WEIGHT WATCHERS INTERNATIONAL INC
Form 10-Q
August 09, 2012
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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 June 30, 2012

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 July 31, 2012 was 55,624,134.

WEIGHT WATCHERS INTERNATIONAL, INC.

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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)

	June 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 90,902	$ 47,469
Receivables, net	42,642	47,175
Inventories, net	40,362	53,437
Prepaid income taxes	15,526	3,071
Deferred income taxes	24,617	24,612
Prepaid expenses and other current assets	33,149	38,762
TOTAL CURRENT ASSETS	247,198	214,526
Property and equipment, net	55,730	41,072
Franchise rights acquired	764,599	764,026
Goodwill	50,013	50,012
Trademarks and other intangible assets, net	43,180	37,461
Deferred financing costs, net	29,565	8,720
Other noncurrent assets	3,293	5,811
TOTAL ASSETS	$ 1,193,578	$ 1,121,628
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	$ 152,920	$ 124,933
Accounts payable	48,961	60,810
Dividend payable	9,916	13,145
Derivative payable	19,203	24,613
UK self-employment liability	14,289	43,671
Accrued liabilities	149,449	140,573
Income taxes payable	0	2,704
Deferred revenue	112,330	83,758
TOTAL CURRENT LIABILITIES	507,068	494,207
Long-term debt	2,340,904	926,868
Deferred income taxes	118,497	100,723
Other	11,703	9,596
TOTAL LIABILITIES	2,978,172	1,531,394

TOTAL DEFICIT		
Common stock, $0 par value; 1,000,000 shares authorized; 111,988 shares issued	0	0
Treasury stock, at cost, 56,395 shares at June 30, 2012 and 38,389 shares at December 31, 2011	(3,287,806)	(1,793,983)
Retained earnings	1,494,135	1,378,616
Accumulated other comprehensive income	9,077	5,601
TOTAL DEFICIT	(1,784,594)	(409,766)
TOTAL LIABILITIES AND TOTAL DEFICIT	$ 1,193,578	$ 1,121,628

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 NET INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Meeting fees, net	$ 248,498	$ 269,586	$ 501,006	$ 538,498
Product sales and other, net	100,660	110,756	224,742	253,310
Internet revenues	135,594	105,671	262,539	197,636
Revenues, net	484,752	486,013	988,287	989,444
Cost of meetings, products and other	174,969	185,044	374,413	392,233
Cost of Internet revenues	16,259	13,819	31,985	26,920
Cost of revenues	191,228	198,863	406,398	419,153
Gross profit	293,524	287,150	581,889	570,291
Marketing expenses	83,777	75,150	214,095	170,815
Selling, general and administrative expenses	56,239	56,670	111,512	108,416
Operating income	153,508	155,330	256,282	291,060
Interest expense	23,757	15,012	36,924	33,185
Other expense (income), net	3,796	226	3,287	(245)
Early extinguishment of debt	0	0	1,328	0
Income before income taxes	125,955	140,092	214,743	258,120
Provision for income taxes	48,493	53,236	82,676	98,087
Net income	77,462	86,856	132,067	160,033
Net loss attributable to the noncontrolling interest	0	107	0	523
Net income attributable to Weight Watchers International, Inc.	$ 77,462	$ 86,963	$ 132,067	$ 160,556
Earnings per share attributable to Weight Watchers International, Inc.				
Basic	$ 1.37	$ 1.19	$ 2.03	$ 2.20
Diluted	$ 1.36	$ 1.17	$ 2.01	$ 2.17
Weighted average common shares outstanding				
Basic	56,505	73,311	64,924	73,115
Diluted	57,141	74,353	65,653	74,093
Dividends declared per common share	$ 0.18	$ 0.18	$ 0.35	$ 0.35

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

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income	$ 77,462	$ 86,856	$ 132,067	$ 160,033
Other comprehensive income:				
Foreign currency translation adjustments, net of tax[a]	(437)	1,759	(225)	2,875
Current period changes in fair value of derivatives, net of tax[b]	1,897	(996)	3,699	5,490
Total other comprehensive income	1,460	763	3,474	8,365
Comprehensive income	78,922	87,619	135,541	168,398
Comprehensive loss attributable to the noncontrolling interest	0	107	0	523
Comprehensive income attributable to Weight Watchers International, Inc.	$ 78,922	$ 87,726	$ 135,541	$ 168,921

(a) *Net of tax benefit (provision) of $381 and $(1,126) for the three months ended June 30, 2012 and July 2, 2011, respectively, and $144 and $(1,839) for the six months ended June 30, 2012 and July 2, 2011, respectively.*

(b) *Net of tax benefit (provision) of $(1,213) and $637 for the three months ended June 30, 2012 and July 2, 2011, respectively, and $(2,365) and $(3,510) for the six months ended June 30, 2012 and July 2, 2011, respectively.*

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 CASH FLOWS

(IN THOUSANDS)

	Six Months Ended	
	June 30, 2012	**July 2, 2011**
Cash provided by operating activities	$ 180,278	$ 254,983
Investing activities:		
Capital expenditures	(25,820)	(8,787)
Capitalized software expenditures	(12,249)	(11,281)
Other items, net	(184)	(331)
Cash used for investing activities	(38,253)	(20,399)
Financing activities:		
Proceeds from new term loans	1,449,400	0
Payments of long-term debt	(7,376)	(202,322)
Payment of dividends	(22,735)	(25,872)
Payments to acquire treasury stock	(1,504,074)	(34,924)
Deferred financing costs	(25,406)	0
Proceeds from stock options exercised	9,399	41,112
Tax benefit from restricted stock units vested and stock options exercised	2,595	4,996
Cash used for financing activities	(98,197)	(217,010)
Effect of exchange rate changes on cash and cash equivalents and other	(395)	2,274
Net increase in cash and cash equivalents	43,433	19,848
Cash and cash equivalents, beginning of period	47,469	40,534
Cash and cash equivalents, end of period	$ 90,902	$ 60,382

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.

As further discussed in Note 3, effective with its formation in February 2008, the Company consolidated the financial statements of Weight Watchers Danone China Limited.

These statements should be read in conjunction with the Company s Annual Report on Form 10-K for fiscal 2011, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

2. Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements:

In September 2011, the Financial Accounting Standards Board (the FASB) issued updated guidance on the periodic testing of goodwill for impairment. This guidance allows 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 Company adopted the provisions of this guidance in the first quarter of fiscal 2012. The adoption of this guidance did not 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. In December 2011, the FASB issued an amendment deferring the effective date for the presentation of reclassification adjustments out of accumulated other comprehensive income. The Company adopted the provisions of this guidance in the first quarter of fiscal 2012, and such adoption did 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 adopted the provisions of this guidance in the first quarter of fiscal 2012, and such adoption did not have a material impact on the disclosures in its 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)

Reclassification:

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

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 2011.

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

Acquisitions of Franchisees

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

Acquisition of Minority Equity Interest in China Joint Venture

On February 5, 2008, Weight Watchers Asia Holdings Ltd. (Weight Watchers Asia), a direct, wholly-owned subsidiary of the Company, and Danone Dairy Asia (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). 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.

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 for consideration of $1. Effective April 27, 2011, the date of the acquisition of Danone Asia s minority equity interest by Weight Watchers Asia, the Company owns 100% of the China Joint Venture and no longer accounts for a non-controlling interest in the China Joint Venture. 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 six months ended June 30, 2012, the change in goodwill was due to foreign currency fluctuations. The Company s goodwill by reportable segment at June 30, 2012 was $23,813 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 six months ended June 30, 2012, 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 $4,139 and $8,468 for the three and six months ended June 30, 2012, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of $3,992 and $7,848 for the three and six months ended July 2, 2011, respectively.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The carrying amount of finite-lived intangible assets as of June 30, 2012 and December 31, 2011 was as follows:

	June 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	$ 75,260	$ 48,677	$ 67,223	$ 44,003
Trademarks	10,108	9,440	10,006	9,276
Website development costs	49,921	34,368	43,987	30,747
Other	7,033	6,657	7,033	6,762
	$ 142,322	$ 99,142	$ 128,249	$ 90,788

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

Remainder of fiscal 2012	$ 8,342
Fiscal 2013	$ 15,620
Fiscal 2014	$ 11,575
Fiscal 2015	$ 5,668
Fiscal 2016	$ 1,867

5. Long-Term Debt

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

	June 30, 2012		December 31, 2011	
	Balance	Effective Rate	Balance	Effective Rate
Revolver A-1 Loan due June 30, 2014	$ 8,711	2.61%	$ 0	0.00%
Revolver A-2 Loan due March 15, 2017	32,289	2.39%	0	0.00%
Term A-1 Loan due January 26, 2013	76,452	1.48%	148,749	1.30%
Term B Loan due January 26, 2014	130,132	1.88%	238,125	1.65%
Term C Loan due June 30, 2015	117,014	2.74%	426,075	2.55%
Term D Loan due June 30, 2016	118,821	2.83%	238,852	2.56%
Term E Loan due March 15, 2017	1,184,257	2.63%	0	0.00%
Term F Loan due March 15, 2019	826,148	3.88%	0	0.00%
Total Debt	2,493,824	2.84%	1,051,801	2.15%
Less Current Portion	152,920		124,933	

Total Long-Term Debt	$ 2,340,904	$ 926,868

The Company s credit facilities consist of certain term loan facilities and revolving credit facilities (collectively, the WWI Credit Facility). During the first quarter of fiscal 2012, the composition of the WWI Credit Facility changed as a result of the Company amending and restating the WWI Credit Facility to, among other things, extend the maturity of certain of the Company s term loan facilities and the revolving credit facility and to obtain new commitments for the borrowing of an additional $1,449,397 of term loans to finance the purchases of shares of the Company s common stock in the Tender Offer and from Artal Holdings (each as defined below in Note 6).

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Immediately prior to the amendment of the WWI Credit Facility, the term loan facilities consisted of a tranche A-1 loan (Term A-1 Loan), a tranche B loan (Term B Loan), a tranche C loan (Term C Loan), and a tranche D loan (Term D Loan), and a revolving credit facility (Revolver A-1). The aggregate principal amount then outstanding under (i) the Term A-1 Loan was $128,648, (ii) the Term B Loan was $237,500, (iii) the Term C Loan was $420,394 and (iv) the Term D Loan was $238,247. Immediately prior to the amendment of the WWI Credit Facility, the Revolver A-1 had no loans outstanding under it, $1,027 of issued but undrawn letters of credit and $331,620 in available unused commitments thereunder.

