WEIGHT WATCHERS INTERNATIONAL INC
Form 10-K
March 03, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 2, 2010.

or

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

For the transition period from to .

Commission file number 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

11 Madison Avenue, 17th Floor, New York, New York 10010

(Address of principal executive offices) (Zip code)

Registrant s telephone number, including area code:

(212) 589-2700

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

Title of each class	Name of each exchange on which registered
Common Stock, no par value	**New York Stock Exchange**
Preferred Stock Purchase Rights	**New York Stock Exchange**

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

None

(Title of class)

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

Yes x No ¨

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

Yes ¨ No x

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

Yes x No ¨

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

Yes ¨ No ¨

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

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

Large accelerated filer x Accelerated filer ¨

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

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

Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates as of July 2, 2009 (based upon the average bid and asked price of $25.30 per share of common stock as of July 2, 2009, the last business day of the registrant s second fiscal quarter of 2009, as quoted on the New York Stock Exchange) was $851,488,704. For purposes of this computation, it is assumed that shares of common stock held by our directors, officers and our controlling shareholders would be deemed stock held by affiliates.

The number of shares outstanding of common stock as of January 31, 2010 was 77,047,012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2010 annual meeting of shareholders scheduled to be held on May 11, 2010 are incorporated herein by reference in Part III, Items 10-14. Such Proxy Statement will be filed with the SEC no later than 120 days after the

registrant s fiscal year ended January 2, 2010.

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Weight Watchers International, Inc.

Annual Report on Form 10-K

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BASIS OF PRESENTATION

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

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

fiscal 2001 refers to our fiscal year ended December 29, 2001;

fiscal 2002 refers to our fiscal year ended December 28, 2002;

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

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

fiscal 2005 refers to our fiscal year ended December 31, 2005;

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

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

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

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

The following terms used in this Annual Report on Form 10-K are our trademarks: *Weight Watchers*®, *WeightWatchers.com*®, ***POINTS***®, Discover Plan®, Momentum and ***ProPoints***®.

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PART I

Item 1. Business

Overview

We are a leading, global-branded consumer company and the world s leading provider of weight management services, operating globally through a network of Company-owned and franchise operations. With over four decades of weight management experience, expertise and know-how, we have established Weight Watchers as one of the most recognized and trusted brand names among weight-conscious consumers. In 2009, consumers spent over $4 billion on Weight Watchers branded products and services, including meetings conducted by us and our franchisees, products sold at meetings, Internet subscription products sold by WeightWatchers.com, licensed products sold in retail channels and magazine subscriptions and other publications.

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

In the more than 45 years since our founding, we have built our meetings business by helping millions of people around the world lose weight through sensible and sustainable food plans, exercise, behavior modification and group support. Each week, approximately 1.3 million members attend almost 50,000 Weight Watchers meetings around the world, which are run by more than 15,000 leaders each of whom has lost weight on our program. We are constantly improving our scientifically-based weight management approaches, and we are one of only a few commercial weight management programs whose efficacy has been clinically proven. Our strong brand, together with the effectiveness of our plans, loyal customer base and unparalleled network and infrastructure, enable us to attract new and returning members efficiently. Our customer acquisition costs are relatively low due to both word of mouth referrals and our efficient mass marketing programs.

Through WeightWatchers.com, we offer Internet subscription weight management products to consumers and maintain an interactive presence on the Internet for the Weight Watchers brand. We believe WeightWatchers.com is the global leading provider of weight management Internet subscription products. Currently, we provide two Internet subscription offerings: Weight Watchers Online and Weight Watchers eTools. Weight Watchers Online provides interactive and personalized resources that allow users to follow our weight management plans via the Internet. Weight Watchers eTools is the Internet weight management companion for Weight Watchers meetings members who want to interactively manage the day-to-day aspects of their weight management plans on the Internet. We currently offer these two products in nine countries, including the United States, the United Kingdom, Germany and Australia.

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

The Global Weight Management Market

We participate in the global weight management market. According to Marketdata Enterprises, the weight management industry had revenue of approximately $59 billion in 2008 in the United States alone. The number of overweight and obese people has steadily increased around the world over the past 20 years and was estimated at approximately 1.6 billion in 2005, primarily driven by improving living standards and changing eating

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patterns, along with increasingly sedentary lifestyles. Between 2007 and 2008, 68% of Americans over the age of 19 were considered overweight and almost half of these were obese. Numerous diseases, including heart disease, high blood pressure and Type II diabetes, are associated with being overweight or obese. We believe the growing population of overweight people who are motivated by both an increasing awareness of the health benefits of weight loss and the desire to improve their appearance is fueling the growth in demand for weight management programs. This growth and awareness is also a result of an increasing willingness of employers and governments to promote and contribute towards the cost of weight management programs.

Our Services and Products

Our Weight Management Plans

In each of our markets, we offer services and products that are built upon weight management plans tailored to local tastes and habits. These weight management plans, including Momentum, Discover Plan and ***ProPoints***, are comprised of a range of nutritional, exercise and behavioral tools and approaches. At the end of 2008, we began offering the Momentum program in the United States and Canada and the Discover Plan in the United Kingdom and, in 2009, we launched the ***ProPoints*** program in several of our markets in Continental Europe. Momentum, the Discover Plan and ***ProPoints*** are innovative, new plans developed from a combination of the latest scientific research and insights of customers who have succeeded on prior Weight Watchers plans. For example, the Momentum program is based on the ***POINTS*** Weight Loss System, where each food has a ***POINTS*** value determined by a patented formula based on the food s calories, fat and dietary fiber. Subject to certain nutritional guidelines, consumers following the Momentum program can eat any food as long as their total food consumption stays within their ***POINTS*** budget for the week. Since nutritious foods generally have low ***POINTS*** values, this approach guides consumers toward healthier eating habits. Under the Momentum program, consumers are taught different techniques shown to help them in their weight loss efforts, such as being encouraged to choose specified Filling Foods as part of their daily ***POINTS*** Target to keep hunger at bay. These Filling Foods are scientifically proven to help keep people feeling fuller longer because they are low in calories, but contain more water, air or fiber per serving, relative to the food s weight.

Our Meetings

Clinical studies have shown that consumers who attend Weight Watchers meetings are likely to lose more weight than those who diet on their own. Our group support system remains the cornerstone of our meetings. Members provide each other support by sharing their experiences and by providing encouragement and empathy with other people experiencing similar weight management challenges. This group support provides the reassurance that no one must overcome their weight management challenge alone. Group support assists members in dealing with issues such as emotional eating and finding time to exercise. We facilitate this support through interactive meetings that encourage learning through group activities and discussions.

We present our program in a series of weekly meetings of approximately one hour in duration. Meetings are conveniently scheduled throughout the day. Typically, we hold meetings in either meeting rooms rented from civic or other community organizations or in leased locations.

In our meetings, our leaders present our program that combines group support and education with a structured approach to food, activity and lifestyle modification developed by credentialed weight management experts. Our more than 16,000 leaders run our meetings and educate members on the Weight Watchers method of successful and sustained weight management. Our leaders also provide inspiration and motivation for our members and are examples of our program s effectiveness because they have lost weight and maintained their weight loss on our program.

Meetings typically begin with registration and a confidential weigh-in to track each member s progress. Leaders and receptionists are trained to engage the members at the weigh-in to talk about their weight management efforts during the previous week and to provide encouragement and advice. Part of the meeting is

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educational, where the leader uses personal anecdotes, games or open questions to demonstrate some of our core weight management strategies, such as self-belief and self-discipline. For the remainder of the meeting, the leader focuses on a variety of topics pre-selected by us, such as seasonal weight management topics, achievements people have made in the prior week and celebrating and applauding individual successes. Discussions can range from dealing with a holiday office party to making time to exercise. The leader encourages substantial participation and discusses supporting products and materials as appropriate. At the end of the meeting, new members are given special instruction in our current weight management plans.

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

Our traditional payment structure in our meetings business is a pay-as-you-go arrangement. A new member pays an initial registration fee and then a weekly fee for each meeting attended, although free registration is offered as a promotion during certain times of the year. We also offer prepayment plans consisting of pre-paid meeting vouchers and coupons.

In fiscal 2006, we introduced the Monthly Pass commitment plan, or Monthly Pass, in NACO. We subsequently introduced Monthly Pass in five additional markets, including the United Kingdom, Germany and Australia. Monthly Pass is offered at an approximate 20% discount to the typical pay-as-you-go weekly fee. Under the terms of Monthly Pass, a fee is charged automatically to the member s credit card on a monthly basis until the member elects to cancel. Monthly Pass is available for purchase throughout the year. As part of Monthly Pass, members receive unlimited access to meetings at this discounted monthly price plus free access to Weight Watchers eTools, the Internet weight management companion for Weight Watchers meetings members. In fiscal 2009, more than half of our member attendances in the U.S., U.K., German, Australian and French markets were attributable to Monthly Pass.

As of the end of fiscal 2009, less than 17% of our total worldwide attendance was represented by franchised operations. We estimate that, in fiscal 2009, these franchised operations attracted attendance of over 10 million people. Franchisees typically pay us a fee equal to 10% of their meeting fee revenues. We have enjoyed a mutually beneficial relationship with our franchisees over many years. In our early years, we used an aggressive franchising strategy to quickly establish a meeting infrastructure to pre-empt competition. Since then, we have acquired a large number of franchises and expect to continue to do so opportunistically.

Our franchisees are responsible for operating classes in their franchise class territory using the program and marketing guidelines we have developed. We provide a central support system for the program and our brand. Franchisees purchase products from us at wholesale prices for resale directly to members. Franchisees are obligated to adhere strictly to our program content guidelines, with the freedom to control pricing, class locations, operational structure and local promotions. Franchisees provide local operational expertise, advertising and public relations. Franchisees are required to keep accurate records that we audit on a periodic basis. Most franchise agreements are perpetual and can be terminated only upon a material breach or bankruptcy of the franchisee.

Our Product Sales

We sell a range of products, including bars, snacks, cookbooks, ***POINTS*** value guides, Weight Watchers magazines and ***POINTS*** calculators, which complement our weight management plans and help our customers in their weight management efforts. We have focused on selling consumables that drive recurring purchases. Our products are designed to be high quality, offer benefits related to the Weight Watchers plans, be competitively priced and be easy to merchandise.

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We sell our products primarily through our meeting operations and to our franchisees. We have grown our product sales per attendee in our meeting operations by updating our selection of products. In fiscal 2009, sales of our proprietary products represented approximately 20.9% of our revenues. We intend to continue to optimize our product offerings by updating existing products, selectively introducing new products and sharing best practices across geographies.

Revenues from WWI, including revenues from meetings and products, comprised 85.9% of our total revenues in fiscal 2009, 87.7% of our total revenues in fiscal 2008 and 89.5% of our total revenues in fiscal 2007.

Our WeightWatchers.com Offerings

Through WeightWatchers.com, we are well positioned to benefit from the large self-help market as well as several trends taking place in the global Internet marketplace, including an increased willingness of consumers to access and pay for web content, the proliferation of broadband access and the growth of e-Commerce and Internet advertising. According to the U.S. Census Bureau, U.S. retail eCommerce sales as a percent of total U.S. retail sales more than tripled between the second quarter of 2000 and the second quarter of 2009. Since 2001, we have offered two Internet subscription products in the United States Weight Watchers Online and Weight Watchers eTools.

Weight Watchers Online

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

Weight Watchers eTools

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

In the third quarter of 2002, WeightWatchers.com launched its two Internet subscription products on our U.K. and Canadian websites. WeightWatchers.com subsequently launched its two Internet subscription products on our websites in six other countries, including Germany, France and Australia. These products have similar functionality to the existing U.S. products, but are tailored specifically to each of our local markets. Among other opportunities, the launch of subscription websites in each new country facilitates our ability to launch Monthly Pass in that country.

As of the end of fiscal 2009, WeightWatchers.com had approximately 763,000 active Weight Watchers Online subscribers.

As Weight Watchers Online and Weight Watchers eTools reflect different value propositions, the subscription products are priced differently. Both subscription products currently offer an initial pre-paid subscription term of one or three months, continuing thereafter on a pre-paid month-to-month basis until canceled. In the United States, Weight Watchers Online costs $65.00 for the initial 3-month term or $47.90 for the initial one-month term. The ongoing monthly fee for Weight Watchers Online is $17.95. In the United States, Weight Watchers eTools costs $29.95 for the initial 3-month term or $12.95 for the initial one-month term. The ongoing monthly fee for Weight Watchers eTools is $12.95. In addition, beginning in 2006, Weight Watchers eTools has been included for free in purchases by consumers of Monthly Pass.

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

POINTS Tracker

POINTS Calculators

Filling Foods list

Weight Tracker and Progress Charts

Nutritional Guidelines

Hunger Tracker

Fitness Workouts and Videos

Recipe and Food Databases

Recipe Builder

Meal Ideas

Restaurant Guides

Mobile (iPhone®) application

We believe men represent an important market opportunity for us and have a version of our Internet subscription products customized for men. Based on our internal research, we believe many men trust the Weight Watchers brand as a source of sensible weight management advice. We believe web-based offerings, combined with appropriate content and imagery, are well suited for men. In addition, we believe that mobile weight management tools and resources are an important market opportunity for us. In fiscal 2009, we launched our iPhone® application which provides subscribers with access to a suite of weight-loss tools as well as helpful content. We believe we can continue to expand our Internet revenues from sources other than our Internet subscription products.

Revenues from WeightWatchers.com contributed 14.1% of our total revenue in fiscal 2009, 12.3% of our total revenues in fiscal 2008 and 10.5% of our total revenues in fiscal 2007.

Licensing, Endorsements and Publishing

Licensing and Endorsements

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

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

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Select current licensees and endorsees include:

LICENSEES AND ENDORSEES	PRODUCTS/CATEGORIES
United States	
Applebee s	Select Applebee s Menu Items
Bimbo Bakeries	Fresh Bread
Boca	Frozen Meat Alternatives
Conair	Scales
Dawn Foods	Sweet Baked Goods
General Mills	Green Giant Frozen Vegetables and Progresso Light Soups
Gilsa	Yogurt
Greencore	Chilled Meals
Kraft Foods	Certain JELL-O Gelatin Products
Morrison s	Hospital Cafeteria Menu
Schreiber Foods	Cheese
Wells Dairy	Ice Cream Novelties
United Kingdom	
Finsbury Food Group	Cakes
Greencore Prepared	Ready to Eat Meals
Warburtons	Bread
Yoplait	Yogurt
Continental Europe	
Campofrio Group	Meats
COOP	COOP Healthy for You Range
Kuhlmann	Salads and Sauces
Marie Frais	Chilled Meals, Salads and Quiches
Senoble	Yogurt
Trendmeal	Chilled Meals
Australia and New Zealand	
Conair	Scales
Fonterra	Yogurt and Desserts
Tasti	Breakfast Cereal and Bars

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

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

Weight Watchers Magazine

Weight Watchers magazines are published in most of our major markets. In the United States, Weight Watchers Magazine is an important branded marketing platform that continues to show strong circulation and advertiser acceptance. As of fall 2009, our U.S. magazine had a readership of 10.8 million, according to MediaMark Research, Inc., an industry tracking service. In addition to generating revenues from subscription sales and third-party advertising, Weight Watchers Magazine also reinforces the value of our brand and serves as a powerful tool for marketing to both existing and potential customers.

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Marketing and Promotion

Word of Mouth

The word-of-mouth generated by our current and former customers is an important source of new customers. Over our more than 45-year operating history, we have created a powerful referral network of loyal customers. These referrals, combined with our strong brand and the effectiveness of our plans, enable us to efficiently attract new and returning customers.

Media Advertising

Our advertising enhances our brand image and awareness, and motivates both former and potential new customers to join Weight Watchers meetings or subscribe to Weight Watchers Online. We have historically taken advantage of a range of traditional offline advertising vehicles such as television, radio and print. Further, WeightWatchers.com has developed a strong capability and presence in Internet advertising. Our advertising schedule supports the three key marketing campaigns of the year: winter, spring and fall. We allocate our media advertising on a market-by-market basis, as well as by media vehicle. We select our media vehicles (television, radio, Internet, magazines and newspapers) based on their efficiency and effectiveness in reaching our target audience.

Direct Mail and Email

Direct mail and email is a critical element of our marketing because it targets potential returning customers. We maintain databases of current and former customers in each country in which we operate, which we use to focus our direct mailings and email. During fiscal 2009, NACO sent over 32 million pieces of direct mail. Most of these mailings are timed to coincide with the start of our marketing campaigns and are intended to encourage former meeting members to re-enroll. WeightWatchers.com made a substantial investment in developing email targeting capabilities. Its email promotional vehicles and programs are an important customer acquisition vehicle for both our Internet and offline businesses.

WeightWatchers.com Website

The WeightWatchers.com website is an important global promotional channel for our brand, services and products. The website is an important vehicle for communicating our services and products in greater detail than could be achieved in more traditional advertising vehicles. In addition to being a gateway for our Internet subscription products, the website contributes value to our meetings business by promoting our brand, advertising Weight Watchers meetings and keeping members involved with Weight Watchers outside of meetings through useful offerings, such as a meeting locator, low calorie recipes, weight management articles, success stories and Internet forums. In fiscal 2009, our Meeting Finder feature generated on average over 1.2 million meeting searches per month globally. The Meeting Finder makes it easier than ever for our existing and potential members to find a convenient meeting place and time. The WeightWatchers.com website now attracts, on average, over 6.5 million unique visitors per month in the United States alone.

National Accounts and At-Work Meetings

As healthcare costs continue to be a significant concern on the minds of employers and their employees, we believe that our broad range of services and products uniquely positions us to serve the corporate market and help companies reduce their healthcare costs and improve the overall well-being of their employees. Our strategy is focused on leveraging our organizational capability to serve companies of every size through our National Accounts department and our local At-Work selling teams. As a result of this strategy, we now have the capability to sell, market, and service companies at the local level, the mid-market level, and the national level of the corporate market.

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Public Relations

We carry out many of our key public relations initiatives through the efforts of current and former Weight Watchers leaders, members and subscribers. These leaders, members and subscribers engage in local promotions, information presentations and charity events to promote Weight Watchers and demonstrate the program s efficacy. In addition, some become media-trained ambassadors and represent us in various local public relations activities. We currently have over 400 media-trained ambassadors as part of our grass roots network.

In addition, we have continued a science-based public relations initiative we launched during the winter of 2005 to capitalize on Weight Watchers position as one of only a few clinically proven commercial weight management programs. This has included an increased investment in third party scientific research, the inclusion of a science center on our website and increased efforts to share our consumer and program insights with leaders in the scientific and medical communities as well as the general public.

Weight Watchers Magazine

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

Seasonality

Our business is seasonal, with revenues generally decreasing at year end and during the summer months. Our advertising schedule supports the three key enrollment-generating seasons of the year: winter, spring and fall, with winter having the highest concentration of advertising spending. The timing of certain holidays, particularly Easter, which precedes the spring marketing campaign and occurs between March 22 and April 25, may affect our results of operations. The introduction of Monthly Pass in the meetings business has resulted in less seasonality with regard to our lecture income revenues because its revenues are amortized over the related subscription period. Our operating income for the first half of the year is generally the strongest. While WeightWatchers.com experiences similar seasonality in terms of new subscriber signups, its revenue tends to be less seasonal.

Entrepreneurial Management

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

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

Competition

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

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

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

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

Trademarks and Patents

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

History

Early Development

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

Artal Ownership

In September 1999, Artal Luxembourg, S.A., or Artal Luxembourg, acquired us from Heinz. Artal Luxembourg is an indirect subsidiary of Artal Group, S.A., which together with its parent and its subsidiaries is referred to in this Annual Report on Form 10-K as Artal. Subsequent to Artal s acquisition of us, Artal Luxembourg transferred ownership of its shares in us to Artal Participations and Management S.A. and Artal Holdings Sp. z o.o., each also members of Artal. Currently, Artal Holdings Sp. z o.o. is the only record holder of our shares by Artal.

WeightWatchers.com Acquisition

On June 13, 2005, we entered into an agreement to acquire control of our licensee and affiliate, WeightWatchers.com. On July 1 and 2, 2005, we increased our ownership interest in WeightWatchers.com from

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approximately 20% to approximately 53% by (i) exercising warrants to purchase WeightWatchers.com common stock for a total purchase price of approximately $45.7 million, (ii) acquiring shares of WeightWatchers.com common stock owned by the employees of WeightWatchers.com and other parties not related to Artal through a merger of a subsidiary of ours with WeightWatchers.com for a total purchase price of approximately $28.4 million and (iii) acquiring additional shares of WeightWatchers.com common stock, representing outstanding stock options then held by WeightWatchers.com employees, for a total purchase price of approximately $62.3 million.

On June 13, 2005, WeightWatchers.com also entered into a redemption agreement with Artal to purchase all of the shares of WeightWatchers.com owned by Artal at the same price per share as we paid in the merger. Subsequently, on December 16, 2005, WeightWatchers.com redeemed all of its outstanding common stock held by Artal for a total price of approximately $304.8 million as provided in the redemption agreement. WeightWatchers.com used cash on hand and the proceeds of the WW.com Credit Facilities (as defined below in Item 6. Selected Financial Data Items Affecting Comparability Long-Term Debt) in the aggregate amount of $215.0 million to finance this redemption, as well as pay related fees and expenses. As a result of this redemption, we now own 100% of WeightWatchers.com.

The transactions above relating to WeightWatchers.com were evaluated, negotiated and recommended by a Special Committee of Weight Watchers International s Board of Directors consisting of its independent directors.

Tender Offer and Share Repurchase

On December 18, 2006, we commenced a tender offer in which we sought to acquire up to 8.3 million shares of our common stock at a price between $47.00 and $54.00 per share, a transaction that we refer to as the Tender Offer. Prior to the Tender Offer, we entered into an agreement with Artal whereby Artal agreed to sell to us, at the same price as was determined in the Tender Offer, the number of its shares of our common stock necessary to keep its percentage ownership in us at substantially the same level after the Tender Offer. Artal also agreed not to participate in the Tender Offer so that it would not affect the determination of the price in the Tender Offer.

The Tender Offer expired at midnight on January 18, 2007, and on January 26, 2007 we repurchased approximately 8.5 million shares at a price of $54.00 per share. These repurchased shares were comprised of 8.3 million shares that we offered to purchase and approximately 0.2 million shares purchased pursuant to our right to purchase up to an additional 2% of the outstanding shares as of November 30, 2006. On February 2, 2007, we repurchased approximately 10.5 million of Artal s shares at a purchase price of $54.00 per share pursuant to our prior agreement with Artal. In January 2007, we amended and supplemented our revolving credit facility to finance these repurchases.

China Joint Venture

On February 5, 2008, we entered into a joint venture with Danone Dairy Asia, an indirect, wholly-owned subsidiary of Groupe DANONE S.A., to establish a weight management business in the People s Republic of China. Pursuant to the terms of the joint venture agreement, we and Danone Dairy Asia own 51% and 49%, respectively, of the joint venture entity, Weight Watchers Danone China Limited. In connection with the joint venture agreement, we entered into a license agreement in July 2008 to grant the China Joint Venture an exclusive license within the People s Republic of China to certain of our intellectual property rights for the purpose of engaging in the operation of weight management classes, the manufacture and sale of branded products in the meeting room, the publication of a weight management branded print magazine and the offer of weight management products and services over the Internet. In consideration for granting these rights, we receive a royalty of ten percent on all the China Joint Venture s revenues, net of certain taxes. The license agreement has a term of ten years and is automatically renewable for successive ten year terms after that time. In September 2008, the China Joint Venture launched its first weight management services centers.

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Regulation

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

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

Employees and Service Providers

As of January 2, 2010, we had approximately 28,000 employees. In addition, in certain of our markets, our service providers are self-employed. As of January 2, 2010, we had approximately 50,000 employees and service providers. We consider our relations with our employees and service providers to be satisfactory.

Financial Information About Segments and Financial Information About Geographic Areas

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

Available Information

Corporate information and our press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments thereto, are available on our website at *www.weightwatchersinternational.com* as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (*i.e.*, generally the same day as the filing). Moreover, we also make available at that site the Section 16 reports filed electronically by our officers, directors and 10 percent shareholders. Usually these are publicly accessible no later than the business day following the filing.

We use our website at *www.weightwatchersinternational.com* as a channel of distribution of material Company information. Financial and other material information regarding Weight Watchers International is routinely posted on and accessible at our website.

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

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

- competition from other weight management industry participants or the development of more effective or more favorably perceived weight management methods;
- our ability to continue to develop innovative new services and products and enhance our existing services and products, or the failure of our services and products to continue to appeal to the market;
- the effectiveness of our marketing and advertising programs;
- the impact on the Weight Watchers brand of actions taken by our franchisees and licensees;
- risks and uncertainties associated with our international operations, including economic, political and social risks and foreign currency risks;
- our ability to successfully make acquisitions or enter into joint ventures, including our ability to successfully integrate, operate or realize the projected benefits of such businesses;
- uncertainties related to a downturn in general economic conditions or consumer confidence;
- the seasonal nature of our business;
- the impact of events that discourage people from gathering with others;
- our ability to enforce our intellectual property rights both domestically and internationally, as well as the impact of our involvement in any claims related to intellectual property rights;
- uncertainties regarding the satisfactory operation of our information technology or systems;
- risks associated with unauthorized penetration of our information security;

the impact of disputes with our franchise operators;

the impact of existing and future laws and regulations;

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

the possibility that the interests of our majority owner will conflict with other holders of our common stock; and

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

You should not put undue reliance on any forward-looking statements. You should understand that many important factors, including those discussed under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, could cause our results to differ materially from those expressed or suggested in any forward-looking statement. Except as required by law, we do not undertake any obligation to update or revise these forward-looking statements to reflect new information or events or circumstances that occur after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events or otherwise.

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Item 1A. Risk Factors

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

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

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

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

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

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

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

Our business success depends on our ability to attract and retain members to our meetings and subscribers to WeightWatchers.com. Our ability to attract and retain members and subscribers depends significantly on the effectiveness of our marketing practices. If our marketing and advertising campaigns do not generate a sufficient number of members and subscribers, our results of operations will be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

We have experienced and expect to continue to experience fluctuations in our quarterly results of operations. Our business is seasonal with revenues generally decreasing at year end and during the summer months. This seasonality could cause our share price to fluctuate as the results of an interim financial period may not be indicative of our full year results. Seasonality also impacts relative revenue and profitability of each quarter of the year, both on a quarter-to-quarter and year-over-year basis. The timing of certain holidays, particularly Easter, which precedes our spring marketing campaign and occurs between March 22 and April 25, may affect our results of operations and the year-to-year comparability of our quarterly results. For example, Easter fell on March 23 in fiscal 2008 and on April 8 in fiscal 2007, which resulted in the spring marketing campaign beginning in the first quarter of fiscal 2008 as opposed to the second quarter of fiscal 2007.

Any event that discourages people from gathering with others could adversely affect our business.

Our meeting operations are subject to conditions beyond our control that may prevent current or prospective members from attending or joining meetings, including extreme weather, terrorism, health epidemics, national disasters and other extraordinary events. For example, our NACO attendance was adversely affected in the third quarter of fiscal 2005 by the impact of Hurricane Katrina and its aftermath, compounded by two subsequent hurricanes. The occurrence of any event that discourages people from gathering with others could adversely affect our business, financial condition or results of operations.

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

We currently rely on a combination of trademark, copyright, trade secret, patent and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights, including our brand. If we fail to successfully enforce our intellectual property rights, the value of our brand, services and products could be diminished and our business may suffer. Our precautions may not prevent misappropriation of our

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intellectual property, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States. Any legal action that we may bring to protect our brand and other intellectual property could be unsuccessful and expensive and could divert management s attention from other business concerns. In addition, legal standards relating to the validity, enforceability and scope of protection of intellectual property, especially in Internet-related businesses, are uncertain and evolving. We cannot assure you that these evolving legal standards will sufficiently protect our intellectual property rights in the future.

We may in the future be subject to intellectual property rights claims.

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

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

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

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

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

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

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future, our reputation and our business may be harmed. Privacy concerns among prospective and existing customers regarding our use of personal information collected on our websites or through our services and products, such as weight management information, financial data, email addresses and home addresses, could keep them from using our websites or purchasing our services or products. Industry-wide events or events with respect to our websites, including misappropriation of third-party information, security breaches or changes in industry standards, regulations or laws could deter people from using our websites or purchasing our offerings, which could harm our business.

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

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

Our businesses are subject to legislative and regulatory restrictions.

A number of laws and regulations govern our advertising, services, products, operations and relations with consumers, employees and other service providers in the countries in which we operate. The FTC and certain state and foreign agencies regulate advertising, disclosures to consumers, privacy, consumer pricing or billing arrangements, and other consumer matters.

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

Since we operate our meetings business both in the United States and internationally, we are subject to many distinct employment, labor, benefits and tax laws in each country in which we operate, including regulations affecting our employment practices and our relations with our employees and service providers. If we are required to comply with new regulations or new interpretations of existing regulations, or if we are unable to comply with these regulations or interpretations, our business could be adversely affected.

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

Future legislation or regulations, including legislation or regulations affecting our marketing and advertising practices, relations with consumers or franchisees or our food and weight management services and products, may have an adverse impact on us.

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

Our financial performance could be affected by our level of debt. As of January 2, 2010, our total debt was $1,453.0 million and we had additional availability under our revolving credit facility of $368.9 million. We expect to generate the cash necessary to pay our expenses and to pay the principal and interest on all of our outstanding debt from our cash flows provided by operating activities and by opportunistically using other means to repay or refinance our obligations as we determine appropriate. Our ability to meet our expenses and debt service obligations depends on our future performance, which may be affected by financial, business, economic,

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demographic and other factors, such as attitudes toward weight management and pressure from our competitors. If we do not have enough money to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or raise equity. In such an event, we may not be able to refinance our debt, sell assets, borrow more money or raise equity on terms acceptable to us or at all. Also, our ability to carry out any of these activities on favorable terms, if at all, may be further impacted by the current financial and credit crisis which has limited access to the credit markets and increased the cost of capital.

Our credit facilities contain customary covenants, including covenants that in certain circumstances restrict our ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other restricted payments, including investments, sell our assets and enter into consolidations, mergers and transfers of all or substantially all of our assets. Our credit facilities also require us to maintain specified financial ratios and satisfy financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control and we cannot assure you that we will meet those ratios and tests. A breach of any of these covenants, ratios, tests or restrictions could result in an event of default under the credit facilities. If an event of default exists under the credit facilities, the lenders could elect to cease making loans and declare all amounts outstanding thereunder to be immediately due and payable. If the lenders under the credit facilities accelerate the payment of the indebtedness, our assets may not be sufficient to repay in full that indebtedness and our other indebtedness that would become due as a result of any acceleration.

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

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

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

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

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

Provisions contained in our articles of incorporation and bylaws and the laws of Virginia, the state in which we are incorporated, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders. Provisions of our articles of incorporation and bylaws impose various procedural and other requirements, which could make it more difficult for shareholders to effect certain corporate actions.

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For example, our articles of incorporation authorize our Board of Directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our shareholders. Thus, our Board of Directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. These rights may have the effect of delaying or deterring a change of control of our company. In addition, a change of control of our company may be delayed or deterred as a result of our having three classes of directors or as a result of the shareholders rights plan adopted by our Board of Directors. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are currently headquartered in New York, New York in leased office space. We also have small regional offices within NACO, typically under short term leases. Each of our foreign country operations generally has leased office space. We typically hold our classes in third-party locations (usually meeting rooms in well-located civic or other community organizations) or space leased in retail centers (usually leased spaces in strip malls under short term leases).

Item 3. Legal Proceedings

U.K. VAT Matter

In June 2008, the U.K. Court of Appeal issued a ruling that that from April 1, 2005 Weight Watchers meeting fees in the United Kingdom were fully subject to 17.5% standard rated value added tax, or VAT, thus reversing in its entirety an earlier 2007 decision of the U.K. VAT and Duties Tribunal, or the VAT Tribunal, in our favor. For over a decade prior to April 1, 2005, Her Majesty s Revenue and Customs, or HMRC, had determined that Weight Watchers meeting fees in the United Kingdom were only partially subject to 17.5% VAT. In light of the Court of Appeal s ruling and in accordance with accounting guidance for contingencies, we recorded a charge of approximately $32.5 million as an offset to revenue in the second quarter of fiscal 2008 for U.K. VAT liability (including interest) in excess of reserves previously recorded. Beginning in the third quarter of fiscal 2008, in accordance with accounting guidance for contingencies, we have recorded as an offset to revenue VAT charges associated with U.K. meeting fees as earned, consistent with the Court of Appeal s ruling.

However, with respect to U.K. VAT owed for the period prior to July 1, 2005, HMRC has failed to raise a notice of assessment within the statutory three-year time period. In addition, although HMRC raised notices of assessment against us with respect to U.K. VAT due for the periods July 1, 2005 to September 30, 2005 and October 1, 2005 to December 31, 2005, we have asserted that these notices of assessment are invalid on the grounds that they had been raised outside the relevant statutory time limits. HMRC indicated in November 2008 that it agreed with our assertion that the notice of assessment for the period July 1, 2005 to September 30, 2005 was invalid, and, in February 2009, confirmed that this notice had been formally withdrawn. As a result of the expiration of the statutory time period with respect to U.K. VAT owed prior to October 1, 2005, we recorded in the fourth quarter of fiscal 2008 as a benefit to revenue for the periods prior to October 1, 2005 an amount of approximately $9.2 million as an offset against reserves previously recorded including in part the charge recorded against revenue in the second quarter of fiscal 2008 for U.K. VAT liability.

In March 2009, June 2009 and September 2009, HMRC raised notices of assessment against us in respect of U.K. VAT due for the periods January 1, 2006 to March 31, 2006, April 1, 2006 to June 30, 2006, and July 1, 2006 to September 30, 2006, respectively, which we similarly believe were raised outside the relevant statutory time limits. We intend to vigorously challenge any amount of U.K. VAT that HMRC claims to be owed by us for any period between October 1, 2005 and September 30, 2006. Accordingly, we filed notices of appeal with the

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VAT Tribunal against the U.K. VAT assessments issued for the periods October 1, 2005 to December 31, 2005, January 1, 2006 to March 31, 2006, April 1, 2006 to June 30, 2006 and July 1, 2006 to September 30, 2006 in March 2009, April 2009, July 2009 and October 2009, respectively.

U.K. Self-Employment Matter

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

In September 2007, we appealed HMRC s notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by us and, in July 2008, filed this appeal with the U.K. First Tier Tribunal (Tax Chamber), or First Tier Tribunal. Our appeal was heard by the First Tier Tribunal in June 2009 and October 2009. In February 2010, the First Tier Tribunal issued a ruling that our U.K. leaders should have been classified as employees for U.K. tax purposes and, as such, we should have withheld tax from our leaders pursuant to the PAYE and NIC collection rules for the period from April 2001 to April 2007 with respect to services performed by the leaders for us.

In light of this adverse ruling and in accordance with accounting guidance for contingencies, we recorded in the fourth quarter of fiscal 2009 a charge in the amount of approximately $36.7 million for the period from April 2001 through the end of fiscal 2009, inclusive of estimated accrued interest. Although we intend to seek an appeal of this adverse ruling, in accordance with accounting guidance for contingencies, we will record a reserve each quarter beginning in the first quarter of fiscal 2010 for U.K. withholding taxes with respect to our U.K. leaders consistent with the First Tier Tribunal s ruling.

Sabatino v. Weight Watchers North America, Inc.

In September 2009, a lawsuit was filed in the Superior Court of California by one of our former leaders alleging violations of certain California wage and hour laws on behalf of herself, and, if approved by the Court, other leaders and those employees who have performed the location coordinator function in California since September 17, 2005. In this matter, the plaintiff is seeking unpaid wages and certain other damages. In October 2009, we answered the complaint and removed the case to the U.S. District Court for the Northern District of California. Although we disagree with the allegations that we have violated California wage and hour laws and we believe we have valid defenses with respect to this matter, litigation is inherently unpredictable. At this time, it is not possible to determine the outcome of, or estimate the liability related to, this action and we have not made any provision for losses in connection with it.

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

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

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Other Litigation Matters

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

Item 4. Removed and Reserved

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EXECUTIVE OFFICERS AND DIRECTORS OF THE COMPANY

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

Set forth below are the names, ages as of January 2, 2010 and current positions of our executive officers and directors. Directors are elected at the annual meeting of shareholders. Executive officers are appointed by, and hold office at, the discretion of the directors.

Name	Age	Position
David P. Kirchhoff	43	President and Chief Executive Officer, Director
Ann M. Sardini	59	Chief Financial Officer
Michael Basone	52	President, WeightWatchers.com and Chief Technology Officer
Melanie Stack (Stubbing)	48	President, International
Jeffrey A. Fiarman	41	Executive Vice President, General Counsel and Secretary
Raymond Debbane(1)	54	Chairman of the Board of Directors
Philippe J. Amouyal(1)	51	Director
John F. Bard(1)(2)	68	Director
Marsha Johnson Evans(2)	62	Director
Jonas M. Fajgenbaum	37	Director
Sacha Lainovic	53	Director
Kimberly Roy Tofalli(2)	51	Director
Christopher J. Sobecki	51	Director

(1) Member of our Compensation and Benefits Committee.
(2) Member of our Audit Committee.

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

Ann M. Sardini. Ms. Sardini has served as our Chief Financial Officer since April 2002 when she joined us. Ms. Sardini has over 20 years of experience in senior financial management positions in branded media and consumer products companies. Prior to joining us, she served as Chief Financial Officer of VitaminShoppe.com, Inc. from 1999 to 2001, and from 1995 to 1999 she served as Executive Vice President and Chief Financial Officer for the Children s Television Workshop. In addition, Ms. Sardini has held finance positions at QVC, Inc., Chris Craft Industries and the National Broadcasting Company. Ms. Sardini received a B.A. from Boston College and an M.B.A. from Simmons College Graduate School of Management. Ms. Sardini is a director of TreeHouse Foods, Inc.

Michael Basone. Mr. Basone has served as our President, WeightWatchers.com and Chief Technology Officer since April 2008. Prior to that time, Mr. Basone served as the Chief Technology Officer of

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

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

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

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

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

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

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Marsha Johnson Evans. Ms. Evans has been a director since February 2002. Ms. Evans served as President and Chief Executive Officer of the American Red Cross, the preeminent humanitarian organization in the United States, from August 2002 to December 2005, and previously served as the National Executive Director of Girl Scouts of the U.S.A. from January 1998 to July 2002. A retired Rear Admiral in the United States Navy, Ms. Evans has served as superintendent of the Naval Postgraduate School in Monterey, California from 1995 to 1998 and headed the Navy s worldwide recruiting organization from 1993 to 1995. Ms. Evans also served as the Acting Commissioner of the Ladies Professional Golf Association from July 2009 to January 2010. Ms. Evans received a B.A. from Occidental College and a Master s Degree from the Fletcher School of Law and Diplomacy at Tufts University. Ms. Evans is a director of Huntsman Corporation, the Estate of Lehman Brothers Holdings, Inc., Office Depot Inc. and the Naval Academy Foundation.

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

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

Kimberly Roy Tofalli. Ms. Roy Tofalli has been a director since March 30, 2008. Ms. Roy Tofalli has been the President of Lauren Brands for the Polo Ralph Lauren Corporation since June 2003. Prior to joining the Polo Ralph Lauren Corporation, Ms. Roy Tofalli was the President of Ann Taylor Stores, Inc. from April 2001 to February 2003. From June 1996 to April 2001, Ms. Roy Tofalli served in various senior retail and merchandising positions at Liz Claiborne, Inc., the latest being Group President for Liz Claiborne, Inc. Prior to joining Liz Claiborne, Inc., Ms. Roy Tofalli held various merchandising positions for Associated Merchandising Corporation and Abraham & Straus. Ms. Roy Tofalli received her B.S. from Skidmore College.

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

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PART II

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

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

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

Fiscal 2009 (Year ended January 2, 2010)

	High	Low
First Quarter	$ 29.16	$ 16.41
Second Quarter	$ 27.08	$ 18.91
Third Quarter	$ 30.20	$ 23.38
Fourth Quarter	$ 29.49	$ 26.09

Fiscal 2008 (Year ended January 3, 2009)

	High	Low
First Quarter	$ 50.19	$ 41.49
Second Quarter	$ 48.65	$ 35.70
Third Quarter	$ 41.86	$ 33.09
Fourth Quarter	$ 37.50	$ 21.56

On October 9, 2003, our Board of Directors authorized a program to repurchase up to $250.0 million of our outstanding common stock. On each of June 13, 2005 and May 25, 2006, our Board of Directors authorized adding an additional $250.0 million to this program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal under the program. This program currently has no expiration date. We repurchased no shares of our common stock during fiscal 2009. As of the end of fiscal 2009, $100.5 million remains available to purchase our shares under the repurchase program.

Holders

The approximate number of holders of record of our common stock as of January 31, 2010 was 491. This number does not include beneficial owners of our securities held in the name of nominees.

Dividends

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

Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our financial results, capital requirements and other factors it may deem relevant. Our Board of Directors may decide at any time to increase or decrease the amount of dividends or discontinue the payment of dividends based on these factors. The WWI Credit Facility (as defined below) also contains restrictions on our ability to pay dividends on our common stock. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt in Part II of this Annual Report on Form 10-K for a description of the WWI Credit Facility.

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Item 6. Selected Financial Data

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

SELECTED FINANCIAL DATA

(in millions, except per share amounts)

	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (52 weeks)
Revenues, net	$ 1,398.9	$ 1,535.8	$ 1,467.2	$ 1,233.3	$ 1,151.3
Net income attributable to the Company	$ 177.3	$ 204.3	$ 201.2	$ 209.8	$ 174.4
Working capital (deficit)	$ (336.1)	$ (270.1)	$ (172.1)	$ (64.3)	$ (38.2)
Total assets	$ 1,087.5	$ 1,106.8	$ 1,046.2	$ 1,000.7	$ 835.5
Long-term obligations	$ 1,238.0	$ 1,485.0	$ 1,602.5	$ 830.2	$ 741.4
Earnings per share:					
Basic	$ 2.30	$ 2.61	$ 2.50	$ 2.13	$ 1.70
Diluted	$ 2.30	$ 2.60	$ 2.48	$ 2.11	$ 1.67
Dividends declared per common share	$ 0.70	$ 0.70	$ 0.70	$ 0.70	

Items Affecting Comparability

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

U.K. Self-Employment Matter

We received an adverse tax ruling in the United Kingdom that our U.K. leaders should have been classified as employees for U.K. tax purposes and, as such, we should have withheld tax from our leaders pursuant to the PAYE and NIC collection rules and remitted such amounts to HMRC. In connection with this ruling, we recorded a charge of approximately $36.7 million to cost of revenues in the fourth quarter of fiscal 2009. See Item 3. Legal Proceedings U.K. Self-Employment Matter in Part I of this Annual Report on Form 10-K for further details on this matter.

Restructuring Charges

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

U.K. VAT Matter

In the second quarter of fiscal 2008, we received an adverse ruling in the United Kingdom with respect to the imposition of U.K. VAT on meeting fees earned in the United Kingdom. In connection with this ruling, we recorded a net charge of approximately $18.7 million pertaining to periods prior to fiscal 2008 as an offset to revenue in fiscal 2008. See Item 3. Legal Proceedings U.K. VAT Matter in Part I of this Annual Report on Form 10-K for further details on this matter.

Consolidation/China Joint Venture

In February 2008, Weight Watchers Asia Holdings Ltd., or Weight Watchers Asia, a direct, wholly-owned subsidiary of the Company, and Danone Dairy Asia, an indirect, wholly-owned subsidiary of Groupe DANONE S.A., entered into a joint venture agreement to establish a weight management business in the People s Republic

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of China. Pursuant to the terms of the joint venture agreement, Weight Watchers Asia and Danone Dairy Asia own 51% and 49%, respectively, of the joint venture entity. Because we have a direct, controlling financial interest in the joint venture entity, we began to consolidate this entity in the first quarter of fiscal 2008.

Consolidation/Acquisition of WeightWatchers.com

As of December 16, 2005, WeightWatchers.com became a wholly-owned subsidiary of Weight Watchers International, Inc. In connection with this acquisition of WeightWatchers.com, we recognized $46.4 million of expenses during fiscal 2005. See Item 1. Business History WeightWatchers.com Acquisition in Part I of this Annual Report on Form 10-K for further details on this acquisition.

Long-Term Debt

On December 16, 2005, WeightWatchers.com borrowed $215.0 million pursuant to two credit facilities, or the WW.com Credit Facilities, consisting of (i) a five year, senior secured first lien term loan facility in an aggregate principal amount of $170.0 million and (ii) a five and one-half year, senior secured second lien term loan facility in an aggregate principal amount of $45.0 million.

On May 8, 2006, we entered into a refinancing to reduce our effective interest rate while increasing our borrowing capacity and extending the maturities of borrowings under WWI s then-existing credit facility. In connection with the refinancing, WWI s then-existing tranche B facilities in the aggregate amount of $294.4 million were repaid and replaced with a new tranche A facility in the amount of $350.0 million. The additional funds of $55.6 million were used to pay down WWI s then-existing revolving line of credit. Also, in connection with this refinancing, WWI s then-existing revolving line of credit was replaced with a new revolving line of credit which increased borrowing capacity from $350.0 million to $500.0 million. In connection with this refinancing, we incurred expenses of $1.3 million.

On January 26, 2007, in connection with our Tender Offer and share repurchase more fully described under Item 1. Business History Tender Offer and Share Repurchase in Part I of this Annual Report on Form 10-K, we increased our borrowing capacity by adding an additional tranche A facility in the amount of $700.0 million and a new tranche B facility in the amount of $500.0 million to WWI s then-existing credit facility. We utilized (a) $185.8 million of these proceeds to pay off the WW.com Credit Facilities, (b) $461.6 million to repurchase approximately 8.5 million of our shares in the Tender Offer and (c) $567.6 million to repurchase approximately 10.5 million of our shares from Artal. In connection with the early extinguishment of the WW.com Credit Facilities, we recorded a charge of $3.0 million in the first quarter of 2007 relating to the write-off of the deferred financing costs associated with the WW.com Credit Facilities.

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

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

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Working Capital

The increase in the working capital deficit is primarily the result of year-over-year increases in the current portion of debt obligations, accruals for the U.K. adverse tax rulings related to U.K. VAT and self-employment matters, and year-over-year increases in deferred revenue given the introduction and success of commitment plans in our meetings business and growth in our online subscription products.

Franchise Acquisitions

The following are our key acquisitions since January 1,2006:

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

Acquisition of British Columbia. On June 3, 2007, we acquired substantially all of the assets of our British Columbia franchisee for a purchase price of approximately $15.8 million, which was financed through cash from operations. This acquisition has been accounted for as a purchase and earnings have been included in our consolidated operating results since the date of acquisition.

Acquisitions of Indiana, Eastern Canada, Suffolk, Western Michigan, Greece and Italy. On July 27, 2006, we acquired substantially all of the assets of our Indiana franchisee for a purchase price of approximately $25.0 million. On August 17, 2006, we acquired substantially all of the assets of our eastern Canadian franchisee and of Vale Printing Limited for a net purchase price of approximately $51.2 million. On November 2, 2006, we acquired substantially all of the assets of our Suffolk County, New York franchisee for a purchase price of approximately $24.5 million. On December 11, 2006, we acquired substantially all of the assets of our Western Michigan franchisee for a net purchase price of $39.5 million, and reacquired our franchise rights in Greece and Italy for approximately $4.3 million. These acquisitions were financed through cash from operations. These acquisitions have been accounted for as purchases and earnings have been included in our consolidated operating results since their respective dates of acquisition.

Reversal of Tax Reserves

In the fourth quarter of fiscal 2005, we recorded a tax benefit by reversing a $0.9 million state tax reserve with respect to accrued but no longer necessary state tax liabilities. Also in the fourth quarter of fiscal 2005, due to the recent trend in profitability of certain of WeightWatchers.com s foreign operations, it was concluded that it was more likely than not that these foreign operations would fully realize the benefit of its deferred tax assets. As such, WeightWatchers.com reversed all but $0.6 million of its remaining valuation allowance relating to its foreign operations. This $0.6 million remaining amount was subsequently reversed in fiscal 2006 due to the utilization of the net operating loss carryforwards. During the fourth quarter of fiscal 2006, we recorded a tax benefit of $6.3 million by reversing tax reserves which due to the resolution of certain tax matters were no longer necessary, partially offset by adjustments to our tax valuation allowance for foreign tax net operating loss carryforwards.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

We are a leading, global-branded consumer company and the world s leading provider of weight management services, operating globally through a network of Company-owned and franchise operations. With over four decades of weight management experience, expertise and know-how, we have established Weight Watchers as one of the most recognized and trusted brand names among weight-conscious consumers. In 2009, consumers spent over $4 billion on Weight Watchers branded products and services, including meetings conducted by us and our franchisees, products sold at meetings, Internet subscription products sold by WeightWatchers.com, licensed products sold in retail channels and magazine subscriptions and other publications.

We derive our revenues principally from:

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

Product sales. We sell a range of products that complement our weight management plans, such as bars, snacks, cookbooks, ***POINTS*** value guides, Weight Watchers magazines and ***POINTS*** calculators, primarily to members in our meetings and to our franchisees.

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

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

We currently have two operating segments: Weight Watchers International and WeightWatchers.com. Other than Internet revenues, all of the foregoing sources of revenue are included in our Weight Watchers International operating segment. Revenues from our Weight Watchers International operating segment, including revenues from meetings and product sales, comprised 85.9% of our total revenues in fiscal 2009, 87.7% of our total revenues in fiscal 2008 and 89.5% of our total revenues in fiscal 2007. Revenues from our WeightWatchers.com operating segment contributed 14.1% of our total revenues in fiscal 2009, 12.3% of our total revenues in fiscal 2008 and 10.5% of our total revenues in fiscal 2007.

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

Revenue Sources

(in millions)

	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (52 weeks)
Meeting fees	$ 817.5	$ 908.1	$ 880.7	$ 723.1	$ 681.1
Product sales	292.1	339.8	337.7	293.3	285.5
Internet revenues	196.0	185.8	151.6	129.4	109.7
Licensing, franchise royalties and other	93.3	102.1	97.2	87.5	75.0
Total	$ 1,398.9	$ 1,535.8	$ 1,467.2	$ 1,233.3	$ 1,151.3

From fiscal 2005 through fiscal 2009, our revenues have increased at a compound annual growth rate of 5.0%. This increase is principally a result of:

Increased meeting fees. From fiscal 2005 to fiscal 2009, meeting fees grew at a compound annual rate of 4.7% led by our NACO operations. This growth resulted from increases in our average meeting fee per attendee which increased from $11.17 to $15.06, with most of the increase occurring from fiscal 2006 to fiscal 2008 coincident with our introduction of Monthly Pass, a recurring payment plan model whereby the member authorizes us to charge his or her credit card for meeting fees on a monthly basis, at a discounted rate, until the member elects to cancel. The increase in the average meeting fee per attendee arises because not all members who purchase Monthly Pass attend all the meetings for which they have paid.

Increased product sales. Global product sales have grown at a compound annual rate of 0.6% from fiscal 2005 to fiscal 2009, led by the United Kingdom which grew at a compound annual rate of 3.1%. We have increased average product sales per attendee in our meetings business from $3.88 to $4.63, a compound annual growth rate of 4.5%, over the same period. Product sales growth resulted from successful new product launches.

Consolidation of WeightWatchers.com. From fiscal 2005 to fiscal 2009, our Internet revenues have grown at a compound annual growth rate of 15.6%. The increase in Internet revenues during this time is primarily due to the growth in the number of WeightWatchers.com s end-of-period active online subscribers which almost doubled, from 399,000 at the end of fiscal 2005 to 763,000 at the end of fiscal 2009.

Increased licensing revenues. Licensing revenues grew at a compound annual rate of 13.6% from fiscal 2005 to fiscal 2009, primarily as a result of our increased focus on expanding the number of Weight Watchers branded and endorsed products worldwide.

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Metrics and Business Trends

Global Operations

As shown in the chart below, our worldwide annual meeting attendance in our Company-owned operations (including the previously mentioned acquired franchise operations) has declined from 60.9 million for fiscal 2005 to 54.3 million for fiscal 2009. Our worldwide average revenue per customer, however, has increased over the same period, largely as a result of Monthly Pass growing penetration in NACO and other markets.

	Meeting Attendance in Company-Owned Operations (in millions)				
	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (52 weeks)
North America	32.1	36.5	38.1	35.4	33.5
United Kingdom	11.4	11.6	11.9	11.6	12.6
Continental Europe	8.6	9.8	10.2	11.1	11.6
Other International	2.2	2.1	2.5	3.0	3.2
Total	54.3	60.0	62.7	61.1	60.9

In an effort to provide a greater degree of insight into the drivers of our business, in fiscal 2007 we introduced a new additional volume metric. This new metric, paid weeks , reports total paid weeks by our customers in Company-owned operations for a given period. For meetings, paid weeks is the sum of total paid commitment plan weeks and total pay-as-you-go weeks for a given period. For Weight Watchers Online, paid weeks is the total paid Weight Watchers Online subscriber weeks for a given period. Before the launch of our commitment plans in the meetings business, our members were largely on a pay-as-you-go basis, and accordingly, growth in meeting attendance essentially approximated growth in meeting paid weeks. As shown in the chart below, our worldwide meeting paid weeks grew 27.3% from fiscal 2006 to fiscal 2009, up from 68.8 million in fiscal 2006 to 87.6 million in fiscal 2009. In NACO, where Monthly Pass is highly penetrated, fiscal 2009 meeting paid weeks of 55.8 million exceeded meeting attendance of 32.1 million by 73.8%.

	Paid Weeks in Company-Owned Operations (in millions)				
	Fiscal 2009 (52 weeks)	Fiscal 2008 (53 weeks)	Fiscal 2007 (52 weeks)	Fiscal 2006 (52 weeks)	Fiscal 2005 (52 weeks)
North America	55.8	61.0	58.4	42.7	33.5
United Kingdom	16.2	15.0	12.8	11.6	12.6
Continental Europe	12.7	12.5	10.7	11.4	11.6
Other International	2.9	2.8	2.7	3.1	3.2
Total Meeting Paid Weeks	87.6	91.3	84.6	68.8	60.9
Online paid weeks	42.7	38.9	31.0	25.2	21.4
Total Paid Weeks	130.3	130.2	115.6	94.0	82.3

North America

Looking historically and at trends, beginning in late 2003, our NACO meeting attendance growth was adversely affected by increased media exposure to and the resulting popularity of low-carbohydrate diets, which continued through 2004. Beginning in the third quarter of fiscal 2004 through the first quarter of fiscal 2005, the declines in NACO meeting attendance excluding the impact of acquisitions versus the prior year periods steadily improved from minus 16.7% in the second quarter of fiscal 2004 to minus 13.9% in the third quarter of fiscal 2004 to minus 8.7% in the fourth quarter of fiscal 2004 and to minus 5.1% in the first quarter of fiscal 2005. After that, NACO meeting attendance versus prior year periods, excluding the impact of acquisitions, moved into positive territory and posted increases of 5.3%, 1.3% and 6.5% in the second, third and fourth quarters of fiscal 2005, respectively. The third quarter of fiscal 2005 grew at a slower pace due to the impact of Hurricane Katrina and its aftermath, compounded by two subsequent hurricanes. In fiscal 2006, meeting attendance for the full year

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grew at a rate of 5.7%, or 2.9% without the impact of acquisitions. In fiscal 2007, meeting attendance for the full year grew at a rate of 7.7%, but declined 1.7% without the impact of acquisitions, and paid weeks grew 36.5%, due largely to the success of our Monthly Pass recurring payment plan.

In fiscal 2008, meeting attendance for the full year declined 4.3% and excluding the impact of acquisitions, meeting attendance for the full year declined 6.2%, resulting from a number of factors. Rising gasoline and other consumer prices in mid 2008, and the worsening economic climate in the United States leading to a major economic recession toward the end of fiscal 2008 coupled with reduced credit availability, adversely impacted consumer spending. These factors, together with the lack of a meaningful program innovation in NACO for several years, contributed to the decline in NACO meeting attendance throughout fiscal 2008. Paid weeks in NACO in fiscal 2008, including the impact of acquisitions, increased 4.5% over the prior year, largely as a result of increased Monthly Pass penetration. The same factors that began to negatively impact fiscal 2008 continued into fiscal 2009, with meeting attendance and paid weeks declining 11.8% and 8.4%, respectively. We have seen the impact of this most acutely in enrollments, particularly in new members, where the decision to spend on any new products or services is highly scrutinized by consumers in such an environment.

United Kingdom

In the United Kingdom, after four years of meeting attendance increases, meeting attendance declined 3.1% in fiscal 2005 and 7.4% in fiscal 2006. The declining trend began as a result of negative member and leader reaction to a new program innovation launched in January 2005. We worked to simplify the program, improve the meeting experience, and strengthen the quality of our field management and leader force. As a result, over the course of fiscal 2006, the negative U.K. meeting attendance trend reversed from a negative 17.2% year-over-year decline in the first quarter, to 7.0% year-over-year growth in the fourth quarter. This trend continued into the first quarter of 2007 with a growth rate of 9.8% versus the prior year period, but the growth slowed to 2.2% in the second quarter versus the prior year period and turned negative in the second half of fiscal 2007, posting declines of 4.2% and 2.4% in the third and fourth quarters of fiscal 2007, respectively, versus the prior year periods. Paid weeks rose 9.7%, from 11.6 million in fiscal 2006 to 12.8 million in fiscal 2007.

In fiscal 2008, meeting attendance in the United Kingdom declined 2.4% versus the prior year. The U.K. market responded positively to its new program that was soft-launched in December 2008, but like the North American market, the U.K. market experienced a worsening economy which negatively impacted meeting attendance. In fiscal 2008, paid weeks grew 17.4% versus the prior year, due largely to the introduction of Monthly Pass in the third quarter of fiscal 2007. In fiscal 2009, meeting attendance in the United Kingdom declined slightly, down 1.5%, versus the prior year; however, paid weeks in the United Kingdom improved 8.1% as compared to the prior year. Similar to the experience in North America, the U.K. economy has had a significant affect on our U.K. business; however, effective marketing and promotional activity helped to mitigate the affects of a recessionary economy.

Continental Europe

Continental Europe saw meeting attendance growth in every fiscal year from 2000 through 2005. Continental Europe s meeting attendance increased by 1.1 million in fiscal 2004 primarily as a result of a program innovation in the third quarter which helped drive increased meeting attendance into fiscal 2005 and the first quarter of 2006; however, on a full year basis in fiscal 2006, meeting attendances in Continental Europe declined by 4.4% versus the prior year. Meeting attendance began to decline in the second quarter of fiscal 2006, by 7.2% in the second quarter, 7.8% in the third quarter and 10.6% in the fourth quarter, in each case versus the prior year period. We believe that the growth of the business in Continental Europe prior to fiscal 2006 outpaced the expertise of the local management, and we have now strengthened these teams. The declining meeting attendance trend continued into fiscal 2007 (declines of 6.6% in the first quarter, 7.5% in the second quarter, 11.7% in the third quarter and 9.4% in the fourth quarter, in each case versus the prior year period) and ended the year with meeting attendance 8.5% below the prior year. Paid weeks in Continental Europe declined 6.2%, from 11.4 million in fiscal 2006 to 10.7 million in fiscal 2007. We believe that most of this weakness was the result of ineffective marketing and the resultant lack of new enrollments.

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In fiscal 2008, Continental Europe experienced a 4.1% decline in meeting attendance versus the prior year. However, the introduction of Monthly Pass in Germany in the third quarter of fiscal 2007 and in France in April 2008 helped drive an overall 16.5% increase in paid weeks for fiscal 2008 in Continental Europe versus the prior year. In fiscal 2009, Continental Europe experienced an 11.8% decline in meeting attendance and paid weeks growth of 1.6% versus the prior year. Most of our markets in Continental Europe were affected by the difficult economic conditions in fiscal 2009. In addition, in fiscal 2009, we re-evaluated the meeting base in a number of countries, including Germany, closing weaker meetings and building on stronger meetings for a better meeting experience for our members. This has resulted in better economics for our service providers and higher gross margins. This stronger foundation creates a better platform from which we can grow as the economy rebounds. During fiscal 2009, the management teams in Continental Europe also prepared for a major new innovative program, ***ProPoints***, which soft launched in the fourth quarter of fiscal 2009.

WeightWatchers.com

The continued success of WeightWatchers.com resulted in the number of online paid weeks almost doubling, from 21.4 million in fiscal 2005 to 42.7 million in fiscal 2009. This success is due largely to the acquisition of new Weight Watchers Online subscribers in the United States as well as the launch of WeightWatchers.com subscription products in new markets globally.

Gross Margin

The Company has maintained an annual gross margin of 50% or more since fiscal 2001. Our staff is usually paid on a commission basis and space is typically rented as needed. Moreover, we adjust the number of meetings according to demand, including seasonal fluctuations. This variable cost structure has enabled us to maintain these high margins even as we have expanded the number of our meetings over this period and experienced a decline in the number of attendances per meeting. When our attendance growth outpaces our meeting growth, our gross margins typically improve. As WeightWatchers.com continues to grow, we expect margins to continue to expand in this highly scalable business.

Operating Margin

The Company has consistently generated operating income margins of 30% or more from fiscal 2001 to fiscal 2007, even while making significant investments in strengthening our management teams, particularly in North America and Continental Europe, putting in place a stronger global marketing infrastructure, increasing our investments in marketing and information technology and expensing share-based compensation beginning in fiscal 2006. In fiscal 2008, the operating income margin of the Company dipped below 30%, to 28%, due largely to the adverse U.K. VAT ruling received in the second quarter of fiscal 2008 and the start-up costs of our China Joint Venture. In fiscal 2009, the operating income margin of the Company dipped below 30%, to 26%, due largely to the adverse U.K. tax ruling relating to the self-employment status of its U.K. leaders.

Performance Indicators and Market Trends

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

- net revenues, which are an indicator of our overall business growth;
- attendance and paid weeks metrics;
- meeting fee revenue per attendee and in-meeting product sales per attendee;
- the number of Weight Watchers Online subscribers; and

operating expenses as a percentage of revenue, which are an indicator of the efficiency of our business and our ability to manage our business to budget.

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

- the temporary emergence of fad diets;
- a decrease in the effectiveness of our marketing and advertising programs;
- a failure to develop innovative new services and products;
- the development of more favorably perceived or more effective weight management methods, including pharmaceuticals;
- an impairment of the Weight Watchers brand and our other intellectual property;
- a failure of our technology or systems to perform as designed; and
- a downturn in general economic conditions or consumer confidence.

Franchise Acquisitions

From time to time, we repurchase franchise territories. Since the beginning of fiscal 2001, we have acquired 19 franchise operations for a total of approximately $681.3 million. These acquisitions are typically accretive to our earnings per share. For fiscal 2009, the attendance of our remaining franchise operations accounted for less than 17% of total worldwide attendance at Weight Watchers meetings.

Non-GAAP Financial Measures

To supplement our consolidated results presented in accordance with accounting principles generally accepted in the United States, or GAAP, we have disclosed non-GAAP measures of operating results that exclude or adjust certain items. Net revenues, cost of revenues, global meeting fees, international meeting fees, gross profit and margin, operating income and operating income margin and effective tax rate, including components thereof, are discussed in this Annual Report on Form 10-K both as reported (on a GAAP basis), and as adjusted excluding from our fiscal 2009 results the impact of the adverse U.K. tax ruling relating to the self-employment status of the Company s U.K. leaders and restructuring charges associated with our previously disclosed cost savings initiatives, and adjusting the fiscal 2008 results to exclude the impact of the adverse U.K. VAT ruling. See Item 3. Legal Proceedings U.K. Self-Employment Matter and U.K. VAT Matter in Part I of this Annual Report on Form 10-K for further details on these rulings. We generally refer to such non-GAAP measures as excluding or adjusting for the impact of these rulings and/or these restructuring charges. Our management believes these non-GAAP financial measures 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.

Use of Constant Currency

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

such amounts calculated on a constant currency basis as excluding or adjusting for the impact of foreign currency. These results should be considered in addition to, not as a

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substitute for, results reported in accordance with GAAP. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with GAAP.

Critical Accounting Policies

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

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

Revenue Recognition

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

WeightWatchers.com primarily generates revenue from monthly Internet product subscriptions. Subscription fee revenues are recognized over the period that products are provided. One time sign up fees are deferred and recognized over the expected customer relationship period. Subscription fee revenues that are paid in advance are deferred and recognized on a straight-line basis over the subscription period.

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

Goodwill and Other Indefinite-lived Intangible Assets

Finite-lived intangible assets are amortized using the straight-line method over their estimated useful lives of 3 to 20 years. We review goodwill and other indefinite-lived intangible assets, including franchise rights acquired, for potential impairment on at least an annual basis or more often if events so require. We performed fair value impairment testing as of the end of fiscal 2009 and fiscal 2008 on our goodwill and other indefinite-lived intangible assets and determined that the carrying amounts of these assets did not exceed their respective fair values, and therefore, no impairment existed. When determining fair value, we utilize various assumptions, including projections of future cash flows, growth rates and discount rates. A change in these underlying assumptions will cause a change in the results of the tests and, as such, could cause fair value to be less than the

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carrying amounts. In the event such a decrease occurred, we would be required to record a corresponding charge, which would impact earnings. We would also be required to reduce the carrying amounts of the related assets on our balance sheet. We continue to evaluate these estimates and assumptions and believe that these assumptions are appropriate.

In performing the impairment analysis for franchise rights acquired, the fair value for our franchise rights acquired is estimated using a discounted cash flow approach. This approach involves projecting future cash flows attributable to the franchise rights acquired and discounting those estimated cash flows using an appropriate discount rate. The estimated fair value is then compared to the carrying value of the unit of accounting for those franchise rights. In determining the appropriate unit of accounting, we have concluded that the unit of accounting for each franchise right acquired is the country corresponding to the acquired franchise territory. The carrying values of these franchise rights acquired in the United States, Canada, United Kingdom, Australia/New Zealand and other countries at January 2, 2010 were $656.6 million, $68.6 million, $14.6 million, $13.2 million and $5.6 million, respectively, totaling $758.6 million.

We estimate future cash flows for each unit of accounting by utilizing the historical cash flows attributable to the rights in that country and then applying a growth rate using a blend of the historical operating income growth rates for such country and expected future operating income growth rates for such country. We utilize operating income as the basis for measuring our potential growth because we believe it is the best indicator of the performance of our business. For fiscal 2009, the blended growth rates used in our discounted cash flow analysis ranged from zero to a growth of approximately 11%. For fiscal 2008, the blended growth rates used in our discounted cash flow analysis ranged from a decline of approximately 2.0% to a growth of approximately 8.5%. We then discount the estimated future cash flows utilizing a discount rate. The discount rate is calculated using the weighted average cost of capital, which includes the cost of equity and the cost of debt. The cost of equity is determined by combining a risk-free rate of return and a market risk premium. The risk-free rate of return is generally determined based on the average rate of long-term Treasury securities. The market risk premium is generally determined by reviewing external market data. When appropriate, we further adjust the resulting combined rate to account for certain entity-specific factors such as maturity of the market in order to determine the utilized discount rate. The cost of debt is our average borrowing rate for the period. The discount rates used in our fiscal 2009 year-end impairment test and our fiscal 2008 impairment test as tested in the third quarter of fiscal 2009 averaged approximately 11.5% and 10.8%, respectively.

At the end of fiscal 2009, we estimated that approximately 90% of the carrying value of our franchise rights acquired had a fair value of at least three times their respective carrying amounts. In the United States, our region which held approximately 87% of the franchise rights acquired, the aggregate fair value of our franchise rights acquired was approximately three times the aggregate carrying value. Given that there is a significant difference between the fair value and carrying value of our franchise rights acquired, we believe there are currently no reasonably likely changes in assumptions that would cause an impairment.

Derivative Instruments and Hedging

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

Income Taxes

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

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On December 31, 2006, the first day of fiscal 2007, the Company adopted new accounting guidance governing the recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. As a result of the December 31, 2006 adoption of this accounting guidance, the Company increased its tax liability for unrecognized tax benefits by $1.9 million, which was accounted for as a reduction to the opening balance of retained earnings for fiscal 2007.

Capitalized Software Development

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

Share-Based Compensation

On January 1, 2006, we adopted accounting guidance on share-based compensation and began recognizing the cost of all share-based awards based on their estimated grant-date fair value over the related service period of such awards. Upon adoption of this accounting guidance, we elected to apply the modified prospective transition method to all past awards outstanding and unvested as of the date of adoption and began recognizing the associated expense over the remaining vesting period based on the fair values previously determined and disclosed as part of our pro forma disclosures. We have not restated the results of prior periods.

The fair value of restricted stock units and vested shares is determined by the market price of our common stock on the date of grant. The fair value of option awards is estimated on the date of grant using the Black-Scholes option pricing model, which requires estimates of the expected term of the option, the expected volatility of the Company s stock price, the risk-free interest rate and the expected dividend yield. We recognize expense for all share-based awards based on the fair value of the number of awards we estimate will fully vest. A change in these underlying assumptions will cause a change in the estimated fair value of share-based awards and the underlying expense recorded. We continue to evaluate these estimates and assumptions and believe that these assumptions are appropriate.

Results of Operations

Comparison of Fiscal 2009 (52 weeks) to Fiscal 2008 (53 weeks)

Two adverse U.K. tax rulings caused the Company to record prior period adjustments that negatively impacted certain key metrics in both fiscal 2009 and fiscal 2008. We discuss these U.K. rulings in further detail in Item 3. Legal Proceedings U.K. Self-Employment Matter and U.K. VAT Matter in Part I of this Annual Report on Form 10-K. The table below shows our consolidated results for fiscal 2009 versus fiscal 2008 on both a GAAP basis and on an adjusted basis to show the impact of these rulings on both years and to exclude the restructuring charges associated with our cost savings initiatives in fiscal 2009.

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Statement of Operations as Reported and Adjusted

	(In millions, except per share amounts)			
	Fiscal 2009	Fiscal 2008	Increase/ (Decrease)	% Change
Revenues, net (as adjusted)[1]	$ 1,398.9	$ 1,554.5	$ (155.6)	(10.0%)
U.K. VAT ruling impact on prior years 2005 2007[7]		(18.7)	18.7	(100.0%)
Revenues, net of VAT ruling	1,398.9	1,535.8	(136.9)	(8.9%)
Cost of revenues (as adjusted)[1]	634.3	700.8	(66.5)	(9.5%)
U.K. self-employment ruling impact on 2009[1]	4.2		4.2	100.0%
U.K. self-employment ruling impact on prior years 2001 2008[8]	32.5		32.5	100.0%
Cost of revenues	671.0	700.8	(29.8)	(4.3%)
Gross Profit	727.9	835.0	(107.1)	(12.8%)
Gross Margin %	*52.0%*	*54.4%*		
Marketing expenses	200.5	227.4	(26.9)	(11.8%)
Selling, general & administrative expenses (as adjusted)[1]	165.3	182.6	(17.3)	(9.5%)
Impact of restructuring charges	5.5		5.5	100.0%
Selling, general & administrative expenses	170.8	182.6	(11.8)	(6.5%)
Operating income	356.6	425.0	(68.4)	(16.1%)
Operating Income Margin %	*25.5%*	*27.7%*		
Interest expense	66.7	92.7	(26.0)	(28.0%)
Other income, net	(0.2)	(2.0)	1.8	(90.0%)
Income before income taxes	290.1	334.3	(44.2)	(13.2%)
Provision for income taxes	115.6	132.0	(16.4)	(12.4%)
Net income	174.5	202.3	(27.8)	(13.7%)
Net loss attributable to the noncontrolling interest	2.8	2.0	0.8	40.0%
Net income attributable to the Company	$ 177.3	$ 204.3	$ (27.0)	(13.2%)
Weighted average diluted shares outstanding	77.1	78.5	(1.4)	(1.8%)
Diluted EPS	$ 2.30	$ 2.60	$ (0.30)	(11.5%)

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of operations to exclude from the results of operations for fiscal 2009 the impact of the U.K. self-employment ruling and the impact of restructuring charges and exclude from the results of operations for fiscal 2008 the impact of the U.K. VAT ruling pertaining to prior periods. The U.K. VAT ruling impact pertaining specifically to fiscal 2008 of $7.8 million has not been adjusted herein as both years presented include the impact of this ruling. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures.

During the second quarter of fiscal 2008, the Company received a ruling with respect to the imposition of U.K.VAT on meeting fees collected by our U.K. subsidiary. This ruling resulted in an $18.7 million charge for periods prior to fiscal 2008 against fiscal 2008 revenues. As the above table shows, when comparing our fiscal 2009 revenues of $1.4 billion to our fiscal 2008 revenues of $1.5 billion, revenues in fiscal 2009 decreased by 8.9% versus the prior year; however, on an adjusted basis, removing the $18.7 million charge from fiscal 2008, our revenues in fiscal 2009 declined by 10.0% versus fiscal 2008.

The Company received an adverse U.K. tax ruling relating to the self-employment status of its U.K. leaders in February 2010 which caused the Company to record in fiscal 2009 a prior period charge to expense of $32.5 million and a current period charge of $4.2 million. This tax ruling will impact cost of revenues on an ongoing

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basis. As the table above shows, our cost of revenues decreased by $29.8 million from $700.8 million in fiscal 2008 to $671.0 million in fiscal 2009, a decrease of 4.3%; however, on an adjusted basis, removing the aggregate $36.7 million charge from fiscal 2009, our cost of revenues in fiscal 2009 actually declined by 9.5% versus fiscal 2008.

The table above shows that, including the impact of these charges, the Company s fiscal 2009 gross profit was $727.9 million, as compared to $835.0 million in fiscal 2008, a decrease of $107.1 million or 12.8%, and that our gross profit margin of 52.0% declined 240 basis points from the prior year s gross profit margin of 54.4%.

In addition to the two adjustments for the U.K. tax rulings noted above, the Company recorded $5.5 million of restructuring charges in fiscal 2009 associated with the cost savings initiatives announced in the first quarter of fiscal 2009. Selling, general and administrative expenses were 6.5% lower in fiscal 2009 versus fiscal 2008. Excluding the restructuring charges in fiscal 2009, selling, general and administrative expenses were $17.3 million, or 9.5%, lower than in fiscal 2008.

Fiscal 2009 operating income of $356.6 million declined $68.4 million, or 16.1%, from the fiscal 2008 level of $425.0 million, and fiscal 2009 operating income margin declined to 25.5% compared to 27.7% in fiscal 2008. Net income attributable to the Company of $177.3 million in fiscal 2009 was reduced by after-tax charges of $25.6 million related to the adverse U.K. tax ruling relating to the self-employment status of the Company s U.K. leaders and $3.4 million for restructuring charges. Fiscal 2009 net income attributable to the Company declined $27.0 million, or 13.2%, from $204.3 million in fiscal 2008, which included after-tax charges of $12.7 million for the adverse U.K. VAT ruling. Fiscal 2009 diluted earnings per share of $2.30, including $0.38 of decline for the two fiscal 2009 items noted above, compared to $2.60 in fiscal 2008, which included $0.17 of decline related to the fiscal 2008 charge noted above.

The table below illustrates the Company s fiscal 2009 and fiscal 2008 results for certain selected financial data on a comparable basis, after all adjustments as noted and discussed above are reflected.

Summary of Selected Financial Data as Adjusted

	(In millions, except per share amounts) As Adjusted[1]			
	Fiscal 2009	**Fiscal 2008**	**Increase/ (Decrease)**	**% Change**
Revenues, net	$ 1,398.9	$ 1,554.5	$ (155.6)	(10.0%)
Cost of revenues	634.3	700.8	(66.5)	(9.5%)
Gross Profit	764.6	853.7	(89.1)	(10.4%)
Gross Margin %	*54.7%*	*54.9%*		
Marketing expenses	200.5	227.4	(26.9)	(11.8%)
Selling, general & administrative expenses	165.3	182.6	(17.3)	(9.5%)
Operating income	398.8	443.7	(44.9)	(10.1%)
Operating Income Margin %	*28.5%*	*28.5%*		
Net income attributable to the Company	$ 206.3	$ 217.0	$ (10.7)	(4.9%)
Weighted average diluted shares outstanding	77.1	78.5	(1.4)	(1.8%)
Diluted EPS	$ 2.68	$ 2.77	$ (0.09)	(3.2%)

(1) As adjusted is a non-GAAP financial measure that adjusts the consolidated statements of operations to exclude from the results of operations for fiscal 2009 the impact of the U.K. self-employment ruling and the impact of restructuring charges and exclude from the results of operations for fiscal 2008 the impact of the U.K. VAT ruling pertaining to periods prior to fiscal 2008. The U.K. VAT ruling impact pertaining

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specifically to fiscal 2008 of $7.8 million has not been adjusted herein as both years presented include the impact of this ruling. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures. Set forth below is a reconciliation of gross profit, operating income, net income attributable to Company and diluted earnings per share to the as reported amounts.

Excluding the charges noted above associated with the U.K. tax rulings in both fiscal years, gross profit of $764.6 million in fiscal 2009 declined by $89.1 million, or 10.4%, versus $853.7 million in fiscal 2008. Despite a 10.0% decline in revenues, the Company s adjusted gross margin was 54.7%, down just 20 basis points from 54.9% in fiscal 2008 as a result of our variable cost business model and cost savings initiatives. Adjusted operating income of $398.8 million in fiscal 2009 declined by $44.9 million, or 10.1%, versus $443.7 million in fiscal 2008; however, the fiscal 2009 adjusted operating income margin of 28.5% remained unchanged from prior year, benefiting from lower marketing expenses and selling, general and administrative expense savings.

The following table sets forth a reconciliation for fiscal 2009 and fiscal 2008 of certain selected financial data set forth in the above Summary of Selected Financial Data as Adjusted table:

	(In millions, except per share amounts)			
	Gross Profit	Operating Income	Net Income Attributable to Company	Diluted EPS
Fiscal 2009 as Reported	$ 727.9	$ 356.6	$ 177.3	$ 2.30
Adjustments to Reported Amounts				
Impact of restructuring charges		5.5	3.4	0.04
U.K. self-employment ruling impact on 2009	32.5	32.5	22.7	0.29
U.K. self-employment ruling impact on prior years 2001 2008	4.2	4.2	2.9	0.04
Total U.K. self-employment ruling impact	36.7	36.7	25.6	0.33
Total Adjustments	36.7	42.2	29.0	0.38
Fiscal 2009 as Adjusted	$ 764.6	$ 398.8	$ 206.3	$ 2.68

	Gross Profit	Operating Income	Net Income Attributable to Company	Diluted EPS
Fiscal 2008 as Reported	$ 835.0	$ 425.0	$ 204.3	$ 2.60
Adjustments to Reported Amounts				
U.K. VAT ruling impact on prior years 2005 2007	18.7	18.7	12.7	0.17
Fiscal 2008 as Adjusted	$ 853.7	$ 443.7	$ 217.0	$ 2.77

Note: Totals may not sum due to rounding

Components of Revenue and Volumes

The Company s fiscal year ends on the Saturday closest to December 31 and consists of either 52- or 53-week periods. Fiscal 2009 which began on January 4, 2009 and ended on January 2, 2010 contained 52 weeks, while fiscal 2008 which began on December 30, 2007 and ended on January 3, 2009 contained 53 weeks. Given that fiscal 2009 began on January 4, 2009, for comparability, week 1 of fiscal 2008 (December 30, 2007 through January 5, 2008) was excluded. The excluded extra week in fiscal 2008 contributed globally an additional $15.8 million in net revenues, or 1.0%, and additional operating income of $3.3 million, or 0.8%, to fiscal 2008. The extra week also contributed globally 0.6 million, or 1.0%, in additional meeting attendances and 1.3 million, or 1.4%, in additional paid weeks.

For the 52 weeks of fiscal 2009 net revenues were $1,398.9 million, a decrease of 8.9%, versus the prior year of 53 weeks. After adjusting fiscal 2008 revenues for the U.K. VAT ruling, net revenues for fiscal 2009 of $1,398.9 million, declined $155.6 million, or 10.0%, from $1,554.5 million for fiscal 2008. The largest

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component of this decline in revenues in fiscal 2009 versus the prior year was the unfavorable impact of foreign currency exchange rates, which reduced our revenues by $63.9 million, or 4.1%. In fiscal 2009, the average exchange rate from the British pound to the U.S. dollar dropped by 15.3% versus the prior year, from 1.853 to 1.569, and the average exchange rate from the Euro to the U.S. dollar dropped by 5.1% versus the prior year, from 1.471 to 1.396.

For the 52 weeks of fiscal 2009, global meeting fees were $817.5 million, a decrease of $90.6 million, or 10.0%, from the prior year of 53 weeks. After adjusting fiscal 2008 for the U.K. VAT ruling, global meeting fees were $926.8 million in fiscal 2008. On this as-adjusted basis, global meeting fees in fiscal 2009 decreased $75.0 million, or 8.1%, as compared to fiscal 2008 on a constant currency basis. Global meeting paid weeks were 87.6 million in fiscal 2009 versus 91.3 million in the prior year, a 4.0% decline. Global attendance declined 9.5% to 54.3 million in fiscal 2009 versus 60.0 million in the prior year.

Declining volume trends in the midst of difficult economic conditions worldwide led to a decline in global meeting fees in fiscal 2009, but the increased acceptance of Monthly Pass in our international markets mitigated part of this revenue decline. We now have Monthly Pass outside the United States, in the United Kingdom, Germany, and Australia, each of which launched in the third quarter of fiscal 2007, France, which launched during the second quarter of fiscal 2008 and in Sweden, which launched during the fourth quarter of fiscal 2009. The global average meeting fee per attendee in fiscal 2009, which decreased 0.5% versus the prior year in total, actually increased 1.6% on a comparable basis excluding the negative impact of foreign currency and the fiscal 2008 U.K. VAT ruling impact.

In NACO, meeting fees for the 52 weeks of fiscal 2009 were $547.0 million, a decline of $78.3 million, or 12.5%, from $625.3 million for the 53 weeks of fiscal 2008. Meeting attendances of 32.1 million and paid weeks of 55.8 million declined at a similar rate versus the prior year, down 11.8% and 8.4%, respectively. As a result of economic conditions, it is generally acknowledged that consumers significantly reduced their discretionary spending in 2009. We believe this has had the impact of deferring weight loss efforts on the part of some consumers, particularly potential new members, whose decision to spend on any new service or product was likely to be highly scrutinized. Partially in an effort to spur demand in this economic environment, in September 2009, NACO launched its first new major price promotion other than the free registration promotion which has been part of our seasonal marketing campaigns for many years. This new promotion lowered our second half fiscal 2009 meeting fees by approximately 1.7%, but had an immediate, positive effect on our enrollment trends and on shifting members from the pay-as-you-go payment model into the more profitable Monthly Pass recurring payment plan model. Members who purchase Monthly Pass on average have a longer tenure and are thus more profitable to us.

Our international meeting fees were $270.5 million for the 52 weeks of fiscal 2009 as compared to $282.8 million, a decrease of $12.3 million, or 4.3%, from the prior year of 53 weeks and a decrease of 10.3% after adjusting fiscal 2008 for the U.K. VAT ruling which reduced 2008 international meeting fees by $18.7 million. The decline in international meeting fees was the result of the negative impact of foreign currency exchange. On a constant currency basis, international meeting fees in fiscal 2009 increased $0.9 million, or 0.3%, from the prior year as adjusted for the U.K. VAT ruling. International meeting fees per attendee, which increased 1.7% including the negative impact of foreign currency exchange and including the impact in fiscal 2008 of the U.K. VAT ruling, increased by 6.7% in constant currency on a comparable to prior year basis excluding the impact of the U.K. VAT ruling. Monthly Pass in the United Kingdom, Germany and France enabled constant currency meeting fee revenue stability in fiscal 2009 versus the prior year, and drove a 4.9% increase over prior year in total paid weeks in our international meetings business, despite the overall international attendance decline of 5.9% in the period. Fiscal 2009 paid weeks increased 8.1% in the United Kingdom and 1.6% in Continental Europe versus the prior year.

Global product sales for fiscal 2009 were $292.1 million, a decline of $47.7 million, or 14.0%, from $339.8 million in fiscal 2008, with 5.9% of decline resulting from foreign currency translation. Global in-meeting product sales per attendee declined 2.8% in fiscal 2009 versus the prior year; however, on a constant currency

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basis, global in-meeting product sales per attendee increased 4.1% versus the prior year. In NACO, fiscal 2009 in-meeting product sales in total declined 11.0%, or $15.7 million, versus fiscal 2008, to $126.7 million, due in full to lower attendances, as product sales per attendee in NACO rose 0.9%. Internationally, in-meeting product sales per attendee declined 7.5% over the prior year but grew 5.1% on a constant currency basis, despite lower in-meeting product sales per attendee in Continental Europe resulting from our planned run down of inventory in preparation for the launch of our new program innovation. The growth was driven by the United Kingdom, where product sales were especially strong, increasing by 12.0% on a constant currency basis. International product sales in total were $137.6 million in fiscal 2009 versus $162.7 million in the prior year, down 3.5% on a constant currency basis.

Internet revenues, which include subscription revenues from Weight Watchers Online and Weight Watchers eTools as well as Internet advertising revenues, grew $10.2 million, or 5.5%, to $196.0 million for fiscal 2009 from $185.8 million for fiscal 2008. On a constant currency basis, fiscal 2009 Internet revenues rose 8.1% versus the prior year. Online signup growth decelerated in the United States in fiscal 2009 versus the prior year, reflecting both the impact of low consumer confidence in 2009 and higher online signup growth in the prior year. Internationally, online signup growth was driven by successful marketing campaigns and promotions. End-of-period active Weight Watchers Online subscribers increased 12.4%, from 679,000 at January 3, 2009 to 763,000 at January 2, 2010.

Other revenue, comprised primarily of licensing revenues and revenues from our publications, was $80.2 million for fiscal 2009, a decrease of $5.7 million, or 6.6%, from $85.9 million in fiscal 2008. Excluding the negative impact of foreign currency, other revenue decreased $1.5 million in fiscal 2009 versus the prior year. Our fiscal 2009 global licensing revenues, which decreased 4.1%, increased 1.0% on a constant currency basis versus fiscal 2008 on the strength of the U.K. licensing business. Economic conditions have tempered growth in our licensing business elsewhere during fiscal 2009. In the United States, licensing revenues were impacted by two historically significant deals. In one case, we restructured a contract with a major licensing partner and reduced minimum payments. In another case, we had a significant fall off in revenues from a license partner who recently had an ownership change.

Franchise royalties for fiscal 2009 were $8.4 million in the United States and $4.7 million internationally. Total franchise royalties of $13.1 million were 19.2% lower in fiscal 2009 versus the prior year, or 17.0% lower in constant currency. Excluding lost commissions resulting from franchise acquisitions which occurred during fiscal 2008, franchise royalties for fiscal 2009 declined 14.6% on a constant currency basis versus the prior year, with demonstrable impact from the weakened U.S. economy.

Components of Expenses and Margins

Cost of revenues was $671.0 million for fiscal 2009, a decrease of $29.8 million, or 4.3%, from $700.8 million for fiscal 2008. The decrease was driven by lower meeting attendances. As noted above, fiscal 2009 cost of revenues included an aggregate charge of $36.7 million related to the adverse U.K. tax ruling relating to the self-employment status of the Company s U.K. leaders which increased 2009 cost of revenues by 5.2% over prior year, and diluted fiscal 2009 gross profit margin by 270 basis points. Including the impact of the U.K. self-employment tax ruling in fiscal 2009 and the U.K. VAT ruling in fiscal 2008, the gross profit margins in fiscal 2009 and fiscal 2008 were 52.0% and 54.4%, respectively. Excluding the charge related to the U.K. self-employment tax ruling, the fiscal 2009 gross profit margin was 54.7%. This compared to the fiscal 2008 gross profit margin of 54.9% excluding the 50 basis point negative impact of the previously mentioned 2008 U.K. VAT ruling. On this comparable basis, the 54.7% gross margin in fiscal 2009 was just 20 basis points below 54.9% in fiscal 2008 with the decline resulting from lower attendance per meeting and in-meeting product promotions. Our variable cost business model prevented deeper margin compression in fiscal 2009 despite the impact of the global recessionary economy on our volumes and revenues.

Marketing expenses for fiscal 2009 decreased $26.9 million, or 11.8%, to $200.5 million from $227.4 million for fiscal 2008. Marketing expenses as a percentage of revenues declined to 14.3% in fiscal 2009 as

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compared to 14.6% in the prior year as adjusted for the impact of the U.K. VAT ruling. Excluding the impact of foreign currency exchange, the year-over-year decrease in marketing expense was $17.0 million, or 7.5%. The meeting room business drove the decline which resulted from a combination of advertising rate efficiencies and cost containment efforts across our geographies, particularly in Continental Europe.

Selling, general and administrative expenses were $170.8 million for fiscal 2009 versus $182.6 million for fiscal 2008, a decrease of $11.8 million, or 6.5%. Our selling, general and administrative expenses in fiscal 2009 included $5.5 million of restructuring charges associated with our cost savings initiatives and also included a $5.9 million benefit from foreign currency translation. Excluding the restructuring charges and the benefit from foreign currency translation, selling, general and administrative expenses were $171.2 million for fiscal 2009, a decrease of $11.4 million, or 6.2%, from the prior year, reflecting cost savings from restructuring and other initiatives that began to have an impact in the second quarter of fiscal 2009. Selling, general and administrative expenses declined despite higher investment with respect to our China Joint Venture and increased depreciation resulting from our information technology investments. Our selling, general and administrative expenses were 12.2% of revenues for fiscal 2009. Excluding the negative impact of restructuring charges from our fiscal 2009 results and excluding the impact of the U.K. VAT ruling from our fiscal 2008 results, selling, general and administrative expenses as a percent of revenues were 11.8% and 11.7%, respectively.

Our operating income for fiscal 2009 was $356.6 million, a decrease of $68.4 million, or 16.1%, from the fiscal 2008 level. Excluding the impact of the adverse U.K. tax rulings from both years and the restructuring charges from fiscal 2009, our operating income for fiscal 2009 declined by $44.9 million, or 10.1%, from $443.7 million in fiscal 2008 to $398.8 million in fiscal 2009. Foreign currency exchange accounted for $15.2 million, or 3.4%, of decline. On a constant currency basis, fiscal 2009 operating income, as adjusted for the U.K. self-employment ruling and for restructuring charges, decreased $29.7 million, or 6.7%, versus the prior year as adjusted for the U.K. VAT ruling in fiscal 2008. Volume declines were partially offset by lower marketing expenses and cost savings initiatives across most major expense categories.

Our operating income margin for fiscal 2009 was 25.5% versus 27.7% for fiscal 2008. Excluding the U.K. self-employment ruling and the restructuring charges in fiscal 2009 and adjusting fiscal 2008 for the U.K. VAT ruling, our adjusted operating income margin was flat at 28.5% in both fiscal 2009 and fiscal 2008.

Interest expense was $66.7 million for fiscal 2009, a decrease of $26.0 million, or 28.0%, from $92.7 million in fiscal 2008. The Company s average effective interest rate declined 127 basis points, down from 5.44% in fiscal 2008 to 4.17% in fiscal 2009, mainly as a result of lower market rates. During 2009, we made debt payments of $194.5 million, reducing our debt outstanding under our credit facility to $1.453 billion at the end of fiscal 2009 as compared to $1.648 billion at the end of fiscal 2008.

We reported other income of $0.2 million in fiscal 2009 as compared to $2.0 million in the comparable prior year period. The change resulted primarily from the impact of foreign currency exchange rates on intercompany transactions.

The Company s effective tax rate was 39.8% in fiscal 2009 and 39.5% in fiscal 2008. Our tax rate for both years was inflated as charges associated with the U.K. tax rulings in 2009 and 2008 resulted in changes in the geographic mix of our income in both years. Excluding the U.K. tax rulings, the effective tax rate was 38.7% in fiscal 2009 and 39.1% in fiscal 2008.

Comparison of Fiscal 2008 (53 weeks) to Fiscal 2007 (52 weeks)

Certain key metrics were significantly negatively affected by net offsets to revenue recorded in fiscal 2008 resulting from the adverse U.K. VAT ruling received by the Company during the second quarter 2008 with respect to the imposition of VAT on meeting fees collected by our U.K. subsidiary. We discuss the U.K. VAT ruling in Note 14 of our Consolidated Financial Statements. After accounting for the aforementioned U.K. VAT

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ruling, which lowered our full year revenues by a net $26.5 million, our reported revenues for fiscal 2008 were $1,535.8 million, an increase of $68.6 million, or 4.7%, from the prior year. In fiscal 2008, our global meeting fees were $908.1 million, an increase of $27.4 million, or 3.1%, from the prior year, and our international meeting fees were $282.8 million, an increase of $5.8 million, or 2.1%, from the prior year, including in both the $26.5 million negative net impact to our international revenues from the U.K. VAT ruling.

Our fiscal 2008 gross profit margin of 54.4% declined 110 basis points from the prior year s margin of 55.5%, with approximately half of the gross profit margin decline resulting from the negative net impact of the U.K. VAT ruling. While our gross profit margins remain strong given our variable cost business model, in fiscal 2008 there was margin compression in the meetings business driven primarily by fewer attendances per meeting, ramp up costs for Monthly Pass in Continental Europe, and costs associated with program innovation launches in the United States and United Kingdom. Our operating income margin was similarly affected, declining from 29.7% in fiscal 2007 to 27.7% in fiscal 2008, as a result of the U.K. VAT ruling, other gross margin declines as described above, and increases in marketing and general and administrative expenses as a percentage of revenues. Our operating income for fiscal 2008 was $425.0 million, a decrease of $10.6 million, or 2.4%, from the prior year, including the $26.5 million charge associated with the U.K. VAT ruling. Our effective tax rate increased from 38.4% for fiscal 2007 to 39.5% for fiscal 2008, due mainly to the negative net impact of the U.K. VAT ruling which contributed to a shift in the geographic mix of our earnings.

The table below shows our consolidated results for fiscal 2008 versus fiscal 2007 on both a GAAP basis and as adjusted to give effect to the U.K. VAT ruling. See Non-GAAP Financial Measures above. As a result of the adverse U.K. VAT ruling, our consolidated results for fiscal 2008 include a net negative aggregate adjustment of $26.5 million to revenues (including interest), offset by a tax benefit of $8.3 million.

	(In millions, except per share amounts)			
	Fiscal 2008	Fiscal 2007	Increase/ (Decrease)	% Change
Revenues, net (as adjusted)[1]	$ 1,562.3	$ 1,467.2	$ 95.1	6.5%
U.K. VAT ruling impact on fiscal 2008[1]	(7.8)		(7.8)	
U.K. VAT ruling impact on prior years 2005-2007[1]	(18.7)		(18.7)	
Revenues, net of U.K. VAT ruling	1,535.8	1,467.2	68.6	4.7%
Cost of revenues	700.8	653.3	47.5	7.3%
Gross profit	835.0	813.9	21.1	2.6%
Marketing expenses	227.4	205.3	22.1	10.8%
Selling, general and administrative expenses	182.6	173.0	9.6	5.5%
Operating income	425.0	435.6	(10.6)	(2.4%)
Interest expense	92.7	109.3	(16.6)	(15.2%)
Other income, net	(2.0)	(3.2)	1.2	(37.5%)
Early extinguishment of debt		3.0	(3.0)	(100.0%)
Income before income taxes	334.3	326.5	7.8	2.4%
Provision for income taxes	132.0	125.3	6.7	5.3%
Net income	202.3	201.2	1.1	0.5%
Net income attributable to non controlling interest	2.0		2.0	
Net income attributable to the Company	$ 204.3	$ 201.2	$ 3.1	1.5%
Weighted average diluted shares outstanding	78.5	81.1		
Diluted EPS	$ 2.60	$ 2.48	$ 0.12	4.8%

(1) With respect to fiscal 2008, revenues, net (as adjusted) is a non-GAAP financial measure that adjusts net revenues to exclude the impact of the U.K. VAT ruling. See Non-GAAP Financial Measures above for an explanation of our use of non-GAAP financial measures.

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The Company s fiscal year ends on the Saturday closest to December 31st and consists of either 52- or 53-week periods. Fiscal 2008 contained 53 weeks, while fiscal 2007 contained 52 weeks. The 53rd week in fiscal 2008, which began on December 28, 2008 and ended on January 3, 2009, contributed globally an additional $13.6 million in net revenues, or 0.9%, and additional operating income of $3.5 million, or 0.8%, to fiscal 2008. The 53rd week also contributed globally 0.9 million, or 0.7%, in additional paid weeks and 0.4 million, or 0.7%, in additional attendances, to fiscal 2008. The impact of the 53rd week in fiscal 2008 was primarily attributable to NACO, as a majority of our international meeting operations were closed during this week for the holiday period.

As noted above, net revenues for fiscal 2008 were $1,535.8 million, an increase of $68.6 million, or 4.7%, from $1,467.2 million for fiscal 2007. Excluding the full net impact of the U.K. VAT ruling on current and prior year periods, net revenues of $1,562.3 million in fiscal 2008 increased $95.1 million, or 6.5%, versus fiscal 2007. The U.K. VAT ruling will negatively impact net revenues on an ongoing basis. Net revenues in fiscal 2008 include a $6.6 million, or 0.4%, benefit from the favorable effects of foreign currency exchange rates. The table above shows that $7.8 million of the total net charge related to the U.K. VAT ruling pertained specifically to fiscal 2008. Earned net revenues in fiscal 2008, reduced for this $7.8 million portion of the U.K. VAT charge, were $1,554.5 million. The U.K. VAT ruling net impact for current and prior years lowered our gross margin and operating income margins by 70 basis points and 120 basis points, respectively. Excluding this net impact, fiscal 2008 gross margin was 55.1% and operating income margin was 28.9%.

For fiscal 2008, reported global meeting fees were $908.1 million, an increase of $27.4 million, or 3.1%, from the prior year. Excluding the aggregate net adjustment for the U.K. VAT ruling of $26.5 million, global meeting fees totaled $934.6 million in fiscal 2008 versus $880.7 million in fiscal 2007, an increase of $53.9 million, or 6.1%, including the favorable impact of foreign currency translation. Global attendance was 60.0 million in fiscal 2008 versus 62.7 million in fiscal 2007, a 2.7 million, or 4.3%, decline. The increase in global meeting fees is attributable to Monthly Pass. We now have Monthly Pass outside the United States, in the United Kingdom, Germany, and Australia, each of which launched in the third quarter of 2007, and in France, which launched during the second quarter of 2008. Monthly Pass drove paid weeks in the global meetings business to 91.3 million in fiscal 2008, a 7.9% increase versus fiscal 2007, and resulted in a 10.4% increase in the average meeting fee per attendee on a constant currency basis versus the prior year.

In NACO, meeting fees for fiscal 2008 were $625.3 million, up $21.6 million, or 3.6%, from $603.7 million for fiscal 2007. Attendance declined 4.3% versus the prior year to 36.5 million including the impact of acquisitions, and declined 6.2% without the impact of acquisitions. This decline in attendance resulted from a number of factors. Rising gasoline and other consumer prices, the worsening economic climate and reduced credit availability adversely affected consumer spending. In fiscal 2008, paid weeks rose 4.5% versus the prior year as a result of the continued success of Monthly Pass outpacing attendance and thereby driving an 8.2% increase in the average meeting fee per attendee versus the prior year. In the United States, the third quarter of fiscal 2008 marked the second anniversary of the launch of Monthly Pass.

Our reported international meeting fees were $282.8 million for fiscal 2008, an increase of $5.8 million, or 2.1%, from fiscal 2007. Excluding the net adjustment for the U.K. VAT ruling, our international meeting fees were $309.3 million for fiscal 2008, an increase of $32.3 million, or 11.7%, from $277.0 million for fiscal 2007. On a local currency basis, these adjusted international meeting fees rose 10.4% compared to the prior year. Total paid weeks in our international meetings business increased 15.4% versus the prior year, with the United Kingdom up 17.4% and Continental Europe up 16.5%. The introduction of Monthly Pass in the United Kingdom and Germany in the third quarter of 2007, coupled with a concurrent price increase in the United Kingdom, and the introduction of Monthly Pass in France in the second quarter of fiscal 2008 drove international meeting fee revenue growth in fiscal 2008, despite a 4.4% decline in attendance versus the prior year.

Global product sales for fiscal 2008 were $339.8 million, up $2.1 million, or 0.6%, from $337.7 million for fiscal 2007, driven by an increase in product sales per attendee across all of our markets. A regular strategy of new product launches, rotation of product offerings, and updating our enrollment products resulted in a trend of

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growth in product sales per attendee. The difficult trends in the economic environment, however, are now evident in our meeting product sales performance. Global product sales per attendee, which had posted growth versus prior year throughout most of fiscal 2008, were up only marginally in the fourth quarter of fiscal 2008. Internationally, product sales increased 5.1%, or $7.9 million, from fiscal 2007 to $162.7 million for fiscal 2008. In local currencies, international product sales rose 2.3%, as compared with the prior year. In NACO, product sales declined 3.2%, or $5.8 million, to $177.1 million in fiscal 2008, primarily due to lower attendance.

Internet revenues, which include subscription revenue from sales of Weight Watchers Online and Weight Watchers eTools, as well as Internet advertising revenue, grew $34.2 million, or 22.6%, to $185.8 million for fiscal 2008 from $151.6 million for fiscal 2007. End-of-period active Weight Watchers Online subscribers increased 16.3%, from 584,000 at December 29, 2007 to 679,000 at January 3, 2009. Strong signup volumes in all geographies, combined with the launch of Weight Watchers Online in France and the Netherlands, contributed to this growth.

Other revenue, comprised primarily of licensing revenues and our publications, was $85.9 million for fiscal 2008, an increase of $5.7 million, or 7.1%, from $80.2 million for fiscal 2007. Licensing revenues increased $7.2 million globally, or 12.3%, as a result of higher royalties in NACO from our existing ice cream and yogurt licenses and new product licenses, as well as higher U.K. royalties on various other products.

Franchise royalties in fiscal 2008 were $10.8 million in NACO and $5.4 million internationally. Total franchise royalties were $16.2 million in fiscal 2008, and were $0.8 million lower than fiscal 2007; however, excluding lost commissions resulting from our recent franchise acquisitions, franchise royalties rose 1.6%.

Cost of revenues was $700.8 million for fiscal 2008, an increase of $47.5 million, or 7.3%, from $653.3 million for fiscal 2007. Our reported gross profit margin dropped 110 basis points, from 55.5% in fiscal 2007 to 54.4% in fiscal 2008. Excluding the net aggregate adjustment for the U.K. VAT ruling, our gross margin was 55.1% for fiscal 2008, a decline of 40 basis points from the prior year. The decline in this adjusted gross margin was due to start-up costs for Monthly Pass in Continental Europe, lower meeting averages in some of the countries in which we operate, and lower product sales margins in NACO driven by change in product mix and higher supply chain costs. WeightWatchers.com, which carries a structurally higher gross margin, continued its trend of year-over-year gross margin expansion. Excluding the net aggregate adjustment for the U.K. VAT ruling, our gross profit increased $47.6 million, or 5.8%, to $861.5 million in fiscal 2008 from $813.9 million in fiscal 2007.

Marketing expenses for fiscal 2008 rose $22.1 million, or 10.8%, to $227.4 million, from $205.3 million for fiscal 2007, with the unfavorable effect of foreign currency exchange rates accounting for $3.3 million of the increase. We made significant marketing investments in the WW.com business during fiscal 2008 which proved successful, including using television advertising for the first time in the United Kingdom and Germany, and increasing our online advertising in all WeightWatchers.com geographies. In the meetings business, our international geographies experienced an increase in marketing expenses, driven by a combination of more expensive primetime television media coupled with additional television advertising in Continental Europe, partially to support the launch of our new programs there. On a reported basis, marketing expenses for fiscal 2008 were 14.8% of revenues. Excluding the net adjustment to revenues for the U.K. VAT ruling, our marketing expenses were 14.6% of revenues for fiscal 2008, versus 14.0% in fiscal 2007.

Selling, general and administrative expenses were $182.6 million for fiscal 2008, versus $173.0 million for fiscal 2007, an increase of $9.6 million, or 5.5%. Information technology costs remain the significant driver of the increase, representing our ongoing investment to upgrade our systems infrastructure. Higher expense in this area resulted from a combination of increased depreciation as we brought new information technology systems online, and higher maintenance costs related to new systems already put in service. Expenses of our China Joint Venture contributed $4.7 million to the increase. On a reported basis, selling, general and administrative expenses for fiscal 2008 were 11.9% of revenues. Excluding the net adjustment to revenues for the U.K. VAT ruling, selling, general and administrative expenses were down slightly versus last year as a percentage of net revenues, at 11.7% for fiscal 2008, versus 11.8% in the fiscal 2007.

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Our reported operating income for fiscal 2008 was $425.0 million, a decrease of $10.6 million, or 2.4%, versus fiscal 2007. Excluding the net adjustment for the U.K. VAT ruling, our operating income was $451.5 million for fiscal 2008 versus $435.6 million in fiscal 2007, an increase of $15.9 million, or 3.7%. Our reported operating income margin declined from 29.7% for fiscal 2007 to 27.7% for fiscal 2008. Excluding the net adjustment for the U.K. VAT ruling, our adjusted operating income margin for fiscal 2008 was 28.9%, a decrease of 80 basis points from 29.7% in fiscal 2007, as a result of the decline in gross margin coupled with higher marketing expense.

Interest expense was $92.7 million for fiscal 2008, a decrease of $16.6 million, or 15.2%, from $109.3 million for fiscal 2007, due to lower effective interest rates and a $44.0 million decrease in our average debt outstanding. The average effective interest rate for fiscal 2008 decreased to 5.44%, from 6.39% in fiscal 2007, a result of a decline in LIBOR combined with the 0.25% reduction in our interest rate spread over LIBOR for our two tranche A facilities and our revolving credit facility which took effect at the end of February 2008.

For fiscal 2008, we reported other income of $2.0 million, versus $3.2 million in fiscal 2007. The decrease is primarily the result of the impact of foreign currency exchange rates on intercompany transactions.

In fiscal 2007, we recorded a charge of $3.0 million for early extinguishment of debt. This charge reflected the write-off of deferred financing costs associated with the WW.com Credit Facilities, which were paid down during that period (as further explained in Note 7 to the Consolidated Financial Statements).

The effective tax rate on our reported results for fiscal 2008 was 39.5%, versus 38.4% in fiscal 2007. Excluding the adjustment for the U.K. VAT ruling, our effective tax rate for fiscal 2008 was 38.9%.

Liquidity and Capital Resources

Balance Sheet

Comparing the balance sheet at January 2, 2010 with that at January 3, 2009, our cash balance decreased by $1.2 million from $47.3 million to $46.1 million. Our working capital deficit at January 2, 2010 was $336.1 million, including $46.1 million of cash, versus $270.1 million, including $47.3 million of cash, at January 3, 2009. Excluding the change in cash, the working capital deficit increased by $64.8 million from January 3, 2009 to January 2, 2010.

Of the $64.8 million increase in negative working capital, $52.5 million reflects an increase in the current portion of our long-term debt, $36.7 million represents the accrual for the adverse U.K. tax ruling relating to the self-employment status of our U.K. leaders and $15.5 million represents lower prepaid and deferred income taxes. These are partially offset by a decrease in negative working capital of $39.9 million arising from a $22.3 million decrease in our derivative payable due to changes in the interest rate yield curve, a $9.3 million decrease in our U.K. VAT liability and operational items of $8.3 million, largely the result of lower payables and accrued expenses due to timing of these payments this year versus last year.

Capital spending has averaged approximately $29.0 million annually over the last three fiscal years and has consisted primarily of information system and website development expenditures, leasehold improvements, furniture and equipment for meeting locations.

Sources and Uses of Cash

Fiscal 2009

At the end of fiscal 2009, cash and cash equivalents were $46.1 million, a decrease of $1.2 million from the end of fiscal 2008. Cash flows provided by operating activities were $265.5 million, exceeding fiscal 2009 net income of $177.3 million by $88.2 million. The excess of cash over net income arose primarily from differences

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between book and cash taxes and typical non-cash depreciation and amortization expenses. Net cash used for investing and financing activities combined totaled $270.6 million. Investing activities, consisting primarily of capital spending, utilized $23.6 million. Net cash used for financing activities totaled $247.0 million, including dividend payments of $54.1 million and long-term debt payments of $194.5 million.

Fiscal 2008

At the end of fiscal 2008, cash and cash equivalents were $47.3 million, an increase of $7.5 million from the end of fiscal 2007. Cash flows provided by operating activities were $241.2 million. The cash provided by operations was driven by our net income of $204.3 million, changes in our working capital, and differences between book and cash taxes. Fiscal 2008 cash from operations was negatively impacted by timing of payments. Certain fiscal 2007 and fiscal 2009 tax and other payments amounting to approximately $30.0 million were made in fiscal 2008. Investing activities utilized $72.2 million, including $39.7 million for our fiscal 2008 franchise acquisitions and $31.6 million for capital spending. Net cash used for financing activities totaled $160.1 million. This included the repurchase of 2.8 million shares of our common stock for $116.0 million and dividend payments of $55.0 million. See Item 5 in Part II of this Annual Report on Form 10-K for more information regarding our stock repurchase plan.

Fiscal 2007

At the end of fiscal 2007, cash and cash equivalents were $39.8 million, an increase of $2.3 million from the end of fiscal 2006. Cash flows provided by operating activities were $318.5 million. The cash provided by operations was driven by our net income of $201.2 million, changes in our working capital and differences between book and cash taxes. Investing activities utilized $48.8 million, including $16.8 million for our fiscal 2007 franchise acquisitions and $31.8 million for capital spending. Net cash used for financing activities totaled $269.2 million. This included the repurchase of approximately 19.1 million shares of our common stock for $1,033.6 million in connection with our Tender Offer and share repurchase from Artal (as further explained in Liquidity and Capital Resources Stock Transactions) and dividend payments of $58.5 million, financed primarily by net proceeds from borrowings of $799.0 million.

Long-Term Debt

As of the end of fiscal 2009, our credit facility consisted of a term loan facility consisting of two tranche A facilities, or the Term Loan A and Additional Term Loan A, a tranche B facility, or the Term Loan B, and a revolving line of credit, or the Revolver, or collectively, the WWI Credit Facility. At the end of fiscal 2009, we had debt of $1,453.0 million and had additional availability under our $500.0 million Revolver of $368.9 million.

In January 2007, in connection with the Tender Offer (discussed in further detail in Item 1. Business History Tender Offer and Share Repurchase), we increased our debt capacity by adding the Additional Term Loan A in the amount of $700.0 million and the Term Loan B in the amount of $500.0 million. We utilized $185.8 million of these proceeds to pay off the WW.com Credit Facilities. In connection with this refinancing, we incurred expenses of $3.0 million. The Additional Term Loan A and the Term Loan B mature in January 2013 and January 2014, respectively.