

WEIGHT WATCHERS INTERNATIONAL INC

Form 10-Q

May 08, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2014

OR

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

For the transition period from to

Commission File Number: 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

The number of shares of common stock outstanding as of April 30, 2014 was 56,663,369.

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

	March 29, 2014	December 28, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 231,633	\$ 174,557
Receivables (net of allowances: March 29, 2014 - \$3,905 and December 28, 2013 - \$3,477)	40,443	36,248
Inventories	32,669	40,939
Deferred income taxes	24,509	24,457
Prepaid expenses and other current assets	38,770	39,524
TOTAL CURRENT ASSETS	368,024	315,725
Property and equipment, net	84,176	87,052
Franchise rights acquired	834,622	836,835
Goodwill	109,959	79,294
Trademarks and other intangible assets, net	43,349	45,297
Deferred financing costs, net	40,088	42,046
Other noncurrent assets	2,847	2,682
TOTAL ASSETS	\$ 1,483,065	\$ 1,408,931
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	\$ 30,000	\$ 30,000
Accounts payable	55,849	45,496
Derivative payable	20,960	7,578
Accrued marketing and advertising	26,421	15,509
Other accrued liabilities	151,933	160,130
Income taxes payable	10,835	10,777
Deferred revenue	102,991	76,330
TOTAL CURRENT LIABILITIES	398,989	345,820
Long-term debt	2,352,000	2,358,000
Deferred income taxes	168,601	164,064
Other	16,258	15,669
TOTAL LIABILITIES	2,935,848	2,883,553
Redeemable noncontrolling interests	8,232	0

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TOTAL DEFICIT		
Common stock, \$0 par value; 1,000,000 shares authorized; 111,988 shares issued	0	0
Treasury stock, at cost, 55,533 shares at March 29, 2014 and 55,562 shares at December 28, 2013	(3,255,285)	(3,256,406)
Retained earnings	1,794,310	1,773,267
Accumulated other comprehensive income	(40)	8,517
TOTAL DEFICIT	(1,461,015)	(1,474,622)
TOTAL LIABILITIES AND TOTAL DEFICIT	\$ 1,483,065	\$ 1,408,931

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

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

	Three Months Ended	
	March 29, 2014	March 30, 2013
Service revenues, net	\$ 316,697	\$ 371,501
Product sales and other, net	92,661	119,289
Revenues, net	409,358	490,790
Cost of services	144,609	154,670
Cost of product sales and other	41,849	52,483
Cost of revenues	186,458	207,153
Gross profit	222,900	283,637
Marketing expenses	115,335	122,201
Selling, general and administrative expenses	56,512	58,317
Operating income	51,053	103,119
Interest expense	25,262	22,550
Other expense, net	270	1,296
Gain on Brazil acquisition	(10,540)	0
Income before income taxes	36,061	79,273
Provision for income taxes	14,530	30,520
Net income	\$ 21,531	\$ 48,753
Earnings per share		
Basic	\$ 0.38	\$ 0.87
Diluted	\$ 0.38	\$ 0.87
Weighted average common shares outstanding		
Basic	56,428	55,801
Diluted	56,506	56,245
Dividends declared per common share	\$ 0.00	\$ 0.18

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	Three Months Ended	
	March 29, 2014	March 30, 2013
Net income	\$ 21,531	\$ 48,753
Other comprehensive income:		
Foreign currency translation adjustments	(1,300)	(23)
Income tax effect on foreign currency translation adjustments	925	(10)
Foreign currency translation adjustments, net of taxes	(375)	(33)
Changes in loss on derivatives	(13,413)	2,618
Income tax effect on changes in loss on derivatives	5,231	(1,021)
Changes in loss on derivatives, net of taxes	(8,182)	1,597
Total other comprehensive (loss) income	(8,557)	1,564
Comprehensive income	\$ 12,974	\$ 50,317

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

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	Three Months Ended	
	March 29, 2014	March 30, 2013
Operating activities:		
Net income	\$ 21,531	\$ 48,753
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	11,454	10,486
Amortization of deferred financing costs	1,959	1,783
Share-based compensation expense	1,448	2,008
Deferred tax provision	10,857	6,719
Allowance for doubtful accounts	299	4
Reserve for inventory obsolescence	2,939	2,374
Foreign currency exchange rate loss	209	1,380
Gain on Brazil acquisition	(10,540)	0
Other items, net	(155)	0
Changes in cash due to:		
Receivables	(3,201)	(5,536)
Inventories	6,029	190
Prepaid expenses	751	(2,939)
Accounts payable	10,193	5,856
UK self-employment liability	0	(7,272)
Accrued liabilities	7,785	3,711
Deferred revenue	26,083	30,214
Income taxes	(6,791)	17,432
 Cash provided by operating activities	 80,850	 115,163
 Investing activities:		
Capital expenditures	(2,052)	(17,915)
Capitalized software expenditures	(3,921)	(5,292)
Cash paid for acquisitions	(11,919)	(35,000)
Other items, net	(53)	34