Following the amendment of the WWI Credit Facility on March 15, 2012, (i) $33,083 in aggregate principal amount of the Term A-1 Loan and $301,777 in aggregate principal amount of the Term C Loan were converted into, and $849,397 in aggregate principal amount of commitments to borrow new term loans were provided under, a new tranche E loan (Term E Loan), (ii) $107,025 in aggregate principal amount of the Term B Loan and $119,123 in aggregate principal amount of the Term D Loan were converted into, and $600,000 in aggregate principal amount of commitments to borrow new term loans were provided under, a new tranche F loan (Term F Loan), and (iii) $261,971 in aggregate principal amount of commitments under the Revolver A-1 were converted into a new revolving credit facility (Revolver A-2). The loans outstanding under each term loan facility existing prior to the amendment of the WWI Credit Facility and the loans and commitments outstanding under the Revolver A-1, in each case that were not converted into the Term E Loan, the Term F Loan or the Revolver A-2, as applicable, continued to remain outstanding under the WWI Credit Facility as the Term A-1 Loan, the Term B Loan, the Term C Loan, the Term D Loan or the Revolver A-1, as applicable. In connection with this amendment, the Company incurred fees of $25,425 during the first quarter of fiscal 2012. On March 27, 2012, the Company borrowed an aggregate of $726,000 under the Term E Loan and the Term F Loan to finance the purchase of shares in the Tender Offer and to pay a portion of the related fees and expenses. On April 9, 2012, the Company borrowed an aggregate of approximately $723,397 under the Term E Loan to finance the purchase of shares from Artal Holdings. At June 30, 2012, the Company had $2,493,824 outstanding under the WWI Credit Facility, a combination of term loans and amounts outstanding under the Revolver A-1 and the Revolver A-2. In addition, at June 30, 2012, the Revolver A-1 had $218 in issued but undrawn letters of credit outstanding thereunder and $61,747 in available unused commitments thereunder and the Revolver A-2 had $809 in issued but undrawn letters of credit outstanding thereunder and $228,873 in available unused commitments thereunder.

At June 30, 2012 and December 31, 2011, the Company s debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with the Company s variable-rate borrowings. The average interest rate on the Company s debt, exclusive of the impact of swaps, was approximately 2.88% and 2.40% per annum at June 30, 2012 and December 31, 2011, respectively.

The WWI Credit Facility provides that term loans and the loans outstanding under the Revolver A-1 and the Revolver A-2 bear interest at a rate per annum equal to either, at the Company s option, the LIBO Rate (Reserve Adjusted) (as defined in the WWI Credit Facility agreement) plus an applicable margin or the Alternate Base Rate (as defined in the WWI Credit Facility agreement) plus an applicable margin, which applicable margins will vary depending on the Company s Net Debt to EBITDA Ratio (as defined in the WWI Credit Facility agreement) from time to time in effect. At June 30, 2012, the Term A-1 Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 1.00% per annum; the Term B Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 1.50% per annum; the Term C Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum; the Term D Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum; the Term E Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.00% per annum; the Term F Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.75% per annum; the Revolver A-1 bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.50% per annum; and the Revolver A-2 bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.00% per annum. For purposes of calculating the interest rate on the Term F Loan, the LIBO Rate (Reserve Adjusted) will always be at least 1.00% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, the Company is required to pay an undrawn commitment fee to the lenders under each of the Revolver A-1 and the Revolver A-2 with respect to the unused commitments under each such facility at a rate that is dependent on the Company s Net Debt to EBITDA Ratio from time to time in effect. As of June 30, 2012, the applicable commitment fee rate for the Revolver A-1 was 0.50% per annum and for the Revolver A-2 was 0.40% per annum.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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 June 30, 2012, 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 of the Company s assets secure the WWI Credit Facility.

The WWI Credit Facility allows the Company to make loan modification offers to all lenders of any tranche of term loans or revolving commitments to extend the maturity date of such loans and/or commitments 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 commitments 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. The WWI Credit Facility also allows for up to an additional $400,000 of incremental financing through the creation of either new tranches of term loans or through an increase in commitments under the Revolver A-2, in each case to be provided to the Company under the WWI Credit Facility. The incremental capacity is uncommitted and the Company must find lenders to provide any such financing prior to incurrence. In addition, the Company may incur up to an additional $200,000 of incremental term loans 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 its existing revolving credit facilities and 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.

6. Treasury Stock

On February 23, 2012, the Company commenced a modified Dutch auction tender offer for up to $720,000 in value of its common stock at a purchase price not less than $72.00 and not greater than $83.00 per share (the Tender Offer). Prior to the Tender Offer, on February 14, 2012, the Company entered into an agreement (the Purchase Agreement) with Artal Holdings Sp. z o.o., Succursale de Luxembourg (Artal Holdings) whereby Artal Holdings agreed to sell to the Company, at the same price as was determined in the Tender Offer, such number of its shares of the Company s common stock that, upon the closing of this purchase after the completion of the Tender Offer, Artal Holdings percentage ownership in the outstanding shares of the Company s common stock would be substantially equal to its level prior to the Tender Offer. Artal Holdings also agreed not to participate in the Tender Offer so that it would not affect the determination of the purchase price of the shares in the Tender Offer.

The Tender Offer expired at midnight, New York time, on March 22, 2012, and on March 28, 2012 the Company repurchased 8,780 shares at a purchase price of $82.00 per share. On April 9, 2012, the Company repurchased 9,499 of Artal Holdings shares at a purchase price of $82.00 per share pursuant to the Purchase Agreement. In March 2012, the Company amended and extended the WWI Credit Facility to finance these repurchases. See Note 5.

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 and its parents and subsidiaries under the program. The repurchase program currently has no expiration date.

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

During the six months ended June 30, 2012, the Company purchased no shares of its common stock in the open market under the repurchase program. During the six months ended July 2, 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. The repurchase of shares of common stock under the Tender Offer and from Artal Holdings pursuant to the Purchase Agreement was not made pursuant to the Company s existing repurchase program.

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		Six Months Ended	
	June 30, 2012	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Numerator:				
Net income attributable to Weight Watchers International, Inc.	$ 77,462	$ 86,963	$ 132,067	$ 160,556
Denominator:				
Weighted average shares of common stock outstanding	56,505	73,311	64,924	73,115
Effect of dilutive common stock equivalents	636	1,042	729	978
Weighted average diluted common shares outstanding	57,141	74,353	65,653	74,093
EPS attributable to Weight Watchers International, Inc.:				
Basic	$ 1.37	$ 1.19	$ 2.03	$ 2.20
Diluted	$ 1.36	$ 1.17	$ 2.01	$ 2.17

The number of anti-dilutive common stock equivalents excluded from the calculation of weighted average shares for diluted EPS was 468 and 213 for the three months ended June 30, 2012 and July 2, 2011, respectively, and 389 and 130 for the six months ended June 30, 2012 and July 2, 2011, respectively.

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.

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

9. Income Taxes

The effective tax rate for the three and six months ended June 30, 2012 was 38.5%. The effective tax rate for the three and six months ended July 2, 2011 was 38.0%. For the three and six months ended June 30, 2012, 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. For the three and six months ended July 2, 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 and the reversal of certain tax reserves due to the expiration of the applicable statutes of limitations.

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. In January 2012, the Company sought permission from the UK Court of Appeal to appeal the Upper Tribunal s ruling, which the UK Court of Appeal refused in March 2012. In March 2012, the Company applied to the UK Court of Appeal for an oral hearing to seek permission to appeal to the UK Court of Appeal against the Upper Tribunal s ruling. At the hearing in June 2012, the UK Court of Appeal granted the Company permission to appeal. A hearing date for the appeal has not yet been set.

In December 2011, HMRC s claim in respect of NIC was amended to increase the claimed amount for the period April 2002 to April 2007 and include the interest accrued thereon through December 2011. In addition, in February 2012, HMRC asserted a claim in respect of PAYE for the period April 2007 to April 2011 similar to what it had claimed for the period April 2001 to April 2007. The Company is currently appealing this PAYE claim with the First Tier Tribunal and the First Tier Tribunal has directed that the appeal be stayed until following the decision of the UK Court of Appeal with respect to the Company s appeal of the Upper Tribunal s ruling.

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 $43,671 in the aggregate based on the exchange rates at the end 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 for this matter. In addition, the Company does not currently

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

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expect additional reserves will be required in connection with the December 2011 amended NIC claim and the February 2012 PAYE claim by HMRC, as reserves had previously been made for these amounts. In February 2012, the Company paid HMRC, on a without prejudice basis, a portion of the amount previously reserved equal to approximately $30,018 based on the exchange rates at the payment date for estimated amounts claimed to be owed by the Company with respect to PAYE and interest thereon for the period April 2001 to July 2011. The reserve at the end of the second quarter of fiscal 2012 equaled approximately $14,289 in the aggregate based on the exchange rates at the end of the second quarter of fiscal 2012.

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 sought 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. In February 2012, the parties engaged in mediation and reached an agreement in principle to resolve the case for a de minimis amount. The court approved the settlement agreement negotiated by the parties, and the case was dismissed with prejudice in April 2012.

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 June 30, 2012 and July 2, 2011, the Company had in effect interest rate swaps with notional amounts totaling $697,750 and $845,000, 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 remaining term of this forward-starting interest rate swap, the notional amount will fluctuate, but will be no higher than the amount outstanding as of the end of the second fiscal quarter. The initial notional amount was $425,000 and the highest notional amount was $755,000.

The Company is hedging forecasted transactions for periods not exceeding the next five years. At June 30, 2012, given the current configuration of its debt, the Company estimates that no derivative gains or losses reported in accumulated other comprehensive income will be reclassified to the Statement of Net Income within the next 12 months due to hedge ineffectiveness.

As of June 30, 2012 and July 2, 2011, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive income in the amounts of $9,623 ($15,776 before taxes) and $18,629 ($30,539 before taxes), respectively. For the three and six months ended June 30, 2012 and July 2, 2011, there were no fair value adjustments recorded in the Statement of Net Income since all hedges were considered qualifying and effective.

The Company expects approximately $7,275 ($11,926 before taxes) of derivative losses included in accumulated other comprehensive income at June 30, 2012, based on current market rates, will be reclassified into earnings within the next 12 months.

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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 (Level 2 input). As of June 30, 2012 and July 2, 2011, the fair value of the Company s long-term debt was approximately $2,433,249 and $1,161,212, 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.

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 June 30, 2012	$ 0	$ 0	$ 0	$ 0
Interest rate swap asset at December 31, 2011	$ 0	$ 0	$ 0	$ 0

Interest rate swap liability at June 30, 2012	$	19,203	$	0	$	19,203	$	0
Interest rate swap liability at December 31, 2011	$	24,613	$	0	$	24,613	$	0

13. 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

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Information about the Company s reportable segments is as follows:

	Three Months Ended June 30, 2012		
	WWI	WW.com	Consolidated
Total revenue	$ 348,525	$ 136,227	$ 484,752
Depreciation and amortization	$ 8,462	$ 2,375	$ 10,837
Operating income	$ 81,672	$ 71,836	$ 153,508
Interest expense			23,757
Other expense, net			3,796
Provision for taxes			48,493
Net income			$ 77,462

	Three Months Ended July 2, 2011		
	WWI	WW.com	Consolidated
Total revenue	$ 379,163	$ 106,850	$ 486,013
Depreciation and amortization	$ 6,496	$ 2,412	$ 8,908
Operating income	$ 100,355	$ 54,975	$ 155,330
Interest expense			15,012
Other expense, net			226
Provision for taxes			53,236
Net income			$ 86,856

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	Six Months Ended June 30, 2012		
	WWI	**WW.com**	**Consolidated**
Total revenue	$ 723,868	$ 264,419	$ 988,287
Depreciation and amortization	$ 15,937	$ 4,899	$ 20,836
Operating income	$ 138,986	$ 117,296	$ 256,282
Interest expense			36,924
Other expense, net			3,287
Early extinguishment of debt			1,328
Provision for taxes			82,676
Net income			$ 132,067

	Six Months Ended July 2, 2011		
	WWI	**WW.com**	**Consolidated**
Total revenue	$ 788,985	$ 200,459	$ 989,444
Depreciation and amortization	$ 12,753	$ 4,885	$ 17,638
Operating income	$ 197,855	$ 93,205	$ 291,060
Interest expense			33,185
Other income, net			(245)
Provision for taxes			98,087
Net income			$ 160,033

There has not been a material change in total assets from the Company s Annual Report on Form 10-K for fiscal 2011.

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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, licensees and suppliers;
- 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 or 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.

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 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;

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

fiscal 2016 refers to our fiscal year ended December 31, 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 2011 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.

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 2011. Our critical accounting policies have not changed since the end of fiscal 2011.

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RESULTS OF OPERATIONS

OVERVIEW

Fiscal 2011 was a year of revenue and volume growth in all fiscal quarters as compared to the prior year periods. We began fiscal 2011 with a customer base that had grown by more than 20% since the beginning of fiscal 2010 and throughout the year experienced accelerated period-over-period volume growth in our North American and UK meetings and Weight Watchers.com businesses. The momentum of our new program launches, ***PointsPlus*** in North America and ***ProPoints*** in our other English-speaking markets, and strong marketing and public relations efforts drove this accelerated growth and historically high volumes in fiscal 2011.

Like the first quarter of fiscal 2012, the second quarter of fiscal 2012 had the challenge of being compared against the high levels of recruitment growth and related results of fiscal 2011. Total paid weeks in the second quarter of fiscal 2012 continued to grow, up 11.1% versus the prior year period, but at a slower rate than the 40.4% growth we experienced in the second quarter of fiscal 2011 versus the prior year period. Net revenues were $484.8 million in the second quarter of fiscal 2012, as compared to $486.0 million in the second quarter of fiscal 2011. Growth in Online revenues in the second quarter of fiscal 2012 versus the prior year period was almost fully offset by revenue declines in the meetings business. Gross margin for the second quarter of fiscal 2012 grew to 60.6% from 59.1% in the second quarter of fiscal 2011. Our investments in strategic growth initiatives in the quarter resulted in an increase in marketing expenses as a percentage of revenue in the second quarter of fiscal 2012 versus the prior year period. Selling and general expenses also increased in the second quarter of fiscal 2012 versus the prior year period as a result of these investments, but this increase was more than fully offset by lower administrative expenses in the quarter versus the prior year period. As a result of our investments in the second quarter of fiscal 2012, operating income margin for the second quarter of fiscal 2012 declined to 31.7% from 32.0% in the second quarter of fiscal 2011. Consequently, and as a result of higher interest expense and a write-off of an investment, net income attributable to the Company in the second quarter of fiscal 2012 declined 10.9% versus the prior year period to $77.5 million.

Given both the first and second quarters of fiscal 2012 experienced the same challenge of being compared against the high levels of recruitment growth and related results of fiscal 2011, as well as the continued investments in strategic growth initiatives in the first and second quarters of fiscal 2012, the first six months of fiscal 2012 versus the prior year period had similar performance trends as each of the quarters. Total paid weeks in the first six months of fiscal 2012 grew by 11.6% versus the prior year period. Net revenues were $988.3 million in the first six months of fiscal 2012, as compared to $989.4 million in the first six months of fiscal 2011. Growth in Online revenues in the first six months of fiscal 2012 versus the prior year period was fully offset by revenue declines in the meetings business. Gross margin for the first six months of fiscal 2012 grew to 58.9% from 57.6% in the first six months of fiscal 2011. Marketing expenses and selling, general and administrative expenses increased as a percentage of revenue in the first six months of fiscal 2012 versus the prior year period. As a result of the investments in strategic growth initiatives, operating income margin for the first six months of fiscal 2012 declined to 25.9% from 29.4% in the first six months of fiscal 2011. Consequently, and as a result of higher interest expense and a write-off of an investment, net income attributable to the Company in the first six months of fiscal 2012 declined 17.7% versus the prior year period to $132.1 million.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2012 COMPARED TO THE THREE MONTHS ENDED JULY 2, 2011

The table below sets forth selected financial information for the second quarter of fiscal 2012 from our consolidated statements of net income for the three months ended June 30, 2012 versus selected financial information for the second quarter of fiscal 2011 from our consolidated statements of income for the three months ended July 2, 2011:

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Summary of Selected Financial Data

	(In millions, except per share amounts) For the Three Months Ended June 30, 2012	July 2, 2011	Increase/ (Decrease)	% Change
Revenues, net	$ 484.8	$ 486.0	$ (1.3)	(0.3%)
Cost of revenues	191.2	198.9	(7.6)	(3.8%)
Gross profit	293.5	287.2	6.4	2.2%
Gross Margin %	*60.6%*	*59.1%*		
Marketing expenses	83.8	75.2	8.6	11.5%
Selling, general & administrative expenses	56.2	56.7	(0.4)	(0.8%)
Operating income	153.5	155.3	(1.8)	(1.2%)
Operating Income Margin %	*31.7%*	*32.0%*		
Interest expense	23.8	15.0	8.7	58.2%
Other expense, net	3.8	0.2	3.6	+100.0%
Income before income taxes	126.0	140.1	(14.1)	(10.1%)
Provision for income taxes	48.5	53.2	(4.7)	(8.9%)
Net income	77.5	86.9	(9.4)	(10.8%)
Net loss attributable to the noncontrolling interest		0.1	(0.1)	(100.0%)
Net income attributable to the Company	$ 77.5	$ 87.0	$ (9.5)	(10.9%)
Weighted average diluted shares outstanding	57.1	74.4	(17.2)	(23.1%)
Diluted EPS	$ 1.36	$ 1.17	$ 0.19	15.9%

Note: Totals may not sum due to rounding.

Consolidated Results

Revenues

Net revenues were $484.8 million in the second quarter of fiscal 2012, as compared to $486.0 million in the second quarter of fiscal 2011. Excluding the impact of foreign currency, which negatively impacted our revenues for the second quarter of fiscal 2012 by $12.4 million, net revenues in the second quarter of fiscal 2012 grew 2.3% versus the prior year period. The second quarter of fiscal 2012 benefited from a higher active Online subscriber base at the start of the quarter as compared to the start of the second quarter of fiscal 2011 and effective marketing in the Continental European meetings business. Revenue growth in our Continental European meetings business was completely offset by revenue declines in the NACO and UK meetings businesses as they cycled against their new program launches in late fiscal 2010 and strong marketing in the second quarter of fiscal 2011. Meeting revenues in the second quarter of fiscal 2012 continued to be negatively impacted by the execution challenges associated with introducing the Monthly Pass commitment plan to NACO s small accounts portion of its corporate business in the first quarter of fiscal 2012. In addition, beginning towards the end of the second quarter of fiscal 2012, enrollments in NACO were affected by macro-economic factors, particularly consumer confidence, which negatively impacted revenue in the second quarter of fiscal 2012. Further, while effective marketing contributed to revenue growth in Continental Europe, marketing in the second quarter of fiscal 2012 for the UK meetings business was less effective than the prior year period and also negatively impacted revenue. Weak macro-economic trends in the United Kingdom contributed to the revenue decline in the UK meetings business as well.

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The combination of the above factors which negatively impacted meeting revenues in the quarter led to a 4.7% decline in global meeting paid weeks in the second quarter of fiscal 2012 versus the prior year period. In contrast, with the benefits of starting the second quarter with a higher active Online subscriber base and effective marketing for the Weight Watchers Online product in Continental Europe, WeightWatchers.com experienced growth of 30.2% in Online paid weeks, as well as a 26.4% increase in end of period active Online subscribers, in the second quarter of fiscal 2012 versus the prior year period. The increase in Online paid weeks offset the decline in meeting paid weeks which resulted in an 11.1% increase in global paid weeks in the second quarter of fiscal 2012 versus the prior year period. Global attendance in the second quarter of fiscal 2012 declined 9.6% in comparison to the second quarter of fiscal 2011.

Gross Profit and Operating Income

Gross profit for the second quarter of fiscal 2012 of $293.5 million increased $6.4 million, or 2.2%, from $287.2 million in the second quarter of fiscal 2011. Operating income for the second quarter of fiscal 2012 was $153.5 million, a decrease of $1.8 million, or 1.2%, from $155.3 million in the second quarter of fiscal 2011. Excluding the impact of foreign currency, which negatively impacted operating income for the second quarter of fiscal 2012 by $3.6 million, operating income in the second quarter of fiscal 2012 increased by $1.7 million, or 1.1%, versus the prior year period. Our gross margin in the second quarter of fiscal 2012 increased to 60.6% from 59.1% in the second quarter of fiscal 2011, but operating income margin in the second quarter of fiscal 2012 declined to 31.7% from 32.0% in the second quarter of fiscal 2011. See Components of Expenses and Margins for additional details.

Net Income and Earnings Per Share

Net income attributable to the Company in the second quarter of fiscal 2012 declined 10.9% from $87.0 million in the second quarter of fiscal 2011 to $77.5 million. This decline was the result of marketing investments in the second quarter of fiscal 2012 causing a decline in operating income in the quarter versus the prior year period. In addition, higher interest expense resulting from our financing of our repurchase of shares in the Tender Offer (defined below) and related share repurchase from Artal Holdings (defined below) and the write-off of an investment further reduced net income in the second quarter of fiscal 2012.

Earnings per fully diluted share in the second quarter of fiscal 2012 were $1.36, an increase of $0.19 from $1.17 in the second quarter of fiscal 2011. Earnings per fully diluted share in the second quarter of fiscal 2012 benefited from our repurchase of shares in the Tender Offer and the related share repurchase from Artal Holdings as our weighted average diluted shares outstanding decreased to 57.1 million from 74.4 million in the prior year period. See Liquidity and Capital Resources Dividends and Stock Transactions for a description of the Tender Offer and related share repurchase from Artal Holdings.

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 second quarter of fiscal 2012 were $248.5 million, a decrease of $21.1 million, or 7.8%, from $269.6 million in the prior year period. Excluding the impact of foreign currency, which decreased our global meeting fees for the second quarter of fiscal 2012 by $6.3 million, global meeting fees in the second quarter of fiscal 2012 decreased by 5.5% versus the prior year period. The decline in meeting fees was driven by a 4.7% decline in global meeting paid weeks in the second quarter of fiscal 2012 to 27.0 million from 28.3 million in the prior year period. The decline in meeting paid weeks was driven by the lower meeting membership base we had at the beginning of the second quarter of fiscal 2012 versus the beginning of the prior year period, as well as lower enrollments in the quarter versus the prior year period. Global attendance decreased 9.6% to 13.9 million in the second quarter of fiscal 2012 from 15.4 million in the second quarter of fiscal 2011.

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In NACO, meeting fees in the second quarter of fiscal 2012 were $173.3 million, a decrease of $12.2 million, or 6.6%, from $185.6 million in the second quarter of fiscal 2011. The decline in meeting fees was driven primarily by a 5.5% decline in NACO meeting paid weeks from 19.0 million in the second quarter of fiscal 2011 to 17.9 million in the second quarter of fiscal 2012. The decline in meeting paid weeks was driven by the lower meeting membership base at the beginning of the second quarter of fiscal 2012 versus the beginning of the prior year period, as well as lower enrollments in the quarter versus the prior year period. Lower enrollments in the quarter were driven in part by execution challenges associated with introducing Monthly Pass to the small accounts portion of NACO s corporate business in the first quarter of fiscal 2012 and the impact of the macro-economic climate on the business towards the end of second quarter of fiscal 2012, particularly as it related to consumer sentiment. In the second quarter of fiscal 2012, NACO attendance decreased 9.9% to 8.8 million from 9.7 million in the second quarter of fiscal 2011.

International meeting fees in the second quarter of fiscal 2012 were $75.2 million, a decrease of $8.8 million, or 10.5%, from $84.0 million in the prior year period. Excluding the impact of foreign currency, which decreased international meeting fees for the second quarter of fiscal 2012 by $5.8 million, international meeting fees declined by 3.7% in the second quarter of fiscal 2012 versus the prior year period. The decline in meeting fees was driven by a 3.0% decline in international meeting paid weeks in the second quarter of fiscal 2012 versus the prior year period. The decline in meeting paid weeks was driven by the lower meeting membership base at the beginning of the second quarter of fiscal 2012 versus the beginning of the prior year period, as well as lower enrollments in the quarter versus the prior year period. International attendance decreased by 9.1% in the second quarter of fiscal 2012 versus the prior year period.

In the second quarter of fiscal 2012, UK meeting fees decreased by 15.5% to $27.0 million from $31.9 million in the second quarter of fiscal 2011. The decline in meeting fees was driven primarily by a decline of 9.4% in UK meeting paid weeks in the second quarter of fiscal 2012 versus the prior year period. The decline in meeting paid weeks was driven by the lower meeting membership base at the beginning of the second quarter of fiscal 2012 versus the beginning of the prior year period, as well as lower enrollments in the quarter versus the prior year period. The advertising campaign that was introduced in the United Kingdom in the first quarter of fiscal 2012 continued to be ineffective in driving enrollment growth in the second quarter of fiscal 2012. Weak macro-economic trends in the United Kingdom also contributed to the decline in enrollments. UK attendance decreased by 14.6% in the second quarter of fiscal 2012 versus the prior year period.

The Continental European meetings business experienced a decrease in meeting fees of 3.9% to $37.5 million in the second quarter of fiscal 2012 from $39.0 million in the second quarter of fiscal 2011. Excluding the impact of foreign currency, which decreased Continental European meeting fees for the second quarter of fiscal 2012 by $4.4 million, Continental European meeting fees increased by 7.5% in the second quarter of fiscal 2012 as compared to the prior year period. The increase in meeting fees was driven by an increase of 11.0% in Continental European meeting paid weeks in the second quarter of fiscal 2012 versus the prior year period. The increase in meeting paid weeks was driven by the higher meeting membership base at the beginning of the second quarter of fiscal 2012 versus the beginning of the prior year period, as well as higher enrollments in the quarter versus the prior year period. These higher enrollments were the result of effective new marketing strategies in this region, particularly in France and Germany. In Continental Europe, attendance increased by 2.7% in the second quarter of fiscal 2012 versus the prior year period.

In-Meeting Product Sales

Global in-meeting product sales for the second quarter of fiscal 2012 were $64.5 million, a decrease of $8.1 million, or 11.1%, from $72.6 million in the second quarter of fiscal 2011. Excluding the impact of foreign currency, which decreased in-meeting product sales for the second quarter of fiscal 2012 by $2.2 million, global in-meeting product sales in the second quarter of fiscal 2012 declined 8.1% versus the prior year period. This decrease resulted primarily from a 9.6% decline in global meeting attendance in the quarter versus the prior year period. On a per attendee basis, second quarter fiscal 2012 global in-meeting product sales decreased 1.6%, but increased 1.7% on a constant currency basis, versus the prior year period. This increase in in-meeting product sales per attendee in the second quarter of fiscal 2012 was primarily the result of higher sales of our consumable products in both North America and the United Kingdom.

In NACO, second quarter fiscal 2012 in-meeting product sales of $35.7 million decreased by $3.0 million, or 7.8%, versus the prior year period. This decrease was driven by a 9.9% attendance decline, and was partially offset by a 2.4% increase in in-meeting product sales per attendee, in the second quarter of fiscal 2012 as compared to the prior year period.

International in-meeting product sales were $28.9 million in the second quarter of fiscal 2012, a decrease of 14.9%, or 8.8% on a constant currency basis, versus the prior year period. This decrease was driven primarily by an attendance decline of 9.1% in the second quarter of fiscal 2012 as compared to the second quarter of fiscal 2011. In addition, in-meeting product sales per attendee of $5.62 in the second quarter of fiscal 2012 declined by 6.4%, but increased by 0.3% on a constant currency basis, as compared to the prior year period.

Internet Revenues

Internet revenues, which include subscription revenues from sales of our Weight Watchers Online and Weight Watchers eTools products as well as Internet advertising revenues, increased $29.9 million, or 28.3%, to $135.6 million in the second quarter of fiscal 2012 from $105.7 million in the second quarter of fiscal 2011. Excluding the impact of foreign currency, which decreased Internet revenues for the second quarter of fiscal 2012 by $2.9 million, Internet revenues grew by 31.0% in the second quarter of fiscal 2012 versus the prior year period. The combination of a higher active Online subscriber base at the start of the second quarter of fiscal 2012, up 32.3%, versus the beginning of the second quarter of fiscal 2011 and effective marketing campaigns in Continental Europe contributed to Online paid weeks growth of 30.2% in the second quarter of fiscal 2012 versus the prior year period. Additionally, end of period active Online subscribers increased by 26.4% to 2.3 million at the end of the second quarter of fiscal 2012 as compared to 1.8 million at the end of the second quarter of fiscal 2011.

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 $36.1 million for the second quarter of fiscal 2012, a decrease of $2.0 million, or 5.3%, from $38.2 million for the second quarter of fiscal 2011. Excluding the impact of foreign currency, which decreased other revenues for the second quarter of fiscal 2012 by $1.1 million, other revenues were 2.8% lower in the second quarter of fiscal 2012 compared to the prior year period. Franchise commissions and sales of products to our franchisees declined in the aggregate by 24.7%, or 23.3% on a constant currency basis, in the second quarter of fiscal 2012 versus the prior year period. Our by mail product sales and revenues from our publications also declined in the aggregate by 14.5%, or 11.9% on a constant currency basis, in the second quarter of fiscal 2012 versus the prior year period level. These declines were primarily the result of comparing against the prior year period which had the benefit of the new program launches in our English-speaking markets in late fiscal 2010. Global licensing revenues in the second quarter of fiscal 2012 increased by 12.8% versus the prior year period. A one-time termination fee in the second quarter of fiscal 2012 which was included in licensing revenues accounted for all the increase versus the prior year period. Excluding this one-time termination fee of $2.0 million from licensing revenues, global licensing revenues in the second quarter of fiscal 2012 declined 0.6% versus the prior year period.

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Components of Expenses and Margins

Cost of Revenues and Gross Margin

Total cost of revenues in the second quarter of fiscal 2012 was $191.2 million, a decrease of $7.6 million, or 3.8%, from $198.9 million in the prior year period. Cost of revenues declined at a faster pace than revenues due to the shift of revenue towards the higher margin WeightWatchers.com business. Gross profit for the second quarter of fiscal 2012 of $293.5 million increased $6.4 million, or 2.2%, from $287.2 million in the second quarter of fiscal 2011. Gross margin in the second quarter of fiscal 2012 was 60.6%, as compared to 59.1% in the second quarter of fiscal 2011. Gross margin expansion was primarily the result of the shift in revenue towards the higher margin WeightWatchers.com business. This margin expansion was partially offset by a decline in the meetings business gross margin. This decline in the meetings business gross margin was primarily driven by the impact of higher costs associated with our future growth initiatives and lower average number of members per meeting.

Marketing

Marketing expenses for the second quarter of fiscal 2012 were $83.8 million, an increase of $8.6 million, or 11.5%, versus the second quarter of fiscal 2011. Excluding the impact of foreign currency, which decreased marketing expenses for the second quarter of fiscal 2012 by $2.2 million, marketing expenses were 14.4% higher in the second quarter of fiscal 2012 compared to the prior year period. Second quarter of fiscal 2012 marketing expenses were higher primarily due to investments in two strategic initiatives: the first, investment in marketing the Weight Watchers Online product to men in the United States to build awareness and communicate the relevance of the Weight Watchers brand to the male demographic, and the second, first time Online TV marketing campaigns in several of our international markets, particularly Continental Europe. In addition, we invested in TV advertising for Continental Europe s meetings business, which contributed to the increase in marketing expenses in the second quarter of fiscal 2012. The increase in marketing expenses also reflected the impact of higher volumes on online advertising costs. Marketing expenses as a percentage of revenue were 17.3% in the second quarter of fiscal 2012 as compared to 15.5% in the prior year period.

Selling, General and Administrative

Selling, general and administrative expenses were $56.2 million for the second quarter of fiscal 2012 versus $56.7 million for the second quarter of fiscal 2011, a decrease of $0.4 million, or 0.8%. Excluding the impact of foreign currency, which decreased selling, general and administrative expenses for the second quarter of fiscal 2012 by $1.3 million, second quarter fiscal 2012 selling, general and administrative expenses increased by 1.5% versus the second quarter of fiscal 2011. The increase in expenses was primarily related to growth initiatives, including technology for the development of our mobile platforms and additions to staff in support of business development. Lower bonus expense accruals related to business performance partially offset the increase. Selling, general and administrative expenses as a percentage of revenue for the second quarter of fiscal 2012 decreased to 11.6% from 11.7% for the second quarter of fiscal 2011.

Operating Income Margin

Our operating income margin in the second quarter of fiscal 2012 decreased to 31.7%, a decrease of 30 basis points from 32.0% in the second quarter of fiscal 2011. The decline in operating income margin was primarily driven by our investment in marketing the Weight Watchers Online product to men in the United States and costs related to first time Online TV marketing campaigns in several of our international markets in the second quarter of fiscal 2012. Marketing expenses increased as a percentage of revenue in the second quarter of fiscal 2012 as compared to the prior year period.

Interest Expense and Other

Interest expense was $23.8 million for the second quarter of fiscal 2012, an increase of $8.7 million, or 58.2%, from $15.0 million in the second quarter of fiscal 2011. The increase was primarily driven by higher interest rates on our debt and an increase in our average debt outstanding. The effective interest

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rate on our debt increased by 0.82% to 2.97% in the second quarter of fiscal 2012 from 2.15% in the second quarter of fiscal 2011. Our average debt outstanding increased by $1,237.2 million to $2,458.1 million in the second quarter of fiscal 2012 from $1,220.9 million in the second quarter of fiscal 2011. The increase in average debt outstanding was driven by the additional borrowings under the WWI Credit Facility (defined below) in connection with our repurchase of shares in the Tender Offer and the related share repurchase from Artal Holdings (see Liquidity and Capital Resources Dividends and Stock Transactions). Interest expense was partially offset by a decrease in the notional value and interest rates of our interest rate swaps, which resulted in a lower effective interest rate of 3.53% in the second quarter of fiscal 2012, as compared to 4.47% in the second quarter of fiscal 2011.

The Company incurred $3.8 million of other expense in the second quarter of fiscal 2012 as compared to $0.2 million of other expense in the prior year period, primarily reflecting the write-off associated with an investment and the impact of foreign currency on intercompany transactions.

Tax

Our effective tax rate was 38.5% for the second quarter of fiscal 2012 as compared to 38.0% for the second quarter of fiscal 2011. The difference in period-over-period effective tax rates is primarily the result of the reversal of certain tax reserves due to the expiration of the applicable statutes of limitations.

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RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2012 COMPARED TO THE SIX MONTHS ENDED JULY 2, 2011

The table below sets forth selected financial information for the first half of fiscal 2012 from our consolidated statements of net income for the six months ended June 30, 2012 versus selected financial information for the first half of fiscal 2011 from our consolidated statements of income for the six months ended July 2, 2011:

Summary of Selected Financial Data

	(In millions, except per share amounts) For the Six Months Ended			
	June 30, 2012	**July 2, 2011**	**Increase/ (Decrease)**	**% Change**
Revenues, net	$ 988.3	$ 989.4	$ (1.2)	(0.1%)
Cost of revenues	406.4	419.2	(12.8)	(3.0%)
Gross profit	581.9	570.3	11.6	2.0%
Gross Margin %	*58.9%*	*57.6%*		
Marketing expenses	214.1	170.8	43.3	25.3%
Selling, general & administrative expenses	111.5	108.4	3.1	2.9%
Operating income	256.3	291.1	(34.8)	(11.9%)
Operating Income Margin %	*25.9%*	*29.4%*		
Interest expense	36.9	33.2	3.7	11.3%
Other (income) expense, net	3.3	(0.2)	3.5	-100.0%
Early extinguishment of debt	1.3		1.3	+100.0%
Income before income taxes	214.7	258.1	(43.4)	(16.8%)
Provision for income taxes	82.7	98.1	(15.4)	(15.7%)
Net income	132.1	160.0	(28.0)	(17.5%)
Net loss attributable to the noncontrolling interest		0.5	(0.5)	(100.0%)
Net income attributable to the Company	$ 132.1	$ 160.6	$ (28.5)	(17.7%)
Weighted average diluted shares outstanding	65.7	74.1	(8.4)	(11.3%)
Diluted EPS	$ 2.01	$ 2.17	$ (0.16)	(7.2%)

Note: Totals may not sum due to rounding.

Consolidated Results

Revenues

Net revenues were $988.3 million in the first six months of fiscal 2012, as compared to $989.4 million in the first six months of fiscal 2011. Excluding the impact of foreign currency, which negatively impacted our revenues for the first six months of fiscal 2012 by $14.9 million, net revenues in the first six months of fiscal 2012 grew 1.4% versus the prior year period. Revenue growth in the first six months of fiscal 2012 was driven primarily by WeightWatchers.com which benefited from a higher active Online subscriber base at the start of fiscal 2012 as compared to fiscal 2011 and effective marketing in the first six months of fiscal 2012. Our Continental European meetings business, which benefited from new marketing strategies, also contributed to revenue growth. This revenue growth in our Continental European meetings business was almost completely offset by revenue declines in the NACO and UK meetings businesses as they cycled against the new program launches in late fiscal 2010 and strong marketing and public relations efforts in the first six months of fiscal 2011. In addition, in the first six months of fiscal 2012, meeting revenues were negatively impacted by the execution challenges associated

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with introducing the Monthly Pass commitment plan to NACO s small accounts portion of its corporate business in the first quarter of fiscal 2012, as well as an ineffective advertising campaign in our UK meetings business.

The combination of the above factors which negatively impacted meeting revenues in the period led to a 4.8% decline in global meeting paid weeks in the first six months of fiscal 2012 versus the prior year period. However, with the benefits of starting the fiscal year with a higher active Online subscriber base and effective marketing, WeightWatchers.com experienced growth of 32.7% in Online paid weeks, as well as a 26.4% increase in end of period active Online subscribers, in the first six months of fiscal 2012 versus the prior year period. The increase in Online paid weeks more than offset the decline in meeting paid weeks which resulted in an 11.6% increase in global paid weeks in the first six months of fiscal 2012 versus the prior year period. Global attendance in the first six months of fiscal 2012 declined 10.2% in comparison to the first six months of fiscal 2011.

Gross Profit and Operating Income

Gross profit for the first six months of fiscal 2012 of $581.9 million increased $11.6 million, or 2.0%, from $570.3 million in the first six months of fiscal 2011. Operating income for the first six months of fiscal 2012 was $256.3 million, a decrease of $34.8 million, or 11.9%, from $291.1 million in the first six months of fiscal 2011. Excluding the impact of foreign currency, which negatively impacted operating income for the six months of fiscal 2012 by $3.6 million, operating income in the first six months of fiscal 2012 decreased by $31.2 million, or 10.7%, versus the prior year period. Our gross margin in the first six months of fiscal 2012 increased to 58.9% from 57.6% in the first six months of fiscal 2011, but operating income margin in the first six months of fiscal 2012 declined to 25.9% from 29.4% in the first six months of fiscal 2011. See Components of Expenses and Margins for additional details.

Net Income and Earnings Per Share

Net income attributable to the Company in the first six months of fiscal 2012 declined 17.7% from $160.6 million in the first six months of fiscal 2011 to $132.1 million. This decline was primarily the result of marketing investments in the first six months of fiscal 2012 causing a decline in operating income in the first six months of fiscal 2012 versus the prior year period. In addition, higher interest expense resulting from our financing of our repurchase of shares in the Tender Offer and related share repurchase from Artal Holdings and the write-off of an investment further reduced net income in the first six months of fiscal 2012.

Earnings per fully diluted share in the first six months of fiscal 2012 were $2.01, a decrease of $0.16 from $2.17 in the first six months of fiscal 2011. Earnings per fully diluted share in the second quarter of fiscal 2012 benefited from our repurchase of shares in the Tender Offer and the related share repurchase from Artal Holdings as our weighted average diluted shares outstanding decreased to 65.7 million from 74.1 million in the prior year period. See Liquidity and Capital Resources Dividends and Stock Transactions for a description of the Tender Offer and related share repurchase from Artal Holdings.

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 six months of fiscal 2012 were $501.0 million, a decrease of $37.5 million, or 7.0%, from $538.5 million in the prior year period. Excluding the impact of foreign currency, which decreased our global meeting fees for the first six months of fiscal 2012 by $7.5 million, global meeting fees in the first six months of fiscal 2012 decreased by 5.6% versus the prior year period. The decline in meeting fees was driven by a 4.8% decline in global meeting paid weeks in the first six months of fiscal 2012 to 53.4 million from 56.2 million in the prior year period. The decline in meeting paid

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weeks was driven by lower enrollments in the first six months of fiscal 2012 as compared to the historically high enrollment levels in the prior year period. However, the impact of enrollments on meeting paid weeks was minimized by the higher meeting membership base at the beginning of fiscal 2012 versus the beginning of fiscal 2011. Global attendance decreased 10.2% to 29.7 million in the first six months of fiscal 2012 from 33.0 million in the first six months of fiscal 2011.

In NACO, meeting fees in the first six months of fiscal 2012 were $348.5 million, a decrease of $25.2 million, or 6.8%, from $373.7 million in the first six months of fiscal 2011. The decline in meeting fees was driven primarily by a 5.7% decline in NACO meeting paid weeks from 37.4 million in the first six months of fiscal 2011 to 35.2 million in the first six months of fiscal 2012. The decline in meeting paid weeks in the first six months of fiscal 2012 primarily resulted from lower enrollments in the first six months of fiscal 2012 as compared to the historically high enrollment levels in the prior year period. Lower enrollments in the first six months of fiscal 2012 were driven in part by execution challenges associated with introducing Monthly Pass to the small accounts portion of NACO s corporate business. However, the impact of enrollments on meeting paid weeks was minimized by the higher meeting membership base at the beginning of fiscal 2012 versus the beginning of fiscal 2011. In the first six months of fiscal 2012, NACO attendance decreased 11.0% to 18.6 million from 20.9 million in the first six months of fiscal 2011.

International meeting fees in the first six months of fiscal 2012 were $152.5 million, a decrease of $12.3 million, or 7.4%, from $164.8 million in the prior year period. Excluding the impact of foreign currency, which decreased international meeting fees for the first six months of fiscal 2012 by $6.7 million, international meeting fees declined by 3.4% in the first six months of fiscal 2012 versus the prior year period. The decline in meeting fees was driven by a 3.1% decline in international meeting paid weeks in the first six months of fiscal 2012 versus the prior year period. The decline in meeting paid weeks was driven by declines in enrollments in our international English-speaking markets in the first six months of fiscal 2012 versus the prior year period, which were partially offset by enrollment growth in Continental Europe. International attendance decreased by 8.8% in the first six months of fiscal 2012 versus the prior year period.

In the first six months of fiscal 2012, UK meeting fees decreased by 11.8% to $55.6 million from $63.0 million in the first six months of fiscal 2011. Excluding the impact of foreign currency, which decreased UK meeting fees for the first six months of fiscal 2012 by $1.4 million, UK meeting fees declined by 9.6% in the first six months of fiscal 2012 versus the prior year period. The decline in meeting fees was driven primarily by a decline of 7.9% in UK meeting paid weeks in the first six months of fiscal 2012 versus the prior year period. The decline in meeting paid weeks was driven by lower enrollments in the first six months of fiscal 2012 as compared to the historically high enrollment levels in the prior year period. In addition, in the first six months of fiscal 2012, the United Kingdom introduced an advertising campaign that was ineffective in driving enrollment growth. However, the impact of enrollments on meeting paid weeks was minimized by the higher meeting membership base at the beginning of fiscal 2012 versus the beginning of fiscal 2011. UK attendance decreased by 14.3% in the first six months of fiscal 2012 versus the prior year period.

Meeting fees in Continental Europe decreased 1.7% to $74.2 million in the first six months of fiscal 2012 from $75.5 million in the first six months of fiscal 2011. Excluding the impact of foreign currency, which decreased Continental European meeting fees for the first six months of fiscal 2012 by $5.4 million, Continental European meeting fees increased by 5.4% in the first six months of fiscal 2012 as compared to the prior year period. The increase in meeting fees was driven by an increase of 8.2% in Continental European meeting paid weeks in the first six months of fiscal 2012 versus the prior year period. The increase in meeting paid weeks was driven by higher enrollments in the first six months of fiscal 2012 as compared to the prior year period. These higher enrollments were the result of effective new marketing strategies in this region. In Continental Europe, attendance increased by 3.5% in the first six months of fiscal 2012 versus the prior year period.

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In-Meeting Product Sales

Global in-meeting product sales for the first six months of fiscal 2012 were $151.7 million, a decrease of $22.0 million, or 12.7%, from $173.6 million in the first six months of fiscal 2011. Excluding the impact of foreign currency, which decreased in-meeting product sales for the first six months of fiscal 2012 by $2.9 million, global in-meeting product sales in the first six months of fiscal 2012 declined 11.0% versus the prior year period. This decrease resulted primarily from a 10.2% decline in global meeting attendance in the first six months of fiscal 2012 versus the prior year period. In addition, lower product sales per attendee in the first six months of fiscal 2012 versus the prior year period drove the balance of the decline. On a per attendee basis, the first six months of fiscal 2012 global in-meeting product sales decreased 2.7%, or 0.9% on a constant currency basis, versus the prior year period. This decrease in product sales per attendee in the first six months of fiscal 2012 was primarily the result of cycling against abnormally strong first quarter fiscal 2011 sales of enrollment products in connection with the launch of the new programs in our English-speaking markets in late fiscal 2010.

In NACO, first six months fiscal 2012 in-meeting product sales of $85.9 million decreased by $11.4 million, or 11.7%, versus the prior year period. This decrease resulted primarily from an 11.0% attendance decline in the first six months of fiscal 2012 as compared to the prior year period. A decline in in-meeting product sales per attendee of 0.8% in the first six months of fiscal 2012 as compared to the prior year period also contributed to this decrease.

International in-meeting product sales were $65.7 million in the first six months of fiscal 2012, a decrease of 13.9%, or 10.4% on a constant currency basis, versus the prior year period. This decrease was driven primarily by an attendance decline of 8.8% in the first six months of fiscal 2012 as compared to the first six months of fiscal 2011. In addition, in-meeting product sales per attendee of $5.93 in the first six months of fiscal 2012 declined by 5.6%, or 1.7% on a constant currency basis, as compared to the prior year period.

Internet Revenues

Internet revenues, which include subscription revenues from sales of our Weight Watchers Online and Weight Watchers eTools products as well as Internet advertising revenues, increased $64.9 million, or 32.8%, to $262.5 million in the first six months of fiscal 2012 from $197.6 million in the first six months of fiscal 2011. Excluding the impact of foreign currency, which decreased Internet revenues for the first six months of fiscal 2012 by $3.5 million, Internet revenues grew by 34.6% in the first six months of fiscal 2012 versus the prior year period. The combination of a higher active Online subscriber base at the start of fiscal 2012, up 50.5%, versus the beginning of fiscal year 2011 and effective marketing campaigns in North America and Continental Europe contributed to Online paid weeks growth of 32.7% in the first six months of fiscal 2012 versus the prior year period. Additionally, end of period active Online subscribers increased by 26.4% to 2.3 million at the end of the first six months of fiscal 2012 as compared to 1.8 million at the end of the first six months of fiscal 2011.

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 $73.1 million for the first six months of fiscal 2012, a decrease of $6.6 million, or 8.3%, from $79.7 million for the first six months of fiscal 2011. Excluding the impact of foreign currency, which decreased other revenues for the first six months of fiscal 2012 by $1.1 million, other revenues were 6.9% lower in the first six months of fiscal 2012 compared to the prior year period. Franchise commissions and sales of products to our franchisees declined in the aggregate by 23.7%, or 22.8% on a constant currency basis, in the first six months of fiscal 2012 versus the prior year period. Our by mail product sales and revenues from our publications also declined in the aggregate by 15.0%, or 13.7% on a constant currency basis, in the first six months of fiscal 2012 versus the prior year period. These declines were primarily the result of comparing against the prior year period which had the benefit of the new program launches in our English-speaking markets in late fiscal 2010. Global licensing revenues increased by 5.9%, or 7.6% on a constant currency basis, in the first six months of fiscal 2012 versus the prior year period. A one-time termination fee in the second quarter of fiscal 2012 which was included in licensing revenues accounted for all of the increase. Excluding this one-time termination fee of $2.0 million from licensing revenues, global licensing revenues in the first six months of fiscal 2012 declined 0.5% versus the prior year period.

Components of Expenses and Margins

Cost of Revenues and Gross Margin

Total cost of revenues in the first six months of fiscal 2012 was $406.4 million, a decrease of $12.8 million, or 3.0%, from $419.2 million in the prior year period. Cost of revenues declined at a faster pace than revenues due to the shift of revenue towards the higher margin WeightWatchers.com business. Gross profit for the first six months of fiscal 2012 of $581.9 million increased $11.6 million, or 2.0%, from $570.3 million in the first six months of fiscal 2011. Gross margin in the first six months of fiscal 2012 was 58.9%, as compared to 57.6% in the first six months of fiscal 2011. Gross margin expansion was primarily the result of the shift of revenue towards the higher margin WeightWatchers.com business. This margin expansion was partially offset by a decline in the meetings business gross margin. This decline in the meetings business gross margin was primarily driven by the impact of higher costs associated with our future growth initiatives and lower average number of members per meeting.

Marketing

Marketing expenses for the first six months of fiscal 2012 were $214.1 million, an increase of $43.3 million, or 25.3%, versus the first six months of fiscal 2011. Excluding the impact of foreign currency, which decreased marketing expenses for the first six months of fiscal 2012 by $3.4 million, marketing expenses were 27.3% higher in the first six months of fiscal 2012 compared to the prior year period. Included in our first six months of fiscal 2012 marketing expenses were investments in two strategic initiatives: the first, investment in marketing the Weight Watchers Online product to men in the United States to build awareness of and communicate the relevance of the Weight Watchers brand to the male demographic; and the second, first time Online TV marketing campaigns in several of our international markets. In addition, we invested in TV advertising for Continental Europe s meetings business, which contributed to the increase in marketing expenses in the first six months of fiscal 2012. The increase in marketing expenses also reflected the impact of higher volumes on online advertising costs. Marketing expenses as a percentage of revenue were 21.7% in the first six months of fiscal 2012 as compared to 17.3% in the prior year period.

Selling, General and Administrative

Selling, general and administrative expenses were $111.5 million for the first six months of fiscal 2012 versus $108.4 million for the first six months of fiscal 2011, an increase of $3.1 million, or 2.9%. Excluding the impact of foreign currency, which decreased selling, general and administrative expenses for the first six months of fiscal 2012 by $1.5 million, first six months of fiscal 2012 selling, general and administrative expenses increased by 4.2% versus the first six months of fiscal 2011. The increase in expenses was primarily related to growth initiatives, including technology for the development of our mobile platforms and additions to staff in support of business development. Lower bonus expense accruals related to business performance partially offset the increase. Selling, general and administrative expenses as a percentage of revenue for the first six months of fiscal 2012 increased to 11.3% from 11.0% for the first six months of fiscal 2011.

Operating Income Margin

Our operating income margin in the first six months of fiscal 2012 decreased to 25.9%, a decrease of 350 basis points from 29.4% in the first six months of fiscal 2011. The decline in operating income margin was primarily driven by our significant investment in marketing the Weight Watchers Online product to men in the United States and costs related to first time Online TV marketing campaigns in several of our international markets in the first six months of fiscal 2012. Both marketing expenses and selling, general and administrative expenses increased as a percentage of revenue in the first six months of fiscal 2012 as compared to the prior year period.

Interest Expense and Other

Interest expense was $36.9 million for the first six months of fiscal 2012, an increase of $3.7 million, or 11.3%, from $33.2 million in the first six months of fiscal 2011. The increase was primarily driven by higher interest rates on our debt and an increase in our average debt outstanding. The effective interest rate on our debt increased by 0.69% to 2.84% in the first six months of 2012 from 2.15% in the first six months of fiscal 2011. Our average debt outstanding increased by $490.1 million to $1,765.2 million in the first six months of fiscal 2012 from $1,275.1 million in the first six months of fiscal 2011. The increase in average debt outstanding was driven by the additional borrowings under the WWI Credit Facility (defined below) in connection with our repurchase of shares in the Tender Offer and the related share repurchase from Artal Holdings (see Liquidity and Capital Resources Dividends and Stock Transactions). Interest expense was partially offset by a decrease in the notional value and interest rates of our interest rate swaps, which resulted in a lower effective interest rate of 3.78% in the first six months of fiscal 2012, as compared to 4.76% in the first six months of fiscal 2011.

The Company incurred $3.3 million of other expense in the first six months of fiscal 2012 as compared to $0.2 million of other income in the prior year period, primarily reflecting the write-off associated with an investment and the impact of foreign currency on intercompany transactions.

In the first six months of fiscal 2012, we wrote-off $1.3 million of fees in connection with the refinancing of our debt, which we recorded as an early extinguishment of debt charge.

Tax

Our effective tax rate was 38.5% for the first six months of fiscal 2012 as compared to 38.0% for the first six months of fiscal 2011. The difference in period-over-period effective tax rates is primarily the result of the reversal of certain tax reserves due to the expiration of the applicable statutes of limitations.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash Fiscal 2012

Cash and cash equivalents were $90.9 million at the end of the second quarter of fiscal 2012, an increase of $43.4 million from the end of fiscal 2011. Cash flows provided by operating activities for the first six months of fiscal 2012 were $180.3 million, a decrease of $74.7 million, or 29.3%, from the $255.0 million generated in the first six months of fiscal 2011. This decrease was primarily the result of $43.3 million of additional marketing expenses in the first six months of fiscal 2012 versus the prior year period and a payment of $30.0 million to Her Majesty s Revenue and Customs, which was previously recorded as part of a reserve by the Company in the fourth quarter of fiscal 2009, in connection with the UK self-employment matter. See Part II, Item 1. Legal Proceedings UK Self-Employment Matter for additional details on this matter.

The $180.3 million of cash flows provided by operating activities for the first six months of fiscal 2012 exceeded the period s net income attributable to the Company by $48.2 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), non-cash expenses and differences between book and cash taxes.

Net cash used for investing and financing activities combined totaled $136.5 million in the first six months of fiscal 2012. Net cash used for investing activities was $38.3 million in the first six months of fiscal 2012, consisting primarily of capital expenditures in connection with our retail initiative and capitalized software expenditures to support global systems initiatives. Net cash used for financing activities totaled $98.2 million in the period and included stock repurchases of $1.5 billion and deferred financing costs of $25.4 million, partially offset by proceeds from new term loans under the WWI Credit Facility of $1.45 billion in connection with the Tender Offer and related Artal Holdings share repurchase as well as additional borrowings under our revolving credit facilities of $41.0 million. See Dividends and Stock Transactions for a description of the Tender Offer and the related Artal Holdings share repurchase. In addition, we made long-term debt payments of $48.4 million and dividend payments of $22.7 million, and received $9.4 million of proceeds from stock options exercised, in the first six months of fiscal 2012.

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Sources and Uses of Cash Fiscal 2011

Cash and cash equivalents were $60.4 million at the end of the second quarter of fiscal 2011, an increase of $19.8 million from the end of fiscal 2010. Cash flows provided by operating activities for the first six months of fiscal 2011 were $255.0 million, an increase of $110.6 million, or 76.6%, over the $144.4 million generated in the first six months of fiscal 2010. The increase of $110.6 million in cash flows provided by operating activities was primarily the result of improvements in the business in the first six months of fiscal 2011 versus the comparable prior year period. These business improvements included a $59.7 million increase in net income, and $22.5 million of higher deferred income resulting from significant increases in Online subscribers and Monthly Pass members. In addition, in the first six 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 $255.0 million of cash flows provided by operating activities for the first six months of fiscal 2011 exceeded net income attributable to the Company by $94.4 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital, and from non-cash expenses and differences between book and cash taxes.

Net cash used for investing and financing activities combined totaled $237.4 million in the first six months of fiscal 2011. Net cash used for investing activities was $20.4 million in the first six months of fiscal 2011, consisting primarily of capital expenditures. Net cash used for financing activities totaled $217.0 million in the period and consisted primarily of long-term debt payments of $202.3 million, stock repurchases of $34.9 million and dividend payments of $25.9 million. These uses were partially offset by $41.1 million of proceeds from stock options exercised in the first six months of 2011.

Balance Sheet Working Capital

On our balance sheet at June 30, 2012, the working capital deficit was $259.9 million, including $90.9 million of cash and cash equivalents and $152.9 million of current portion of long-term debt. At December 31, 2011, our working capital deficit was $279.7 million, which included $47.5 million of cash and cash equivalents and $124.9 million of current portion of long-term debt. After making scheduled debt repayments of $48.4 million during the first six months of fiscal 2012, and despite the borrowings that we undertook in March and April 2012, the current portion of our long-term debt increased only by $28.0 million versus the end of fiscal 2011 as described below (see Long-Term Debt). Excluding the changes in cash and cash equivalents and current portion of long-term debt from both periods, the working capital deficit at June 30, 2012 decreased by $4.4 million to $197.8 million from $202.2 million at December 31, 2011.

The decrease of $4.4 million 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 six months of fiscal 2012 versus the December 31, 2011 level was attributable to operational items. Operational items increased the deficit by $45.6 million. These operational items included a $28.6 million increase in deferred revenue from growth in our Online subscriber and Monthly Pass member bases, seasonality-related reductions of $13.1 million in inventory, and a $4.5 million decrease in accounts receivable partially offset by a $0.6 million decrease in accrued liabilities. These increases in working capital deficit were almost fully offset by a $29.4 million decline in the UK self-employment liability related to payments made in the first quarter of fiscal 2012, $15.2 million net increase in prepaid and deferred income taxes, primarily related to the timing income tax payments, and a $5.4 million decline in the derivative liability.

Long-Term Debt

Our credit facilities consist of certain term loan facilities and revolving credit facilities, which we refer to collectively as the WWI Credit Facility. During the first quarter of fiscal 2012, the composition of the WWI Credit Facility changed as a result of our amending and restating the WWI Credit Facility to, among other things, extend the maturity of certain of our term loan facilities and our revolving credit facility and to obtain new commitments for the borrowing of an additional $1,449.4 million of term loans to finance the purchases of shares of our common stock in the Tender Offer and from Artal Holdings.

Immediately prior to the amendment of the WWI Credit Facility, the term loan facilities consisted of a tranche A-1 loan, or Term A-1 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 a revolving credit facility, or Revolver A-1. The aggregate principal amount then outstanding under (i) the Term A-1 Loan was $128.6 million, (ii) the Term B Loan was $237.5 million, (iii) the Term C Loan was $420.4 million and (iv) the Term D Loan was $238.2 million. Immediately prior to the amendment of the WWI Credit Facility, the Revolver A-1 had no loans outstanding under it, $1.0 million of issued but undrawn letters of credit and $331.6 million in available unused commitments thereunder.

Following the amendment of the WWI Credit Facility on March 15, 2012, (i) $33.1 million in aggregate principal amount of the Term A-1 Loan and $301.8 million in aggregate principal amount of the Term C Loan were converted into, and $849.4 million in aggregate principal amount of commitments to borrow new term loans were provided under, a new tranche E loan, or Term E Loan, (ii) $107.0 million in aggregate principal amount of the Term B Loan and $119.1 million in aggregate principal amount of the Term D Loan were converted into, and $600.0 million in aggregate principal amount of commitments to borrow new term loans were provided under, a new tranche F loan, or Term F Loan, and (iii) $262.0 million in aggregate principal amount of commitments under the Revolver A-1 were converted into a new revolving credit facility, or Revolver A-2. The loans outstanding under each term loan facility existing prior to the amendment of the WWI Credit Facility and the loans and commitments outstanding under the Revolver A-1, in each case that were not converted into the Term E Loan, the Term F Loan or the Revolver A-2, as applicable, continued to remain outstanding under the WWI Credit Facility as the Term A-1 Loan, the Term B Loan, the Term C Loan, the Term D Loan or the Revolver A-1, as applicable. In connection with this amendment, we incurred fees of approximately $25.4 million during the first quarter of fiscal 2012. On March 27, 2012, we borrowed an aggregate of $726.0 million under the Term E Loan and the Term F Loan to finance the purchase of shares in the Tender Offer and to pay a portion of the related fees and expenses. On April 9, 2012, we borrowed an aggregate of approximately $723.4 million under the Term E Loan to finance the purchase of shares from Artal Holdings. At June 30, 2012, we had $2,493.8 million outstanding under the WWI Credit Facility, a combination of term loans and amounts outstanding under the Revolver A-1 and the Revolver A-2. In addition, at June 30, 2012, the Revolver A-1 had $0.2 million in issued but undrawn letters of credit outstanding thereunder and $61.7 million in available unused commitments thereunder and the Revolver A-2 had $0.8 million in issued but undrawn letters of credit outstanding thereunder and $228.9 million in available unused commitments thereunder.

