

WEIGHT WATCHERS INTERNATIONAL INC

Form 10-Q

November 08, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2016

OR

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

For the transition period from to

Commission File Number: 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

The number of shares of common stock outstanding as of October 28, 2016 was 63,875,551.

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

	October 1, 2016	January 2, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 99,044	\$ 241,526
Receivables (net of allowances: October 1, 2016 - \$2,892 and January 2, 2016 - \$2,226)	25,867	29,281
Inventories	29,455	27,838
Prepaid income taxes	37,792	15,436
Prepaid expenses and other current assets	22,924	37,376
TOTAL CURRENT ASSETS	215,082	351,457
Property and equipment, net	51,771	58,186
Franchise rights acquired	751,300	747,326
Goodwill	167,638	159,331
Trademarks and other intangible assets, net	61,035	66,339
Other noncurrent assets	14,592	11,577
TOTAL ASSETS	\$ 1,261,418	\$ 1,394,216
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	\$ 21,000	\$ 213,323
Accounts payable	31,620	38,225
Salaries and wages payable	44,823	47,042
Accrued marketing and advertising	8,836	21,554
Accrued interest	20,040	20,739
Other accrued liabilities	58,692	56,477
Derivative payable	54,008	44,170
Deferred revenue	74,674	61,597
TOTAL CURRENT LIABILITIES	313,693	503,127

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Long-term debt	1,985,092	1,996,296
Deferred income taxes	168,117	156,625
Other	22,840	23,876
TOTAL LIABILITIES	2,489,742	2,679,924
Redeemable noncontrolling interest	4,801	4,450
TOTAL DEFICIT		
Common stock, \$0 par value; 1,000,000 shares authorized; 118,947 shares issued at October 1, 2016 and at January 2, 2016	0	0
Treasury stock, at cost, 55,080 shares at October 1, 2016 and 55,301 shares at January 2, 2016	(3,239,445)	(3,247,406)
Retained earnings	2,043,924	1,994,513
Accumulated other comprehensive loss	(37,604)	(37,265)
TOTAL DEFICIT	(1,233,125)	(1,290,158)
TOTAL LIABILITIES AND TOTAL DEFICIT	\$ 1,261,418	\$ 1,394,216

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

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

	Three Months Ended		Nine Months Ended	
	October	October	October	October
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	2016	2015	2016	2015
Service revenues, net	\$ 232,571	\$ 224,158	\$ 727,889	\$ 724,500
Product sales and other, net	48,248	49,166	169,601	180,681
Revenues, net	280,819	273,324	897,490	905,181
Cost of services	111,515	113,972	355,945	364,239
Cost of product sales and other	25,001	22,730	86,521	87,653
Cost of revenues	136,516	136,702	442,466	451,892
Gross profit	144,303	136,622	455,024	453,289
Marketing expenses	30,078	27,158	157,791	154,769
Selling, general and administrative expenses	47,433	46,356	143,152	146,788
Operating income	66,792	63,108	154,081	151,732
Interest expense	28,329	30,132	86,963	91,696
Other (income) expense, net	(146)	373	397	1,292
Early extinguishment of debt	0	50	0	(11,426)
Income before income taxes	38,609	32,553	66,721	70,170
Provision for income taxes	3,989	10,761	12,420	26,082
Net income	34,620	21,792	54,301	44,088
Net loss (income) attributable to the noncontrolling interest	38	(2)	99	146
Net income attributable to Weight Watchers International, Inc.	\$ 34,658	\$ 21,790	\$ 54,400	\$ 44,234
Earnings Per Share attributable to Weight Watchers International, Inc.				
Basic	\$ 0.54	\$ 0.38	\$ 0.85	\$ 0.78
Diluted	\$ 0.53	\$ 0.38	\$ 0.83	\$ 0.77

Weighted average common shares outstanding

Basic	63,782	57,107	63,690	57,000
Diluted	65,841	57,266	65,872	57,167

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

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

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Net income	\$ 34,620	\$ 21,792	\$ 54,301	\$ 44,088
Other comprehensive income (loss):				
Foreign currency translation (loss) gain	(1,496)	(8,737)	10,167	(22,725)
Income tax benefit (expense) on foreign currency translation (loss) gain	583	3,408	(3,935)	8,863
Foreign currency translation (loss) gain, net of taxes	(913)	(5,329)	6,232	(13,862)
Gain (loss) on derivatives	8,136	(15,544)	(9,984)	(16,637)
Income tax (expense) benefit on gain (loss) on derivatives	(3,173)	6,062	3,863	6,488
Gain (loss) on derivatives, net of taxes	4,963	(9,482)	(6,121)	(10,149)
Total other comprehensive gain (loss)	4,050	(14,811)	111	(24,011)
Comprehensive income	38,670	6,981	54,412	20,077
Less: Net loss (income) attributable to the noncontrolling interest	38	(2)	99	146
Less: Foreign currency translation loss (gain), net of taxes attributable to the noncontrolling interest	19	549	(450)	998
Comprehensive loss (income) attributable to the noncontrolling interest	57	547	(351)	1,144
Comprehensive income attributable to Weight Watchers International, Inc.	\$ 38,727	\$ 7,528	\$ 54,061	\$ 21,221

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

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

	Nine Months Ended	
	October 1, 2016	October 3, 2015
Operating activities:		
Net income	\$ 54,301	\$ 44,088
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	39,145	40,745
Amortization of deferred financing costs	4,631	5,224
Impairment of intangible and long-lived assets	91	2,302
Share-based compensation expense	4,366	7,567
Deferred tax provision	9,171	9,889
Allowance for doubtful accounts	43	(554)
Reserve for inventory obsolescence	3,823	7,005
Foreign currency exchange rate loss	222	1,234
Gain on early extinguishment of debt	0	(12,667)
Changes in cash due to:		
Receivables	2,546	3,132
Inventories	(4,830)	13,183
Prepaid expenses	(8,313)	(12,116)
Accounts payable	(7,209)	(14,933)
Accrued liabilities	(20,123)	(46,532)
Deferred revenue	12,199	8,069
Other long term assets and liabilities, net	2,726	(578)
Income taxes	1,128	(2,190)
Cash provided by operating activities	93,917	52,868
Investing activities:		
Capital expenditures	(4,556)	(3,569)
Capitalized software expenditures	(21,888)	(25,155)
Cash paid for acquisitions	(2,898)	(3,128)
Other items, net	(174)	(918)
Cash used for investing activities	(29,516)	(32,770)
Financing activities:		
(Payments) borrowings on revolver	(48,000)	48,000
Payments on long-term debt	(160,073)	(152,863)

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Tax benefit of restricted stock units vested and stock options exercised	964	0
Proceeds from stock options exercised	35	0
Payment of dividends	(11)	(21)
Cash used for financing activities	(207,085)	(104,884)
Effect of exchange rate changes on cash and cash equivalents	202	(4,166)
Net decrease in cash and cash equivalents	(142,482)	(88,952)
Cash and cash equivalents, beginning of period	241,526	301,212
Cash and cash equivalents, end of period	\$ 99,044	\$ 212,260

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

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

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of Weight Watchers International, Inc. and all of its subsidiaries. The terms "Company" and "WWI" as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements. The Company's meetings business refers to providing access to meetings to the Company's monthly commitment plan subscribers, pay-as-you-go members, Total Access subscribers and other meetings members. Online refers to Weight Watchers Online, Weight Watchers Online*Plus*, Personal Coaching and other digital subscription products.

As a result of the acquisition of an additional equity interest in Vigilantes do Peso Marketing Ltda. ("VPM") in March 2014, the Company gained a direct controlling financial interest in VPM and began to consolidate this entity as of the date of acquisition and as a result of the acquisition of Knowplicity, Inc., d/b/a Wello, in April 2014, Wello became a wholly owned subsidiary of the Company and the Company began to consolidate this entity as of the date of acquisition. As further discussed in Note 5, as a result of the acquisition of Weilos, Inc. ("Weilos"), in March 2015, Weilos became a wholly owned subsidiary of the Company and the Company began to consolidate this entity as of the date of acquisition. All intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and include amounts that are based on management's best estimates and judgments. While all available information has been considered, actual amounts could differ from those estimates. The Company's operating results for any interim period are not necessarily indicative of future or annual results. The consolidated financial statements are unaudited and, accordingly, they do not include all of the information necessary for a comprehensive presentation of results of operations, financial position and cash flow activity required by GAAP for complete financial statements but, in the opinion of management, reflect all adjustments including those of a normal recurring nature necessary for a fair statement of the interim results presented.

These statements should be read in conjunction with the Company's Annual Report on Form 10-K for fiscal 2015 filed on March 2, 2016, which includes additional information about the Company, its results of operations, its financial position and its cash flows.

Out-of-Period Adjustments:

In the second quarter of fiscal 2015, the Company identified and recorded out-of-period adjustments related to immaterial errors in prior period financial statements that impacted income before income taxes and net income attributable to the Company by \$1,650 and \$420, respectively.

In the third quarter of fiscal 2016, the Company identified and recorded out-of-period adjustments primarily to reverse a foreign tax receivable originally recorded in fiscal 2008 that should have been reversed in fiscal 2009. The impact of

these income tax errors, which increased income taxes and decreased net income attributable to the Company by \$2,684, was immaterial to prior period financial statements and thus corrected in the third quarter of fiscal 2016.

2. Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (the FASB) issued updated guidance regarding leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but will be updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new guidance for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new guidance must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The updated guidance is effective for the Company beginning in the first quarter of fiscal 2019. The Company is currently evaluating the effect that the updated guidance will have on the consolidated financial statements and related disclosures of the Company.

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In March 2016, the FASB issued updated guidance on revenue from contracts with customers, which is intended to clarify the implementation guidance on principal versus agent considerations. The amendments in this update do not change the core principle of the guidance, but are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. In April 2016, the FASB issued updated guidance on revenue from contracts with customers, which is intended to clarify guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. In May 2016, the FASB issued updated guidance on revenue from contracts with customers, which is intended to provide narrow scope guidance and practical expedients contained in the new revenue standard. The amendments in these updates are effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years, with early adoption not permitted. The Company is currently evaluating the effect that the updated guidance will have on the consolidated financial statements and related disclosures of the Company.

In March 2016, the FASB issued updated guidance on stock compensation which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the effect that the updated guidance will have on the consolidated financial statements and related disclosures of the Company.

In August 2016, the FASB issued updated guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. This guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the effect that the updated guidance will have on the consolidated financial statements and related disclosures of the Company.

