

WEIGHT WATCHERS INTERNATIONAL INC
Form 10-K
February 27, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 29, 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

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Common Stock, no par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates as of June 29, 2012 (based upon the average bid and asked price of \$50.68 per share of common stock as of June 29, 2012, the last business day of the registrant's second fiscal quarter of 2012, as quoted on the New York Stock Exchange) was \$1,351,835,938. For purposes of this computation, it is assumed that shares of common stock held by our directors, executive officers and our controlling shareholders would be deemed stock held by affiliates.

The number of shares outstanding of common stock as of January 31, 2013 was 55,754,372.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2013 annual meeting of shareholders scheduled to be held on May 7, 2013 are incorporated herein by reference in Part III, Items 10-14. Such Proxy Statement will be filed with the SEC no later than 120 days after the registrant's fiscal year ended December 29, 2012.

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Weight Watchers International, Inc.

Annual Report on Form 10-K

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BASIS OF PRESENTATION

Weight Watchers International, Inc. is a Virginia corporation with its principal executive offices in New York, New York. In this Annual Report on Form 10-K 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; NACO refers to our North American Company-owned meeting operations; and China Joint Venture refers to Weight Watchers China Limited and all of its businesses.

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

fiscal 2003 refers to our fiscal year ended January 3, 2004;

fiscal 2004 refers to our fiscal year ended January 1, 2005;

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

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

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

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

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

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

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

The following terms used in this Annual Report on Form 10-K are our trademarks: *Weight Watchers*[®], *PointsPlus*[®], *ProPoints*[®] and *ActiveLink*[®].

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PART I

Item 1. Business Overview

We are a leading, global-branded consumer company and the world's leading provider of weight management services, operating globally through a network of Company-owned and franchise operations. With five decades of weight management experience, expertise and know-how, we have established Weight Watchers as one of the most recognized and trusted brand names among weight-conscious consumers. In fiscal 2012, consumers spent \$5 billion on Weight Watchers branded products and services, including meetings conducted by us and our franchisees, Internet subscription products sold by WeightWatchers.com, products sold at meetings, licensed products sold in retail channels and magazine subscriptions and other publications.

The high awareness and credibility of our brand among all types of weight-conscious consumers—women and men, consumers online and offline, the support-inclined and the self-help-inclined—provide us with a significant competitive advantage and growth opportunity. As the number of overweight and obese people worldwide grows, we believe our global presence and brand awareness uniquely position us to capture an increasing share of the global weight management market through our core meetings business and our WeightWatchers.com business.

In the 50 years since our founding, we have built our meetings business by helping millions of people around the world lose weight through sensible and sustainable food plans, exercise, behavior modification and group support. Each week, over a million members attend over 40,000 Weight Watchers meetings around the world, which are run by more than 10,000 leaders—each of whom has lost weight on our program. We are constantly improving our scientifically-based weight management approaches, and we are one of only a few commercial weight management programs whose efficacy has been clinically proven. Our strong brand, together with the effectiveness of our plans, loyal customer base and unparalleled network and infrastructure, enable us to attract new and returning members efficiently. Our customer acquisition costs are relatively low due to both word of mouth referrals and our efficient mass marketing programs.

Through WeightWatchers.com, we offer Internet subscription weight management products, which include applications for mobile and tablet devices, to consumers and maintain an interactive presence on the Internet for the Weight Watchers brand. We believe WeightWatchers.com is the global leading provider of weight management Internet subscription products. Currently, we provide two Internet subscription offerings: Weight Watchers Online and Weight Watchers eTools. Weight Watchers Online provides interactive and personalized resources that allow users to follow our weight management plans via the Internet or on their mobile device. Weight Watchers eTools is the Internet weight management companion for Weight Watchers meetings members who want to interactively manage the day-to-day aspects of their weight management plans on the Internet or on their mobile device. Weight Watchers eTools is offered for free as part of our Monthly Pass commitment plan, or Monthly Pass, which provides our meetings members with unlimited access to meetings at a discounted monthly rate. We currently offer our two Internet subscription products in twelve countries, including the United States, the United Kingdom, Germany and Australia.

The Global Weight Management Market

We participate in the global weight management market. According to Marketdata Enterprises, the weight management industry had revenue of approximately \$62 billion in 2011 in the United States alone. The number of overweight and obese people has steadily increased around the world over the past 20 years and is estimated to reach approximately 3.0 billion by 2015, primarily driven by changing eating patterns and increasingly sedentary lifestyles. Between 2007 and 2008, 68% of Americans over the age of 19 were considered overweight and almost half of these were obese. Numerous diseases, including heart disease, high blood pressure and Type II diabetes, are associated with being overweight or obese. We believe the growing population of overweight people who are

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motivated by both an increasing awareness of the health benefits of weight loss and the desire to improve their appearance is fueling the growth in demand for weight management programs. We believe this growth and awareness is also a result of an increasing willingness of employers and governments to promote and subsidize the cost of weight management programs as part of their efforts to control healthcare costs.

Our Services and Products

Our Weight Management Plans

In each of our markets, we offer services and products that are built upon our weight management program which is comprised of a range of nutritional, exercise and behavioral tools and approaches. Beginning towards the end of fiscal 2012, we launched globally an updated weight management plan, known as Weight Watchers 360° in NACO, built upon **PointsPlus**, our weight management plan in NACO. **PointsPlus**, or **ProPoints** as it is known in certain of our other geographies, is an innovative weight loss system, developed from a combination of the latest nutritional scientific research and insights of customers who experienced prior Weight Watchers plans. With the **PointsPlus** system, each food has a **PointsPlus** value determined by a unique and proprietary formula based on the food's protein, carbohydrates, fat and dietary fiber content. The formula takes into account how these nutrients are processed by the body as well as their impact on satiety. Subject to certain nutritional guidelines, consumers following the **PointsPlus** system can eat any food as long as the **PointsPlus** value of their total food consumption stays within their personalized **PointsPlus** budget. Since nutritious foods generally have low **PointsPlus** values, this approach guides consumers toward healthier eating habits. The Weight Watchers 360° plan takes the **PointsPlus** plan a step further, maintaining the benefits of the **PointsPlus** system and adding education and tools for consumers to navigate environments in which they live day-to-day and behavioral steps and strategies to develop routines to enhance long-term weight management success.

Our Clinical Efficacy

Our program is one of the most clinically-studied commercial weight management programs, with more than 80 publications in the last 20 years. For example, in fiscal 2011, The Lancet medical journal published a global, one-year study led by investigators from the Medical Research Council of the University of Cambridge in the United Kingdom indicating that, after twelve months, overweight and obese adults referred by their doctors to our program lost more than twice as much weight as compared to those who participated in a standard care program led by a primary care provider. Also in fiscal 2011, the British Medical Journal released a study further emphasizing the effectiveness of our weight management program. Similarly, during fiscal 2012, a clinical trial funded by the National Institutes of Health in the United States found that individuals following Weight Watchers lost more weight, on average, over a 48-week period than those following a program administered by healthcare professionals preceding a period of time of following Weight Watchers.

Our Meetings

We present our program in a series of weekly meetings of approximately one hour in duration. Meetings are conveniently scheduled throughout the day. Typically, we hold meetings in either meeting rooms in well-located civic or other community centers or space leased in retail centers.

Our group support system remains the cornerstone of our meetings. Members provide each other support by sharing their experiences with, and by providing encouragement and empathy to, other people experiencing similar weight management challenges. This group support provides the reassurance that no one must overcome their weight management challenge alone. Group support assists members in dealing with issues such as emotional eating and finding time to exercise. We facilitate this support through interactive meetings that encourage learning through group activities and discussions.

In our meetings, our leaders present our program in a manner that combines group support and education with a structured approach to food, activity and lifestyle modification developed by credentialed weight

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management experts. Our more than 10,000 leaders worldwide run our meetings and educate members on the Weight Watchers method of successful and sustained weight management. Our leaders also provide inspiration and motivation for our members and are examples of our program's effectiveness because they have lost weight and maintained their weight loss on our program. Leaders are usually paid on a commission basis.

Meetings typically begin with registration and a confidential weigh-in to track each member's progress. Leaders and receptionists are trained to engage the members at the weigh-in to talk about their weight management efforts during the previous week and to provide encouragement and advice. Part of the meeting is educational, where the leader uses personal anecdotes, games or open questions to demonstrate some of our core weight management strategies, such as self-belief and self-discipline. For the remainder of the meeting, the leader focuses on a variety of topics pre-selected by us, such as seasonal weight management topics, achievements people have made in the prior week and celebrating and applauding individual successes. Discussions can range from dealing with a holiday office party to shopping for healthy foods. The leader encourages substantial participation and discusses supporting products and materials as appropriate. At the end of the meeting, new members are given special introductory instruction in our current weight management plans.

Our leaders help set a member's weight goal within a healthy range based on body mass index. When members reach their weight goal and maintain it for six weeks, they achieve lifetime member status. This gives them the privilege to attend our meetings free of charge as long as they maintain their weight within a certain range. Successful members also become eligible to apply for positions as leaders. Field management and current leaders constantly identify potential new leaders from members who have strong interpersonal skills.

The primary payment structure for our meetings business globally is through a monthly commitment plan, referred to as Monthly Pass in NACO and many other geographies. With Monthly Pass, members receive unlimited access to meetings at a discounted monthly price plus free access to Weight Watchers eTools, the Internet weight management companion for Weight Watchers meetings members. We offer the Monthly Pass commitment plan in eleven countries, including the United Kingdom, Germany and Australia. Monthly Pass is generally offered at an approximate 20% to 25% discount to our traditional pay-as-you-go weekly fee depending on the country. Under the terms of Monthly Pass, a fee is charged automatically to the member's credit or debit card on a monthly basis until the member elects to cancel. Monthly Pass is available for purchase throughout the year.

The Company's meetings business payment structure has shifted significantly in recent years toward Monthly Pass. In fiscal 2012, on an aggregate basis across the markets where we offer Monthly Pass, well over three quarters of our meeting paid weeks, and approximately three quarters of our member attendances, were attributable to Monthly Pass. Our traditional payment structure in our meetings business had been a pay-as-you-go arrangement. Under this traditional method, a new member pays an initial registration fee and then a weekly fee for each meeting attended, although free registration is offered as a promotion during certain times of the year. We also offer prepayment plans consisting of pre-paid meeting vouchers and coupons in some countries.

As of the end of fiscal 2012, less than 17% of our total worldwide attendance was represented by franchised operations. We estimate that, in fiscal 2012, these franchised operations attracted attendance of approximately ten million people. Franchisees typically pay us a fee equal to 10% of their meeting fee revenues. We have enjoyed a mutually beneficial relationship with our franchisees over many years. In our early years, we used an aggressive franchising strategy to quickly establish a meeting infrastructure to pre-empt competition. Since then, we have acquired a large number of franchises and expect to continue to do so opportunistically.

Our franchisees are responsible for operating classes in their franchise class territory using the program and marketing guidelines we have developed. We provide a central support system for the program and our brand. Franchisees purchase products from us at wholesale prices for resale directly to members. Franchisees are obligated to adhere strictly to our program content guidelines, with the freedom to control pricing, class locations, operational structure and local promotions. Franchisees provide local operational expertise, advertising

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and public relations. Franchisees are required to keep accurate records that we audit on a periodic basis. Most franchise agreements are perpetual and can be terminated only upon a material breach or bankruptcy of the franchisee.

Our Product Sales

We sell a range of products, including bars, snacks, cookbooks, food and restaurant guides with **PointsPlus** values, Weight Watchers magazines, **PointsPlus** calculators and, most recently, ActiveLink, an activity monitor and web experience that tracks activity throughout the day. These products complement our weight management plans and help our customers in their weight management efforts. We have focused on selling products that drive recurring purchases. Our products are designed to be high quality, offer benefits related to the Weight Watchers plans, be competitively priced and be easy to merchandise.

We sell our products primarily through our meeting operations and to our franchisees. In fiscal 2012, sales of our proprietary products in our meeting operations represented approximately 14% of our revenues. We seek to grow our product sales per attendee in our meeting operations by continuing to optimize our product offerings by updating existing products, selectively introducing new products and sharing best practices across geographies.

Revenues from our WWI reporting segment, including revenues from meetings and product sales, contributed 72.2% of our total revenues in fiscal 2012, 77.8% of our total revenues in fiscal 2011 and 83.4% of our total revenues in fiscal 2010.

Our WeightWatchers.com Offerings

Through WeightWatchers.com, we are well positioned to benefit from the large self-help weight management market as well as several trends taking place in the global Internet marketplace, including an increased willingness of consumers to access and pay for web content, the proliferation of broadband and mobile access and the growth of e-Commerce and Internet advertising. According to the U.S. Census Bureau, U.S. retail eCommerce sales as a percent of total U.S. retail sales doubled between the third quarter of 2005 and the third quarter of 2012. We offer two Internet subscription products Weight Watchers Online and Weight Watchers eTools. We have offered these products in the United States since 2001 and subsequently have launched them in ten other countries, including the United Kingdom, France, Germany and Australia. While these products have similar functionality across markets, each is tailored specifically to the local market.

Revenues from our WeightWatchers.com reporting segment contributed 27.8% of our total revenues in fiscal 2012, 22.2% of our total revenues in fiscal 2011 and 16.6% of our total revenues in fiscal 2010.

Subscription Products

Weight Watchers Online is a product based on the Weight Watchers approach to weight management and is designed to attract self-help-inclined consumers. Weight Watchers Online helps consumers adopt a healthier lifestyle, with a view toward long-term behavior modification a key aspect of the Weight Watchers approach toward sustainable weight loss. Weight Watchers Online allows consumers to learn how to make healthier food choices and lead a more active lifestyle by providing them with online and mobile content, functionality, resources and interactive web-based weight management plans. As of the end of fiscal 2012, WeightWatchers.com had over 1.8 million active Weight Watchers Online subscribers.

Weight Watchers eTools is an Internet weight management product available to consumers who are Weight Watchers meetings members. Weight Watchers eTools allows users to interactively manage the day-to-day aspects of their weight management plans online or via their mobile devices, discover different food options, stay informed and motivated, and keep track of their weight management efforts.

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As Weight Watchers Online and Weight Watchers eTools reflect different value propositions, the subscription products are priced differently. Both subscription products currently offer an initial pre-paid subscription term of one or three months, continuing thereafter on a pre-paid month-to-month basis until canceled. In the United States, Weight Watchers Online costs \$65.00 for the initial 3-month term or \$48.90 for the initial one-month term. The ongoing monthly fee for Weight Watchers Online is \$18.95. In the United States, Weight Watchers eTools costs \$34.95 for the initial 3-month term or \$14.95 for the initial one-month term. The ongoing monthly fee for Weight Watchers eTools is \$14.95. In addition, Weight Watchers eTools is included for free in purchases by consumers of Monthly Pass.

Features of Subscription Products

We believe WeightWatchers.com's personalized and interactive Internet subscription products provide customers with an engaging weight management experience. Our Internet subscription products help customers monitor their weight management efforts, encourage exercise and a more active lifestyle, and provide guidance toward healthier eating habits by offering the following interactive resources:

PointsPlus Tracker

Spaces tool to help manage situations and the environment

Routines tool to help establish healthy routines

PointsPlus Calculators

Power Foods lists

Weight Tracker and Progress Charts

Nutritional Guidelines

Hunger Tracker

Fitness Workouts and Videos

Recipe and Food Databases

Recipe Builder

Meal Ideas

Restaurant Guides

Mobile Solutions and Other Market Opportunities

We believe that mobile weight management tools and resources are an important market opportunity for us. Our mobile phone applications, the iPhone® application, which launched in fiscal 2009, and the Android application, which launched in fiscal 2011, provide Monthly Pass purchasers and Weight Watchers Online subscribers with access to a suite of weight-loss tools, such as recipe and tracking tools, as well as other helpful content. In fiscal 2010, we launched our initial iPad®-optimized application, and a universal application was launched in fiscal 2011. In fiscal 2011, we launched an iPhone® and Android barcode scanning application, which scans the barcodes of food products and provides accurate **PointsPlus** values. We currently offer our universal iPhone® and iPad® applications in eleven countries and our Android application in ten countries. We continue to explore opportunities to enhance the mobility of our programs and products.

In addition, we believe men represent an important market opportunity for us and have a version of our Internet subscription products customized for men. We believe web-based offerings, combined with appropriate content and imagery, are well suited for men. We also believe we can expand our Internet revenues from sources other than our Internet subscription products, including third-party advertising on our website.

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Companies show continued interest in licensing our brand and other intellectual property as a platform to build their businesses since the Weight Watchers brand brings high credibility and access to the weight-conscious consumer. By partnering with carefully selected companies in categories relevant and helpful to weight-conscious consumers, we have created a highly profitable licensing business as well as a powerful vehicle to reinforce the Weight Watchers brand in the minds of our target consumers.

We license the Weight Watchers brand and our other intellectual property in certain categories of food and other relevant consumer products. We also endorse carefully selected branded consumer products. We seek to increase our licensing revenues by targeting sizeable or strategic product categories where the Weight Watchers brand can add real value. In order to achieve this goal, our global licensing team focuses on strategically increasing the number of categories and geographies of our licensed and endorsed products.

We typically partner in our licensing and endorsement arrangements with third parties that excel at new product development and have strong marketing and sales expertise, manufacturing and distribution capabilities, financial strength, prior performance in previous licensing and endorsement deals and senior management committed to building the Weight Watchers brand. In connection with our acquisition from the H.J. Heinz Company, or Heinz, in September 1999, Heinz received a perpetual royalty-free license to continue using our brand in its core food categories. We plan to continue to choose our licensing and endorsement partners carefully after identifying and prioritizing product categories that enhance the Weight Watchers brand and have long-term growth potential.

Select current licensees and endorsees include:

LICENSEES AND ENDORSEES	PRODUCTS/CATEGORIES
United States	
Applebee's	Select Applebee's Menu Items
Conair	Scales
Dawn Foods	Sweet Baked Goods
Foster Farms	Frozen Chicken
General Mills	Green Giant Frozen Vegetables, Progresso Light Soups and Yoplait Light Yogurt
Greencore	Chilled Meals
Kraft Foods	Boca Frozen Meat Alternatives
Russell Stover	Chocolate Candy
Schreiber Foods	Cheese
Wells Dairy	Ice Cream Novelties
United Kingdom	
Finsbury Food Group	Cakes
Greencore Prepared	Ready to Eat Meals
Rivermill	Bakery Accompaniments
Vimto	Fruit Drinks
Walkers	Biscuits and Cookies
Warburtons	Bread
Yoplait	Yogurt
Continental Europe	
Bischofszell Gastina	Chilled Meals
Campofrio Group	Meats
Kuhlmann	Salads, Spreads and Dressings
Marie	Chilled Meals and Quiches
Yoplait	Yogurt and Chilled Desserts
Australia and New Zealand	
Conair	Scales
Fonterra	Yogurt, Chilled Desserts and Cheese

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We ask each of our licensees to include on their packaging information about our services and our products, such as our toll-free numbers and a URL for WeightWatchers.com. This marketing and promotional support reinforces the value of our brand.

Our licensing and endorsement arrangements give us access to weight-conscious consumers through products sold at retail and increase the awareness of our brand. We continue to believe there are significant opportunities both in the United States and internationally to take advantage of the strength of the Weight Watchers brand and our other intellectual property through additional licensing and endorsement arrangements.

Weight Watchers Magazine

Weight Watchers magazines are published in most of our major markets. In the United States, Weight Watchers Magazine is an important branded marketing platform that continues to show strong circulation and advertiser acceptance. As of fall 2012, our US magazine had a readership of approximately ten million, according to GfK Mediamark Research and Intelligence, LLC, an industry tracking service. In addition to generating revenues from subscription sales and third-party advertising, Weight Watchers Magazine also reinforces the value of our brand and serves as a powerful tool for marketing to both existing and potential customers.

Marketing and Promotion

Word of Mouth

The word of mouth generated by our current and former customers is an important source of new customers. Over our 50-year operating history, we have created a powerful referral network of loyal customers. These referrals, combined with our strong brand and the effectiveness of our plans, enable us to efficiently attract new and returning customers.

Media Advertising

Our advertising enhances our brand image and awareness, and motivates both former and potential new customers to join Weight Watchers meetings or subscribe to Weight Watchers Online. We have historically taken advantage of a range of traditional offline advertising vehicles such as television, radio and print. Further, WeightWatchers.com has developed a strong capability and presence in Internet advertising. While our advertising schedule generally supports the three key marketing campaigns of the year, winter, spring and fall, we advertise throughout the year. We advertise primarily in national media vehicles (television, radio, Internet, magazines and newspapers), which are selected based on their efficiency and effectiveness in reaching our target audience. Also, we utilize brand ambassadors, including from time to time celebrity spokespersons, as part of our advertising.

Direct Mail and Email

Direct mail and email is a critical element of our marketing because it targets potential returning customers. We maintain databases of current and former customers in each country in which we operate, which we use to focus our direct mailings and email. During fiscal 2012, NACO sent over 32 million pieces of direct mail. Most of these mailings are timed to coincide with the start of our marketing campaigns and are intended to encourage former meetings members to re-enroll. In addition, WeightWatchers.com continues to invest in developing and refining its email targeting capabilities. Its email promotional programs are an important customer acquisition vehicle for both our Internet and meetings businesses.

WeightWatchers.com Website

The WeightWatchers.com website is an important global promotional channel for our brand, services and products. In fiscal 2012, the WeightWatchers.com website attracted, on average, over ten million unique visitors per month in the United States alone. The website is a vehicle for communicating our services and products in greater detail than could be achieved in more traditional advertising vehicles. In addition to being a gateway for

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Our Internet subscription products, the website contributes value to our meetings business by promoting our brand, advertising Weight Watchers meetings and keeping members involved with Weight Watchers outside of meetings through useful offerings, such as a meeting locator, healthy recipes, weight management articles, success stories and social media functionality. In fiscal 2012, our Meeting Finder feature generated on average over 1.7 million meeting searches per month globally. The Meeting Finder makes it easier than ever for our existing and potential members to find a convenient meeting place and time.

At-Work Meetings and Healthcare

As healthcare costs continue to be a significant concern on the minds of employers and their employees, we believe that our broad range of services and products uniquely positions us to serve the corporate market and help companies reduce their healthcare costs and improve the overall well-being of their employees. Our strategy is focused on leveraging our organizational capability to serve companies of every size and type by offering convenient and flexible weight-loss solutions that include meetings at the workplace, local community meetings and access to Weight Watchers Online. In addition, we believe our information technology platform can be leveraged to meet the needs of these companies and their employees. As a result of our strategy, we now have the capability to sell, market, and service companies at the local level, the mid-market level, and the national level of the corporate market.

We believe the healthcare market, from the doctor's office to national and other health plan providers, represents an important channel to reach new consumers. We continue to explore different approaches to this market.

Public Relations

We carry out many of our key public relations initiatives through the efforts of current and former Weight Watchers leaders, members and subscribers. These leaders, members and subscribers engage in local promotions, information presentations and charity events to promote Weight Watchers and demonstrate the program's efficacy. In addition, some become media-trained ambassadors and represent us in various local public relations activities. We currently have over 600 media-trained ambassadors as part of our grass roots network.

In addition, we have a science-based public relations initiative to capitalize on Weight Watchers' position as one of only a few clinically proven commercial weight management programs. This has included an increased investment in third-party scientific research, the inclusion of a science center on the WeightWatchers.com website and increased efforts to share our consumer and program insights with leaders in the scientific and medical communities as well as the general public.

Weight Watchers Magazine

In addition to generating revenues from subscription sales and third-party advertising, Weight Watchers Magazine reinforces the value of our brand and serves as an important marketing tool to both existing and potential customers. We offer Weight Watchers magazines in most of our major markets.

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 generally supports the three key recruitment-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. The introduction of Monthly Pass in the meetings business has resulted in less seasonality with regard 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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Entrepreneurial Management

We run our company in an entrepreneurial manner that allows us to develop and test new ideas on a local basis and then implement the most successful ideas across our network. In addition, many of our meeting products were developed locally and then introduced successfully in other countries. Local managers have strong incentives to adopt and implement the best practices of other regions and to continue to develop innovative new services and products.

While having strong local leadership has always been a cornerstone of our strategy, we have also been investing in building our global corporate management team. Our management team plays a critical role in driving and facilitating the global coordination necessary to optimize our international assets and share best practices across geographies.

Competition

The weight management market includes self-help weight management regimens and other self-help weight management products, services and publications, such as books, magazines and websites; commercial weight management programs; Internet, mobile and other electronic weight management approaches; dietary supplements and meal replacement products; weight management services administered by doctors, nutritionists and dietitians; surgical procedures; the pharmaceutical industry; government agencies and non-profit groups that offer weight management services; and fitness centers.

Competition among commercial weight management programs is largely based on program recognition and reputation and the effectiveness, safety and price of the program. In the United States, we compete with several other companies in the commercial weight management industry, although we believe that their businesses are not comparable to us. For example, many of these competitors' businesses are based on the sale of pre-packaged meals and meal replacements. Our meetings use group support, education and behavior modification to help our members change their eating habits, in conjunction with flexible food plans that allow members the freedom to choose what they eat. There are no significant group education-based competitors in any of our major markets, except in the United Kingdom. Even there, we believe we possess the largest share of the commercial weight management market.

We believe that food manufacturers that produce meal replacement products are not comparable competition because these businesses' meal replacement products do not engender behavior modification through education in conjunction with a flexible, healthy food plan.

We also compete with various self-help diets, products and publications, such as low-carbohydrate diets which gained popularity and media exposure beginning in 2003.

Trademarks, Patents and Other Proprietary Rights

We own numerous domestic and international trademarks, patents and other proprietary rights that are valuable assets and are important to our business. Depending upon the jurisdiction, trademarks are valid as long as they are used in the regular course of trade and/or their registrations are properly maintained. Patent protection extends for varying periods according to the date of patent filing or grant and the legal term of patents in the jurisdiction in which the patent is granted. The actual protection afforded by a patent may vary from country to country depending upon the type of patent, the scope of its coverage and the availability of legal remedies in the country. We believe the protection of our trademarks, copyrights, patents, domain names, trade dress and trade secrets is important to our success. We aggressively protect our intellectual property rights by relying on a combination of trademark, copyright, patent, trade dress and trade secret laws, and through the domain name dispute resolution system.

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History

Early Development

In 1961, Jean Nidetch, our founder, attended a New York City obesity clinic and took what she learned from her personal experience at the obesity clinic and began weight-loss meetings with a group of her overweight friends in the basement of a New York apartment building. Under Ms. Nidetch's leadership, the group members supported each other in their weight-loss efforts, and word of the group's success quickly spread. Ms. Nidetch and Al and Felice Lippert, who all successfully lost weight through these efforts, formally launched our business in 1963. Weight Watchers International, Inc. was incorporated as a Virginia corporation in 1974 and succeeded to the business started in New York in 1963. Heinz acquired us in 1978.

Artal Ownership

In September 1999, Artal Luxembourg, S.A., or Artal Luxembourg, acquired us from Heinz. Artal Luxembourg is an indirect subsidiary of Artal Group, S.A., which together with its parents and its subsidiaries is referred to in this Annual Report on Form 10-K as Artal. Subsequent to Artal's acquisition of us, Artal Luxembourg transferred ownership of its shares in us to Artal Participations and Management S.A. and Artal Holdings Sp. z o.o., Succursale de Luxembourg, or Artal Holdings, each also members of Artal. Currently, Artal Holdings is the record holder of all our shares owned by Artal. Artal Luxembourg holds an irrevocable proxy with respect to a portion of these shares.

WeightWatchers.com Acquisition

In July 2005, we acquired control of our licensee and affiliate, WeightWatchers.com, by increasing our ownership interest from approximately 20% to approximately 53%. Subsequently, in December 2005, WeightWatchers.com redeemed all shares owned by Artal in it, resulting in our current ownership of 100% of WeightWatchers.com.

China Joint Venture

On February 5, 2008, we entered into a joint venture with Danone Dairy Asia, or Danone Asia, an indirect, wholly-owned subsidiary of Groupe DANONE S.A., to establish a weight management business in the People's Republic of China. Pursuant to the terms of the joint venture agreement, we and Danone Asia owned 51% and 49%, respectively, of the China Joint Venture. In September 2008, the China Joint Venture launched its first weight management services centers. On April 27, 2011, we entered into a share purchase agreement with Danone Asia, pursuant to which we acquired Danone Asia's 49% minority equity interest in the China Joint Venture as of that date. As a result of that acquisition, we now own 100% of the China Joint Venture and the joint venture agreement with Danone Asia terminated in accordance with its terms.

2012 Tender Offer and Share Repurchase

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

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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.

Regulation

A number of laws and regulations govern our advertising, services, products, operations and relations with consumers, employees and other service providers in the countries in which we operate. Certain federal, state and foreign agencies, such as the Federal Trade Commission, or FTC, regulate and enforce such laws relating to advertising, disclosures to consumers, privacy, consumer pricing and billing arrangements, and other consumer protection matters. Since we operate our meetings business both in the United States and internationally, we are subject to many distinct employment, labor, benefits and tax laws in each country in which we operate, including regulations affecting our employment practices and our relations with our employees and service providers. Laws and regulations directly applicable to communications, operations or commerce over the Internet such as those governing intellectual property, privacy, libel and taxation, are more prevalent and remain unsettled. Our operations are subject to these laws and regulations and we continue to monitor their development and our compliance. In addition, we are subject to other laws and regulations in the United States and internationally.

During the mid-1990s, the FTC filed complaints against a number of commercial weight management providers alleging violations of federal law in connection with the use of advertisements that featured testimonials, claims for program success and program costs. In 1997, we entered into a consent order with the FTC settling all contested issues raised in the complaint filed against us. The consent order requires us to comply with certain procedures and disclosures in connection with our advertisements of services and products.

Employees and Service Providers

As of December 29, 2012, we had approximately 27,000 employees. In addition, in certain of our markets, our service providers are self-employed. As of December 29, 2012, we had over 54,000 employees and service providers in the aggregate. We consider our relations with our employees and service providers to be satisfactory.

Financial Information About Segments and Financial Information About Geographic Areas

Information concerning our reportable segments and our geographic areas is set forth in Note 14 of our consolidated financial statements, contained in Part IV, Item 15 of this Annual Report on Form 10-K. Information concerning some of the risks to which we are exposed resulting from our international operations and foreign currency exchange rates is set forth in Item 1A. Risk Factors of this Annual Report on Form 10-K.

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.

Our Code of Business Conduct and Ethics and our Corporate Governance Guidelines are also available on our website at www.weightwatchersinternational.com.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, this Annual Report on Form 10-K 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 headings Business and 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 Annual Report on Form 10-K and the documents incorporated by reference herein 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 or impede people from gathering with others or accessing resources;

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 under the headings **Risk Factors** and **Management's Discussion and Analysis of Financial Condition and Results of Operations**, 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 Annual Report on Form 10-K or to reflect the occurrence of unanticipated events or otherwise.

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Item 1A. Risk Factors

You should consider carefully, in addition to the other information contained in this Annual Report on Form 10-K and the exhibits hereto, the following risk factors in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The following discussion of risks is not all inclusive but is designed to highlight what we believe are the most significant risks that we face. Additional risks and uncertainties, not presently known to us or that we currently deem immaterial, may also impair our business, financial condition or results of operations.

Competition from other weight management industry participants or the development of more effective or more favorably perceived weight management methods could result in decreased demand for our services and products.

The weight management industry is highly competitive. We compete against a wide range of providers of weight management services and products. Our competitors include: self-help weight management regimens and other self-help weight management products, services and publications, such as books, magazines and websites; commercial weight management programs; Internet, mobile and other electronic weight management approaches; dietary supplements and meal replacement products; weight management services administered by doctors, nutritionists and dietitians; surgical procedures; the pharmaceutical industry; government agencies and non-profit groups that offer weight management services; and fitness centers. Additional competitors may emerge as new or different products or methods of weight management are developed and marketed. More effective or more favorably perceived diet and weight management methods, including pharmaceutical treatments, fat and sugar substitutes or other technological and scientific advances in weight management, also may be developed. This competition may reduce demand for our services and products.

The purchasing decisions of weight management customers are highly subjective and can be influenced by many factors, such as brand image, marketing programs, cost and perception of the efficacy of the service and product offerings. Moreover, customers can, and frequently do, change weight management approaches easily and at little cost. For example, in fiscal 2003 and fiscal 2004, our revenue growth was adversely affected by increased popularity and media exposure of low-carbohydrate diets. Any decrease in demand for our services and products may adversely affect our business, financial condition or results of operations.

If we do not continue to develop innovative new services and products or if our services and products do not continue to appeal to the market, our business may suffer.

The weight management industry is subject to changing customer demands based, in large part, on the efficacy and popular appeal of weight management programs. Our future success depends on our ability to continue to develop and market new services and products and to enhance our existing services and products, each on a timely basis to respond to new and evolving customer demands, achieve market acceptance and keep pace with new nutritional, weight management, technological and other developments. We may not be successful in developing, introducing on a timely basis or marketing any new or enhanced services and products, and we cannot assure you that any new or enhanced services or products will appeal to the market. Our failure to develop new services and products and to enhance our existing services and products or the failure of our services and products to continue to appeal to the market could have an adverse impact on our ability to attract and retain members and subscribers and thus adversely affect our business, financial condition or results of operations.

Our business depends on the effectiveness of our marketing and advertising programs to attract and retain members and subscribers.

Our business success depends on our ability to attract and retain members to our meetings and subscribers to WeightWatchers.com. Our ability to attract and retain members and subscribers depends significantly on the effectiveness of our marketing practices. From time to time, we use the success stories of our members and

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subscribers, including in some cases celebrities, in our marketing and advertising programs to communicate on a personal level with consumers. Actions taken by these members and subscribers that harm their personal reputation, or include the cessation of using our services and products, could have an adverse impact on the marketing and advertising campaigns in which they are featured. We also use social media channels as a means of communicating with consumers. Unauthorized or inappropriate use of these channels could result in harmful publicity or negative consumer experience which could have an adverse impact on the effectiveness of our marketing in these channels. If our marketing and advertising campaigns do not generate a sufficient number of members and subscribers, our results of operations will be adversely affected.

The Weight Watchers brand could be impaired due to actions taken by our franchisees, licensees and suppliers.

We believe that the Weight Watchers brand, including its widespread recognition and strong reputation in the market, is one of our most valuable assets and that it provides us with a competitive advantage. Our franchisees operate their businesses under our brand. In addition, we license the Weight Watchers brand to third parties for the manufacture and sale in retail stores by such parties of a variety of goods, including food products. We also sell in our meeting rooms food and non-food products manufactured by third-party suppliers. Because our franchisees, licensees and suppliers are independent third parties with their own financial objectives, actions taken by them, including breaches of their contractual obligations, such as not following our program or not maintaining our quality and safety standards, could harm our brand. Also, these Weight Watchers-branded products may be subject to product recalls, litigation or other deficiencies. Any negative publicity associated with these actions would adversely affect our brand and may result in decreased meeting attendance, Internet subscriptions and product sales and, as a result, lower revenues and profits.

Our international operations expose us to economic, political and social risks in the countries in which we operate.

The international nature of our operations involves a number of risks, including changes in US and foreign government regulations, tariffs, taxes and exchange controls, economic downturns, inflation and political and social instability in the countries in which we operate and our dependence on foreign personnel. Foreign government regulations may also restrict our ability to operate in some countries, acquire new businesses or repatriate dividends from foreign subsidiaries back to the United States. We cannot be certain that we will be able to enter and successfully compete in additional foreign markets or that we will be able to continue to compete in the foreign markets in which we currently operate.

We are exposed to foreign currency risks from our international operations that could adversely affect our financial results.

A significant portion of our revenues and operating costs are denominated in foreign currencies. We are therefore exposed to fluctuations in the exchange rates between the US dollar and the currencies in which our foreign operations receive revenues and pay expenses. We do not currently hedge, and have not historically hedged, our operational exposure to foreign currency fluctuations. Our consolidated financial results are presented in US dollars and therefore, during times of a strengthening US dollar, our reported international revenues and earnings will be reduced because the local currency will translate into fewer US dollars. In addition, the assets and liabilities of our non-US subsidiaries are translated into US dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated into US dollars at the average exchange rate for the period. Translation adjustments arising from the use of differing exchange rates from period to period are recorded in shareholders' equity as accumulated other comprehensive income (loss). Translation adjustments arising from intercompany receivables with our foreign subsidiaries are generally recorded as a component of other expense (income). Accordingly, changes in currency exchange rates will cause our revenues, operating costs, net income and shareholders' equity to fluctuate.

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We may not successfully make acquisitions or enter into joint ventures and we may not successfully integrate, operate or realize the anticipated benefits of such businesses.

As part of our growth strategy, we may pursue selected acquisitions or joint ventures. We cannot assure you that we will be able to effect these transactions on commercially reasonable terms or at all. Any future acquisitions or joint ventures may require access to additional capital, and we cannot assure you that we will have access to such capital on commercially reasonable terms or at all. Even if we enter into these transactions, we may not realize the benefits we anticipate or we may experience difficulties in integrating any acquired companies and products into our existing business or in providing our services and products in newly acquired markets; attrition of key personnel from acquired businesses; significant charges or expenses; higher costs of integration than we anticipated; or unforeseen operating difficulties that require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations.

Our ability to influence the control of our joint ventures may be limited by contract or otherwise. In addition, we may not be able to influence the occurrence or timing of distributions from our joint ventures. If any of the other investors in one of our joint ventures fails to observe its commitments, the joint venture may not be able to operate according to its business plan or we may be required to increase our level of commitment. The interests of our joint venture partners may differ from ours, and they may cause such entities to take actions which are not in our best interest. If we are unable to maintain our relationships with our joint venture partners, we could lose our ability to operate in the geographies and/or markets in which they operate, which could have a material adverse effect on our business, financial condition or results of operations.

Consummating these transactions could also result in the incurrence of additional debt and related interest expense, as well as unforeseen contingent liabilities, all of which could have a material adverse effect on our business, financial condition or results of operations. We may also issue additional equity in connection with these transactions, which would dilute our existing shareholders.

Our business may decline as a result of a downturn in general economic conditions or consumer confidence.

Our business is highly dependent on meeting fees, product sales and Internet product subscriptions. A downturn in general economic conditions or consumer confidence in any of our major markets could result in people curtailing or reallocating their discretionary spending which, in turn, could reduce attendance at our meetings, product sales and Internet product subscriptions. For example, the current global economic downturn led to a decrease in discretionary spending by consumers and loss of consumer confidence. Any reduction in consumer spending may adversely affect our business, financial condition or results of operations.

The seasonal nature of our business could cause our operating results to fluctuate.

We have experienced and expect to continue to experience fluctuations in our quarterly results of operations. Our business is seasonal with revenues generally decreasing at year end and during the summer months. This seasonality could cause our share price to fluctuate as the results of an interim financial period may not be indicative of our full year results. Seasonality also impacts relative revenue and profitability of each quarter of the year, both on a quarter-to-quarter and year-over-year basis. The timing of certain holidays, particularly Easter, which precedes our 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 quarterly results.

Any event that discourages or impedes people from gathering with others or accessing resources could adversely affect our business.

Our meeting and Internet operations are subject to conditions beyond our control that may prevent or impede current or prospective members from attending or joining meetings, or subscribers from accessing our

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subscription products, including extreme weather, terrorism, health epidemics, loss of resources such as electricity, national disasters and other extraordinary events. For example, our NACO attendance was adversely affected in the fourth quarter of fiscal 2012 by the impact of Hurricane Sandy and its aftermath. The occurrence of any event that discourages people from gathering with others or impedes their ability to access resources could adversely affect our business, financial condition or results of operations.

Third parties may infringe on our brand and other intellectual property rights, which may have an adverse impact on our business.

We currently rely on a combination of trademark, copyright, trade secret, patent and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights, including our brand. If we fail to successfully enforce our intellectual property rights, the value of our brand, services and products could be diminished and our business may suffer. Our precautions may not prevent misappropriation of our intellectual property, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States. Any legal action that we may bring to protect our brand and other intellectual property could be unsuccessful and expensive and could divert management's attention from other business concerns. In addition, legal standards relating to the validity, enforceability and scope of protection of intellectual property, especially in Internet-related businesses, are uncertain and evolving. We cannot assure you that these evolving legal standards will sufficiently protect our intellectual property rights in the future.

We may be subject to intellectual property rights claims.

Third parties may make claims against us alleging infringement of their intellectual property rights. Any intellectual property claims, regardless of merit, could be time-consuming and expensive to litigate or settle and could significantly divert management's attention from other business concerns. In addition, if we were unable to successfully defend against such claims, we may have to pay damages, stop selling the service or product or stop using the software, technology or content found to be in violation of a third party's rights, seek a license for the infringing service, product, software, technology or content or develop alternative non-infringing services, products, software, technology or content. If we cannot license on reasonable terms, develop alternatives or stop using the service, product, software, technology or content for any infringing aspects of our business, we may be forced to limit our service and product offerings. Any of these results could reduce our revenues and our ability to compete effectively, increase our costs or harm our business.

Any failure of our technology or systems to perform satisfactorily could result in an adverse impact on our business.

We rely on software, hardware, network systems and similar technology that is either developed by us or licensed from or maintained by third parties to operate our websites and subscription offerings and to maintain the recurring billing system associated with certain of our commitment plans, such as Monthly Pass. As much of this technology is complex, there may be future errors, defects or performance problems, including when we update our technology to expand and enhance our capabilities. Our technology may malfunction or suffer from defects that become apparent only after extended use. In addition, our operations depend on our ability to protect our information technology systems against damage from fire, power loss, water, earthquakes, telecommunications failures, vandalism and other malicious acts and similar unexpected adverse events. Interruptions in our websites or offerings could result from unknown hardware defects, insufficient capacity or the failure of our website hosting and telecommunications providers to provide continuous and uninterrupted service. We do not have a fully redundant system that includes an instant back-up hosting facility.

As a result of these possible defects or problems, our websites, our subscription products or the recurring billing system associated with certain of our commitment plans could be rendered unreliable or be perceived as unreliable by customers. Any failure of our technology or systems could result in an adverse impact on our business.

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Our reputation and the appeal of our services and product offerings may be harmed by security breaches or privacy concerns.

Unauthorized users who penetrate our information security could misappropriate proprietary or customer information or data or cause interruptions to the subscription offerings on our websites. As a result, it may become necessary to expend significant additional amounts of capital and resources to protect against, or to alleviate, problems caused by unauthorized users. These expenditures, however, may not prove to be a timely remedy against unauthorized users who are able to penetrate our information security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could adversely affect our computer systems and, in turn, harm our business.

Most states require that customers be notified if a security breach results in the disclosure of their personal financial account or other information. Additional states and governmental entities are considering such notice laws. In addition, other public disclosure laws may require that material security breaches be reported. If we experience a security breach and such notice or public disclosure is required in the future, our reputation and our business may be harmed.

In the ordinary course of our business, we collect and utilize proprietary and customer information and data. Privacy concerns among prospective and existing customers regarding our use of such information or data collected on our websites or through our services and products, such as weight management information, financial data, email addresses and home addresses, could keep them from using our websites or purchasing our services or products. We currently face certain legal obligations regarding the manner in which we treat such information and data. Businesses have been criticized by privacy groups and governmental bodies for their use and handling of such information and data. Industry-wide events or events with respect to our websites, including misappropriation of third-party information, security breaches or changes in industry standards or regulations, or increased enforcement of existing or new laws, could have an adverse effect on our business.

Disputes with our franchise operators could divert management's attention from their ordinary responsibilities.

In the past, we have had disputes with our franchisees regarding operations and other contractual issues. For example, we have had disputes with some of our franchisees regarding the interpretation of franchisee rights as they relate to the Internet and mail-order products. Any future disputes could divert the attention of management from their ordinary responsibilities.

Our businesses are subject to legislative and regulatory restrictions.

A number of laws and regulations govern our advertising, services, products, operations and relations with consumers, licensees, franchisees, employees and other service providers, and government authorities in the countries in which we operate.

Certain federal, state and foreign agencies, such as the FTC, regulate and enforce such laws relating to advertising, disclosures to consumers, privacy, consumer pricing and billing arrangements, and other consumer protection matters. A determination by a federal, state or foreign agency, or a court in connection with a governmental enforcement action or private litigation, that any of our practices do not meet existing or new laws or regulations could result in liability, adverse publicity, and restrictions of our business operations. For example, during the mid-1990s, the FTC filed complaints against a number of commercial weight management providers alleging violations of federal law in connection with the use of advertisements that featured testimonials, claims for program success and program costs. In 1997, we entered into a consent order with the FTC settling all contested issues raised in the complaint filed against us. The consent order requires us to comply with certain procedures and disclosures in connection with our advertisements of products and services.

Since we operate our meetings business both in the United States and internationally, we are subject to many distinct employment, labor, benefits and tax laws in each country in which we operate, including

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regulations affecting our employment practices and our relations with our employees and service providers. If we are required to comply with new laws or regulations or new interpretations of existing laws and regulations, are unable to comply with these laws, regulations or interpretations, or are subject to litigation with respect to these laws, regulations or interpretations, our business and results of operations could be adversely affected.

Laws and regulations directly applicable to communications, operations or commerce over the Internet such as those governing intellectual property, privacy, libel and taxation, are more prevalent and remain unsettled. If we are required to comply with new laws or regulations or new interpretations of existing laws or regulations, or if we are unable to comply with these laws, regulations or interpretations, our business could be adversely affected.

Future laws or regulations, including laws or regulations affecting our marketing and advertising practices, consumer pricing and billing arrangements, relations with consumers, employees, service providers, licensees or franchisees, or our services and products, may have an adverse impact on us.

Our debt service obligations and the restrictions of our debt covenants could impede our operations and flexibility.

Our financial performance could be affected by our level of debt. As of December 29, 2012, our total debt was \$2,406.4 million. In addition, at December 29, 2012, we had \$301.5 million available under our revolving credit facility. We expect to generate the cash necessary to pay our expenses and to pay the principal and interest on all of our outstanding debt from our cash flows provided by operating activities and by opportunistically using other means to repay or refinance our obligations as we determine appropriate. Our ability to pay our expenses and meet our debt service obligations depends on our future performance, which may be affected by financial, business, economic, demographic and other factors, such as attitudes toward weight management and pressure from our competitors. If we do not have enough money to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or raise equity. In such an event, we may not be able to refinance our debt, sell assets, borrow more money or raise equity on terms acceptable to us or at all. Also, our ability to carry out any of these activities on favorable terms, if at all, may be further impacted by any financial or credit crisis which may limit access to the credit markets and increase the cost of capital.

Our credit facilities contain 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. Our credit facilities also require us to maintain specified financial ratios and satisfy certain financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control and we cannot assure you that we will meet those ratios and tests. A breach of any of these covenants, ratios, tests or restrictions could result in an event of default under the credit facilities. If an event of default exists under the credit facilities, the lenders could elect to cease making loans and declare all amounts outstanding thereunder to be immediately due and payable. If the lenders under the credit facilities accelerate the payment of the indebtedness, our assets may not be sufficient to repay in full that indebtedness and our other indebtedness that would become due as a result of any acceleration.

Artal controls us and may have conflicts of interest with other shareholders in the future.

Artal controls us and is able to control the election and removal of our directors and determine our corporate and management policies, including potential mergers or acquisitions, payment of dividends, asset sales, the amendment of our articles of incorporation or bylaws and other significant corporate transactions. This concentration of our ownership may delay or deter possible changes in control of our company, which may reduce the value of an investment in our common stock. Even if Artal beneficially owns less than 50% but 10% or more of our common stock, Artal will have the right pursuant to an agreement with us to nominate directors to our Board of Directors in proportion to its stock ownership. The interests of Artal may not coincide with the interests of other holders of our common stock.

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We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, qualify for exemptions from certain corporate governance requirements.

Artal controls a majority of the voting power of our outstanding common stock. Under the New York Stock Exchange, or the NYSE, rules, a listed company of which more than 50% of the voting power for the election of directors is held by another person or group of persons acting together is a controlled company and such a company may elect not to comply with certain NYSE corporate governance requirements, including (1) the requirement that a majority of the Board of Directors consist of independent directors, (2) the requirement that the nominating and corporate governance committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities, (3) the requirement that the compensation committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities, (4) that the compensation committee be required to consider certain independence factors when engaging compensation consultants, legal counsel and other committee advisors and (5) the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees. We have elected to be treated as a controlled company. Accordingly, our shareholders may not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements.

Our articles of incorporation and bylaws and Virginia corporate law contain provisions that may discourage a takeover attempt.

Provisions contained in our articles of incorporation and bylaws and the laws of Virginia, the state in which we are incorporated, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders. Provisions of our articles of incorporation and bylaws impose various procedural and other requirements, which could make it more difficult for shareholders to effect certain corporate actions. For example, our articles of incorporation authorize our Board of Directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our shareholders. Thus, our Board of Directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. These rights may have the effect of delaying or deterring a change of control of our company. In addition, a change of control of our company may be delayed or deterred as a result of our having three classes of directors. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are currently headquartered in New York, New York in leased office space with our US back-office and customer support operations located in leased office spaces elsewhere in the United States. Each of our foreign country operations generally also has leased office space to support its operations. Our WWI reporting segment typically holds its meetings in third-party locations (usually meeting rooms in well-located civic or other community centers) or space leased in retail centers.

Our website, including our subscription products, is hosted on hardware and software co-located at a third-party facility in New York. We also maintain a disaster recovery site with hardware and software co-located at a third-party facility in Arizona.

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Item 3. 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 was set for January 2013.

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 were granted permission to appeal this PAYE claim with the First Tier Tribunal and the First Tier Tribunal 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 began employing our UK leaders and therefore have ceased recording any further reserves for this matter. 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. In December 2012, we reached an agreement with HMRC to settle the matter in its entirety for approximately \$36.8 million. In January 2013, \$6.8 million was paid to HMRC, representing the balance due over the amount previously paid to HMRC in February 2012. In January 2013, the UK Court of Appeal dismissed the case and the First Tier Tribunal confirmed withdrawal of our appeal against HMRC.

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

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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 4. Mine Safety Disclosures

Not applicable.

Table of Contents**EXECUTIVE OFFICERS AND DIRECTORS OF THE COMPANY**

Pursuant to General Instruction G(3) to Form 10-K, the information regarding our executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this Annual Report on Form 10-K.

Set forth below are the names, ages as of December 29, 2012 and current positions of our executive officers and directors. Directors are elected at the annual meeting of shareholders. Executive officers are appointed by, and hold office at, the discretion of our Board of Directors.

Name	Age	Position
David P. Kirchhoff	46	Chief Executive Officer and Director
James R. Chambers	55	President and Chief Operating Officer
Nicholas P. Hotchkin	47	Chief Financial Officer
Michael Basone ⁽¹⁾	55	President, WeightWatchers.com and Chief Technology Officer
Melanie Stack (Stubbing) ⁽¹⁾	51	President, Europe
Bruce Rosengarten	54	President, Asia Pacific
Jeffrey A. Fiarman	44	Executive Vice President, General Counsel and Secretary
Raymond Debbane ⁽²⁾	57	Chairman of the Board of Directors
Steven M. Altschuler ⁽³⁾	59	Director
Philippe J. Amouyal ⁽²⁾	54	Director
John F. Bard ⁽²⁾⁽³⁾	71	Director
Marsha Johnson Evans ⁽³⁾	65	Director
Jonas M. Fajgenbaum	40	Director
Sacha Lainovic	56	Director
Christopher J. Sobocki	54	Director

(1) We recently announced that Mr. Basone and Ms. Stubbing will be resigning from the Company during the first half of fiscal 2013.

(2) Member of our Compensation and Benefits Committee.

(3) Member of our Audit Committee.

David P. Kirchhoff. Mr. Kirchhoff has been a director and our Chief Executive Officer since December 31, 2006. He served as our President from December 31, 2006 to January 3, 2013. Mr. Kirchhoff has served and continues to serve as the Chief Executive Officer of WeightWatchers.com since rejoining WeightWatchers.com in June 2004. He also served as President of WeightWatchers.com from June 2004 until April 2008 and our Chief Operating Officer, Europe and Asia from September 2005 until December 2006. Prior to rejoining WeightWatchers.com, Mr. Kirchhoff served as Chief Financial Officer of the Enthusiast Media Group of Primedia, Inc., a print and digital content provider, from September 2003 to June 2004. Mr. Kirchhoff originally joined WeightWatchers.com in January 2000 as Senior Vice President, Strategy and Business Development, and served as Chief Financial Officer of WeightWatchers.com from January 2003 until his departure in August 2003. Prior to joining WeightWatchers.com in January 2000, he was Director of Corporate Strategy and Development for PepsiCo, Inc. Previously, Mr. Kirchhoff was a manager and consultant with The Boston Consulting Group in Washington, D.C. He holds a B.S. in Biomedical and Electrical Engineering from Duke University and an M.B.A. from the University of Chicago Graduate School of Business.

James R. Chambers. Mr. Chambers has served as our President and Chief Operating Officer since January 4, 2013. Prior to joining us, Mr. Chambers served as President of the U.S. Snacks and Confectionary business unit and General Manager of the Immediate Consumption Channel of Kraft Foods Inc., a global food and beverage company, from January 2010 to July 2011. Prior to joining Kraft, Mr. Chambers held various positions in the North America business unit at Cadbury plc, a beverage and confectionary company, from September 2005 to January 2010, most recently as the President and Chief Executive Officer. Mr. Chambers began his career at

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Nabisco, Inc. and also held various executive positions with Rémy Cointreau USA, Paxonix Inc., NetGrocer.com, Inc. and Information Resources, Inc. Mr. Chambers received a Bachelor's degree in Civil Engineering from Princeton University and an M.B.A. from the Wharton School of Business of the University of Pennsylvania. Mr. Chambers is a director of Big Lots, Inc. Mr. Chambers was previously a director of B&G Foods, a food manufacturer.

Nicholas P. Hotchkin. Mr. Hotchkin has served as our Chief Financial Officer since August 20, 2012. Prior to joining us, Mr. Hotchkin had spent several years at Staples, Inc., a global leader in the office supply industry. Most recently, Mr. Hotchkin served as Senior Vice President of Finance for the U.S. Retail division of Staples based in Massachusetts, a position he held from May 2010 to August 2012. Before assuming that position, he had been Senior Vice President of Finance and Treasurer of Staples, a position he held from November 2006 to April 2010. Prior to joining Staples, Mr. Hotchkin held several corporate finance positions with Delphi Corporation and General Motors Corporation including assignments in the United States, Asia and Europe. Mr. Hotchkin received a B.A. in Economics from Harvard College and an M.B.A. from the Harvard Business School.

Michael Basone. Mr. Basone has served as our President, WeightWatchers.com and Chief Technology Officer since April 2008. Prior to that time, Mr. Basone served as the Chief Technology Officer of WeightWatchers.com, Inc. from January 2002 to April 2007 and our Executive Vice President, Global Technology and Operations, from May 2007 to March 2008. Prior to joining us, Mr. Basone was with Modem Media Inc., an interactive advertising and web site development agency, where he served as Managing Director of the Marketing Platforms Practice from April 2001 to January 2002 and Vice President, Strategic Engineering, from February 2000 to April 2001. Previously, Mr. Basone served as Executive Vice President, Chief Operating Officer and Chief Information Officer of Warrantech Corporation from 1994 to January 2000. He holds a B.S. in Management from La Salle University.

Melanie Stack (Stubbing). Ms. Stubbing has served as our President, Europe since December 2011. Prior to that time, Ms. Stubbing served as our President, International from August 2008 to December 2011 and our Senior Vice President of Operations, United Kingdom from December 2003 to July 2008. Ms. Stubbing ran the UK-based toy, game and trading card operations for Hasbro, Inc. from January 2002 to November 2003. From November 2000 to January 2002, Ms. Stubbing served as the Vice President for WeightWatchers.com. Prior to joining WeightWatchers.com, Ms. Stubbing was Managing Director, Hedstrom, U.K. from August 1998 to October 2000, and from July 1989 to July 1998 she held various marketing positions at Mattel UK Ltd., including Group Marketing Director. Ms. Stubbing is a business graduate of Manchester Metropolitan University.

Bruce Rosengarten. Mr. Rosengarten has served as our President, Asia Pacific since December 2011. Prior to joining us, from January 2009 until December 2011, Mr. Rosengarten advised and mentored senior management in various industries on strategy, business development and leadership while serving as Director of International Ideas Pty Ltd, a company he founded and which specialized in strategic consulting as well as leadership coaching. Mr. Rosengarten also authored and published a book on leadership in April 2010. Mr. Rosengarten served as the President of Jewish Care (Victoria) Inc, a not-for-profit, humanitarian organization, from November 2009 to November 2012. Mr. Rosengarten held various senior marketing, retail management and business development positions at Shell International Petroleum Company beginning in August 1998, including most recently serving in the senior marketing role of Global Vice President Retail Marketing - Shell Downstream principally based in Singapore from January 2005 until September 2008 and prior to this role held the position Vice President Retail, Asia Pacific, Middle East from January 2001 until December 2004. Prior to joining Shell, Mr. Rosengarten held several senior retail management and business development positions with Crown Ltd, a casino operator, and the leading retailer Coles Myer Ltd. He is a graduate of Monash University in Australia, where he obtained a Bachelors degree in Economics and a Graduate Diploma in Physical Distribution Management.

Jeffrey A. Fiarman. Mr. Fiarman has served as our Executive Vice President, General Counsel and Secretary since May 2006. Prior to that time, Mr. Fiarman served as our Vice President and Associate General Counsel

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from July 2005 to May 2006 and as General Counsel of WeightWatchers.com since June 2000. He has also been Secretary of WeightWatchers.com since July 2000 and Senior Vice President of WeightWatchers.com since March 2002. Mr. Fiarman also held the position of Vice President, Business Development of WeightWatchers.com from June 2000 to March 2002. Prior to joining WeightWatchers.com, from September 1993 to May 2000, Mr. Fiarman was an attorney with Gibson, Dunn & Crutcher LLP in Washington, D.C. specializing in corporate and tax law. Mr. Fiarman holds a B.S. in Economics from The Wharton School of the University of Pennsylvania and a J.D. from Columbia University School of Law.

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

Steven M. Altschuler. Dr. Altschuler has been a director since September 2012. Dr. Altschuler has served and continues to serve as the Chief Executive Officer of The Children's Hospital of Philadelphia (CHOP), one of the leading children's hospitals in the United States, since April 2000. Prior to assuming the role of Chief Executive Officer, Dr. Altschuler held several positions at CHOP, including Physician-in-Chief and chief of the Division of Gastroenterology, Hepatology and Nutrition. Prior to joining CHOP, Dr. Altschuler was faculty member and chair of the Department of Pediatrics at the Perelman School of Medicine at the University of Pennsylvania. Dr. Altschuler received a B.A. in mathematics and an M.D. from Case Western Reserve University. Dr. Altschuler is a director of Mead Johnson Nutrition Company, serves on its Compensation and Management Development Committee and is also Chair of its Nutrition Science and Technology Committee.

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

John F. Bard. Mr. Bard has been a director since November 2002. From 1999 to 2008, Mr. Bard was a director of the Wm. Wrigley Jr. Company, where he served as Executive Vice President from 1999 to 2000, Senior Vice President from 1990 to 1999, and at the same time serving as Chief Financial Officer from 1990 until his retirement from management in 2000. He began his business career in 1963 with The Procter & Gamble Company in financial management. He subsequently was Group Vice President and Chief Financial Officer and a director of The Clorox Company and later President and a director of Tambrands, Inc., prior to joining Wrigley. Mr. Bard holds a B.S. in Business and Accounting from Northwestern University and an M.B.A. in Finance from the University of Cincinnati.

Marsha Johnson Evans. Ms. Evans has been a director since February 2002. Ms. Evans served as President and Chief Executive Officer of the American Red Cross, the preeminent humanitarian organization in the United States, from August 2002 to December 2005, and previously served as the National Executive Director of Girl Scouts of the U.S.A. from January 1998 to July 2002. A retired Rear Admiral in the United States Navy, Ms. Evans served as superintendent of the Naval Postgraduate School in Monterey, California from 1995 to 1998 and headed the Navy's worldwide recruiting organization from 1993 to 1995. Ms. Evans also served as the Acting Commissioner of the Ladies Professional Golf Association from July 2009 to January 2010. Ms. Evans

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received a B.A. from Occidental College and a Master's Degree from the Fletcher School of Law and Diplomacy at Tufts University. Ms. Evans is also a director of Office Depot Inc. and The First Tee. She chairs the Compensation Committee of Office Depot Inc. Ms. Evans was previously a director of Huntsman Corporation and the Estate of Lehman Brothers Holdings, Inc.

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

Sacha Lainovic. Mr. Lainovic has been a director since our acquisition by Artal on September 29, 1999. Since 2007, Mr. Lainovic has been Managing Partner of Invus Financial Advisors, LLC, a New York-based investment firm, which he co-founded. From 1985 to 2006, Mr. Lainovic was Executive Vice President of The Invus Group, LLC, which he co-founded. Prior to forming The Invus Group, LLC in 1985, Mr. Lainovic was a manager and consultant for The Boston Consulting Group in Paris, France. He holds an M.B.A. from Stanford Graduate School of Business and an M.S. in Engineering from Insa de Lyon in Lyon, France.

Christopher J. Sobecki. Mr. Sobecki has been a director since our acquisition by Artal on September 29, 1999. Mr. Sobecki is a Managing Director of The Invus Group, LLC, which he joined in 1989. He received an M.B.A. from Harvard Business School. He also obtained a B.S. in Industrial Engineering from Purdue University. Mr. Sobecki is a director of Lexicon Pharmaceuticals, Inc. and a number of private companies of which Artal or Invus, L.P. are shareholders. Mr. Sobecki was previously a director of NitroMed Inc.

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Our common stock is listed on the NYSE. Our common stock trades on the NYSE under the symbol WTW.

The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock as reported on the NYSE composite price history.

Fiscal 2012 (Year ended December 29, 2012)

	High	Low
First Quarter	\$ 82.91	\$ 53.50
Second Quarter	\$ 79.99	\$ 49.10
Third Quarter	\$ 57.25	\$ 40.60
Fourth Quarter	\$ 57.88	\$ 46.65

Fiscal 2011 (Year ended December 31, 2011)

	High	Low
First Quarter	\$ 72.00	\$ 36.63
Second Quarter	\$ 86.97	\$ 67.25
Third Quarter	\$ 81.38	\$ 51.28
Fourth Quarter	\$ 77.00	\$ 54.47

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 and its parents and subsidiaries under this program. The repurchase program currently has no expiration date. We repurchased no shares of our common stock during the fourth quarter of fiscal 2012. As of the end of fiscal 2012, \$208.9 million remained available to purchase shares of our common stock under the repurchase program.

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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Long-Term Debt. 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.

Table of Contents**Holders**

The approximate number of holders of record of our common stock as of January 31, 2013 was 295. This number does not include beneficial owners of our securities held in the name of nominees.

Dividends

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. In the fourth quarter of fiscal 2012, our Board of Directors declared such a quarterly cash dividend and accelerated its payment to December 2012 instead of having it paid in January 2013 as it has typically done for fourth quarter dividend declarations. 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 (as defined below) also contains restrictions on our ability to pay dividends on our common stock. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt in Part II, and Item 15. Exhibits and Financial Statement Schedules Financial Statements Note 6. Long-Term Debt, of this Annual Report on Form 10-K for a description of the WWI Credit Facility.

Item 6. Selected Financial Data

The following schedule sets forth our selected financial data for the last five fiscal years.

SELECTED FINANCIAL DATA

(in millions, except per share amounts)

	Fiscal 2012 (52 weeks)	Fiscal 2011 (52 weeks)	Fiscal 2010 (52 weeks)	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)
Revenues, net	\$ 1,826.8	\$ 1,819.2	\$ 1,452.0	\$ 1,398.9	\$ 1,535.8
Net income attributable to the Company	\$ 257.4	\$ 304.9	\$ 194.2	\$ 177.3	\$ 204.3
Working capital (deficit)	\$ (229.9)	\$ (279.7)	\$ (348.7)	\$ (336.1)	\$ (270.1)
Total assets	\$ 1,218.6	\$ 1,121.6	\$ 1,092.0	\$ 1,087.5	\$ 1,106.8
Long-term debt	\$ 2,291.7	\$ 926.9	\$ 1,167.6	\$ 1,238.0	\$ 1,485.0
Earnings per share:					
Basic	\$ 4.27	\$ 4.16	\$ 2.57	\$ 2.30	\$ 2.61
Diluted	\$ 4.23	\$ 4.11	\$ 2.56	\$ 2.30	\$ 2.60
Dividends declared per common share	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70

Items Affecting Comparability

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

UK VAT Matter

In the second quarter of fiscal 2008, we received an adverse ruling in the United Kingdom with respect to the imposition of UK value added tax, or VAT, on meeting fees earned in the United Kingdom. In connection with this ruling, we recorded a net charge of approximately \$18.7 million pertaining to periods prior to fiscal 2008 as an offset to revenue in fiscal 2008. In fiscal 2010, we determined that there was an over-accrual of \$2.0 million with respect to this matter which was reversed to revenue.

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UK Self-Employment Matter

We received an adverse tax ruling in the United Kingdom 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 and remitted such amounts to HMRC. In connection with this ruling, we recorded a charge of approximately \$36.7 million, of which approximately \$4.2 million was with respect to fiscal 2009 and approximately \$32.5 million was with respect to fiscal years 2001 through 2008, to cost of revenues in the fourth quarter of fiscal 2009. We subsequently recorded a charge of approximately \$4.1 million and \$3.0 million in fiscal 2010 and fiscal 2011, respectively. In December 2012, we reached an agreement with HMRC to settle the matter in its entirety for approximately \$36.8 million. Based upon the settlement amount, we determined that \$14.5 million of the reserved amount represented an over-accrual and as such was reversed to cost of revenues. As part of the settlement amount, the settlement agreement provided for an amount of interest to be paid which resulted in a \$7.1 million increase to interest expense. The net benefit associated with the settlement was an increase of \$7.4 million to income before income taxes. The reserve for this matter at the end of the fourth quarter of fiscal 2012 equaled approximately \$7.3 million in the aggregate based on the exchange rates at the end of the fourth quarter of fiscal 2012. In January 2013, \$6.8 million was paid to HMRC, representing the balance due over the approximately \$30.0 million paid to HMRC in February 2012, and the balance of the reserve was used to pay associated costs. See Item 3. Legal Proceedings UK Self-Employment Matter in Part I of this Annual Report on Form 10-K for further details on this matter.

Restructuring Charges

In fiscal 2009, we recorded \$5.5 million of restructuring charges associated with our cost savings initiatives previously announced in the first quarter of fiscal 2009.

Consolidation/China Joint Venture

In February 2008, Weight Watchers Asia Holdings Ltd., or Weight Watchers Asia, a direct, wholly-owned subsidiary of the Company, and Danone Dairy Asia, an indirect, wholly-owned subsidiary of Groupe DANONE S.A., entered into a joint venture agreement to establish a weight management business in the People's Republic of China. Pursuant to the terms of the joint venture agreement, Weight Watchers Asia and Danone Dairy Asia owned 51% and 49%, respectively, of the joint venture entity. Because we had a direct, controlling financial interest in the China Joint Venture, we consolidated the entity from the first quarter of fiscal 2008.

In April 2011, Weight Watchers Asia entered into a share purchase agreement with Danone Dairy Asia, pursuant to which Weight Watchers Asia acquired Danone Dairy Asia's 49% minority equity interest in the China Joint Venture as of that date for consideration of \$1,000. Effective April 27, 2011, the date of the acquisition of Danone Dairy Asia's minority equity interest by Weight Watchers Asia, we own 100% of the China Joint Venture and no longer account for a non-controlling interest in the China Joint Venture. The noncontrolling interest that had been reflected on our balance sheet was reclassified to retained earnings.

Long-Term Debt

On June 26, 2009, we amended the WWI Credit Facility (defined hereafter) to allow us to make loan modification offers to all lenders of any tranche of term loans or revolving loans to extend the maturity date of such loans and/or reduce or eliminate the scheduled amortization. Any such loan modifications would be effective only with respect to such tranche of term loans or revolving loans and only with respect to those lenders that accept our offer. Loan modification offers may be accompanied by increased pricing and/or fees payable to accepting lenders. This amendment also provides for up to an additional \$200.0 million of incremental term loan financing through the creation of a new tranche of term loans, provided that the aggregate principal amount of such new term loans cannot exceed the amount then outstanding under our existing revolving credit facility. In addition, the proceeds from such new tranche of term loans must be used solely to repay certain outstanding revolving loans and to reduce the commitments of certain revolving lenders. In connection with this amendment, we incurred fees of approximately \$4.1 million during fiscal 2009.

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

On March 15, 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 pursuant to the Purchase Agreement. Following the amendment of the WWI Credit Facility, (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 \$26.2 million in the first quarter of fiscal 2012.

For additional details on the WWI Credit Facility, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt in Part II of this Annual Report on Form 10-K.

Working Capital

The changes in the working capital deficit are primarily the result of year-over-year increases related to payables in connection with operations, deferred revenue in connection with our business performance, the shift in timing of tax payments and accruals related to our litigation matters, which are offset by year-over-year decreases in the accrual for the UK adverse tax rulings related to the UK VAT and UK self-employment matters and in the current portion of debt obligations.

Franchise Acquisitions

The following are our key acquisitions since December 30, 2007:

Acquisition of Southeastern Ontario and Ottawa, Adirondacks and Memphis. On September 10, 2012, we acquired substantially all of the assets of our Southeastern Ontario and Ottawa, Canada franchisee, Slengora Limited, for a net purchase price of \$16.8 million. On November 2, 2012, we acquired substantially all of the

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assets of our Weight Watchers of the Adirondacks, Inc. franchisee for a purchase price of \$3.4 million. On December 20, 2012, we acquired substantially all of the assets of our Memphis, Tennessee franchisee, Weight Watchers of the Mid-South, Inc., for a purchase price of \$10.0 million. These acquisitions were financed through cash from operations. These acquisitions have been accounted for as a purchase and financial results have been included in our consolidated operating results since the date of acquisition.

Acquisitions of Palm Beach, Wichita and Syracuse. On January 31, 2008, we acquired substantially all of the assets of our Palm Beach, Florida franchisee for a net purchase price of approximately \$12.9 million. On June 13, 2008, we acquired substantially all of the assets of our Wichita, Kansas franchisee for a net purchase price of approximately \$5.7 million. On June 19, 2008, we acquired substantially all of the assets of two of our franchisees in Upstate New York, Weight Watchers of Syracuse, Inc. and Dieters of the Southern Tier, Inc., for a combined net purchase price of approximately \$20.9 million. These acquisitions were financed through cash from operations. These acquisitions have been accounted for as purchases and financial results have been included in our consolidated operating results since their respective dates of acquisition.

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

Overview

We derive our revenues principally from:

Meeting fees. Members pay us fees to attend our weekly meetings.

Internet revenues. We generate revenue from our Internet subscription products and from the sale of third-party Internet advertising.

In-meeting product sales. We sell a range of products that complement our weight management plans, such as bars, snacks, cookbooks, food and restaurant guides with *PointsPlus* values, Weight Watchers magazines, *PointsPlus* calculators and ActiveLink activity monitors, to members in our meetings.

Licensing, franchise royalties and other. We license the Weight Watchers brand and our other intellectual property in certain categories of foods and other relevant consumer products. We also endorse carefully selected branded consumer products. In addition, our franchisees typically pay us a royalty fee of 10% of their meeting fee revenues as well as purchase products for sale in their meetings. We also generate revenues from subscriptions for our magazines and third-party advertising in our publications.

We currently have two reporting segments: Weight Watchers International and WeightWatchers.com. All sources of revenue, other than Internet revenues, are included in our Weight Watchers International reporting segment. Over the past several years the mix of our revenues has shifted more toward our WeightWatchers.com reporting segment and away from our Weight Watchers International reporting segment. Revenues from our Weight Watchers International reporting segment contributed 72.2% of our total revenues in fiscal 2012, 77.8% of our total revenues in fiscal 2011, and 83.4% of our total revenues in fiscal 2010. Revenues from our WeightWatchers.com reporting segment contributed 27.8% of our total revenues in fiscal 2012, 22.2% of our total revenues in fiscal 2011, and 16.6% of our total revenues in fiscal 2010.

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

Revenue Sources

(in millions)

	Fiscal 2012 (52 weeks)	Fiscal 2011 (52 weeks)	Fiscal 2010 (52 weeks)	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)
Meetings fees	\$ 934.9	\$ 990.3	\$ 819.6	\$ 817.5	\$ 908.1
Internet revenues	504.3	399.5	238.8	196.0	185.8
In-meeting product sales	253.2	281.8	260.5	251.3	285.6
Licensing, franchise royalties and other	134.4	147.6	133.1	134.1	156.3
Total	\$ 1,826.8	\$ 1,819.2	\$ 1,452.0	\$ 1,398.9	\$ 1,535.8

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From fiscal 2008 through fiscal 2012, our revenues increased at a compound annual growth rate of 4.4% primarily driven by paid weeks growth in the WeightWatchers.com business. Additional revenue details are as follows:

Meeting fees. From fiscal 2008 through fiscal 2012, meeting fees grew at a compound annual growth rate of 0.7%, with growth in our UK and NACO meetings businesses being partially offset by declines in our Continental European meetings business. This increase was driven by growth in our meeting paid weeks, which grew on a global basis at a compound annual growth rate of 2.1%. The decline in meeting fees from 2008 to 2009 primarily reflected the impact of the global recession on our ability to enroll new members. Beginning in NACO in the second quarter of fiscal 2010, year-over-year growth in recruitment trends, driven by strong new marketing and further fueled by the soft launch in the fourth quarter of fiscal 2010 of **PointsPlus** and **ProPoints** in our English-speaking markets, drove global meeting fees by the fourth quarter to once again increase versus the comparable prior year period. The momentum of the new program launches in our English-speaking markets accelerated our recruitment trends in the first quarter of fiscal 2011, and, supported by strong marketing and public relations, resulted in global meeting fees that increased in every quarter of fiscal 2011 as compared to the prior year period. Fiscal 2012 had the challenge of being compared against the high levels of recruitment growth we experienced in fiscal 2011. Although we entered fiscal 2012 with a higher meeting membership base than we had at the beginning of fiscal 2011, lower enrollments in all 2012 fiscal quarters resulted in lower meeting fees for the year as compared to the prior year. Lower enrollments in the meetings business in fiscal 2012 were primarily driven by a decline in the English-speaking markets as we cycled against the momentum of their program innovations in the prior year.

Internet Revenues. From fiscal 2008 through fiscal 2012, our Internet revenues grew at a compound annual growth rate of 28.4%. The increase was primarily due to growth in the number of WeightWatchers.com end of period active Online subscribers which grew by over 1.0 million subscribers from 678,700 at the end of fiscal 2008 to 1,871,400 at the end of fiscal 2012. This increase in Online subscribers drove growth in our Online paid weeks, which grew at a compounded annual growth rate of 30.1%. This increase in Online subscribers and paid weeks, which accelerated in fiscal 2011, was driven primarily by continued strong marketing campaigns which began in the second quarter of fiscal 2010 in the United States and the United Kingdom, and further benefited from the new program launches at the end of fiscal 2010. In addition, from fiscal 2008 through fiscal 2011, we had several new country launches which further drove growth in our subscriber base. In fiscal 2012, first-time dedicated television advertising coupled with effective marketing campaigns in Canada and Continental Europe primarily drove strong Online paid weeks growth in these markets.

In-meeting product sales. Global product sales were down 3.5% on a compound annual growth rate from fiscal 2008 through fiscal 2012. Our average product sales per attendee in our meetings business grew from \$4.76 to \$4.99 at a compound annual growth rate of 1.2% during that period as a result of successful new product and program launches. However, we experienced a decline in the number of members attending meetings which drove a decline in our global product sales.

Licensing revenues. Licensing revenues declined at a compound annual growth rate of 1.5% from fiscal 2008 through fiscal 2012. Despite our increased focus on expanding the number of Weight Watchers branded and endorsed products worldwide, this revenue category was and remains negatively impacted by the global economic downturn and the resulting decrease in discretionary spending by consumers and loss of consumer confidence.

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Metrics and Business Trends

Performance Indicators and Market Trends

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

net revenues;

paid weeks and attendance metrics;

lecture income per paid week and in-meeting product sales per attendee;

the number of end of period active Online subscribers; and

gross profit and operating expenses as a percentage of revenue.

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

the temporary emergence of fad diets;

increased competition from Internet, mobile and other electronic weight management approaches;

a decrease in the effectiveness of our marketing and advertising programs;

a failure to develop innovative new services and products;

the development of more favorably perceived or more effective weight management methods, including pharmaceuticals;

an impairment of the Weight Watchers brand and our other intellectual property;

a failure of our technology or systems to perform as designed; and

a downturn in general economic conditions or consumer confidence.

Global Operations

The following tables set forth our paid weeks and meeting attendance by geography for the past five fiscal years:

	Paid Weeks in Company-Owned Operations				
	(in millions)				
	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008
	(52	(52	(52	(52	(53
	weeks)	weeks)	weeks)	weeks)	weeks)
Online Paid Weeks	111.5	88.0	52.5	42.7	38.9
Meeting Paid Weeks:					
North America	66.0	69.9	55.3	55.8	61.0
United Kingdom	16.9	19.1	16.1	16.2	15.0
Continental Europe	13.4	12.2	13.6	12.7	12.5
Other International	2.9	3.6	2.9	2.9	2.8
Total Meeting Paid Weeks	99.2	104.8	87.9	87.6	91.3
Total Paid Weeks	210.7	192.8	140.4	130.3	130.2

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	Meeting Attendance in Company-Owned Operations (in millions)				
	Fiscal 2012 (52 weeks)	Fiscal 2011 (52 weeks)	Fiscal 2010 (52 weeks)	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)
North America	31.9	36.0	30.3	32.1	36.5
United Kingdom	9.7	11.6	10.2	11.4	11.6
Continental Europe	7.4	7.2	8.5	8.6	9.8
Other International	1.7	2.2	2.0	2.2	2.1
Total	50.7	57.0	51.0	54.3	60.0

The paid week metric reports total paid weeks by our customers in Company-owned operations for a given period. For Weight Watchers Online, paid weeks is the total paid Weight Watchers Online subscriber weeks for a given period. For meetings, paid weeks is the sum of total paid commitment plan weeks (e.g., Monthly Pass weeks) and total pay-as-you-go weeks for a given period. Before the launch of our commitment plans in the meetings business, our members were largely on a pay-as-you-go basis, and accordingly, growth in meeting attendance essentially approximated growth in meeting paid weeks. However, paid weeks and attendance are no longer directly correlated as the percentage of meeting paid weeks attributable to commitment plans far exceeds the percentage attributable to pay-as-you-go.

As shown in the table above, our total paid weeks in our Company-owned operations grew from 130.2 million in fiscal 2008 to 210.7 million in fiscal 2012, or 12.8% on a compound annual growth basis. Weight Watchers Online paid weeks grew from 38.9 million in fiscal 2008 to 111.5 million in fiscal 2012, or 30.1% on a compound annual growth rate basis. Our total meeting paid weeks grew from 91.3 million in fiscal 2008 to 99.2 million in fiscal 2012, or 2.1% on a compound annual growth rate basis.

As shown in the table above, our worldwide annual meeting attendance in our Company-owned operations has declined from 60.0 million for fiscal 2008 to 50.7 million for fiscal 2012, a decline of 4.1% on a compound annual growth rate basis. Our worldwide average meeting revenue per attendee, however, has increased over the same period, largely as a result of Monthly Pass growing penetration in NACO and other markets and growth in product sales per attendee.

WeightWatchers.com Metrics and Business Trends

The continued success of WeightWatchers.com resulted in Internet revenues growing at a compound annual growth rate of 28.4% from fiscal 2008 to fiscal 2012. This growth was primarily driven by growth in Online subscription revenue of 29.6% on a compound annual growth rate basis from fiscal 2008 to fiscal 2012. Subscription revenue growth was driven by an increase in Online paid weeks from 38.9 million in fiscal 2008 to 111.5 million in fiscal 2012, a compound annual growth rate of over 30%. End of period active Online subscribers grew from 0.7 million at the end of fiscal 2008 to 1.9 million at the end of fiscal 2012, a compound annual growth rate of 28.9%. This successful growth resulted primarily from a combination of new subscribers in our major markets and launches of WeightWatchers.com subscription products in new markets globally. In addition, WeightWatchers.com, like the meetings business, benefited from the new program launches of **PointsPlus** and **ProPoints** in fiscal 2010 and fiscal 2011 and the introduction of new products, including applications for mobile devices such as the iPhone®, iPad® and Android devices. Marketing, particularly first-time dedicated television advertising coupled with effective marketing campaigns in Canada and Continental Europe in the case of fiscal 2012, continued to drive subscription growth from fiscal 2008 through fiscal 2012.

In addition to generating revenues from its subscription based offerings, WeightWatchers.com also provides a means for companies to advertise on our websites. This advertising revenue increased at a compound annual growth rate of 13.3% from fiscal 2008 to fiscal 2012. This increase was driven in part by the introduction of advertising on the UK and German websites.

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North America Meeting Metrics and Business Trends

In 2008 and 2009, the weak economy in the United States had a significant impact on our meetings business. The economic recession, coupled with reduced credit availability, adversely impacted consumer spending. We saw the impact most acutely in enrollments, particularly of new members who had never been to Weight Watchers. In fiscal 2008, we were able to maintain growth in paid weeks, which increased 4.5% over the prior year, largely as a result of increased Monthly Pass penetration, but in fiscal 2009, paid weeks declined by 8.4% versus fiscal 2008. Attendance also declined in both years versus the prior year.

In fiscal 2010, NACO meeting paid weeks declined 1.0% and attendance declined 5.7% versus the prior year as a result of performance weakness in the early part of the year. In the spring of fiscal 2010, NACO launched a new marketing strategy and campaign focused on member experience, featuring Jennifer Hudson as its new spokesperson. With this change, business performance began an improvement trend in the second quarter of fiscal 2010 that continued through the rest of the year. In addition, NACO initiated other growth strategies during fiscal 2010, including revamping the retail structure in select markets. These new strategies coupled with the launch of the *PointsPlus* program in late November resulted in a positive end to fiscal 2010, with solid growth in the fourth quarter in both paid weeks and attendance, up 4.2% and 6.8%, respectively, versus the fourth quarter of 2009.

In fiscal 2011, NACO paid weeks increased 26.4% and attendances increased 18.8% versus the prior year level. We entered fiscal 2011 with more active members than at the beginning of fiscal 2010 driven by the momentum of the new program launch and supported by strong marketing and public relation activities. The quarterly growth trend in fiscal 2011 versus prior year quarters continued to be strong, albeit at a slightly slower pace, as we began to cycle against the highly successful marketing campaign in the second quarter of fiscal 2010 and the soft launch of our new program innovation in the fourth quarter of fiscal 2010. For the first, second, third and fourth quarters of fiscal 2011, paid weeks increased 32.6%, 31.9%, 25.9% and 15.0% and attendances increased 33.1%, 19.8%, 13.6% and 5.5%, respectively, as compared to the prior year periods.

In fiscal 2012, NACO paid weeks decreased 5.6% and attendances decreased 11.4% versus the prior year level. Although we entered fiscal 2012 with more active members than at the beginning of fiscal 2011, we experienced lower enrollments in the first quarter of fiscal 2012 as we cycled against the historically high levels of recruitment growth in the first quarter of fiscal 2011. The decline in enrollments in the first quarter of fiscal 2012, caused in part by lack of new program news and execution challenges associated with introducing Monthly Pass in the small accounts portion of its corporate business, drove a paid weeks decline of 6.0% and an attendance decline of 11.9%, and also resulted in entering the second quarter of fiscal 2012 with a lower meeting membership base, as compared to the prior year period. The declining trend in fiscal 2012 continued through the remainder of the year. For the second, third and fourth quarters of fiscal 2012, paid weeks decreased 5.5%, 3.6% and 7.3% and attendances decreased 9.9%, 9.4% and 14.5%, respectively, as compared to the prior year periods.

United Kingdom Meeting Metrics and Business Trends

In fiscal 2008, paid weeks grew 17.4% versus the prior year, on the strength of increasing Monthly Pass penetration. Although the United Kingdom launched a new program in January 2008, full year meeting attendance declined 2.4% versus the prior year. The UK market responded positively to its new program, but like the North American market, the United Kingdom experienced a worsening economy over the course of the year which negatively impacted meeting enrollment and attendance. Economic conditions worsened in 2009, although effective marketing and promotional activity helped mitigate the negative trend. As a result, paid weeks continued to improve, up 8.1% in fiscal 2009 as compared to the prior year, reflecting increased penetration of Monthly Pass in that market, and attendance declined slightly, down 1.5% versus the prior year.

In fiscal 2010, paid weeks growth decelerated by 0.4%, and meeting attendance declined 10.5%, compared to fiscal 2009. First quarter fiscal 2010 UK volumes were significantly impacted by weather and cycling against a program innovation in the prior year. The United Kingdom continued to experience steep declines in attendance in 2010 versus the prior year, down 8.5% in the second quarter and 9.4% in the third quarter. The United

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Kingdom launched its new program, **ProPoints**, in early November 2010, and saw attendance growth as a result of the launch. However, because of limited marketing prior to the new program launch and bad weather during the launch period, fourth quarter 2010 attendances decreased 11.3% versus the fourth quarter of fiscal 2009.

In fiscal 2011, paid weeks grew 18.3% versus the prior year, benefiting from enrollment growth concurrent with the launch of **ProPoints** late in fiscal 2010 and early fiscal 2011 and an increase in Monthly Pass penetration. As with NACO, this growth in recruitment resulted in a larger customer base and as a result, attendances also grew, up 13.7% versus the prior year. For the first, second, third and fourth quarters of fiscal 2011, paid weeks grew 21.9%, 16.1%, 18.1% and 17.1%, and attendances grew 22.2%, 8.5% (impacted by the Royal Wedding and Easter timing), 10.1% and 13.0%, respectively, as compared to the prior year periods.

In fiscal 2012, paid weeks declined 11.3% and attendances decreased 16.5% versus the prior year level. As with NACO, the United Kingdom entered fiscal 2012 with more active members as compared to the beginning of fiscal 2011, but experienced lower enrollments in the first quarter of fiscal 2012 versus the prior year period. These lower enrollments were driven by cycling against the historically high recruitment levels in the first quarter of fiscal 2011 and resulted in a decline in paid weeks. This declining trend continued throughout the rest of fiscal 2012 and was negatively impacted by an advertising campaign that was ineffective at driving enrollment growth and weak macro-economic trends. For the first, second, third and fourth quarters of fiscal 2012, paid weeks declined 6.4%, 9.4%, 12.5% and 17.8%, and attendances declined 14.0%, 14.6%, 17.5% and 21.9%, respectively, as compared to the prior year periods.

Continental Europe Meeting Metrics and Business Trends

Monthly Pass drove an overall 16.5% increase in Continental Europe paid weeks in fiscal 2008 versus the prior year with its introduction in Germany in the third quarter of fiscal 2007 and then France in April 2008. Attendance in fiscal 2008 declined 4.1% versus the prior year.

In fiscal 2009, most of our Continental European markets were deeply affected by the difficult recessionary conditions. While Continental Europe experienced paid weeks growth of 1.6% versus the prior year as the market continued to benefit from increased Monthly Pass penetration, meeting attendance declined 11.8% versus the prior year. A major new innovative program, **ProPoints**, was launched in the fourth quarter of fiscal 2009.

In fiscal 2010, meeting paid weeks, benefiting from enrollment growth early in the year and an increase in Monthly Pass penetration, grew 6.9% versus the prior year, while attendance in Continental Europe declined 1.6% versus the prior year. In the first half of fiscal 2010, the Continental European market experienced meeting attendance growth as a result of the **ProPoints** program launch in 2009, which drove an influx of returning members to our meetings. The marketing of this new program, however, was not successful in capturing the attention of new members and, as a result, meeting attendance began to decline in the third quarter of fiscal 2010.

Entering fiscal 2011, Continental European performance continued its downward trend, with meeting paid weeks down 9.8% versus the prior year and attendances down 15.4% versus the prior year. In the first half of fiscal 2011, meeting paid weeks declined by 13.1% and attendance declined by 18.9% versus the prior year period, as the business lapped the momentum of its program launch in the prior year. While still negative versus the prior year period, the trend began to improve in the third quarter of fiscal 2011 with paid weeks down 6.0% and attendances down 15.1%. In the fourth quarter of fiscal 2011, Continental Europe soft launched its updated version of **ProPoints** in December, resulting in a less negative performance with paid weeks down 4.9% and attendances down 4.3% versus the prior year period.

In fiscal 2012, paid weeks grew 9.2%, and attendances grew 3.3%, versus the prior year. This growth was driven by entering fiscal 2012 with a higher active member base than the prior year and the benefit of higher enrollment growth from the launch of the updated version of **ProPoints** in late fiscal 2011 and early fiscal 2012, effective new marketing strategies and an increase in Monthly Pass penetration. For the first, second, third and fourth quarters of fiscal 2012, paid weeks grew 5.4%, 11.0%, 12.1% and 9.0%, and attendances grew 4.3%, 2.7%, 4.9% and 1.0%, respectively, as compared to the prior year periods.

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The following table sets forth our gross profit and gross margin for the past five fiscal years, as adjusted to exclude the impact of the UK VAT and the UK self-employment matters:

(in millions)	2012	2011	2010	2009	2008
Gross Profit	\$ 1,082.8	\$ 1,047.1	\$ 790.6	\$ 727.9	\$ 835.0
<i>Gross Margin</i>	<i>59.3%</i>	<i>57.6%</i>	<i>54.4%</i>	<i>52.0%</i>	<i>54.4%</i>
Adjustments to Reported Amounts					
UK self-employment accrual ⁽¹⁾	(14.5)			32.5	
UK VAT ruling accrual ⁽²⁾			(2.0)		18.7
Gross Profit, as adjusted ⁽¹⁾⁽²⁾	\$ 1,068.2	\$ 1,047.1	\$ 788.6	\$ 760.4	\$ 853.7
<i>Gross Margin impact from above adjustments⁽¹⁾⁽²⁾</i>	<i>0.8%</i>			<i>(2.4)%</i>	<i>(0.5)%</i>
<i>Gross Margin, as adjusted⁽¹⁾⁽²⁾</i>	<i>58.5%</i>	<i>57.6%</i>	<i>54.4%</i>	<i>54.4%</i>	<i>54.9%</i>

Note: Totals may not sum due to rounding

- (1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2012 to exclude the impact of a \$14.5 million decrease to cost of revenues related to the settlement of the UK self-employment matter and that adjusts the consolidated statements of net income for fiscal 2009 to exclude \$32.5 million in cost of revenues for the impact of the UK self-employment matter.
- (2) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2010 to exclude the benefit of a \$2.0 million increase to revenues from the reversal of an over-accrual related to the adverse UK VAT ruling and that adjusts the consolidated statements of net income for fiscal 2008 to include a net negative adjustment of \$18.7 million to revenues as a result of the adverse UK VAT ruling pertaining to prior periods. The UK VAT ruling impact pertaining specifically to fiscal 2008 of \$7.8 million has not been adjusted herein as the years presented include the impact of this ruling.

See Non-GAAP Financial Measures below for an explanation of our use of non-GAAP financial measures. In the period from fiscal 2008 through fiscal 2012 our gross margin ranged from a high of 59.3% in fiscal 2012 to a low of 52.0% in fiscal 2009. Excluding the impact of the UK VAT and UK self-employment matters in the period, our gross margin ranged from a high of 58.5% in fiscal 2012 to a low of 54.4% in both fiscal 2009 and fiscal 2010. As the WeightWatchers.com business grew over the period and became a larger share of our revenue mix, our gross margin expanded. In addition, with its fixed cost business model, growth within the WeightWatchers.com business resulted in margin expansion in that business during the period. Conversely, in the meetings business, our meetings staff is usually paid on a commission basis and space is rented as needed in most instances. When it becomes more cost effective to do so, in various geographies (particularly North America), we rent centers at reasonable rates with relatively short lease terms. Moreover, we adjust the number of meetings according to demand. This variable cost structure has enabled us to maintain high margins even as we have experienced a decline in the number of attendances per meeting. When attendances per meeting grow, our gross margins typically improve.

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The following table sets forth our Operating Income for the past five fiscal years, as adjusted to exclude the impact of the UK VAT and UK self-employment matters as well as the previously reported impact of restructuring charges:

(in millions)	2012	2011	2010	2009	2008
Operating Income	\$ 510.8	\$ 546.3	\$ 390.3	\$ 356.7	\$ 425.0
Operating Income Margin	28.0%	30.0%	26.9%	25.5%	27.7%
Adjustments to Reported Amounts					
UK Self-employment accrual ⁽¹⁾	(14.5)			32.5	
UK VAT ruling accrual ⁽²⁾			(2.0)		18.7
Restructuring charges ⁽¹⁾				5.5	
Operating Income, as adjusted ⁽¹⁾⁽²⁾	\$ 496.3	\$ 546.3	\$ 388.3	\$ 394.6	\$ 443.7
Operating Income Margin impact from above adjustments ⁽¹⁾⁽²⁾	0.8%		0.1%	(2.7)%	(0.8)%
Operating Income Margin, as adjusted ⁽¹⁾⁽²⁾	27.2%	30.0%	26.8%	28.2%	28.5%

Note: Totals may not sum due to rounding

- (1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of income for fiscal 2012 to exclude the impact of a \$14.5 million decrease to cost of revenues related to the settlement of the UK self-employment matter and that adjusts the consolidated statements of income for fiscal 2009 to exclude \$32.5 million in cost of revenues for the impact of the UK self-employment matter and the \$5.5 million impact of restructuring charges.
- (2) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2010 to exclude the benefit of a \$2.0 million increase to revenues from the reversal of an over-accrual related to the adverse UK VAT ruling and that adjusts the consolidated statements of net income for fiscal 2008 to include a net negative adjustment of \$18.7 million to revenues as a result of the adverse UK VAT ruling pertaining to prior periods. The UK VAT ruling impact pertaining specifically to fiscal 2008 of \$7.8 million has not been adjusted herein as the years presented include the impact of this ruling.

See Non-GAAP Financial Measures below for an explanation of our use of non-GAAP financial measures.

In the period from fiscal 2008 through fiscal 2012 our operating income margin ranged from a high of 30.0% in fiscal 2011 to a low of 25.5% in fiscal 2009. Excluding the impact of the UK VAT and UK self-employment matters and the impact of our previously reported restructuring charges in the period, our operating income margin ranged from a high of 30.0% in fiscal 2011 to a low of 26.8% in fiscal 2010. In fiscal 2010, the operating income margin of the Company was driven by significant investment for the preparation and launch of the **PointsPlus** program in the United States and Canada and **ProPoints** program in the United Kingdom and Australia, increased marketing for our WeightWatchers.com business, and a charge associated with the settlement of a California labor litigation.

In fiscal 2011, the operating income margin of the Company was 30.0%, the highest in the five-year period. This was despite the increased marketing in WeightWatchers.com stemming from the initiative focused on building awareness and relevance of the Weight Watchers brand with the male demographic, as well as expenses in support of growth initiatives, including technology for the development of our mobile platforms and additions to staff in support of business development. These higher expenses were more than offset by the efficiencies we gained from higher average attendance in our meetings and the impact of the higher margin WeightWatchers.com business becoming a larger component of our revenue mix.

In fiscal 2012, excluding the impact of the UK self-employment matter, operating income declined to 27.2% from 30.0% in the prior year. This decline in operating income margin was primarily driven by costs related to first time Online TV marketing campaigns in several of our international markets and our significant investment in marketing the Weight Watchers Online product to men in the United States, as well as, selling, general and administrative expenses in support of our growth initiatives.

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Non-GAAP Financial Measures

To supplement our consolidated results presented in accordance with accounting principles generally accepted in the United States, or GAAP, we have disclosed non-GAAP measures of operating results that exclude or adjust certain items. Net revenues, cost of revenues, gross profit and gross margin, operating income and operating income margin, effective tax rate, including components thereof, are discussed in this Annual Report on Form 10-K both as reported (on a GAAP basis) and as adjusted (on a non-GAAP basis) to exclude from fiscal 2012, in connection with the settlement of the UK self-employment matter, the benefit of a partial accrual reversal of a charge originally recorded in the fourth quarter of fiscal 2009, and from fiscal 2010 the revenue benefit of a partial accrual reversal of a charge originally recorded in the second quarter of fiscal 2008 in connection with the previously disclosed adverse UK VAT ruling; and to adjust fiscal 2009 results for both the impact of the UK self-employment matter and the impact of restructuring charges associated with our previously disclosed cost savings initiatives. See Item 3. Legal Proceedings UK Self-Employment Matter in Part I of this Annual Report on Form 10-K for further details on the UK self-employment ruling. We generally refer to such non-GAAP measures as excluding or adjusting for the impact of the settlement, accrual reversal, these rulings and/or these restructuring charges. Our management believes these non-GAAP financial measures provide supplemental information to investors regarding the performance of our business and are useful for period-over-period comparisons of the performance of our business. While we believe that these financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. In addition, these non-GAAP financial measures may not be the same as similarly entitled measures reported by other companies.

Use of Constant Currency

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

Critical Accounting Policies

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

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

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Revenue Recognition

WWI earns revenue by conducting meetings, selling products in its meetings and to its franchisees, collecting commissions from franchisees, collecting royalties related to licensing agreements and selling advertising space in and copies of its magazines. Monthly Pass, prepaid meeting fees and magazine subscription revenue is recorded to deferred revenue and amortized into revenue over the period earned. Revenue from pay-as-you-go meeting fees, product sales, commissions and royalties is recognized when services are rendered, products are shipped to customers and title and risk of loss pass to the customers, and commissions and royalties are earned, respectively. Advertising revenue is recognized when advertisements are published. Revenue from magazine sales is recognized when the magazine is sent to the customer. We charge non-refundable registration fees in exchange for an introductory information session and materials we provide to new members in our meetings business. Revenue from these registration fees is recognized when the service and products are provided, which is generally at the same time payment is received from the customer. Discounts to customers, including free registration offers, are recorded as a deduction from gross revenue in the period such revenue was recognized.

WeightWatchers.com primarily generates revenue from monthly subscriptions for our Internet subscription products as well as Online advertising. Subscription fee revenues are recognized over the period that products are provided. One-time sign-up fees are deferred and recognized over the expected customer relationship period. Subscription fee revenues that are paid in advance are deferred and recognized on a straight-line basis over the subscription period. Online advertising revenue is recognized when the advertisement is viewed by the user of the website.

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

Franchise Rights Acquired, Goodwill and Intangible Assets

Finite-lived intangible assets are amortized using the straight-line method over their estimated useful lives of 3 to 20 years. We review goodwill and other indefinite-lived intangible assets, including franchise rights acquired, for potential impairment on at least an annual basis or more often if events so require. We performed fair value impairment testing as of the end of fiscal 2012 and fiscal 2011 on our goodwill and other indefinite-lived intangible assets and determined that the carrying amounts of these assets did not exceed their respective fair values, and therefore, no impairment existed. When determining fair value, we utilize various assumptions, including projections of future cash flows, growth rates and discount rates. A change in these underlying assumptions will cause a change in the results of the tests and, as such, could cause fair value to be less than the carrying amounts. In the event such a decrease occurred, we would be required to record a corresponding charge, which would impact earnings. We would also be required to reduce the carrying amounts of the related assets on our balance sheet. We continue to evaluate these estimates and assumptions and believe that these assumptions are appropriate.

In performing the impairment analysis for franchise rights acquired, the fair value for our franchise rights acquired that is allocated to either of the WWI reporting segment or the WeightWatchers.com reporting segment is estimated using a discounted cash flow approach. This approach involves projecting future cash flows attributable to the franchise rights acquired and discounting those estimated cash flows using an appropriate discount rate. The estimated fair value is then compared to the carrying value of the unit of accounting for those franchise rights. We have concluded that the appropriate unit of accounting for franchise rights acquired allocated to either of the WWI reporting segment or the WeightWatchers.com reporting segment is the country corresponding to the acquired franchise territory. The carrying values of these franchise rights acquired for both of these reporting segments in the United States, Canada, United Kingdom, Australia/New Zealand and other countries at December 29, 2012 were \$667.3 million, \$82.3 million, \$16.8 million, \$15.1 million and \$5.5 million, respectively, totaling \$787.0 million.

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We estimate future cash flows for each unit of accounting by utilizing the historical cash flows attributable to the rights in that country and then applying a growth rate using a blend of the historical operating income growth rates for such country and expected future operating income growth rates for such country. We utilize operating income as the basis for measuring our potential growth because we believe it is the best indicator of the performance of our business. For fiscal 2012, the blended growth rates used in our discounted cash flow analysis ranged from a decline of approximately 3% to growth of approximately 50%. For fiscal 2011, the blended growth rates used in our discounted cash flow analysis ranged from a growth of approximately 3% to approximately 20%. We then discount the estimated future cash flows utilizing a discount rate. The discount rate is calculated using the average cost of capital, which includes the cost of equity and the cost of debt. The cost of equity is determined by combining a risk-free rate of return and a market risk premium. The risk-free rate of return is generally determined based on the average rate of long-term Treasury securities. The market risk premium is generally determined by reviewing external market data. When appropriate, we further adjust the resulting combined rate to account for certain entity-specific factors such as maturity of the market in order to determine the utilized discount rate. The cost of debt is our average borrowing rate for the period. The discount rates used in our fiscal 2012 year-end impairment test and our fiscal 2011 year-end impairment test averaged approximately 9.2% and 11.3%, respectively.

At the end of fiscal 2012, we estimated that approximately 89% of the carrying value of our franchise rights acquired had a fair value of at least three times their respective carrying amounts. In the United States, the region which held approximately 84% of the franchise rights acquired, the aggregate fair value of our franchise rights acquired was more than four times the aggregate carrying value. Given that there is a significant difference between the fair value and carrying value of our franchise rights acquired, we believe there are currently no reasonably likely changes in assumptions that would cause an impairment charge.

Derivative Instruments and Hedging

We enter into interest rate swaps to hedge a portion of our variable rate debt. We record all derivative financial instruments on the consolidated balance sheet at fair value as either assets or liabilities. Fair value adjustments for qualifying derivative instruments are recorded as a component of other comprehensive income and will be included in earnings in the periods in which earnings are affected by the hedged item.

Income Taxes

Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion of a deferred tax asset will not be realized, a valuation allowance is recognized. We consider historic levels of income, estimates of future taxable income and feasible tax planning strategies in assessing the need for a tax valuation allowance.

Capitalized Software Development

We capitalize certain software costs incurred in connection with developing or obtaining software for internal use. These costs are amortized over a period of three to five years, the estimated useful life of the software. We periodically evaluate for impairment capitalized software development costs by considering, among other factors, whether the software is still expected to provide substantive service potential, and whether a significant change is being made or will be made to the software.

Share-Based Compensation

The fair value of restricted stock units and vested shares of restricted stock is determined using the closing price of our common stock on the date of grant. The fair value of option awards is estimated on the date of grant using the Black-Scholes option pricing model, which requires estimates of the expected term of the option, the expected volatility of the Company's stock price, the risk-free interest rate and the expected dividend yield. We

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recognize expense for all share-based awards based on the fair value of the number of awards we estimate will fully vest. A change in these underlying assumptions will cause a change in the estimated fair value of share-based awards and the underlying expense recorded. We continue to evaluate these estimates and assumptions and believe that these assumptions are appropriate.

RESULTS OF OPERATIONS FOR FISCAL 2012 (52 weeks) COMPARED TO FISCAL 2011 (52 weeks)

OVERVIEW

Fiscal 2011 was a year of revenue and volume growth in all fiscal quarters as compared to the prior year periods. We experienced accelerated period-over-period volume growth in our North American and UK meetings and Weight Watchers.com businesses throughout the year. 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.

Fiscal 2012 had the challenge of being compared against the high levels of recruitment growth and related results of fiscal 2011. Fiscal 2012 versus the prior year had similar performance trends as each of the individual fiscal 2012 quarters. Net revenues were \$1,826.8 million in fiscal 2012, as compared to \$1,819.2 million in fiscal 2011. Growth in Internet revenues in fiscal 2012 versus the prior year was almost fully offset by revenue declines in the meetings business. Gross margin for fiscal 2012 grew to 59.3%, including an 80 basis point benefit from the accrual reversal associated with the settlement of the UK self-employment matter, from 57.6% in fiscal 2011. Both marketing expenses and selling, general and administrative expenses increased as a percentage of revenue in fiscal 2012 versus the prior year due to our investments in growth initiatives. As a result, operating income margin for fiscal 2012, which, like gross margin, also benefited by 80 basis points related to the accrual reversal associated with the settlement of the UK self-employment matter, declined 2.1% to 28.0% from 30.0% in fiscal 2011. Consequently, and as a result of higher interest expense and a higher tax rate, net income attributable to the Company in fiscal 2012 declined 15.6% versus the prior year to \$257.4 million.

The table below sets forth selected financial information for fiscal 2012 from our consolidated statements of income for fiscal 2012 versus selected financial information for fiscal 2011 from our consolidated statements of income for fiscal 2011, on both a reported basis and an adjusted basis. Results for fiscal 2012 are adjusted to exclude the \$4.1 million (after-tax) benefit related to the settlement of the previously disclosed UK self-employment matter. See *Non-GAAP Financial Measures* above.

Table of Contents**Summary of Selected Financial Data as Reported and Adjusted**

	(In millions, except per share amounts)			
	Fiscal 2012	Fiscal 2011	Increase/ (Decrease)	% Change
Revenues	\$ 1,826.8	\$ 1,819.2	\$ 7.7	0.4%
Cost of revenues (as adjusted) ⁽¹⁾	758.6	772.0	(13.4)	(1.7%)
UK Self-employment settlement ⁽¹⁾	(14.5)		(14.5)	
Cost of revenues	744.0	772.0	(28.0)	(3.6%)
Gross Profit	1,082.8	1,047.1	35.6	3.4%
Gross Margin %	59.3%	57.6%		
Marketing expenses	343.5	292.4	51.2	17.5%
Selling, general & administrative expenses	228.5	208.5	20.0	9.6%
Operating income	510.8	546.3	(35.5)	(6.5%)
Operating Income Margin %	28.0%	30.0%		
Interest expense (as adjusted) ⁽¹⁾	83.4	59.9	23.6	39.4%
UK Self-employment settlement ⁽¹⁾	7.1		7.1	
Interest expense	90.5	59.9	30.7	51.3%
Other expense, net	2.0	3.4	(1.4)	(41.6%)
Early extinguishment of debt	1.3		1.3	
Income before income taxes	417.0	483.1	(66.1)	(13.7%)
Provision for income taxes (as adjusted) ⁽¹⁾	156.2	178.7	(22.5)	(12.6%)
UK Self-employment settlement ⁽¹⁾	3.3		3.3	
Provision for income taxes	159.5	178.7	(19.2)	(10.7%)
Net income	257.4	304.3	(46.9)	(15.4%)
Net loss attributable to the noncontrolling interest		0.5	(0.5)	
Net income attributable to the Company	\$ 257.4	\$ 304.9	\$ (47.4)	(15.6%)
Weighted average diluted shares outstanding	60.9	74.1	(13.2)	(17.8%)
Diluted EPS	\$ 4.23	\$ 4.11	\$ 0.11	2.7%

Note: Totals may not sum due to rounding

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of income for fiscal 2012 to exclude the impact of a \$14.5 million decrease to cost of revenues and \$7.1 million increase to interest expense related to the settlement of the UK Self-employment matter. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures. The following table sets forth a reconciliation for fiscal 2012 of certain selected financial data:

(in millions, except per share amounts)	Gross Profit	Gross Profit	Operating Income	Operating Income	Interest Expense	Net Income	Diluted EPS
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	Margin		Margin		Attributable to Company		
Fiscal 2012	\$ 1,082.8	59.3%	\$ 510.8	28.0%	\$ 90.5	\$ 257.4	\$ 4.23
Adjustments to Reported Amounts ⁽¹⁾							
UK self-employment accrual reversal ⁽¹⁾	(14.5)		(14.5)		(7.1)	(4.1)	(0.07)
Total Adjustments	(14.5)		(14.5)		(7.1)	(4.1)	(0.07)
Fiscal 2012, as adjusted⁽¹⁾	\$ 1,068.2	58.5%	\$ 496.3	27.2%	\$ 83.4	\$ 253.3	\$ 4.16

Note: Totals may not sum due to rounding

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of net income for fiscal 2012 to exclude the impact of a \$14.5 million decrease to cost of revenues and the \$7.1 million increase to interest expense related to the settlement of the UK self-employment matter .

See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures.

Table of Contents**Consolidated Results***Revenues*

Net revenues were \$1,826.8 million in fiscal 2012, as compared to \$1,819.2 million in fiscal 2011. Excluding the impact of foreign currency, which negatively impacted our revenues for fiscal 2012 by \$24.4 million, net revenues in fiscal 2012 grew 1.8% versus the prior year. Revenue growth in 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 fiscal 2012. Our Continental European meetings business, which benefited from new marketing strategies, also contributed to revenue growth on a constant currency basis. This revenue growth in our Continental European meetings business was more than offset by revenue declines in the NACO and UK meetings businesses as they cycled against the momentum of their new program innovations and stronger and more effective marketing and public relations efforts in fiscal 2011. In addition, in fiscal 2012, meeting revenues were 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 half of fiscal 2012, as well as by macro-economic factors, particularly consumer confidence, in NACO and the United Kingdom.

The combination of the above factors also led to a 5.4% decline in global meeting paid weeks in fiscal 2012 versus the prior year. However, with the benefits of starting the fiscal year with a higher active Online subscriber base and effective marketing, WeightWatchers.com experienced growth of 26.7% in Online paid weeks, as well as an 18.0% increase in end of period active Online subscribers, in fiscal 2012 versus the prior year. The increase in Online paid weeks more than offset the decline in meeting paid weeks, which resulted in a 9.3% increase in global paid weeks in fiscal 2012 versus the prior year. Global attendance in fiscal 2012 declined 11.0% in comparison to fiscal 2011.

Gross Profit and Operating Income

Gross profit for fiscal 2012 of \$1,082.8 million increased \$35.6 million, or 3.4%, from \$1,047.1 million in fiscal 2011. Excluding the impact of the settlement of the UK self-employment matter noted in the above table, and of foreign currency which negatively impacted gross profit for fiscal 2012 by \$14.1 million, gross profit in fiscal 2012 increased by \$35.2 million, or 3.4%, versus the prior year. Operating income for fiscal 2012 was \$510.8 million, a decrease of \$35.5 million, or 6.5%, from \$546.3 million in fiscal 2011. Excluding the impact of the settlement of the UK self-employment matter, and of foreign currency which negatively impacted operating income for fiscal 2012 by \$7.2 million, operating income in fiscal 2012 decreased by \$42.9 million, or 7.9%, versus the prior year. This decline was primarily the result of an increase in marketing investments and selling, general and administrative expenses in fiscal 2012 versus the prior year. As adjusted for the settlement, our gross margin in fiscal 2012 increased to 58.5% from 57.6% in fiscal 2011, but operating income margin in fiscal 2012 declined to 27.2% from 30.0% in fiscal 2011. See [Components of Expenses and Margins](#) for additional details.

Net Income and Earnings Per Share

Net income attributable to the Company in fiscal 2012 declined 15.6% from \$304.9 million in fiscal 2011 to \$257.4 million. Excluding the impact of the settlement of the UK self-employment matter noted in the table above, net income attributable to the Company would have been \$253.3 million in fiscal 2012, a decline of 16.9%. In addition to the decline in operating income, higher interest expense resulting from our financing of our repurchase of shares in the Tender Offer and related share repurchase from Artal Holdings and a higher tax rate further reduced net income in fiscal 2012. See [Components of Expenses and Margins Tax](#) for additional details on our higher tax rate in fiscal 2012.

Earnings per fully diluted share in fiscal 2012 were \$4.23, an increase of \$0.11 from \$4.11 in fiscal 2011. Excluding the impact of the UK self-employment matter noted in the table above, earnings per fully diluted share would have been \$4.16, an increase of \$0.05 or 1.1%. Earnings per fully diluted share in fiscal 2012, except for

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the first 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 for fiscal 2012 decreased to 60.9 million from 74.1 million in the prior year. 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, Internet revenues, products sold in meetings, 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 fiscal 2012 were \$934.9 million, a decrease of \$55.4 million, or 5.6%, from \$990.3 million in the prior year. Excluding the impact of foreign currency, which decreased our global meeting fees for fiscal 2012 by \$12.2 million, global meeting fees in fiscal 2012 decreased by 4.4% versus the prior year. The decline in meeting fees was driven by a 5.4% decline in global meeting paid weeks in fiscal 2012 to 99.2 million from 104.8 million in the prior year. The decline in meeting paid weeks was driven by lower enrollments in fiscal 2012 as compared to the high enrollment levels in the prior year. 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 11.0% to 50.7 million in fiscal 2012 from 57.0 million in fiscal 2011.

In NACO, meeting fees in fiscal 2012 were \$653.4 million, a decrease of \$33.4 million, or 4.9%, from \$686.8 million in fiscal 2011. The decline in meeting fees was driven primarily by a 5.6% decline in NACO meeting paid weeks from 69.9 million in fiscal 2011 to 66.0 million in fiscal 2012. The decline in meeting paid weeks primarily resulted from lower enrollments in fiscal 2012 as compared to the high enrollment levels in the prior year. Lower enrollments in fiscal 2012 were driven in part by the 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 fiscal 2012, NACO attendance decreased 11.4% to 31.9 million from 36.0 million in fiscal 2011. Franchise acquisitions had a de minimus impact on NACO meeting fees and metrics in fiscal 2012.

International meeting fees in fiscal 2012 were \$281.5 million, a decrease of \$22.0 million, or 7.2%, from \$303.5 million in the prior year. Excluding the impact of foreign currency, which decreased international meeting fees for fiscal 2012 by \$11.6 million, international meeting fees declined by 3.4% in fiscal 2012 versus the prior year. In fiscal 2012, the decline in meeting fees was driven by a 4.9% decline in international meeting paid weeks in the year versus the prior year. Meeting paid weeks performance in fiscal 2012 was driven by declines in enrollments in our international English-speaking markets in the year versus the prior year, which were partially offset by enrollment growth in Continental Europe. International attendance decreased by 10.5% in fiscal 2012 versus the prior year.

In fiscal 2012, UK meeting fees decreased by 11.7% to \$104.4 million from \$118.3 million in fiscal 2011. Excluding the impact of foreign currency, which decreased UK meeting fees for fiscal 2012 by \$1.5 million, UK meeting fees declined by 10.5% in fiscal 2012 versus the prior year. Fiscal 2012 meeting fees were driven lower primarily by a decline of 11.3% in UK meeting paid weeks versus the prior year. Meeting paid weeks performance in fiscal 2012 was driven by lower enrollments in the period as compared to the high enrollment levels in the prior year. In addition, in fiscal 2012, the United Kingdom introduced an advertising campaign that was ineffective in driving enrollment growth. Weak macro-economic trends in the United Kingdom also contributed to the decline in enrollments. 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 16.5% in fiscal 2012 versus the prior year.

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Meeting fees in Continental Europe were \$136.0 million in both fiscal 2012 and fiscal 2011. Excluding the impact of foreign currency, which decreased Continental European meeting fees in fiscal 2012 by \$10.4 million, Continental European meeting fees increased by 7.6% in fiscal 2012 as compared to the prior year. The increase in meeting fees on a constant currency basis was driven by an increase of 9.2% in Continental European meeting paid weeks in fiscal 2012 versus the prior year. The increase in meeting paid weeks was driven by higher enrollments in fiscal 2012 as compared to the prior year. These higher enrollments were the result of effective new marketing strategies in this region. In Continental Europe, attendance increased by 3.3% in fiscal 2012 versus the prior year.

In-Meeting Product Sales

Global in-meeting product sales for fiscal 2012 were \$253.2 million, a decrease of \$28.6 million, or 10.1%, from \$281.8 million in fiscal 2011. Excluding the impact of foreign currency, which decreased in-meeting product sales for fiscal 2012 by \$4.4 million, global in-meeting product sales in fiscal 2012 declined 8.6% versus the prior year. This decrease resulted primarily from an 11.0% decline in global meeting attendance in fiscal 2012 versus the prior year. Slightly offsetting this decline was an increase in product sales per attendee in fiscal 2012 versus the prior year. On a per attendee basis, in fiscal 2012 global in-meeting product sales increased 1.0%, or 2.8% on a constant currency basis, versus the prior year. This increase in in-meeting product sales per attendee in fiscal 2012 was driven by very strong per attendee sales of consumables and new products, including ActiveLink, in NACO and consumables in the United Kingdom in the fourth quarter of fiscal 2012, which more than offset a weak 2012 first nine months. This weakness 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, fiscal 2012 in-meeting product sales of \$145.9 million decreased by \$12.0 million, or 7.6%, versus the prior year. This decrease resulted primarily from an 11.4% attendance decline in fiscal 2012 as compared to the prior year. In-meeting product sales per attendee increased by 4.2% in fiscal 2012 versus the prior year as strong fourth quarter fiscal 2012 sales of consumables and new products, including ActiveLink, offset the decline in sales of enrollment products earlier in the year.

International in-meeting product sales were \$107.3 million in fiscal 2012, a decrease of 13.4%, or 9.9% on a constant currency basis, versus the prior year. This decrease was driven primarily by an attendance decline of 10.5% in fiscal 2012 as compared to fiscal 2011, which was largely driven by the United Kingdom. In-meeting product sales per attendee in fiscal 2012 declined by 3.2%, but increased by 0.6% on a constant currency basis, as compared to the prior year.

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 \$104.8 million, or 26.2%, to \$504.3 million in fiscal 2012 from \$399.5 million in fiscal 2011. Excluding the impact of foreign currency, which decreased Internet revenues for fiscal 2012 by \$5.9 million, Internet revenues grew by 27.7% in fiscal 2012 versus the prior year. The combination of a higher active Online subscriber base at the start of fiscal 2012, up 50.5%, versus the beginning of fiscal 2011, and effective marketing campaigns in North America and Continental Europe contributed to Online paid weeks growth of 26.7% in fiscal 2012 versus the prior year. Additionally, end of period active Online subscribers increased by 18.0% to 1.9 million at the end of fiscal 2012 as compared to 1.6 million at the end 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 \$134.3 million for fiscal 2012, a decrease of \$13.3 million, or 9.0%, from \$147.6 million for fiscal 2011. Excluding the impact of foreign

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currency, which decreased other revenues for fiscal 2012 by \$1.8 million, other revenues were 7.8% lower in fiscal 2012 compared to the prior year. Franchise commissions and sales of products to our franchisees declined in the aggregate by 22.4%, or 21.9% on a constant currency basis, in fiscal 2012 versus the prior year. Our by mail product sales and revenues from our publications also declined in the aggregate by 14.3%, or 12.9% on a constant currency basis, in fiscal 2012 versus the prior year. These declines were primarily the result of comparing against the prior year which had the benefit of the new program launches in our English-speaking markets in late fiscal 2010. Global licensing revenues increased by 3.0%, or 4.4% on a constant currency basis, in fiscal 2012 versus the prior year. A one-time termination fee in the second quarter of fiscal 2012 which was included in licensing revenues primarily accounted for the increase. Excluding this one-time termination fee of \$2.0 million from licensing revenues, global licensing revenues in fiscal 2012 increased 1.1% on a constant currency basis versus the prior year.

Components of Expenses and Margins

Cost of Revenues and Gross Margin

Excluding the impact of the settlement of the UK self-employment matter, cost of revenues in fiscal 2012 would have been \$758.6 million, a decline of \$13.4 million, or 1.7%, from \$772.0 million in the prior year. Cost of revenues declined at a faster pace than revenues due to the shift of revenue towards the higher margin WeightWatchers.com business. As adjusted for the settlement, gross profit in fiscal 2012 of \$1,068.2 million increased \$21.1 million, or 2.0%, from \$1,047.1 million in fiscal 2011. Adjusted gross margin in fiscal 2012 was 58.5%, as compared to 57.6% in 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 fiscal 2012 were \$343.5 million, an increase of \$51.2 million, or 17.5%, versus fiscal 2011. Excluding the impact of foreign currency, which decreased marketing expenses for fiscal 2012 by \$4.4 million, marketing expenses were 19.0% higher in fiscal 2012 compared to the prior year. Included in our fiscal 2012 marketing expenses were investments in two initiatives: first time Online TV marketing campaigns in several of our international markets and marketing the Weight Watchers Online product to men in the United States. In addition, we invested in TV advertising for Continental Europe's meetings business, which also contributed to the increase in marketing expenses in 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 18.8% in fiscal 2012 as compared to 16.1% in the prior year.

Selling, General and Administrative

Selling, general and administrative expenses were \$228.5 million for fiscal 2012 versus \$208.5 million for fiscal 2011, an increase of \$20.0 million, or 9.6%. Excluding the impact of foreign currency, which decreased selling, general and administrative expenses for fiscal 2012 by \$2.5 million, fiscal 2012 selling, general and administrative expenses increased by 10.8% versus fiscal 2011. The increase in expenses was primarily related to investments in growth initiatives, including NACO's corporate business, technology for the development of our mobile and customer relationship management platforms and additions to staff in support of these initiatives. Lower bonus expense globally related to business performance partially offset this increase. Selling, general and administrative expenses as a percentage of revenue for fiscal 2012 increased to 12.5% from 11.5% for fiscal 2011.

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Operating Income Margin

Excluding the impact of the settlement of the UK self-employment matter, our operating income margin in fiscal 2012 decreased to 27.2% from 30.0% in fiscal 2011. This decline in operating income margin was primarily driven by costs related to first time Online TV marketing campaigns in several of our international markets and our significant investment in marketing the Weight Watchers Online product to men in the United States. Both marketing expenses and selling, general and administrative expenses increased as a percentage of revenue in fiscal 2012 as compared to the prior year.

Interest Expense and Other

Interest expense was \$90.5 million for fiscal 2012, an increase of \$30.7 million, or 51.3%, from \$59.9 million in fiscal 2011. Excluding the impact of the settlement of the UK self-employment matter noted in the table above, interest expense was \$83.4 million, an increase of \$23.6 million or 39.4% versus the prior year. The increase was primarily driven by an increase in our average debt outstanding and higher interest rates on our debt. The effective interest rate on our debt increased by 0.76% to 2.91% in fiscal 2012 from 2.15% in fiscal 2011. Our average debt outstanding increased by \$920.0 million to \$2,102.9 million in fiscal 2012 from \$1,182.9 million in 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 3.60% in fiscal 2012, as compared to 4.62% in fiscal 2011. In the first quarter 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.

The Company incurred \$2.0 million of other expense in fiscal 2012 as compared to \$3.4 million of other expense in the prior year, both years include the write-off associated with an investment and the impact of foreign currency on intercompany transactions.

Tax

Our effective tax rate was 38.3% for fiscal 2012 as compared to 37.0% for fiscal 2011. For fiscal 2012, the UK self-employment matter impacted our effective tax rate. Excluding the impact of the settlement of the UK self-employment matter, our effective tax rate for fiscal 2012 would have been 38.1%. The difference in period-over-period effective tax rates is primarily the result of a tax benefit recorded in fiscal 2012 associated with a reduction in certain international tax rates. This was offset by tax benefits recorded in fiscal 2011 associated with the closure of our Finland business and reversing certain tax reserves upon expiration of the applicable statutes of limitations.

Table of Contents**RESULTS OF OPERATIONS FOR FISCAL 2011 (52 weeks) COMPARED TO FISCAL 2010 (52 weeks)****OVERVIEW**

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

In January 2011, we began marketing campaigns for our new program launches which accelerated period-over-period volume growth in the North American and UK meetings and WeightWatchers.com businesses to historically high levels in the first quarter of fiscal 2011. As a result, on a consolidated Company basis, revenues and volumes grew in all four quarters of fiscal 2011 as compared to the prior year periods. For the full year of fiscal 2011, revenues increased 25.3% and paid weeks increased 37.3% versus the prior year. Our gross margin for fiscal 2011 improved to 57.6%, up from 54.4% in fiscal 2010.

The table below sets forth selected financial information for fiscal 2011 from our consolidated statements of income for fiscal 2011 versus selected financial information for fiscal 2010 from our consolidated statements of income for fiscal 2010 on both a reported basis and an adjusted basis. Results for fiscal 2010 are adjusted to exclude the \$2.0 million benefit to revenue of an over-accrual related to the previously disclosed adverse UK VAT tax ruling in the second quarter of fiscal 2008. See **Non-GAAP Financial Measures** above.

Summary of Selected Financial Data as Reported and Adjusted

	(In millions, except per share amounts)			
	Fiscal 2011	Fiscal 2010	Increase/ (Decrease)	% Change
Revenues, net (as adjusted) ⁽¹⁾	\$ 1,819.2	\$ 1,450.0	\$ 369.2	25.5%
UK VAT ruling accrual reversal ⁽¹⁾		2.0	(2.0)	
Revenues, net of VAT ruling	1,819.2	1,452.0	367.2	25.3%
Cost of revenues	772.0	661.4	110.6	16.7%
Gross Profit	1,047.1	790.6	256.5	32.4%
<i>Gross Margin %</i>	<i>57.6%</i>	<i>54.4%</i>		
Marketing expenses	292.4	217.1	75.2	34.6%
Selling, general & administrative expenses	208.5	183.2	25.3	13.8%
Operating income	546.3	390.3	156.0	40.0%
<i>Operating Income Margin %</i>	<i>30.0%</i>	<i>26.9%</i>		
Interest expense	59.9	76.2	(16.4)	(21.5%)
Other expense (income), net	3.4	0.9	2.4	100.0%
Income before income taxes	483.1	313.2	170.1	54.3%
Provision for income taxes	178.7	120.7	58.1	48.1%
Net income	304.3	192.5	111.8	58.1%
Net loss attributable to the noncontrolling interest	0.5	1.7	(1.2)	(69.5%)
Net income attributable to the Company	\$ 304.9	\$ 194.2	\$ 110.6	57.0%
Weighted average diluted shares outstanding	74.1	75.9	(1.7)	(2.3%)

Diluted EPS	\$ 4.11	\$ 2.56	\$ 1.55	60.7%
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Note: Totals may not sum due to rounding

- (1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of income for fiscal 2010 to exclude the benefit of a \$2.0 million increase to revenues from the reversal of an over-accrual related to the adverse UK VAT ruling. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures.

Consolidated Results

Our revenues increased by \$367.2 million, from \$1,452.0 million in fiscal 2010 to \$1,819.2 million in fiscal 2011, an increase of 25.3%. As noted in the above table, fiscal 2010 results included a benefit to revenue of \$2.0 million for a partial accrual reversal of a charge previously recorded in the second quarter of fiscal 2008. As previously reported, this charge, which reduced revenues in fiscal 2008 for current and prior year periods, and which has now been paid, was related to an adverse ruling the Company received with respect to the imposition of UK VAT on meeting fees collected by our UK subsidiary. After adjusting for this charge, fiscal 2011 revenues increased by \$369.2 million, or 25.5%, versus the prior year.

Net income attributable to the Company for fiscal 2011 of \$304.9 million increased by \$110.6 million, or 57.0%, from \$194.2 million in the prior year. On an adjusted basis, net income attributable to the Company would have been \$192.9 million for fiscal 2010 as compared to \$304.9 million for fiscal 2011, an increase in fiscal 2011 of \$111.9 million, or 58.0%. Diluted earnings per share of \$4.11 for fiscal 2011 increased by \$1.55, or 60.7%, from \$2.56 in the prior year. Excluding the \$0.02 benefit in fiscal 2010, earnings per fully diluted share of \$2.54 was \$1.57, or 61.8%, below the \$4.11 of diluted earnings per share in fiscal 2011. Included in the fiscal 2010 diluted earnings per share was a \$0.05 charge associated with the previously disclosed settlement of a California labor litigation.

Revenues

Net revenues were \$1,819.2 million in fiscal 2011, an increase of \$367.2 million, or 25.3%, from \$1,452.0 million in fiscal 2010. After excluding the \$2.0 million adjustment to fiscal 2010 revenues for the UK VAT reversal noted above, revenues increased by \$369.2 million, or 25.5%, from the fiscal 2010 adjusted revenues of \$1,450.0 million. Excluding the impact of foreign currency, which increased our revenues in fiscal 2011 by \$35.5 million, revenues grew 22.8% versus the prior year. Revenue growth in the period was driven by strong momentum beginning at the start of fiscal 2011 from the new program launches at the end of fiscal 2010 in our North American and UK meetings and WeightWatchers.com businesses, and further supported by effective marketing and public relations activities in these markets in the period.

In fiscal 2011, global paid weeks grew 37.3%, global attendance grew 11.9% and end of period active Online subscribers grew 50.5% in comparison to fiscal 2010, despite weak performance in our Continental European meetings business. In the first quarter of fiscal 2011, when we launched our marketing campaigns for the new programs in North America and the United Kingdom, strong enrollments and sign-ups of new and former customers drove global paid weeks up 39.7%, global attendance up 20.3% and end of period active Online subscribers up 86.6% versus the prior year period. Growth trends in meeting enrollments and Online sign-ups moderated somewhat in both the second and third quarters of fiscal 2011 from the historically high levels experienced in the first quarter of fiscal 2011, but remained strong despite lapping the one-year anniversary of North America's successful new marketing strategy launched in the second quarter of fiscal 2010. In the fourth quarter of fiscal 2011, we continued to experience year-over-year growth versus the prior year period, but at a slower pace than the first nine months as we lapped the one-year anniversary of the very successful soft launch of the new program in our English-speaking markets.

Gross Profit and Operating Income

Gross profit in fiscal 2011 of \$1,047.1 million increased \$256.5 million, or 32.4%, from \$790.6 million in fiscal 2010. Operating income in fiscal 2011 was \$546.3 million, an increase of \$156.0 million, or 40.0%, from

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\$390.3 million in fiscal 2010. Our gross margin in fiscal 2011 increased by 310 basis points versus the prior year to 57.6%, driving operating income margin expansion of 310 basis points versus the prior year to 30.0% in fiscal 2011. Margin expansion was primarily the result of operating leverage gained from higher attendances per meeting and high growth in our higher margin WeightWatchers.com business. Operating income margin was compressed slightly as a reduction in selling, general and administrative expenses as a percentage of revenues was not enough to fully offset an increase in marketing as a percentage of revenues versus the prior year. It should be noted that fiscal 2010 included \$6.5 million of expense, included in both cost of revenues and selling, general and administrative expense, associated with the previously disclosed settlement of a California litigation, which lowered our operating income margin by 45 basis points in fiscal 2010.

Net Income and Earnings Per Share

The benefits derived from operating income growth, along with lower interest expense, resulted in net income growth in fiscal 2011 of 57.0% versus the prior year to \$304.9 million, up from \$194.2 million in fiscal 2010. Earnings per fully diluted share in fiscal 2011 were \$4.11, up \$1.55 from \$2.56 in fiscal 2010. The 2011 earnings per fully diluted share included a \$0.05 tax benefit associated with the closing of our Finland business, while the 2010 earnings per fully diluted share included a \$0.02 revenue benefit from the UK VAT reversal and a \$0.05 charge associated with the previously disclosed settlement of a California litigation. In addition, foreign currency provided a \$0.10 benefit per fully diluted share in fiscal 2011.

Components of Revenue and Volumes

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

Meeting Fees

Global meeting fees for fiscal 2011 were \$990.3 million, an increase of \$170.7 million, or 20.8%, from \$819.6 million in the prior year. After the \$2.0 million adjustment to fiscal 2010 global meeting fees for the UK VAT accrual reversal noted above, fiscal 2011 revenues of \$990.3 million would have been \$172.7 million, or 21.1% above the prior year. Excluding the impact of foreign currency, which increased our global meeting fees by \$19.6 million, global meeting fees in fiscal 2011 increased 18.4% versus the prior year as a result of strong enrollment growth. The new program launches in our North American and UK markets in late fiscal 2010, combined with effective marketing and public relations throughout the period, were the key drivers of this growth during fiscal 2011. In addition, the number and proportion of our new and existing meeting members purchasing Monthly Pass increased in fiscal 2011 versus the prior year. Monthly Pass purchasers have a longer tenure, and accordingly, contribute higher lifetime revenue on average than those who pay for attendance on a week-to-week basis.

As a result of the enrollment strength and the increase in Monthly Pass purchasers, global meeting paid weeks rose 19.2% to 104.8 million in fiscal 2011, up from 87.9 million in the prior year. This growth rate in meeting paid weeks marks a significant improvement from the low growth rates experienced on average throughout fiscal 2010. Global attendance in our meetings business increased by 11.9% to 57.0 million in fiscal 2011, from 51.0 million in fiscal 2010. In our North American and UK markets, the new programs not only attracted new customers to the meetings business, but also increased meeting attendance by our existing members. In fiscal 2011, our Continental European market experienced paid weeks and attendance declines versus fiscal 2010, as a result of cycling against a new program launch in the prior year. This market is still in the process of developing effective marketing campaigns.

In NACO, meeting fees in fiscal 2011 were \$686.8 million, an increase of \$141.5 million, or 25.9%, from \$545.3 million in fiscal 2010. Excluding the impact of foreign currency, which increased NACO meeting fees by \$2.1 million, NACO meeting fees grew by 25.6% in fiscal 2011 versus the prior year. Meeting fees grew primarily from the positive impact on enrollments of the highly successful **PointsPlus** program, which launched

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in late fiscal 2010, our effective marketing campaign strategy which has raised the profile and attraction of our offerings to both former members and new customers, and increased purchases of the Monthly Pass commitment plan. As a result of these factors, NACO meeting paid weeks increased 26.4% in fiscal 2011 versus the prior year to 69.9 million, and attendance grew 18.8% in fiscal 2011 versus the prior year to 36.0 million. In the fourth quarter fiscal 2011, due to cycling against the very successful launch of the program innovation in November of 2010, paid weeks and attendance growth of 15.0% and 5.5% decelerated when compared to the paid weeks and attendance growth of 30.2% and 22.7% we experienced in the first nine months of fiscal 2011 as compared to the respective prior year periods.

Our international meeting fees in fiscal 2011 were \$303.5 million, an increase of \$29.1 million, or 10.6%, from \$274.4 million in the prior year. After the \$2.0 million adjustment to fiscal 2010 international meeting fees for the UK VAT accrual reversal noted above, fiscal 2011 revenues would have been \$31.2 million or 11.5% above fiscal 2010. Excluding the impact of foreign currency, which increased adjusted international meeting fees by \$17.4 million, adjusted international meeting fees grew by 5.1% in fiscal 2011 versus the prior year. International meeting paid weeks increased 7.0% versus the prior year to 34.9 million in fiscal 2011, driven primarily by the performance of the UK meetings business. International attendance increased by 1.6%, to 21.0 million in fiscal 2011 versus 20.7 million in fiscal 2010, primarily as a result of declines in the Continental European meetings business.

The UK meetings business benefited from the impact of the ProPoints program, which launched in late fiscal 2010 and drove meeting fees and paid weeks growth in that market. UK meeting fees in fiscal 2011 grew by 23.5%, or 18.7% on a constant currency basis, with paid weeks up 18.3% and attendance up 13.7% in fiscal 2011, as compared to the prior year. After the \$2.0 million adjustment to fiscal 2010 international meeting fees for the UK VAT accrual reversal noted above, fiscal 2011 revenues would have been \$24.6 million, or 26.2%, above fiscal 2010.

The growth in the UK meetings business was partially offset by declining meeting fees and paid weeks volume in the period in Continental Europe, which was cycling against a year earlier, less successful program launch, and which has not yet developed sufficiently effective marketing campaigns. Continental European meeting fees in fiscal 2011 decreased by 4.7%, or 10.0% on a constant currency basis, as compared to the prior year, with paid weeks declining 9.8% and attendance declining 15.4% in the period.

In-Meeting Product Sales

Global in-meeting product sales in fiscal 2011 were \$281.8 million, an increase of \$21.3 million, or 8.2%, from \$260.5 million in fiscal 2010. Excluding the impact of foreign currency, which increased in-meeting product sales by \$6.9 million, global in-meeting product sales rose 5.6% in fiscal 2011 versus the prior year on the strength of higher attendance volumes. On a per attendee basis, global in-meeting product sales decreased 3.3%, or 5.6% on a constant currency basis, in fiscal 2011 versus the prior year. This decline was primarily the result of lower sales of consumable products, partially offset by higher sales of enrollment products.

In NACO, in-meeting product sales of \$157.9 million in fiscal 2011 increased by \$19.1 million, or 13.8%, versus the prior year, on the strength of higher attendance volumes. NACO's in-meeting product sales per attendee decreased 4.2%, or 4.5% on a constant currency basis, versus the prior year. International in-meeting product sales were \$123.9 million in fiscal 2011, an increase of 1.8%, but declined 3.5% on a constant currency basis, versus the prior year. On a per attendee basis, international product sales increased 0.2%, but declined 5.0% on a constant currency basis, versus the prior year.

Internet Revenues

Internet revenues, which include subscription revenues from sales of Weight Watchers Online and Weight Watchers eTools as well as Internet advertising revenues, increased significantly, up \$160.7 million, or 67.3%, to \$399.5 million for fiscal 2011 from \$238.8 million for fiscal 2010. Excluding the impact of foreign currency,

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which increased Internet revenues by \$5.5 million, Internet revenues grew by 65.0% in fiscal 2011 versus the prior year. We entered fiscal 2011 with an active Online subscriber base that was 38.2% higher than at the beginning of fiscal 2010, and ended fiscal 2011 with approximately 1.6 million end of period active Online subscribers, up 50.5% from approximately 1.1 million at the end of fiscal 2010. Online paid weeks increased 67.6% in fiscal 2011 versus the prior year. This increase in Online subscribers and paid weeks was driven primarily by continued strong marketing campaigns starting in the second quarter of 2010 in the United States and the United Kingdom, markets which also benefited from the new program launches at the end of fiscal 2010. In addition, sign-ups grew in Continental Europe, reflecting the effectiveness of our marketing efforts in online channels in these markets.

Other Revenues

Other revenues, comprised primarily of licensing revenues, franchise royalties, revenues from the sale of products by mail and to our franchisees, and revenues from our publications, were \$147.6 million for fiscal 2011, an increase of \$14.4 million, or 10.8%, from \$133.1 million for fiscal 2010. Excluding the impact of foreign currency, other revenues were 8.2% higher in fiscal 2011 than the prior year. The new programs in our North American and UK markets also benefited our other revenues. Franchise commissions and sales of products to our franchisees grew in the aggregate by 17.2%, or 16.0% on a constant currency basis, in fiscal 2011 versus the prior year, accounting for \$4.1 million of the total increase in other revenues on a constant currency basis in fiscal 2011 versus the prior year. Our by mail product sales and revenues from our publications also rose in the aggregate by 18.3%, or 15.4% on a constant currency basis, over the prior year. Global licensing revenues in fiscal 2011, however, were up by 1.4%, but were down 1.7% on a constant currency basis, versus the prior year. UK licensing revenues increased in fiscal 2011 versus the prior year; however, both North America and Continental Europe experienced weak performance, primarily as a result of pricing challenges in a tough economic environment.

Components of Expenses and Margins*Cost of Revenues and Gross Margin*

Total cost of revenues in fiscal 2011 was \$772.0 million, an increase of \$110.6 million, or 16.7%, from \$661.4 million in the prior year. Cost of revenues grew at a slower rate than net revenues, which increased 25.3% in fiscal 2011 versus the prior year. We gained operating efficiency versus the prior year because of the increase in average attendance per meeting and despite higher expenses related to ensuring a successful launch of the new program innovation in our North American and UK markets. Gross profit for fiscal 2011 of \$1,047.1 million increased \$256.5 million, or 32.4%, from \$790.6 million in fiscal 2010, and gross margin expanded to 57.6%, an increase of 310 basis points as compared to 54.4% in fiscal 2010. While operating leverage in the meetings business was a contributor, the increase in gross margin was largely the result of the higher margin WeightWatchers.com business, where cost of revenues is largely fixed, becoming a larger component of our revenue mix.

Marketing

Marketing expenses for fiscal 2011 were \$292.4 million, an increase of \$75.2 million, or 34.6%, versus fiscal 2010, or 32.5% on a constant currency basis. Included in our fiscal 2011 marketing expense was a first time significant investment in marketing the Weight Watchers Online product to men. This new initiative in fiscal 2011, which focused on building awareness and communicating the relevance of the Weight Watchers brand to the male demographic, accounted for 8.2% of the increase in marketing expenses in fiscal 2011 versus the prior year. In addition, we increased our marketing investment in the second and third quarters of fiscal 2011 to support our new program launches and to strengthen recruitment growth during our spring and fall marketing campaigns. This strategy proved to be efficient and successful in driving recruitment of both new and rejoining meeting members and Online subscribers. In the fourth quarter of fiscal 2011 we increased our global spend in

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the last week of the year in support of our winter 2012 marketing campaigns. In addition, we opportunistically added marketing in the second quarter of fiscal 2011 to leverage positive public relations, such as our ranking as the number one weight-loss diet by U.S. News & World Report magazine.

Notwithstanding all of these strategies and initiatives, our marketing acquisition cost per customer declined by 1.7%, or 3.2% on a constant currency basis in fiscal 2011 versus the prior year. Our marketing expenses as a percentage of revenues were 16.1% in fiscal 2011 as compared to 15.0% in the prior year, as the revenues from more recent customer acquisitions will accrue over future periods.

Selling, General and Administrative

Selling, general and administrative expenses were \$208.5 million for fiscal 2011 versus \$183.2 million for fiscal 2010, an increase of \$25.3 million, or 13.8%. On a constant currency basis, selling, general and administrative expenses for fiscal 2011 increased by 11.2% versus fiscal 2010. The largest component of the increase was salary related, reflecting higher bonus expense associated with our strong business performance in fiscal 2011. In addition, fiscal 2011 included expense related to growth initiatives including new business development and technology for the development of our mobile platforms. Selling, general and administrative expenses as a percentage of revenues for fiscal 2011 decreased by 120 basis points to 11.5% from 12.6% for fiscal 2010. It should be noted that fiscal 2010 included \$4.9 million of selling, general and administrative expense associated with the previously disclosed settlement of a California litigation, which accounted for 34 basis points of the 120 basis point decrease in selling, general and administrative expenses as a percentage of revenues when comparing fiscal 2011 to the prior year.

Operating Income Margin

Our operating income margin in fiscal 2011 increased to 30.0%, up 310 basis points from 26.9% in fiscal 2010. Our operating income margin in fiscal 2010 decreased by 45 basis points as a result of the \$6.5 million charge, included in both cost of revenues and selling, general and administrative expense, associated with the previously disclosed settlement of a California litigation. Margin expansion in fiscal 2011 was attributable to the favorable impact on gross margin of operating leverage gained from higher attendances per meeting and strong growth in our higher margin WeightWatchers.com business, where cost of revenues is largely fixed. Marketing expense increased as a percentage of revenues in fiscal 2011 as compared to the prior year, but was offset by the decline in selling, general and administrative expenses as a percentage of revenues in fiscal 2011 as compared to the prior year.

Interest Expense and Other

Interest expense was \$59.9 million for fiscal 2011, a decrease of \$16.4 million, or 21.5%, from \$76.2 million in fiscal 2010. Our average debt outstanding decreased in fiscal 2011 to \$1,183 million as compared to \$1,415 million in fiscal 2010, including \$197.5 million of scheduled repayments since January 2011. In addition, the notional value of our interest rate swaps declined, driving a lower effective interest rate, to 4.62% in fiscal 2011 versus 5.01% in fiscal 2010.

We reported \$3.4 million of other expense in fiscal 2011 as compared to \$0.9 million of other expense in fiscal 2010, primarily reflecting the impact of foreign currency on intercompany transactions.

Tax

Our effective tax rate was 37.0% for fiscal 2011 as compared to 38.5% for fiscal 2010. For fiscal 2011, we recorded a tax benefit associated with the closure of our Finland business. Excluding this benefit, our effective tax rate for fiscal 2011 would have been 37.8%. The difference in period-over-period effective tax rates after this adjustment is primarily due to the benefit of reversing certain tax reserves upon the expiration of the applicable statutes of limitations.

Table of Contents**Liquidity and Capital Resources**

Cash flows provided by operating activities have historically supplied us with a significant source of liquidity. We use these cash flows, supplemented with long-term debt and short-term borrowings, to fund our operations and global initiatives, pay dividends, repurchase stock, pay down debt and opportunistically engage in franchise acquisitions. 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.

Balance Sheet Working Capital

The following table sets forth certain relevant measures of the Company's balance sheet working capital for the fiscal years ended:

	December 29, 2012	December 31, 2011 (in millions)	Increase/ (Decrease)
Total current assets	\$ 218.0	\$ 214.5	\$ 3.5
Total current liabilities	447.9	494.2	(46.3)
Working capital deficit	(229.9)	(279.7)	(49.8)
Cash and cash equivalents	70.2	53.2	17.0
Current portion of long-term debt	114.7	124.9	(10.2)
 Working capital deficit, excluding change in cash and cash equivalents and current portion of long-term debt	 \$ (185.4)	 \$ (208.0)	 \$ (22.6)

We generally operate with negative working capital. This is driven in part by our commitment plans which are our primary payment method. These plans require members and subscribers to pay us for meetings and subscription products, respectively, before we pay for our obligations in the normal course of business. These prepayments are recorded as a current liability on our balance sheet which results in negative working capital. Our working capital deficit declined \$49.8 million to \$229.9 million at December 29, 2012 from \$279.7 million at December 31, 2011. After making scheduled debt repayments of \$124.8 million which were offset by revolver borrowings of \$30.0 million in fiscal 2012, and the borrowings that we undertook in March and April 2012, the current portion of our long-term debt decreased by \$10.2 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 December 29, 2012 decreased by \$22.6 million to \$185.4 million from \$208.0 million at December 31, 2011. The primary driver of this decline was the settlement of the UK self-employment matter, which drove a \$36.4 million reduction in the related liability. Other factors contributing to this decline in our working capital deficit were the acceleration of our fourth quarter of fiscal 2012 dividend payment into the fourth quarter resulting in a shift of \$12.9 million, a \$10.7 million decrease in the derivative liability and a \$1.6 million decline in income tax liabilities.

These improvements in working capital deficit were partially offset by operational items, which increased the deficit by \$39.0 million. These operational items included a \$2.4 million increase in deferred revenue from growth in our Online subscriber and Monthly Pass member bases and a \$25.2 million increase in other accrued liabilities related primarily to interest and advertising, as well as reductions of \$6.6 million in inventory and \$4.8 million in accounts receivable.

Table of Contents*Cash Flows*

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

	December 29, 2012	December 31, 2011 (in millions)	January 1, 2011
Net cash provided by operating activities	\$ 349.4	\$ 404.8	\$ 281.7
Net cash used in investing activities	\$ (109.5)	\$ (45.2)	\$ (28.6)
Net cash used in financing activities	\$ (211.1)	\$ (352.0)	\$ (256.8)

*Operating Activities**Fiscal 2012*

Cash flows provided by operating activities of \$349.4 million in fiscal 2012 decreased by \$55.4 million from \$404.8 million in fiscal 2011. The decrease in cash provided by operating activities was primarily the result of lower net income in fiscal 2012 versus the prior year, a payment of \$30.0 million to HMRC, as well as a \$7.4 million accrual reversal based on the settlement of the UK self-employment matter. See Part II, Item 1. Legal Proceedings UK Self-Employment Matter for additional details on this matter.

The \$349.4 million of cash flows provided by operating activities for fiscal 2012 exceeded the period's net income attributable to the Company by \$92.0 million. The excess of cash flows provided by operating activities over net income arose primarily from changes in our working capital as described above (see Balance Sheet Working Capital), non-cash expenses and differences between book and cash taxes.

Fiscal 2011

Cash flows provided by operating activities of \$404.8 million in fiscal 2011 increased by \$123.1 million from \$281.7 million in fiscal 2010. This increase in cash provided by operating activities was primarily the result of the increase in net income of \$111.8 million in fiscal 2011 versus the prior year.

The \$404.8 million of cash flows provided by operating activities in fiscal 2011 exceeded the period's net income by \$100.5 million. The excess of cash flows provided by operating activities over net income arose primarily from differences between book and cash taxes and other elements of the working capital deficit, as well as from typical non-cash depreciation and amortization expenses.

Investing Activities

Net cash used for investing activities totaled \$109.5 million in fiscal 2012, an increase of \$64.3 million as compared to fiscal 2011. This increase was primarily attributable to additional capital expenditures in connection with our retail initiative and capitalized software expenditures to support global systems initiatives, as well as the \$30.4 million paid in connection with our acquisitions of substantially all of the assets of our following franchisees: Slengora Limited, Weight Watchers of the Adirondacks, Inc. and Weight Watchers of the Mid-South, Inc. For fiscal 2011 as compared to fiscal 2010, the increase of \$16.6 million in cash used for investing activities was primarily attributable to increases in capital expenditures and capitalized software expenditures, primarily expenditures on information systems, website development and to a lesser extent, leasehold improvements and furniture and equipment for meeting locations.

*Financing Activities**Fiscal 2012*

Net cash used for financing activities totaled \$211.1 million in fiscal 2012 and included proceeds from new term loans under the WWI Credit Facility of \$1.45 billion and additional revolver borrowings of \$30.0 million which were used to finance stock repurchases of \$1.5 billion and deferred financing costs of \$26.2 million in

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connection with the Tender Offer and related Artal Holdings share repurchase. See **Stock Transactions** for a description of the Tender Offer and the related Artal Holdings share repurchase. In addition, we paid \$52.0 million of dividends to our shareholders and received \$12.7 million in proceeds from stock options exercised in fiscal 2012.

Fiscal 2011

Net cash used for financing activities totaled \$352.0 million in fiscal 2011 and consisted primarily of payments on the revolving credit facility of \$174.0 million and long-term debt repayments of \$139.3 million, as well as stock repurchases of \$34.9 million and dividend payments to our shareholders of \$51.6 million. Offsetting these payments were proceeds from stock options exercised of \$42.0 million in fiscal 2011.

Fiscal 2010

Net cash used for financing activities totaled \$256.8 million in fiscal 2010 and consisted primarily of stock repurchases of \$106.6 million and dividend payments of \$53.4 million, net debt payments of \$87.9 million and deferred financing costs of \$11.5 million.

Long-Term Debt

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

The following schedule sets forth our long-term debt obligations (and interest rates, exclusive of the impact of swaps) at December 29, 2012:

Long-Term Debt**At December 29, 2012****(Balances in millions)**

	Balance	Alternative Base Rate or LIBOR	Applicable Margin	Interest Rate
Revolver A-1 due June 30, 2014	\$ 6.4	0.250%	2.500%	2.750%
Revolver A-2 due March 15, 2017	23.6	0.250%	2.250%	2.500%
Term A-1 Loan due January 26, 2013	38.2	0.375%	1.250%	1.625%
Term B Loan due January 26, 2014	129.5	0.375%	1.500%	1.875%
Term C Loan due June 30, 2015	113.8	0.375%	2.250%	2.625%
Term D Loan due June 30, 2016	118.2	0.375%	2.250%	2.625%
Term E Loan due March 15, 2017	1,154.7	0.272%	2.250%	2.522%
Term F Loan due March 15, 2019	822.0	1.000%	3.000%	4.000%
Total Debt	2,406.4			
Less Current Portion	114.7			