At June 30, 2012 and December 31, 2011, our debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with our variable-rate borrowings. The average interest rate on our debt, exclusive of the impact of swaps, was approximately 2.88% and 2.40% per annum at June 30, 2012 and December 31, 2011, respectively.

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The following schedule sets forth our long-term debt obligations at June 30, 2012:

Long-Term Debt

At June 30, 2012

(in millions)

	Balance
Revolver A-1 Loan due June 30, 2014	$ 8.7
Revolver A-2 Loan due March 15, 2017	32.3
Term A-1 Loan due January 26, 2013	76.5
Term B Loan due January 26, 2014	130.1
Term C Loan due June 30, 2015	117.0
Term D Loan due June 30, 2016	118.8
Term E Loan due March 15, 2017	1,184.3
Term F Loan due March 15, 2019	826.1
Total Debt	2,493.8
Less Current Portion	152.9
Total Long-Term Debt	$ 2,340.9

The WWI Credit Facility provides that term loans and the loans outstanding under the Revolver A-1 and the Revolver A-2 bear interest at a rate per annum equal to either, at our option, the LIBO Rate (Reserve Adjusted) (as defined in the WWI Credit Facility agreement) plus an applicable margin or the Alternate Base Rate (as defined in the WWI Credit Facility agreement) plus an applicable margin, which applicable margins will vary depending on our Net Debt to EBITDA Ratio (as defined in the WWI Credit Facility agreement) from time to time in effect. At June 30, 2012, the Term A-1 Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 1.00% per annum; the Term B Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 1.50% per annum; the Term C Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum; the Term D Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum; the Term E Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.00% per annum; the Term F Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.75% per annum; the Revolver A-1 bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.50% per annum; and the Revolver A-2 bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.00% per annum. For purposes of calculating the interest rate on the Term F Loan, the LIBO Rate (Reserve Adjusted) will always be at least 1.00% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, we are required to pay an undrawn commitment fee to the lenders under each of the Revolver A-1 and the Revolver A-2 with respect to the unused commitments under each such facility at a rate that is dependent on our Net Debt to EBITDA Ratio from time to time in effect. As of June 30, 2012, the applicable commitment fee rate for the Revolver A-1 was 0.50% per annum and for the Revolver A-2 was 0.40% per annum.

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 June 30, 2012, 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 secure the WWI Credit Facility.

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The WWI Credit Facility allows us to make loan modification offers to all lenders of any tranche of term loans or revolving commitments to extend the maturity date of such loans and/or commitments 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 commitments 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. The WWI Credit Facility also allows for up to an additional $400.0 million of incremental financing through the creation of either new tranches of term loans or through an increase in commitments under the Revolver A-2, in each case to be provided to us under the WWI Credit Facility. The incremental capacity is uncommitted and we must find lenders to provide any such financing prior to incurrence. In addition, we may incur up to an additional $200.0 million of incremental term loans 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 facilities and 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.

The following schedule sets forth our year-by-year debt obligations at June 30, 2012:

Total Debt Obligation

(Including Current Portion)

At June 30, 2012

(in millions)

Remainder of fiscal 2012	$ 76.4
Fiscal 2013	114.7
Fiscal 2014	289.9
Fiscal 2015	227.3
Fiscal 2016	209.3
Thereafter	1,576.2
Total	$ 2,493.8

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 revolving credit facilities, 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 historically have issued a quarterly cash dividend of $0.175 per share of our common stock every quarter for the past several fiscal years. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our financial results, capital requirements and other factors it may deem relevant. Our Board of Directors may decide at any time to increase or decrease the amount of dividends or discontinue the payment of dividends based on these factors. The WWI Credit Facility also contains restrictions on our ability to pay dividends on our common stock.

On October 9, 2003, our Board of Directors authorized and we announced a program to repurchase up to $250.0 million of our outstanding common stock. On each of June 13, 2005, May 25, 2006 and October 21, 2010, our Board of Directors authorized and we announced adding $250.0 million to this program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal Holdings Sp. z o.o., Succursale de Luxembourg, or Artal Holdings, and its parents and subsidiaries under the program. The repurchase program currently has no expiration date. During the six months ended June 30, 2012, the Company repurchased no shares of its common stock in the open market under this program. The repurchase of shares of common stock under the Tender Offer and from Artal Holdings pursuant to the Purchase Agreement, as discussed further below, was not made pursuant to the repurchase program. During the six months ended July 2, 2011, the Company repurchased in its first quarter 0.8 million shares of its common stock in the open market under this program for a total cost of $31.6 million and in its second quarter no shares of its common stock.

On February 23, 2012, we commenced a modified Dutch auction tender offer for up to $720.0 million in value of our common stock at a purchase price not less than $72.00 and not greater than $83.00 per share, or the Tender Offer. Prior to the Tender Offer, on February 14, 2012, we entered into an agreement, or the Purchase Agreement, with Artal Holdings whereby Artal Holdings agreed to sell to us, at the same price as was determined in the Tender Offer, such number of its shares of our common stock that, upon the closing of this purchase after the completion of the Tender Offer, Artal Holdings percentage ownership in the outstanding shares of our common stock would be substantially equal to its level prior to the Tender Offer. Artal Holdings also agreed not to participate in the Tender Offer so that it would not affect the determination of the purchase price of the shares in the Tender Offer.

The Tender Offer expired at midnight, New York time, on March 22, 2012, and on March 28, 2012 we repurchased approximately 8.8 million shares at a purchase price of $82.00 per share. On April 9, 2012, we repurchased approximately 9.5 million of Artal Holdings shares at a purchase price of $82.00 per share pursuant to the Purchase Agreement. In March 2012, we amended and extended the WWI Credit Facility to finance these repurchases. See Long-Term Debt .

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 operating income for the first half of the year is generally the strongest. 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. While WeightWatchers.com experiences seasonality similar to the meetings business in terms of new subscriber sign-ups, its revenue tends to be less seasonal because it amortizes subscription revenue over the related subscription period.

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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 2011 have not changed from December 31, 2011, other than as described below.

As of June 30, 2012, we had entered into interest rate swaps with notional amounts totaling $697.8 million to hedge a portion of our variable rate debt. As of such date, $1,796.0 million of our variable rate debt remained unhedged. Our interest rate swap that went effective on January 4, 2010 and terminates on January 27, 2014 had an initial notional amount of $425.0 million, which amount will fluctuate during the remainder of its term to a maximum of $697.8 million. Based on the amount of our variable rate debt and interest swap agreements as of June 30, 2012, 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 $9.0 million. This change in market risk exposure from the end of fiscal 2011 was driven by the additional borrowings in connection with the repurchase of shares of common stock under the Tender Offer and from Artal Holdings.

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 interim 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 interim 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 interim 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.

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. In January 2012, we sought permission from the UK Court of Appeal to appeal the Upper Tribunal s ruling, which the UK Court of Appeal refused in March 2012. In March 2012, we applied to the UK Court of Appeal for an oral hearing to seek permission to appeal to the UK Court of Appeal against the Upper Tribunal s ruling. At the hearing in June 2012, the UK Court of Appeal granted us permission to appeal. A hearing date for the appeal has not yet been set.

In December 2011, HMRC s claim in respect of NIC was amended to increase the claimed amount for the period April 2002 to April 2007 and include the interest accrued thereon through December 2011. In addition, in February 2012, HMRC asserted a claim in respect of PAYE for the period April 2007 to April 2011 similar to what it had claimed for the period April 2001 to April 2007. We are currently appealing this PAYE claim with the First Tier Tribunal and the First Tier Tribunal has directed that the appeal be stayed until following the decision of the UK Court of Appeal with respect to our appeal of the Upper Tribunal s ruling.

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 $43.7 million in the aggregate based on the exchange rates at the end 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 for this matter. In addition, we do not currently expect additional reserves will be required in connection with the December 2011 amended NIC claim and the February 2012 PAYE claim by HMRC, as reserves had previously been made for these amounts. In February 2012, we paid HMRC, on a without prejudice basis, a portion of the amount previously reserved equal to approximately $30.0 million based on the exchange rates at the payment date for estimated amounts claimed to be owed by us with respect to PAYE and interest thereon for the period April 2001 to July 2011. The reserve at the end of the second quarter of fiscal 2012 equaled approximately $14.3 in the aggregate based on the exchange rates at the end of the second quarter of fiscal 2012.

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 sought 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. In February 2012, the parties engaged in mediation and reached an agreement in principle to resolve the case for a de minimis amount. The court approved the settlement agreement negotiated by the parties, and the case was dismissed with prejudice in April 2012.

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 2011.

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

This table provides certain information with respect to our purchases of shares of Weight Watchers International, Inc. s common stock during the second quarter of fiscal 2012:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
April 1 May 5	9,498,804(1)	$ 82.00	9,498,804(1)	$ 208,933,489(2)
May 6 June 2		$		$ 208,933,489(2)
June 3 June 30		$		$ 208,933,489(2)
Total	9,498,804	$ 82.00	9,498,804	

(1) On February 14, 2012, we announced a plan to launch a modified Dutch auction tender offer and related share repurchase from Artal Holdings pursuant to which our Board of Directors authorized us to repurchase up to $1,500.0 million in value of our common stock. On February 23, 2012, we commenced the tender offer in which we sought to acquire up to $720.0 million in value of our common stock at a purchase price not greater than $83.00 nor less than $72.00 per share. The tender offer expired at midnight, New York time, on March 22, 2012 and in connection therewith, on March 28, 2012, we repurchased 8,780,485 shares of our common stock at a price of $82.00 per share. Additionally, on April 9, 2012, we repurchased 9,498,804 shares from Artal Holdings at a price of $82.00 per share pursuant to the agreement we entered into with Artal Holdings in

connection with the tender offer. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Dividends and Stock Transactions for additional details of the Tender Offer and related share repurchase from Artal Holdings.

(2) Reflects the approximate dollar value of shares that may yet be purchased under our previously announced repurchase program. We made no share repurchases under this program during the quarter ended June 30, 2012. For a discussion of our repurchase program, see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Dividends and Stock Transactions .

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Nothing to report under this item.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Nothing to report under this item.

ITEM 6. EXHIBITS

Exhibit Number	Description
Exhibit 31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	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: August 9, 2012

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

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EXHIBIT INDEX

Exhibit Number	Description
Exhibit 31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	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