For a discussion of the Company's significant accounting policies, see [Summary of Significant Accounting Policies](#) in the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for fiscal 2015 and Note 6 herein. For a discussion of accounting standards adopted in the current year, see Note 3.

3. Accounting Standards Adopted in Current Year

In April 2015, the FASB issued updated guidance to simplify the presentation of debt issuance costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued updated guidance which clarifies the treatment of debt issuance costs from line-of-credit arrangements. In particular, this guidance clarifies that the Securities and Exchange Commission Staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently

amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. As further reflected in Note 7, the Company adopted this guidance during the first quarter of fiscal 2016 on a retrospective basis to simplify the presentation of debt issuance costs during the first quarter of fiscal 2016. As shown in the table below, pursuant to the guidance and a change in accounting principle applied on a retrospective basis, the Company has reclassified unamortized debt issuance costs associated with Term Facilities (defined hereafter) in the Company's previously reported Consolidated Balance Sheet in the Company's Annual Report on Form 10-K for fiscal 2015.

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In November 2015, the FASB issued updated guidance on the classification of deferred tax assets. This accounting standard requires deferred tax assets and liabilities, along with related valuation allowances, to be classified as noncurrent on the balance sheet. As a result, each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company adopted this guidance during the first quarter of fiscal 2016 on a retrospective basis. As shown in the table below, pursuant to the guidance and a change in accounting principle applied on a retrospective basis, the Company has reclassified current deferred tax assets in the Company's previously reported Consolidated Balance Sheet in the Company's Annual Report on Form 10-K for fiscal 2015.

	January 2, 2016			
	As Filed	Deferred Financing	Deferred Tax Asset	As Adjusted
Deferred income taxes	\$ 7,516	\$ 0	\$ (7,516)	\$ 0
Total current assets	\$ 358,973	\$ 0	\$ (7,516)	\$ 351,457
Deferred financing costs, net	\$ 25,209	\$ (25,209)	\$ 0	\$ 0
Other noncurrent assets	\$ 6,720	\$ 255	\$ 4,602	\$ 11,577
Total assets	\$ 1,422,084	\$ (24,954)	\$ (2,914)	\$ 1,394,216
Long-term debt	\$ 2,021,250	\$ (24,954)	\$ 0	\$ 1,996,296
Deferred income taxes	\$ 159,539	\$ 0	\$ (2,914)	\$ 156,625
Total liabilities	\$ 2,707,792	\$ (24,954)	\$ (2,914)	\$ 2,679,924

4. Winfrey Transaction

On October 18, 2015 (the Agreement Date), the Company entered into the following agreements with Oprah Winfrey: the Strategic Collaboration Agreement, the Winfrey Purchase Agreement (defined below), and the Winfrey Option Agreement (defined below). The transactions contemplated by these agreements are collectively referred to herein as the Winfrey Transaction. Details of the Strategic Collaboration Agreement, Winfrey Purchase Agreement and Winfrey Option Agreement are below. See Note 17 for related party transactions with Ms. Winfrey.

Strategic Collaboration Agreement

The Company and Ms. Winfrey granted each other certain intellectual property rights under the Strategic Collaboration Agreement. The agreement has an initial term of five years, with additional successive one-year renewal terms. During the term of this agreement, Ms. Winfrey will consult with the Company and participate in developing,

planning, executing and enhancing the Weight Watchers program and related initiatives, and provide it with services in her discretion to promote the Company and its programs, products and services.

Winfrey Purchase Agreement

On October 19, 2015, pursuant to the Share Purchase Agreement between the Company and Ms. Winfrey (the Winfrey Purchase Agreement), the Company issued and sold to Ms. Winfrey an aggregate of 6,362 shares of the Company's common stock (the Purchased Shares) at a price per share of \$6.79 for an aggregate cash purchase price of \$43,199. The Company recorded fees related to the issuance of the Purchased Shares totaling \$2,315, of which \$1,700 was recorded as a reduction of equity in the fourth quarter of fiscal 2015. The Purchased Shares are subject to certain demand registration rights and piggyback rights held by Ms. Winfrey under the Winfrey Purchase Agreement.

The Purchased Shares may not be transferred by Ms. Winfrey within the first two years of the Agreement Date, subject to certain limited exceptions. Thereafter, Ms. Winfrey may generally transfer up to 15% of the Purchased Shares prior to the third anniversary of the Agreement Date, up to 30% prior to the fourth anniversary of the Agreement Date and up to 60% prior to the fifth anniversary of the Agreement Date. On or after the fifth anniversary of the Agreement Date, Ms. Winfrey will be permitted to transfer all of the Purchased Shares. In the event that Ms. Winfrey proposes to transfer any Purchased Shares or Winfrey Option Shares

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(defined below), the Company will have (a) a right of first offer with respect to such shares if such transfer is (i) for 1% or more of the Company's issued and outstanding common stock that is proposed to be made pursuant to Rule 144 under the Securities Act of 1933, as amended or (ii) proposed to be sold under a resale shelf registration statement or (b) a right of first refusal with respect to such shares if such transfer is (i) for 1% or more of the Company's issued and outstanding common stock and is proposed to be made to a competitor of the Company or (ii) for 5% or more of the Company's issued and outstanding common stock. Such transfer restrictions, right of first offer and right of first refusal terminate if Ms. Winfrey then has the right to be nominated as a director and has met certain eligibility requirements under the Winfrey Purchase Agreement, but is not elected as a director of the Company. If Ms. Winfrey is elected as a director of the Company, she shall receive compensation for her services as a director consistent with that of other non-executive directors of the Company. Such transfer restrictions also terminate if there is a change of control, including if another person (or group), other than Artal Luxembourg S.A. and Ms. Winfrey and their respective affiliates, acquires more than 50% of the total voting power of the Company.

Winfrey Option Agreement

In consideration of Ms. Winfrey entering into the Strategic Collaboration Agreement and the performance of her obligations thereunder, on the Agreement Date, the Company granted Ms. Winfrey a fully vested option (the "Winfrey Option") to purchase 3,513 shares of common stock at an exercise price of \$6.97 per share. The term sheet, and related terms and conditions, for the Winfrey Option are referred to herein as the "Winfrey Option Agreement". Based on the Black Scholes option pricing method, the Company recorded \$12,759 of compensation expense in the fourth quarter of fiscal 2015 for the Winfrey Option. At the date of the grant, the Company used a dividend yield of 0.0%, 63.88% volatility and a risk-free interest rate of 1.36%. Compensation expense is included as a component of selling, general and administrative expenses.

Subject to certain limited exceptions, shares of common stock issuable upon exercise of the Winfrey Option (the "Winfrey Option Shares") generally could not be transferred by Ms. Winfrey within the first year of the Agreement Date. Ms. Winfrey generally may transfer up to 20% of the Winfrey Option Shares prior to the second anniversary of the Agreement Date, up to 40% prior to the third anniversary of the Agreement Date, up to 60% prior to the fourth anniversary of the Agreement Date and up to 80% prior to the fifth anniversary of the Agreement Date. On or after the fifth anniversary of the Agreement Date, Ms. Winfrey will be permitted to transfer all of the Winfrey Option Shares. Pursuant to the Winfrey Purchase Agreement, in the event that Ms. Winfrey proposes to transfer any Winfrey Option Shares, the Company will have a right of first offer or a right of first refusal with respect to such shares as described above. Such transfer restrictions terminate under the same director service and change of control circumstances that would result in the termination of the transfer restrictions relating to the Purchased Shares as described above.

5. Acquisitions of Weilos and Miami Franchise

On March 11, 2015, the Company acquired for a purchase price of \$6,674 Weilos, a California-based startup with an online social platform that provides a mobile health and weight loss community. Payment was in the form of common stock issued (\$2,810), restricted stock issued (\$114) and cash (\$2,775) plus cash in reserves (\$975). The total purchase price of Weilos has been allocated to goodwill (\$5,588), identifiable intangibles (\$1,741) and other assets (\$24) offset by deferred tax liabilities (\$679). Restricted shares with a fair value at the date of grant (\$908) were issued to key employees, contingent upon 18 months post-combination employment, and are accounted for as stock compensation cost in the post-combination financial statements. As a result of the acquisition, Weilos became a wholly owned subsidiary of the Company and the Company began to consolidate the entity as of the date of acquisition. The acquisition resulted in goodwill related to, among other things, expected synergies in operations. The goodwill is not deductible for tax purposes.

On June 27, 2016, the Company acquired substantially all of the assets of its franchisee for certain territories in South Florida, Weight Watchers of Greater Miami, Inc., for a purchase price of \$3,250 (the Miami Acquisition). Payment was in the form of cash of (\$2,898) plus cash in reserves (\$300) and assumed net liabilities of (\$52). The total purchase price has been allocated to franchise rights acquired (\$114), goodwill (\$2,945) and customer relationship value (\$191). The acquisition of the franchisee has been accounted for under the purchase method of accounting and, accordingly, earnings of the acquired franchisee have been included in the consolidated operating results of the Company since the date of acquisition. The goodwill will be deductible for tax purposes.

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6. Franchise Rights Acquired, Goodwill and Other Intangible Assets

Franchise rights acquired are due to acquisitions of the Company's franchised territories as well as the acquisition of franchise promotion agreements and other factors associated with the acquired franchise territories. For the nine months ended October 1, 2016, the change in the carrying value of indefinite-lived franchise rights acquired is due to the Miami Acquisition as described in Note 5 and the effect of exchange rate changes.

Goodwill primarily relates to the acquisition of the Company by H.J. Heinz Company in 1978, the acquisition of WeightWatchers.com, Inc. in 2005, the acquisitions of the Company's franchised territories, the acquisitions of the majority interest in VPM and of Wello in fiscal 2014 and the acquisition of Weilos in fiscal 2015. See Note 5 for further information on certain acquisitions. For the nine months ended October 1, 2016, the change in the carrying amount of goodwill is due to the Miami Acquisition as described in Note 5 and the effect of exchange rate changes as follows:

	North America	United Kingdom	Continental Europe	Other	Total
Balance as of January 2, 2016	\$ 133,408	\$ 1,370	\$ 7,260	\$ 17,293	\$ 159,331
Goodwill acquired during the period	2,945	0	0	0	2,945
Effect of exchange rate changes	2,134	(167)	76	3,319	5,362
Balance as of October 1, 2016	\$ 138,487	\$ 1,203	\$ 7,336	\$ 20,612	\$ 167,638

The Company reviews goodwill and other indefinite-lived intangible assets, including franchise rights acquired with indefinite lives, for potential impairment on at least an annual basis or more often if events so require.

In the second quarter of fiscal 2016, the Company changed the timing to perform its annual impairment review of goodwill and other indefinite-lived intangible assets to the first day of fiscal May whereas it had previously performed the test as of the last day of the Company's fiscal year. This accounting change was preferable because it provides the Company time to obtain the data from the winter season results which includes the first fiscal quarter, which represents approximately 40% of the full year recruitments, and incorporate this data into the current and future year performance estimates. The Company believes the resulting change in accounting principle related to changing the annual impairment testing date did not delay, accelerate, or avoid an impairment charge.

In performing the impairment analysis for goodwill, the fair value for the Company's reporting units is estimated using a discounted cash flow approach. This approach involves projecting future cash flows attributable to the reporting unit and discounting those estimated cash flows using an appropriate discount rate. The estimated fair value is then compared to the carrying value of the reporting units. The Company has determined the appropriate reporting unit for

purposes of assessing annual impairment to be the country for all reporting units. For all of the Company's reporting units except for Brazil (see below), the Company estimated future cash flows by utilizing the historical debt-free cash flows (cash flows provided by operating activities less capital expenditures) attributable to that country and then applied expected future operating income growth rates for such country. The Company utilized operating income as the basis for measuring its potential growth because it believes it is the best indicator of the performance of its business. The Company then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company's peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data. The cost of debt was determined by estimating the Company's current borrowing rate.

As it relates to the impairment analysis for Brazil, the Company estimated future debt free cash flows in contemplation of its growth strategies for that market. In developing these projections, the Company considered the historical impact of similar growth strategies in other markets as well as the current market conditions in Brazil. The Company then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company's peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data including the current economic conditions in Brazil and the country specific risk thereon. A further risk premium was included to reflect the risk associated with the rate of growth projected in the analysis. The cost of debt was determined by estimating the Company's current borrowing rate.

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In performing the impairment analysis for indefinite-lived franchise rights acquired, the fair value for franchise rights acquired is estimated using a discounted cash flow approach referred to as the hypothetical start-up approach for franchise rights related to the Company's meetings business and a relief from royalty methodology for franchise rights related to the Company's Online business. The aggregate estimated fair value for these rights is then compared to the carrying value of the unit of account for those franchise rights. The Company has determined the appropriate unit of account for purposes of assessing impairment to be the combination of the rights in the meetings and Online businesses in the country in which the acquisitions have occurred. In its hypothetical start-up approach analysis for fiscal 2016, the Company assumed that the year of maturity was reached after 7 years. Subsequent to the year of maturity, the Company assumed cash flows for the Online business based on its expected Online revenue growth rates for such country. Subsequent to the year of maturity, the Company estimated future cash flows for the meetings business in each country based on assumptions regarding revenue growth and operating income margins. The Company then discounted the estimated future cash flows utilizing discount rates consistent with those used in its goodwill impairment analysis as discussed above.

In performing its annual impairment analysis as of May 8, 2016, the Company determined that the carrying amounts of its goodwill reporting units and franchise rights acquired with indefinite lives units of account did not exceed their respective fair values and therefore, no impairment existed. Except for Brazil, there was significant headroom in the impairment analysis. Based on the results of this test for Brazil, the fair value of this reporting unit exceeded its carrying value by approximately 10%, and accordingly a relatively small change in the underlying assumptions would likely cause a change in the results of the impairment assessment and, as such, could result in an impairment of the goodwill related to Brazil, for which the carrying amount is \$19,409.

The carrying values of finite-lived intangible assets as of October 1, 2016 and January 2, 2016 were as follows:

	October 1, 2016		January 2, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	\$ 126,751	98,386	\$ 119,658	\$ 86,134
Website development costs	113,805	82,249	100,105	68,673
Trademarks	11,082	10,596	10,960	10,435
Other	8,013	7,385	7,976	7,118
Trademarks and other intangible assets	\$ 259,651	\$ 198,616	\$ 238,699	\$ 172,360
Franchise rights acquired	4,548	4,548	4,182	4,059

Total finite-lived intangible assets	\$ 264,199	\$ 203,164	\$ 242,881	\$ 176,419
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Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$9,137 and \$26,161 for the three and nine months ended October 1, 2016, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of \$7,743 and \$26,771 for the three and nine months ended October 3, 2015, respectively. The franchise rights acquired related to the VPM acquisition were amortized ratably over a 2 year period. The franchise rights acquired related to the Miami Acquisition were amortized ratably over a 3 month period.

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

Remainder of fiscal 2016	\$ 8,952
Fiscal 2017	\$ 31,380
Fiscal 2018	\$ 15,194
Fiscal 2019	\$ 4,695
Fiscal 2020 and thereafter	\$ 814

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7. Long-Term Debt

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

	October 1, 2016			January 2, 2016		
	Principal Balance	Unamortized Deferred Financing Costs	Effective Rate (1)	Principal Balance	Unamortized Deferred Financing Costs	Effective Rate (1)
Revolving Facility due April 2, 2018	\$ 0	\$ 0	3.22%	\$ 48,000	\$ 0	3.25%
Tranche B-1 Term Facility due April 2, 2016	0	0	3.92%	144,323	177	3.87%
Tranche B-2 Term Facility due April 2, 2020	2,026,500	20,408	4.34%	2,042,250	24,777	4.40%
Total	2,026,500	\$ 20,408	4.31%	2,234,573	\$ 24,954	4.34%
Less: Current Portion	21,000			213,323		
Unamortized Deferred Financing Costs	20,408			24,954		
Total Long-Term Debt	\$ 1,985,092			\$ 1,996,296		

(1) Includes amortization of deferred financing costs.

Pursuant to the retrospective adoption of FASB guidance on debt issuance costs, the Company has reclassified unamortized debt issuance costs associated with Term Facilities (defined hereafter) in the Company's previously reported Consolidated Balance Sheet in the Company's Annual Report on Form 10-K for fiscal 2015.

The Company's credit facilities at the end of the first quarter of fiscal 2013 consisted of the following term loan facilities and revolving credit facilities: a tranche B loan (Term B Loan), a tranche C loan (Term C Loan), a tranche D loan (Term D Loan), a tranche E loan (Term E Loan), a tranche F loan (Term F Loan), revolving credit facility A-1 (Revolver A-1) and revolving credit facility A-2 (Revolver A-2).

On April 2, 2013, the Company refinanced its credit facilities pursuant to a new Credit Agreement (as amended, supplemented or otherwise modified, the Credit Agreement) among the Company, the lenders party thereto, JPMorgan

Chase Bank, N.A., as administrative agent and an issuing bank, The Bank of Nova Scotia, as revolving agent, swingline lender and an issuing bank, and the other parties thereto. The Credit Agreement provides for (a) a revolving credit facility (including swing line loans and letters of credit) in an initial aggregate principal amount of \$250,000 that will mature on April 2, 2018 (the Revolving Facility), (b) an initial term B-1 loan credit facility in an aggregate principal amount of \$300,000 that matured on April 2, 2016 (the Tranche B-1 Term Facility) and (c) an initial term B-2 loan credit facility in an aggregate principal amount of \$2,100,000 that will mature on April 2, 2020 (the Tranche B-2 Term Facility), and together with the Tranche B-1 Term Facility, the Term Facilities ; the Term Facilities and Revolving Facility collectively, the WWI Credit Facility). In connection with this refinancing, the Company used the proceeds from borrowings under the Term Facilities to pay off a total of \$2,399,904 of outstanding loans, consisting of \$128,759 of Term B Loans, \$110,602 of Term C Loans, \$117,612 of Term D Loans, \$1,125,044 of Term E Loans, \$817,887 of Term F Loans, \$21,247 of loans under the Revolver A-1 and \$78,753 of loans under the Revolver A-2. Following the refinancing of a total of \$2,399,904 of loans, at April 2, 2013, the Company had \$2,400,000 debt outstanding under the Term Facilities and \$248,848 of availability under the Revolving Facility. The Company incurred fees of \$44,817 during the second quarter of fiscal 2013 in connection with this refinancing. In the second quarter of fiscal 2013, the Company wrote-off fees associated with this refinancing which resulted in the Company recording a charge of \$21,685 in early extinguishment of debt.

On September 26, 2014, the Company and certain lenders entered into an agreement amending the Credit Agreement that, among other things, eliminated the Financial Covenant (as defined in the Credit Agreement) with respect to the Revolving Facility. In connection with this amendment, the Company wrote-off deferred financing fees of approximately \$1,583 in the third quarter of fiscal 2014. Concurrently with and in order to effect this amendment, the Company reduced the amount of the Revolving Facility from \$250,000 to \$50,000.

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Under the terms of the Credit Agreement, depending on the Company's Consolidated Leverage Ratio (as defined in the Credit Agreement), the Company is obligated to offer to prepay the Term Facilities in an aggregate amount determined by its excess cash flow (as defined in the Credit Agreement). On March 13, 2015, the Company commenced an offer to prepay at a discount to par up to \$75,000 in aggregate principal amount of term loans outstanding under the Tranche B-1 Term Facility. On March 20, 2015, the Company accepted offers with a discount equal to or greater than 9.00% in respect of such term loans. On March 25, 2015, the Company paid an aggregate amount of cash proceeds totaling \$57,389 plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay \$63,065 in aggregate principal amount of such term loans under the Tranche B-1 Term Facility. This expenditure reduced, on a dollar for dollar basis, the Company's \$59,728 obligation to make a mandatory excess cash flow prepayment offer to the term loan lenders under the terms of the Credit Agreement. In addition, the Company made a voluntary prepayment at par on March 25, 2015 of \$2,500 in respect of such term loans under the Tranche B-1 Term Facility to reduce the remaining excess cash flow prepayment obligation for fiscal 2014. As a result of this prepayment, the Company wrote-off fees of \$326, incurred fees of \$601 and recorded a gain on early extinguishment of debt of \$4,749, inclusive of these fees, in the first quarter of fiscal 2015.

On June 17, 2015, the Company commenced another offer to prepay at a discount to par up to \$229,000 in aggregate principal amount of term loans outstanding under the Tranche B-1 Term Facility. On June 22, 2015, the Company accepted offers with a discount equal to or greater than 9.00% in respect of such term loans. On June 26, 2015, the Company paid an aggregate amount of cash proceeds totaling \$77,225 plus an amount sufficient to pay accrued and unpaid interest on the amount prepaid to prepay \$84,862 in aggregate principal amount of such term loans under the Tranche B-1 Term Facility. As a result of this prepayment, the Company wrote-off fees of \$321, incurred fees of \$641 and recorded a gain on early extinguishment of debt of \$6,677, inclusive of these fees, in the second quarter of fiscal 2015.

On July 14, 2015, the Company drew down the \$48,000 available on its Revolving Facility in order to enhance its cash position and to provide additional financial flexibility. As of January 2, 2016, the revolver borrowing has been classified as a short-term liability in consideration of the fact that the terms of the Revolving Facility require an assessment as to whether there have been any material adverse changes with respect to the Company in connection with the Company's monthly interest elections. Although the revolver borrowing has been classified as a short-term liability as of January 2, 2016, absent any change in fact and circumstance, the Company has the ability to extend and not repay the Revolving Facility until its due date of April 2, 2018.

On April 1, 2016, the Company paid in full, with cash on hand, a principal amount of loans equal to \$144,323, which constituted the entire remaining principal amount of loans outstanding under the Tranche B-1 Term Facility due April 2, 2016.

On July 29, 2016, the Company paid down, with cash on hand, a principal amount of \$25,000 of the \$48,000 outstanding under its Revolving Facility. On September 16, 2016, the Company paid down, with cash on hand, the

remaining outstanding principal amount of \$23,000 on its Revolving Facility. At October 1, 2016, the Revolving Facility had \$0 outstanding, \$1,819 in issued but undrawn letters of credit outstanding thereunder and \$48,181 in available unused commitments thereunder. The proceeds from borrowings under the Revolving Facility (including swing line loans and letters of credit) are available to be used for working capital and general corporate purposes.

At October 1, 2016, under the WWI Credit Facility, the Company had \$2,026,500 outstanding consisting entirely of a term loan under the Tranche B-2 Term Facility.

Borrowings under the Credit Agreement bear interest at a rate equal to, at the Company's option, LIBOR plus an applicable margin or a base rate plus an applicable margin. LIBOR under the Tranche B-2 Term Facility is subject to a minimum interest rate of 0.75% and the base rate under the Tranche B-2 Term Facility is subject to a minimum interest rate of 1.75%. Under the terms of the Credit Agreement, in the event the Company receives a corporate rating of BB- (or lower) from S&P and a corporate rating of Ba3 (or lower) from Moody's, the applicable margin relating to both of the Term Facilities would increase by 25 basis points. On February 21, 2014, both S&P and Moody's issued revised corporate ratings of the Company of B+ and B1, respectively. As a result, effective February 21, 2014, the applicable margin on borrowings under the Tranche B-1 Term Facility went from 2.75% to 3.00% and on borrowings under the Tranche B-2 Term Facility went from 3.00% to 3.25%. The applicable margin relating to the Revolving Facility will fluctuate depending upon the Company's Consolidated Leverage Ratio. At April 1, 2016, the date of payment of the principal amount of loans outstanding under the Tranche B-1 Term Facility discussed above, borrowings under the Tranche B-1 Term Facility bore interest at LIBOR plus an applicable margin of 3.00%. At October 1, 2016, borrowings under the Tranche B-2 Term Facility bore interest at LIBOR plus an applicable margin of 3.25%. Based on the Company's Consolidated Leverage Ratio as of

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October 1, 2016, had there been any borrowings under the Revolving Facility, it would have borne interest at LIBOR plus an applicable margin of 2.50%. On a quarterly basis, the Company will pay a commitment fee to the lenders under the Revolving Facility in respect of unutilized commitments thereunder, which commitment fee will fluctuate depending upon the Company's Consolidated Leverage Ratio. Based on the Company's Consolidated Leverage Ratio as of October 1, 2016 and January 2, 2016, the commitment fee was 0.50% per annum. For the nine months ended October 1, 2016, the Company paid a de minimis amount in commitment fees. For the fiscal year ended January 2, 2016, the Company paid \$186 in commitment fees. The Company also will pay customary letter of credit fees and fronting fees under the Revolving Facility, which totaled \$12 and \$36 for the three and nine months ended October 1, 2016, respectively, and \$48 for the fiscal year ended January 2, 2016.

The Credit Agreement contains customary covenants including covenants that, in certain circumstances, restrict the Company's ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell its assets and enter into consolidations, mergers and transfers of all or substantially all of its assets. The WWI Credit Facility does not require the Company to meet any financial maintenance covenants and is guaranteed by certain of the Company's existing and future subsidiaries. Substantially all of the Company's assets secure the WWI Credit Facility.

At October 1, 2016 and January 2, 2016, the Company's debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with the Company's variable-rate borrowings. The weighted average interest rate (which includes amortization of deferred financing costs) on the Company's debt, exclusive of the impact of swaps, was approximately 4.34% per annum based on interest rates at October 1, 2016 and January 2, 2016. The weighted average interest rate (which includes amortization of deferred financing costs) on the Company's debt, including the impact of swaps, was approximately 5.31% and 5.45% per annum based on interest rates at October 1, 2016 and January 2, 2016, respectively.

8. Earnings Per Share Data

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

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

	Three Months Ended	Nine Months Ended
	October 1, October 3,	October 1, October 3,

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	2016	2015	2016	2015
Numerator:				
Net income attributable to				
Weight Watchers International, Inc.	\$ 34,658	\$ 21,790	\$ 54,400	\$ 44,234
Denominator:				
Weighted average shares of common stock				
outstanding	63,782	57,107	63,690	57,000
Effect of dilutive common stock equivalents	2,059	159	2,182	167
Weighted average diluted common shares				
outstanding	65,841	57,266	65,872	57,167
Earnings per share attributable to Weight Watchers International, Inc.				
Basic	\$ 0.54	\$ 0.38	\$ 0.85	\$ 0.78
Diluted	\$ 0.53	\$ 0.38	\$ 0.83	\$ 0.77

The number of anti-dilutive common stock equivalents excluded from the calculation of the weighted average number of common shares for diluted EPS was 1,921 and 2,470 for the three months ended October 1, 2016 and October 3, 2015, respectively, and 1,448 and 2,045 for the nine months ended October 1, 2016 and October 3, 2015, respectively.

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9. Stock Plans

On May 6, 2008 and May 12, 2004, respectively, the Company's shareholders approved the 2008 Stock Incentive Plan (the 2008 Plan) and the 2004 Stock Incentive Plan (the 2004 Plan). On May 6, 2014, the Company's shareholders approved the 2014 Stock Incentive Plan (as amended, the 2014 Plan) and together with the 2004 Plan and the 2008 Plan, the Stock Plans), which replaced the 2008 Plan and 2004 Plan for all equity-based awards granted on or after May 6, 2014. The 2014 Plan is designed to promote the long-term financial interests and growth of the Company by attracting, motivating and retaining employees with the ability to contribute to the success of the business and to align compensation for the Company's employees over a multi-year period directly with the interests of the shareholders of the Company. The Company's Board of Directors or a committee thereof administers the 2014 Plan.

Pursuant to the option components of the Stock Plans, the Company's Board of Directors authorized the Company to enter into agreements under which certain employees received stock options with (i) time-vesting criteria and/or (ii) both time- and performance-vesting criteria (T&P Options). On May 7, 2015, the Company's shareholders approved an amendment to the 2014 Plan to permit a one-time stock option exchange program under which the Company would offer eligible employees the opportunity to exchange certain eligible T&P Options on a (a) two-for-one basis for new stock options for all eligible employees, other than the Company's Chief Executive Officer (i.e., so that the new stock options would cover half as many shares as the corresponding surrendered options) and (b) 3.5-for-one basis for new stock options for the Company's Chief Executive Officer (i.e., so that the new stock options would cover a number of shares equal to the quotient of the number of shares covered by the corresponding surrendered options divided by 3.5). The option exchange program was designed to create better incentives for employees to remain with the Company and contribute to the attainment of its business and financial objectives.

On May 22, 2015, the Company launched a tender offer in connection with the option exchange program which expired on June 22, 2015. Pursuant to the offer, employees tendered options to purchase 1,700 shares of common stock (representing 99.6% of the total shares of common stock underlying the options eligible for exchange) with a weighted-average exercise price of \$24.68 per share. The Company cancelled and replaced those options on June 22, 2015 with options to purchase 734 shares of common stock with an exercise price of \$5.25 per share, which was the closing price per share of the Company's common stock on the New York Stock Exchange on June 22, 2015. The replacement options vest over three years, with 25% vesting on each of the first and second anniversaries of the date of grant and 50% vesting on the third anniversary of the date of grant. The option exchange resulted in an incremental stock option expense of \$1,599, which was determined by comparing the fair value of the T&P Option as calculated based on a Monte Carlo simulation, to the fair value of the replacement options, as calculated using the Black-Scholes option pricing model, for the eligible options at the time of exchange. This incremental expense, along with the unamortized expense associated with the cancelled options, is being recognized ratably over the new vesting period of the replacement options, which is three years. As of the end of fiscal 2015, there were no outstanding T&P Options.

The Company's long-term equity incentive compensation program has historically taken the form of a mix of non-qualified stock option and restricted stock unit awards. These awards have generally had time-vesting criteria. In

fiscal 2016, the Compensation and Benefits Committee of the Company's Board of Directors determined to grant 290 performance-based stock unit awards having both time- and performance-vesting criteria (PSUs). The time-vesting criteria will be satisfied, if at all, on the third anniversary of the grant date (May 16, 2019). If the time-vesting criteria are satisfied, in accordance with the performance-vesting criteria, the PSUs will vest if the Company has achieved a Debt to EBITDAS ratio (the Debt Ratio) as measured at the end of fiscal 2018 at levels at or above a Threshold level performance of 4.5x. The number of PSUs that become vested, if any, shall be equal to (x) the number of PSUs granted multiplied by (y) the applicable achievement percentage. If all of the awards fully meet the time-vesting criteria, depending on the Company's Debt Ratio achievement, the number of shares of the Company's common stock issuable under the PSUs range from 96 to 478. The PSUs have a fair value of \$3,825 or a weighted average fair value of \$13.19 per unit. The Company is currently accruing compensation expense to what it believes is the probable outcome upon vesting.

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10. Income Taxes

The effective tax rates for the three months ended October 1, 2016 and October 3, 2015 were 10.3% and 33.1%, respectively. The primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were due to net tax benefits arising from a research and development tax credit and a Section 199 deduction primarily related to prior periods, partially offset by income tax expenses recorded for out-of-period adjustments. See Note 1 for additional information on these adjustments.

The effective tax rates for the nine months ended October 1, 2016 and October 3, 2015 were 18.6% and 37.2%, respectively. The primary differences between the US federal statutory tax rate and the Company's consolidated effective tax rate were due to net tax benefits arising from a research and development tax credit and a Section 199 deduction primarily related to prior periods and the reversal of a valuation allowance related to tax benefits for foreign losses that are now expected to be realized. These benefits were partially offset by income tax expenses recorded for out-of-period adjustments. See Note 1 for additional information on these adjustments.

The differences between the US federal statutory tax rate and the Company's consolidated effective tax rate are as follows:

	Three Months		Nine Months Ended	
	Ended			October 3,
	October 1,	October 3,	October 1,	October 3,
	2016	2015	2016	2015
US federal statutory rate	35.0%	35.0%	35.0%	35.0%
Research and development credit	-39.6%	0.0%	-24.0%	0.0%
Reserves for uncertain tax positions	7.4%	-1.1%	5.2%	0.2%
Out-of-period adjustments	7.0%	0.0%	4.0%	0.0%
Reversal to valuation allowance	0.0%	0.0%	-3.8%	0.0%
Other	0.5%	-0.8%	2.2%	2.0%
Effective tax rate	10.3%	33.1%	18.6%	37.2%

11. Legal

Tracey Mead, Derivatively on Behalf of Weight Watchers International, Inc. vs. Artal Group et. al. and Weight Watchers International, Inc.

On May 29, 2014 and June 23, 2014, the Company received shareholder litigation demand letters alleging breaches of fiduciary duties and unjust enrichment by Company officers and directors and Artal Group S.A. (Artal), to the alleged injury of the Company. The letters alleged defendants disseminated materially false and misleading statements and/or concealed material adverse facts, all relating to similar allegations asserted in a previously disclosed federal securities litigation pending at such time. The United States District Court for the Southern District of New York subsequently dismissed the securities litigation on May 11, 2016.

In response to the letters, pursuant to Virginia law, the Board of Directors created a special committee to review and evaluate the facts and circumstances surrounding the claims made in the demand letters. The special committee decided to undertake its review after receiving a decision on defendants' motion to dismiss in the federal securities litigation given the overlapping issues.

On August 11, 2015, a purported shareholder derivative lawsuit was filed in New York State Court in Westchester County. The complaint alleged that certain Company directors and executive officers breached their various fiduciary duties by knowingly causing the Company to repurchase shares from Artal and from certain executive officers at artificially inflated prices in connection with a tender offer made to all shareholders. The complaint sought an order for the defendants to disgorge all profits made from selling Company stock between March 16, 2012 and April 9, 2012, as well as an award for damages sustained by the alleged breaches of fiduciary duty. In light of the dismissal of the securities litigation, the parties have reached an agreement in principle to resolve this matter.

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Raymond Roberts v. Weight Watchers International, Inc.

On January 7, 2016, an OnlinePlus member filed a putative class action complaint against the Company in the Supreme Court of New York, New York County, asserting class claims for breach of contract and violations of the New York General Business Law. On February 5, 2016, the Company removed the case to the United States District Court, Sothern District of New York. On March 18, 2016, the plaintiff filed an amended complaint, alleging that, as a result of the temporary glitches in the Company's website and app in November and December 2015, the Company has: (1) breached its Subscription Agreement with its OnlinePlus members; and (2) engaged in deceptive acts and practices in violation of Section 350 of the New York General Business Law. The plaintiff is seeking unspecified actual, punitive and statutory damages, as well as his attorneys' fees and costs incurred in connection with this action. The Company filed a motion to dismiss on May 6, 2016. The plaintiff filed his opposition papers on June 9, 2016 and the Company filed its reply papers on June 23, 2016. The Company believes that the suit is without merit and intends to defend it vigorously.

Other Litigation Matters

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

12. Derivative Instruments and Hedging

As of October 1, 2016 and January 2, 2016, the Company had in effect an interest rate swap with a notional amount totaling \$1,500,000.

On July 26, 2013, in order to hedge a portion of its variable rate debt, the Company entered into a forward-starting interest rate swap with an effective date of March 31, 2014 and a termination date of April 2, 2020. The initial notional amount of this swap was \$1,500,000. During the term of this swap, the notional amount will decrease from \$1,500,000 effective March 31, 2014 to \$1,250,000 on April 3, 2017 with a further reduction to \$1,000,000 on April 1, 2019. This interest rate swap effectively fixes the variable interest rate on the notional amount of this swap at 2.38%. This swap qualifies for hedge accounting and, therefore, changes in the fair value of this swap have been recorded in accumulated other comprehensive loss.

As of October 1, 2016 and January 2, 2016, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive loss in the amounts of \$29,256 (\$48,037 before taxes) and \$23,135 (\$38,053 before taxes), respectively.

The Company is hedging forecasted transactions for periods not exceeding the next four years. The Company expects approximately \$9,528 (\$15,620 before taxes) of derivative losses included in accumulated other comprehensive loss at October 1, 2016, based on current market rates, will be reclassified into earnings within the next 12 months.

13. Fair Value Measurements

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

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

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

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

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(IN THOUSANDS, EXCEPT PER SHARE AND PER UNIT AMOUNTS)

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

Fair Value of Financial Instruments

The Company's significant financial instruments include long-term debt and an interest rate swap agreement as of October 1, 2016 and January 2, 2016. The fair value of the Company's borrowings under the Revolving Facility approximated a carrying value of \$48,000 at January 2, 2016 due to the nature of the debt (Level 2 input).

The fair value of the Company's Term Facilities is determined by utilizing average bid prices on or near the end of each fiscal quarter (Level 2 input). As of October 1, 2016 and January 2, 2016, the fair value of the Company's long-term debt was approximately \$1,528,040 and \$1,664,393, respectively, as compared to the carrying value (net of deferring financing costs) of \$2,006,092 and \$2,161,619, respectively.

Derivative Financial Instruments

The fair values for the Company's derivative financial instruments are determined using observable current market information such as the prevailing LIBOR interest rate and LIBOR yield curve rates and include consideration of counterparty credit risk. See Note 12 for disclosures related to derivative financial instruments.

The following table presents the aggregate fair value of the Company's derivative financial instruments:

	Fair Value Measurements Using:			
	Total for Identical Assets	Quoted Prices in Active Markets	Significant Observable Inputs	Other Significant Unobservable Inputs
	Fair Value	(Level 1)	(Level 2)	(Level 3)
Interest rate swap liability at October 1, 2016	\$ 54,008	\$ 0	\$ 54,008	\$ 0
Interest rate swap liability at January 2, 2016	\$ 44,170	\$ 0	\$ 44,170	\$ 0

The Company did not have any transfers into or out of Levels 1 and 2, and did not maintain any assets or liabilities classified as Level 3, during the nine months ended October 1, 2016 and the fiscal year ended January 2, 2016.

14. Accumulated Other Comprehensive Loss

With respect to the disclosure of the amounts reclassified from accumulated other comprehensive loss for the three and nine months ended October 3, 2015, the Company has revised the amounts previously disclosed to correct those amounts by increasing the amount reclassified related to the Loss on Qualifying Hedges from \$(68) to \$6,185 and \$(41) to \$3,773 on a pre- and after-tax basis, respectively, for the three months ended October 3, 2015, and from \$476 to \$18,555 and \$290 to \$11,319 on a pre- and after-tax basis, respectively, for the nine months ended October 3, 2015.

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Amounts reclassified out of accumulated other comprehensive loss are as follows:

Changes in Accumulated Other Comprehensive Loss by Component ^(a)

	Nine Months Ended October 1, 2016		
	Loss on Qualifying Hedges	Loss on Foreign Currency Translation	Total
Beginning Balance at January 2, 2016	\$(23,135)	\$ (14,130)	\$ (37,265)
Other comprehensive (loss) income before reclassifications, net of tax	(17,440)	6,232	(11,208)
Amounts reclassified from accumulated other comprehensive loss, net of tax ^(b)	11,319	0	11,319
Net current period other comprehensive loss including noncontrolling interest	(6,121)	6,232	111
Less: net current period other comprehensive income attributable to the noncontrolling interest	0	(450)	(450)
Ending Balance at October 1, 2016	\$(29,256)	\$ (8,348)	\$ (37,604)

(a) Amounts in parentheses indicate debits

(b) See separate table below for details about these reclassifications

	Nine Months Ended October 3, 2015		
	Loss on Qualifying Hedges	Loss on Foreign Currency	Total

		Translation	
Beginning Balance at January 3, 2015	\$(21,856)	\$ 1,906	\$(19,950)
Other comprehensive loss before reclassifications, net of tax	(21,468)	(13,862)	(35,330)
Amounts reclassified from accumulated other comprehensive loss, net of tax ^(b)	11,319	0	11,319
Net current period other comprehensive loss including noncontrolling interest	(10,149)	(13,862)	(24,011)
Less: net current period other comprehensive loss attributable to the noncontrolling interest	0	998	998
Ending Balance at October 3, 2015	\$(32,005)	\$ (10,958)	\$(42,963)

- (a) Amounts in parentheses indicate debits
- (b) See separate table below for details about these reclassifications

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Reclassifications out of Accumulated Other Comprehensive Loss ^(a)

Details about Other Comprehensive Loss Components	Three Months Ended		Nine Months Ended		Affected Line Item in the Statement Where Net Income is Presented
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015	
Amounts Reclassified from Accumulated Other Comprehensive Loss					
Amounts Reclassified from Accumulated Other Comprehensive Loss	Amounts Reclassified from Accumulated Other Comprehensive Loss				Statement Where Net Income is Presented
Loss on Qualifying Hedges					
Interest rate contracts	\$ (6,185)	\$ (6,185)	\$ (18,555)	\$ (18,555)	Interest expense
	(6,185)	(6,185)	(18,555)	(18,555)	Income before income taxes
	2,412	2,412	7,236	7,236	Provision for income taxes
	\$ (3,773)	\$ (3,773)	\$ (11,319)	\$ (11,319)	Net income

(a) Amounts in parentheses indicate debits to profit/loss

15. Segment Data

The Company has four reportable segments based on an integrated geographical structure as follows: North America, United Kingdom, Continental Europe (CE) and Other. Other consists of Asia Pacific and emerging markets operations and franchise revenues and related costs, all of which have been grouped together as if they were a single reportable segment because they do not meet any of the quantitative thresholds and are immaterial for separate disclosure. To be consistent with the information that is presented to the chief operating decision maker, the Company does not include intercompany activity in the segment results.

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

	Total Revenue			
	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
North America	\$ 192,899	\$ 179,069	\$ 613,287	\$ 585,397
United Kingdom	23,480	29,777	80,093	96,932
Continental Europe	50,675	51,961	163,429	180,910
Other	13,765	12,517	40,681	41,942
Total revenue	\$ 280,819	\$ 273,324	\$ 897,490	\$ 905,181

	Net Income			
	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
Segment operating income:				
North America	\$ 50,614	\$ 44,666	\$ 133,113	\$ 113,686
United Kingdom	4,864	8,402	10,780	22,851
Continental Europe	18,872	19,427	39,602	52,066
Other	2,998	2,790	6,111	6,970
Total segment operating income	77,348	75,285	189,606	195,573
General corporate expenses	10,556	12,177	35,525	43,841
Interest expense	28,329	30,132	86,963	91,696
Other (income) expense, net	(146)	373	397	1,292
Early extinguishment of debt	0	50	0	(11,426)
Provision for taxes	3,989	10,761	12,420	26,082
Net income	34,620	21,792	54,301	44,088
Net loss (income) attributable to noncontrolling interest	38	(2)	99	146
Net income attributable to Weight Watchers International, Inc.	\$ 34,658	\$ 21,790	\$ 54,400	\$ 44,234

	Depreciation and Amortization			
	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	October 1, 2016	October 3, 2015
North America	\$ 9,917	\$ 11,901	\$ 31,694	\$ 35,242
United Kingdom	229	209	746	591
Continental Europe	397	467	1,281	1,428
Other	181	403	650	1,147
Total segment depreciation and amortization	10,724	12,980	34,371	38,408
General corporate depreciation and amortization	4,128	1,135	9,405	7,561
Depreciation and amortization	\$ 14,852	\$ 14,115	\$ 43,776	\$ 45,969

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16. Restructuring Charges

As previously disclosed, the Company established a new cost savings initiative and, as part of this cost savings initiative, in fiscal 2015, the Company undertook a plan of reduction in force which resulted in the elimination of certain positions and termination of employment for certain employees worldwide. In connection with this plan, the Company recorded restructuring charges in connection with employee termination benefit costs of \$1,081 (\$660 after tax) during the three months ended October 3, 2015 and \$7,074 (\$4,315 after tax) during the nine months ended October 3, 2015. For the three months ended October 3, 2015, these charges impacted cost of revenues by \$(46) and selling, general and administrative expense by \$1,127. For the nine months ended October 3, 2015, these charges impacted cost of revenues by \$1,652 and selling, general and administrative expense by \$5,422. For the three and nine months ended October 3, 2015, all restructuring charges were recorded to general corporate expense and therefore there was no impact to the segments.

As of January 2, 2016, the balance of the liability for restructuring was \$1,809. For the nine months ended October 1, 2016, the Company made payments of \$1,639 and lowered provision estimates by \$140. The Company expects the remaining liability of \$30 as of October 1, 2016 to be paid in fiscal 2016.

17. Related Party

As more fully described in Note 4, on October 18, 2015, the Company entered into the Strategic Collaboration Agreement with Ms. Winfrey, under which she will consult with the Company and participate in developing, planning, executing and enhancing the Weight Watchers program and related initiatives, and provide it with services in her discretion to promote the Company and its programs, products and services.

In addition to the Strategic Collaboration Agreement, Ms. Winfrey and her related entities provided services to the Company totaling \$368 and \$2,054 during the three and nine months ending October 1, 2016, respectively, which services included advertising, production and related fees.

The Company's accounts payable to parties related to Ms. Winfrey at October 1, 2016 and January 2, 2016 was \$368 and \$574, respectively.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

our ability to continue to develop new, innovative 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, or our ability to successfully expand into new channels of distribution or respond to consumer trends;

the ability to successfully implement new strategic initiatives;

the effectiveness of our advertising and marketing programs, including the strength of our social media presence;

the impact on the Weight Watchers brand of actions taken by our franchisees, licensees, suppliers and other partners;

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

the inability to refinance our debt obligations on favorable terms or at all;

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

the impact of security breaches or privacy concerns;

the recognition of asset impairment charges;

the loss of key personnel, strategic partners, or consultants or failure to effectively manage and motivate our workforce;

our chief executive officer transition, and our ability to appoint a new chief executive officer with the required level of experience and expertise in a timely manner;

the inability to renew certain of our licenses, or the inability to do so on terms that are favorable to us;

the expiration or early termination by us of leases;

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

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

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

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;

the outcomes of litigation or regulatory actions;

the impact of existing and future laws and regulations;

our failure to maintain effective internal control over financial reporting;

the possibility that the interests of Artal Group S.A., or Artal Group, which together with its parents and its subsidiaries is referred to in this Quarterly Report on Form 10-Q as Artal, who effectively controls us, will conflict with other holders of our common stock; and

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

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

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

Weight Watchers International, Inc. is a Virginia corporation with its principal executive offices in New York, New York. In this Quarterly Report on Form 10-Q unless the context indicates otherwise: we, us, our, the Company and WWI refer to Weight Watchers International, Inc. and all of its operations consolidated for purposes of its financial statements; North America refers to our North American Company-owned operations; United Kingdom refers to our United Kingdom Company-owned operations; Continental Europe refers to our Continental Europe Company-owned operations; and Other refers to Asia Pacific and emerging markets operations and franchise revenues and related costs. Each of North America, United Kingdom, Continental Europe and Other is also a reportable segment. Our meetings business refers to providing access to meetings to our monthly commitment plan subscribers, pay-as-you-go members, Total Access subscribers and other meetings members. Online refers to Weight Watchers Online, Weight Watchers Online*Plus*, Personal Coaching and other digital subscription products.

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

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

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

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

fiscal 2014 refers to our fiscal year ended January 3, 2015 (included a 53rd week);

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

fiscal 2016 refers to our fiscal year ended December 31, 2016;

fiscal 2017 refers to our fiscal year ended December 30, 2017;

fiscal 2018 refers to our fiscal year ended December 29, 2018;

fiscal 2019 refers to our fiscal year ended December 28, 2019; and

fiscal 2020 refers to our fiscal year ended January 2, 2021.

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

You should read the following discussion in conjunction with our Annual Report on Form 10-K for fiscal 2015 that includes additional information about us, our results of operations, our financial position and our cash flows, and with our unaudited consolidated financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q (collectively referred to as the Consolidated Financial Statements).

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 financial measures of operating results that exclude or adjust certain items. Gross profit and gross profit margin, operating income and operating income margin, total cost of revenues, and selling, general and administrative expenses, including components thereof, are discussed in this Quarterly Report on Form 10-Q both as reported (on a GAAP basis) and, with respect to the third quarter and first nine months of fiscal 2015, as adjusted (on a non-GAAP basis), to exclude the impact of charges associated with our previously disclosed 2015 plan to restructure our organization. Earnings before interest, taxes, depreciation, amortization and stock-based compensation (EBITDAS) is also presented within this Quarterly Report on Form 10-Q. See [Liquidity and Capital Resources](#) for the calculation. We generally refer to such non-GAAP measures as excluding or adjusting for the impact of the expenses associated with the restructuring charges. Our management believes these non-GAAP financial measures and EBITDAS provide useful 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.

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USE OF CONSTANT CURRENCY

As exchange rates are an important factor in understanding period-to-period comparisons, we believe in certain cases the presentation of results on a constant currency basis in addition to reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Quarterly Report on Form 10-Q, we calculate constant currency by calculating current-year results using prior-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant currency basis as excluding or adjusting for the impact of foreign currency or being on a constant currency basis. 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

Goodwill and Franchise Rights Acquired Annual Impairment Test

Finite-lived intangible assets are amortized using the straight-line method over their estimated useful lives of 3 to 20 years or, in the case of amortizable franchise rights acquired, over the remaining contractual period, which is generally less than one year.

In the second quarter of fiscal 2016, we changed the timing to perform our annual impairment review of goodwill and other indefinite-lived intangible assets to the first day of fiscal May whereas we had previously performed the test as of the last day of our fiscal year. This accounting change was preferable because it provides us time to obtain the data from the winter season results which includes the first fiscal quarter, which represents approximately 40% of the full year recruitments, and incorporate this data into the current and future year performance estimates. We believe the resulting change in accounting principle related to changing the annual impairment testing date did not delay, accelerate, or avoid an impairment charge.

We review goodwill and other indefinite-lived intangible assets, including franchise rights acquired with indefinite lives, for potential impairment on at least an annual basis or more often if events so require. In performing our goodwill impairment analysis for our reporting units for fiscal 2016 and fiscal 2015, no impairment was identified as the fair value of those units exceeded their carrying value. In performing the impairment analysis for franchise rights acquired with indefinite lives for fiscal 2016 and fiscal 2015, we determined that the carrying amounts did not exceed their respective fair values and therefore, no impairment existed.

Although there was significant headroom in our annual impairment analysis (except for Brazil as discussed below), a change in the underlying assumptions would cause a change in the results of the impairment assessments and, as such, could result in an impairment of those assets, 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 our annual impairment analysis, we also considered the trading value of both our equity and debt. We continue to believe that these trading values do not reflect the anticipated positive impact of our transformation plan. For additional information on our transformation plan, see "Transformation Plan". However, if our transformation plan does not meet our expectations, or the trading values of both our equity and debt were to significantly decline from their current levels, we may have to take an impairment charge at the appropriate time, which could be material. For

additional information on risks associated with our recognizing asset impairment charges, see Item 1A. Risk Factors in our Annual Report on Form 10-K for fiscal 2015.

The following is a more detailed discussion of our goodwill and franchise rights acquired impairment analysis.

Goodwill

In performing the impairment analysis for goodwill, the fair value for our reporting units is estimated using a discounted cash flow approach. This approach involves projecting future cash flows attributable to the reporting unit and discounting those estimated cash flows using an appropriate discount rate. The estimated fair value is then compared to the carrying value of the reporting unit. We have determined the appropriate reporting unit for purposes of assessing annual impairment to be the country for all reporting units. The values of goodwill in the United States, Canada, Brazil and other countries at October 1, 2016 were \$97.8 million, \$40.7 million, \$19.1 million and \$10.0 million, respectively.

Based on the results of our annual impairment test performed as of the first day of fiscal May (May 8, 2016), we estimated that for reporting units that hold approximately 89.1% of our goodwill, those units had a fair value at least 50% higher than the respective reporting unit's carrying amount. In Brazil, which holds 10.9% of the Company's goodwill, the fair value of this reporting unit exceeded its carrying value by approximately 10%.

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For all of the Company's reporting units except for Brazil (see below), we estimated future cash flows by utilizing the historical debt-free cash flows (cash flows provided by operating activities less capital expenditures) attributable to that country and then applied expected future operating income growth rates for such country. We utilized operating income as the basis for measuring our potential growth because we believe it is the best indicator of the performance of our business. We then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company's peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data. The cost of debt was determined by estimating the Company's current borrowing rate.

The following are the more significant assumptions utilized in our annual impairment analysis for fiscal 2016:

	July 2, 2016
Debt-Free Cumulative Annual Cash Flow Growth Rate	3.1% to 4.9%
Discount Rate	9.4%

As it relates to our impairment analysis for Brazil, we estimated future debt free cash flows in contemplation of our growth strategies for that market. In developing these projections, we considered the historical impact of similar growth strategies in other markets as well as the current market conditions in Brazil. We then discounted the estimated future cash flows utilizing a discount rate which was calculated using the average cost of capital, which included the cost of equity and the cost of debt. The cost of equity was determined by combining a risk-free rate of return and a market risk premium for the Company's peer group. The risk-free rate of return was determined based on the average rate of long-term U.S. Treasury securities. The market risk premium was determined by reviewing external market data including the current economic conditions in Brazil and the country specific risk thereon. A further risk premium was included to reflect the risk associated with the rate of growth projected in the analysis. The cost of debt was determined by estimating the Company's current borrowing rate. In our fiscal 2016 annual impairment analysis for Brazil, we assumed a cumulative annual growth rate for our revenues of approximately 19.0%, an average operating income margin of approximately 20.0% with a range from -6.9% to 31.0% and a discount rate of 16.8%.

Franchise Rights Acquired

In performing the impairment analysis for our indefinite-lived franchise rights acquired, the fair value for our franchise rights acquired is estimated using a discounted cash flow approach referred to as the hypothetical start-up approach for our franchise rights related to our meetings business and a relief from royalty methodology for our franchise rights related to our Online business. The aggregate estimated fair value for these rights is then compared to the carrying value of the unit of account for those franchise rights. We have determined the appropriate unit of account for purposes of assessing impairment to be the combination of the rights in the meetings and Online businesses in the country in which the acquisitions have occurred. The values of these franchise rights in the United States, Canada, United Kingdom, Australia, and New Zealand at October 1, 2016 were \$675.5 million, \$51.3 million, \$12.4 million, \$6.9 million, and \$5.2 million, respectively.

Based on the results of our fiscal 2016 annual impairment analysis, we estimated that approximately 99.4% of our franchise rights acquired had a fair value at least 40% higher than their carrying amount.

In our hypothetical start-up approach analysis for fiscal 2016, we assumed that the year of maturity was reached after 7 years. Subsequent to the year of maturity, we assumed debt-free cash flow growth rates based on our expected future operating income growth rates for such country. Subsequent to the year of maturity, we estimated future cash flows for the meetings business in each country based on assumptions regarding revenue growth and operating income margins. We then discounted the estimated future cash flows utilizing discount rates consistent with those used in our goodwill impairment analysis as discussed above.

In performing this analysis for fiscal 2016, for the year of maturity we assumed revenue growth of 15.1% to 63.9%, versus meeting revenues (comprised of Meeting Fees and revenues from products sold to members in meetings) earned in the applicable country for fiscal 2015, and assumed cumulative annual revenue growth rates for the years beyond the year of maturity of 1.9%. For the year of maturity and beyond, we assumed operating income margin rates of 6.6% to 22.7%.

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Other Critical Accounting Policies

For a discussion of the other critical accounting policies affecting us, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of our Annual Report on Form 10-K for fiscal 2015. Subject to the foregoing, our critical accounting policies have not changed since the end of fiscal 2015.

PERFORMANCE INDICATORS

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:

Revenues Our Service Revenues consist of Meeting Fees and Online Subscription Revenues. Meeting Fees consist of the fees associated with our monthly commitment plans for unlimited access to meetings and other payment arrangements for access to meetings, including our pay-as-you-go payment arrangement and fees associated with our Total Access product. Online Subscription Revenues consist of the fees associated with subscriptions for our Online subscription products, including our Personal Coaching product.

Paid Weeks The Paid Weeks metric reports paid weeks by Weight Watchers customers in Company-owned operations for a given period as follows: (i) Meeting Paid Weeks is the sum of total paid commitment plan weeks (including Total Access) and total pay-as-you-go weeks; (ii) Online Paid Weeks is the total paid subscription weeks for our digital subscription products (including Personal Coaching); and (iii) Total Paid Weeks is the sum of Meeting Paid Weeks and Online Paid Weeks, in each case for a given period.

Incoming Subscribers Subscribers refer to meetings members and Online subscribers who participate in recurring billing programs, such as our monthly commitment plans for our meetings business. The Incoming Subscribers metric reports Weight Watchers subscribers in Company-owned operations at a given period start as follows: (i) Incoming Meeting Subscribers is the total Weight Watchers monthly commitment plan subscribers (including Total Access); (ii) Incoming Online Subscribers is the total number of Weight Watchers Online, Weight Watchers Online*Plus* and Personal Coaching subscribers; and (iii) Incoming Subscribers is the sum of Incoming Meeting Subscribers and Incoming Online Subscribers, in each case at a given period start.

End of Period Subscribers The End of Period Subscribers metric reports Weight Watchers subscribers in Company-owned operations at a given period end as follows: (i) End of Period Meeting Subscribers is the total Weight Watchers monthly commitment plan subscribers (including Total Access); (ii) End of Period Online Subscribers is the total number of Weight Watchers Online, Weight Watchers Online*Plus* and Personal Coaching subscribers; and (iii) End of Period Subscribers is the sum of End of Period Meeting Subscribers and End of Period Online Subscribers, in each case at a given period end.

recruitments

attendance

Meeting Fees per Paid Week and in-meeting product sales per attendee

gross profit and operating expenses as a percentage of revenue

TRANSFORMATION PLAN

As previously disclosed, the Company is currently executing a multi-year transformation plan. The four strategic areas of focus of this transformation plan are as follows: improving near-term performance, including strong cost management; repositioning our brand and improving our service and product offerings; targeting new channel growth in healthcare; and building organizational capabilities. As part of our focus on strong cost management, we are committed to maintaining stringent expense disciplines. We successfully reduced our gross annualized expenses by \$250 million as of the end of fiscal 2015 versus our fiscal 2012 cost base, with \$150 million coming out of marketing and the balance split between cost of sales and general and administrative expenses. See Note 16 of our consolidated financial statements, contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, for additional details on our cost-savings initiative. The December 2015 launch of our comprehensive program innovation, Beyond the Scale, is a key component of our strategy to reposition our brand and improve our service and product offerings. This innovation expands our purpose from weight loss alone to more broadly helping people lead healthier, more active, happier lives. Management is confident this new, holistic consumer program, together with our groundbreaking partnership with Ms. Winfrey, will continue to accelerate the successful repositioning of our brand. As part of our partnership, and in furtherance of this repositioning of our brand, Ms. Winfrey was featured in our 2016 winter season television advertising in certain key markets and we plan to prominently feature Ms. Winfrey in our winter season 2017 campaign. She will also continue to be a member and may, from time to time, continue to candidly share

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her experiences and perspectives along the way of her weight loss journey as she has done by her participation in our Connect social media platform and her sharing her experiences in mega conference calls with members. The successful launch of the Beyond the Scale program has resulted in four consecutive quarters of recruitment growth. End of Period Subscribers in each quarter of fiscal 2016 grew versus the prior year period, demonstrating our transformation progress. End of Period Subscribers were up 10.1% in the third quarter of fiscal 2016 as compared to the prior year period. A key component of the organizational capabilities upgrade is our technology transformation, which included the replacement of legacy technology systems and architecture to enable us to deliver product and program enhancements in a more agile, cost-effective manner. For additional details on our investments to date related to this technology transformation, see [Liquidity and Capital Resources Investing Activities](#) . As we execute this transformation plan, management, from time to time, reviews the resulting revenues and associated costs to refine the plan in order to ensure resources are allocated efficiently and optimized. As management determines how resources should be reallocated, they refine the transformation plan accordingly. For example, our investment strategy in the healthcare channel and related technology has evolved to focus on proving our internal capabilities to deliver against healthcare market needs. Management continues to believe that the Company has sufficient liquidity to execute the transformation plan and does not believe the Company is constrained by its capital structure. See [Liquidity and Capital Resources](#) .

ANTICIPATED BUSINESS METRICS, TRENDS AND OTHER EVENTS

We expect that our fiscal 2016 revenues will be approximately \$1.17 billion, driven by higher recruitments and stable retention. Given the nature of our subscription-based payment model, revenue growth typically lags recruitment growth. Our revenue forecast includes an anticipated \$15.0 million negative impact of foreign currency on fiscal 2016 revenues based on current rates.

Table of Contents**RESULTS OF OPERATIONS****THREE MONTHS ENDED OCTOBER 1, 2016 COMPARED TO THE THREE MONTHS ENDED OCTOBER 3, 2015**

The table below sets forth selected financial information for the third quarter of fiscal 2016 from our consolidated statements of net income for the three months ended October 1, 2016 versus selected financial information for the third quarter of fiscal 2015 from our consolidated statements of net income for the three months ended October 3, 2015:

Summary of Selected Financial Data

	(In millions, except per share amounts) For the Three Months Ended				
	October 1, 2016	October 3, 2015	Increase/ (Decrease)	% Change	% Change Constant Currency
Revenues, net	\$ 280.8	\$ 273.3	\$ 7.5	2.7%	4.0%
Cost of revenues	136.5	136.7	(0.2)	(0.1%)	1.2%
Gross profit	144.3	136.6	7.7	5.6%	6.8%
<i>Gross Margin %</i>	<i>51.4%</i>	<i>50.0%</i>			
Marketing expenses	30.1	27.2	2.9	10.8%	12.9%
Selling, general & administrative expenses	47.4	46.4	1.1	2.3%	3.3%
Operating income	66.8	63.1	3.7	5.8%	6.7%
<i>Operating Income Margin %</i>	<i>23.8%</i>	<i>23.1%</i>			
Interest expense	28.3	30.1	(1.8)	(6.0%)	(6.0%)
Other (income) expense, net	(0.1)	0.4	(0.5)	(100.0%)	(100.0%)
Early extinguishment of debt	0.0	0.1	(0.1)	(100.0%)	(100.0%)
Income before income taxes	38.6	32.6	6.0	18.6%	20.2%
Provision for income taxes	4.0	10.8	(6.8)	(62.9%)	(62.4%)
Net income	34.6	21.8	12.8	58.9%	61.1%
Net loss (income) attributable to the noncontrolling interest	0.0	(0.0)	0.0	(100.0%)	(100.0%)
Net income attributable to Weight Watchers International, Inc.	\$ 34.7	\$ 21.8	12.9	59.1%	61.2%
Weighted average diluted shares outstanding	65.8	57.3	8.6	15.0%	15.0%

Diluted earnings per share	\$ 0.53	\$ 0.38	0.15	38.3%	40.2%
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Note: Totals may not sum due to rounding.

Certain results for the third quarter of fiscal 2015 are adjusted to exclude the impact of the \$1.1 million of restructuring charges associated with our previously disclosed 2015 restructuring plan. See **Non-GAAP Financial Measures** above. The table below sets forth a reconciliation of certain of those components of our selected financial data for the three months ended October 3, 2015 which have been adjusted.

(in millions except percentages)	Gross Profit	Gross Profit Margin	Operating Income	Operating Income Margin
Third quarter of fiscal 2015	\$ 136.6	50.0%	\$ 63.1	23.1%
Adjustments to Reported Amounts ⁽¹⁾				
Restructuring charges	(0.0)		1.1	
Third quarter of fiscal 2015, as adjusted ⁽¹⁾	\$ 136.6	50.0%	\$ 64.2	23.5%

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 the third quarter of fiscal 2015 to exclude the impact of the \$1.1 million of restructuring charges associated with our previously disclosed 2015 restructuring plan. See **Non-GAAP Financial Measures** above for an explanation of our use of non-GAAP financial measures.

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

Revenues in the third quarter of fiscal 2016 increased \$7.5 million, or 2.7%, versus the third quarter of fiscal 2015. Excluding the impact of foreign currency, which negatively impacted our revenues for the third quarter of fiscal 2016 by \$3.4 million, revenues in the third quarter of fiscal 2016 would have increased 4.0% versus the prior year period. This increase was driven primarily by revenue growth in North America which was offset by revenue declines in the United Kingdom and Continental Europe. See **Segment Results** for additional details on revenues.

Cost of Revenues and Gross Profit

Total cost of revenues in the third quarter of fiscal 2016 declined \$0.2 million, or 0.1%, versus the prior year period. Gross profit increased \$7.7 million, or 5.6%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. Excluding the impact of foreign currency, which negatively impacted our gross profit for the third quarter of fiscal 2016 by \$1.6 million, gross profit in the third quarter of fiscal 2016 would have increased 6.8% versus the prior year period. Gross margin expansion was driven primarily by expansion in North America, partially offset by declines in both Continental Europe and the United Kingdom. The expansion in North America gross margin was driven primarily by operating efficiencies and lower costs to support 24/7 Expert Chat in the United States as well as improved meetings leverage from higher volumes in North America. Globally, gross margin was negatively impacted by promotional activity as well as the lower contribution from the high margin licensing business.

Marketing

Marketing expenses for the third quarter of fiscal 2016 increased \$2.9 million, or 10.8%, versus the third quarter of fiscal 2015. Excluding the impact of foreign currency, which decreased marketing expenses for the third quarter of fiscal 2016 by \$0.6 million, marketing expenses in the third quarter of fiscal 2016 would have increased 12.9% versus the prior year period. The increase in marketing expense was driven primarily by Fall TV advertising in the United Kingdom, as well as higher production and national promotion costs in the United States. Marketing expenses as a percentage of revenue were 10.7% in the third quarter of fiscal 2016 as compared to 9.9% in the prior year period.

Selling, General and Administrative

Selling, general and administrative expenses for the third quarter of fiscal 2016 increased \$1.1 million, or 2.3%, versus the third quarter of fiscal 2015. Excluding the impact of foreign currency, which decreased selling, general and administrative expenses for the third quarter of fiscal 2016 by \$0.4 million, selling, general and administrative expenses in the third quarter of fiscal 2016 would have increased 3.3% versus the prior year period. Excluding the impact of the 2015 restructuring charges, which increased selling, general and administrative expenses by \$1.1 million in the third quarter of fiscal 2015, selling, general and administrative expenses for the third quarter of fiscal 2016 would have increased by \$2.2 million, or 4.9% (5.9% on a constant currency basis), versus the prior year period. The increase in adjusted selling, general and administrative expenses in the third quarter of fiscal 2016 was driven primarily by higher technology and professional fee expenses. Selling, general and administrative expenses as a percentage of revenue for the third quarter of fiscal 2016 decreased to 16.9% from 17.0% for the third quarter of fiscal 2015. Excluding the impact of the 2015 restructuring charges, selling, general and administrative expenses as a percentage of revenue for the third quarter of fiscal 2016 would have increased to 16.9% from 16.5% for the third quarter of fiscal 2015.

Operating Income

Operating income for the third quarter of fiscal 2016 increased \$3.7 million, or 5.8%, versus the third quarter of fiscal 2015. Excluding the impact of foreign currency, which negatively impacted operating income for the third quarter of fiscal 2016 by \$0.5 million, operating income in the third quarter of fiscal 2016 would have increased 6.7% versus the prior year period. This increase in operating income was driven primarily by North America which was partially offset by declines in the United Kingdom and Continental Europe. Operating income margin increased 0.7% in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. Excluding the impact of the 2015 restructuring charges, operating income margin in the third quarter of fiscal 2016 would have increased to 23.8%, or 23.7% on a constant currency basis, from 23.5% in the third quarter of fiscal 2015. This increase in operating income margin was driven primarily by the increase in gross margin expansion in the third quarter of fiscal 2016 partially offset by an increase in marketing as a percentage of revenue as well as selling, general and administrative expenses as a percentage of revenue as compared to the prior year period.

Table of Contents*Interest Expense*

Interest expense in the third quarter of fiscal 2016 decreased \$1.8 million, or 6.0%, versus the third quarter of fiscal 2015. The decrease in interest expense was driven primarily by the decrease in our average debt outstanding, which decreased to \$2.0 billion in the third quarter of fiscal 2016 from \$2.2 billion in the third quarter of fiscal 2015. This decrease was primarily due to the payment in full on April 1, 2016 of the principal amount of loans outstanding under the Tranche B-1 Term Facility (defined hereafter). The effective interest rate on our debt, based on interest incurred (which includes amortization of our deferred financing costs) and our average borrowings during the third quarter of fiscal 2016 and the third quarter of fiscal 2015 and excluding the impact of our interest rate swap, was 4.33% per annum at the end of the third quarter of fiscal 2016 compared to 4.28% at the end of the third quarter of fiscal 2015. Including the impact of our interest rate swap, our effective interest rate on our debt, based on interest incurred (which includes amortization of our deferred financing costs) and our average borrowings during the third quarter of fiscal 2016 and the third quarter of fiscal 2015, increased to 5.53% per annum at the end of the third quarter of fiscal 2016 from 5.39% per annum at the end of the third quarter of fiscal 2015. See [Liquidity and Capital Resources Long-Term Debt](#) for additional details regarding interest rates on our debt outstanding and payments on our debt. For additional details on our interest rate swap see [Item 3. Quantitative and Qualitative Disclosures about Market Risk](#) in Part I of this Quarterly Report on Form 10-Q.

Other (Income) Expense, Net

Other (income) expense, net, which consists primarily of the impact of foreign currency on intercompany transactions, increased by \$0.5 million in the third quarter of fiscal 2016 as compared to the third quarter of fiscal 2015.

Tax

Our effective tax rate for the third quarter of fiscal 2016 was 10.3% as compared to 33.1% for the third quarter of fiscal 2015. This decrease was primarily due to an \$11.4 million net tax benefit due to a research and development credit and a Section 199 deduction for the tax years 2012 through 2015, partially offset by \$2.7 million of out-of-period adjustments in income taxes in the third quarter of fiscal 2016.

Net Income Attributable to the Company and Earnings Per Share

Net income attributable to the Company in the third quarter of fiscal 2016 reflected a \$12.9 million, or 59.1%, increase over the third quarter of fiscal 2015. Excluding the impact of foreign currency, which negatively impacted net income attributable to the Company in the third quarter of fiscal 2016 by \$0.5 million, net income attributable to the Company in the third quarter of fiscal 2016 would have increased by 61.2% versus the prior year period. Net income attributable to the Company in the third quarter of fiscal 2016 included an \$11.4 million net tax benefit due to a research and development credit and a Section 199 deduction for the tax years 2012 through 2015, partially offset by out-of-period tax adjustments of \$2.7 million. Net income attributable to the Company in the third quarter of fiscal 2015 was impacted by \$0.7 million of restructuring charges associated with our previously disclosed 2015 restructuring plan that affect year-over-year comparability. This increase in net income attributable to the Company was driven primarily by lower tax expense and an increase in operating income, as well as the decline in interest expense, in the third quarter of fiscal 2016 versus the prior year period.

Earnings per fully diluted share, or EPS, in the third quarter of fiscal 2016 was \$0.53 compared to \$0.38 in the third quarter of fiscal 2015. Third quarter fiscal 2016 EPS included a \$0.13 net benefit driven by a lower tax rate of 10.3% for the third quarter of fiscal 2016 as compared to 33.1% for the prior year period. This benefit is primarily comprised of a \$0.17 net tax benefit in connection with a research and development credit and a Section 199 deduction for the

tax years 2012 through 2015, partially offset by a \$0.04 tax expense for out-of-period tax adjustments. The higher share count in the third quarter of fiscal 2016, which was driven primarily by the Winfrey Transaction, diluted EPS by \$0.08 in the third quarter of fiscal 2016. For the third quarter of fiscal 2015, EPS included a \$0.01 charge in connection with the impact of the 2015 restructuring charges.

Table of Contents**Segment Results***Metrics and Business Trends*

The following tables set forth key metrics by reportable segment for the third quarter of fiscal 2016 and the percentage change in those metrics versus the prior year period:

(in millions except percentages and as noted)

	GAAP			Q3 2016 Constant Currency			Total Paid Weeks	Incoming Subscribers (in thousands)	EOP Subscribers
	Service Revenues	Product Sales & Other	Total Revenues	Service Revenues	Product Sales & Other	Total Revenues			
North America	\$ 165.5	\$ 27.4	\$ 192.9	\$ 165.5	\$ 27.3	\$ 192.8	24.8	1,919.6	1,846.6
UK	17.3	6.2	23.5	20.4	7.3	27.7	4.0	300.1	301.1
CE	40.6	10.1	50.7	40.5	10.1	50.6	8.0	642.1	611.3
Other ⁽¹⁾	9.2	4.6	13.8	8.6	4.5	13.1	1.2	75.1	74.5
Total	\$ 232.6	\$ 48.2	\$ 280.8	\$ 235.0	\$ 49.2	\$ 284.2	38.0	2,937.0	2,833.6

% Change Q3 2016 vs. Q3 2015

North America	8.0%	6.3%	7.7%	7.9%	6.2%	7.7%	10.4%	8.6%	14.5%
UK	-19.5%	-25.5%	&nbs						