to pay dividends or make stock repurchases, but it could do so in the future.

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 beginning in the first quarter as it did in fiscal 2008. The introduction of Monthly Pass in the meetings business has resulted in less seasonality with regards to our meeting fee revenues because its revenues are amortized over the related subscription period. Our operating income for the first half of the year is generally the strongest. While WeightWatchers.com experiences similar seasonality in terms of new subscriber sign-ups, its revenue tends to be less seasonal because it amortizes subscription revenue over the related subscription period.

AVAILABLE INFORMATION

Corporate information and our press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments thereto, are available free of charge on our website at www.weightwatchersinternational.com 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 as a channel of distribution of material Company information. Financial and other material information regarding the Company is routinely posted on and accessible at our website. Our website and the information posted on it or connected to it shall not be deemed to be incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk disclosures appearing in Item 7A. Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for fiscal 2010 have not materially changed from January 1, 2011.

Based on the amount of our variable rate debt and interest swap agreements as of October 1, 2011, a hypothetical 50 basis point increase or decrease in interest rates on our variable rate debt would increase or decrease our annual interest expense by approximately $1.3 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 principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our principal executive officer and principal financial officer concluded that the design and operation of our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

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

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

UK Self-Employment Matter

In July 2007, Her Majesty s Revenue and Customs, or HMRC, issued to us notices of determination and decisions that, for the period April 2001 to April 2007, our leaders and certain other service providers in the United Kingdom should have been classified as employees for tax purposes and, as such, we should have withheld tax from the leaders and certain other service providers pursuant to the Pay As You Earn, or PAYE, and national insurance contributions, or NIC, collection rules and remitted such amounts to HMRC. HMRC also issued a claim to us in October 2008 in respect of NIC which corresponds to the prior notices of assessment with respect to PAYE previously raised by HMRC.

In September 2007, we appealed to the UK First Tier Tribunal (Tax Chamber) (formerly known as the UK VAT and Duties Tribunal), or the First Tier Tribunal, HMRC s notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by us. In February 2010, the First Tier Tribunal issued a ruling that our UK leaders should have been classified as employees for UK tax purposes and, as such, we should have withheld tax from our leaders pursuant to the PAYE and NIC collection rules for the period from April 2001 to April 2007 with respect to services performed by the leaders for us. We appealed the First Tier Tribunal s adverse ruling to the UK Upper Tribunal (Tax and Chancery Chamber), or the Upper Tribunal, and in October 2011, the Upper Tribunal issued a ruling dismissing our appeal. We are considering all of our options in light of the Upper Tribunal s ruling dismissing our appeal.

In light of the First Tier Tribunal s adverse ruling and in accordance with accounting guidance for contingencies, we recorded in the fourth quarter of fiscal 2009 a reserve for the period from April 2001 through the end of fiscal 2009, inclusive of estimated accrued interest. On a quarterly basis, beginning in the first quarter of fiscal 2010 and through the second quarter of fiscal 2011, we recorded a reserve for UK withholding taxes with respect to our UK leaders consistent with this ruling. The reserve at the end of the second quarter of fiscal 2011 equaled approximately $43.8 million in the aggregate based on the exchange rates at the end of the third quarter of fiscal 2011. As of the beginning of the third quarter of fiscal 2011, we employ our UK leaders and therefore have ceased recording any further reserves.

Sabatino v. Weight Watchers North America, Inc.

In September 2009, a lawsuit was filed in the Superior Court of California by one of our former leaders alleging violations of certain California wage and hour laws on behalf of herself, and, if approved by the court, other leaders and those employees who have performed the location coordinator function in California since September 17, 2005. In this matter, the plaintiff sought unpaid wages and certain other damages. In October 2009, we answered the complaint and removed the case to the U.S. District Court for the Northern District of California, or the Federal Court. In July 2010, the plaintiff filed an amended complaint adding two additional named plaintiffs for this matter. In October 2010, the parties engaged in mediation and reached an agreement in principle to settle this matter in its entirety and, accordingly, we recorded a reserve with respect to this matter of $6.5 million. In May 2011, the parties received the Federal Court s final approval of the settlement and we made payments in connection with the settlement of approximately $6.4 million in the aggregate in the second quarter of fiscal 2011.

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

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

Other Litigation Matters

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

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors from those detailed in our Annual Report on Form 10-K for fiscal 2010.

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. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Nothing to report under this item.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

	WEIGHT WATCHERS INTERNATIONAL, INC.
Date: November 10, 2011	By: /s/ David P. Kirchhoff David P. Kirchhoff President, Chief Executive Officer and Director (Principal Executive Officer)
Date: November 10, 2011	By: /s/ Ann M. Sardini Ann M. Sardini Chief Financial Officer (Principal Financial and Accounting Officer)

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EX-101.LAB	XBRL Taxonomy Extension Label Linkbase
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase