WEIGHT WATCHERS INTERNATIONAL INC
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2012

OR

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

For the transition period from to

Commission File Number: 001-16769

WEIGHT WATCHERS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (212) 589-2700

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of common stock outstanding as of October 31, 2012 was 55,652,763.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS AT

(IN THOUSANDS)

	September 29, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 80,591	$ 47,469
Receivables, net	40,936	47,175
Inventories, net	40,173	53,437
Prepaid income taxes	7,958	3,071
Deferred income taxes	24,498	24,612
Prepaid expenses and other current assets	30,736	38,762
TOTAL CURRENT ASSETS	224,892	214,526
Property and equipment, net	62,253	41,072
Franchise rights acquired	782,886	764,026
Goodwill	51,218	50,012
Trademarks and other intangible assets, net	44,894	37,461
Deferred financing costs, net	28,460	8,720
Other noncurrent assets	3,353	5,811
TOTAL ASSETS	$ 1,197,956	$ 1,121,628
LIABILITIES AND TOTAL DEFICIT		
CURRENT LIABILITIES		
Portion of long-term debt due within one year	$ 133,808	$ 124,933
Accounts payable	50,811	60,810
Dividend payable	9,955	13,145
Derivative payable	17,009	24,613
UK self-employment liability	14,707	43,671
Accrued liabilities	166,687	140,573
Income taxes payable	1,511	2,704
Deferred revenue	104,125	83,758
TOTAL CURRENT LIABILITIES	498,613	494,207
Long-term debt	2,280,786	926,868
Deferred income taxes	127,342	100,723
Other	11,649	9,596
TOTAL LIABILITIES	2,918,390	1,531,394

TOTAL DEFICIT		
Common stock, $0 par value; 1,000,000 shares authorized; 111,988 shares issued	0	0
Treasury stock, at cost, 56,334 shares at September 29, 2012 and 38,389 shares at December 31, 2011	(3,285,575)	(1,793,983)
Retained earnings	1,553,654	1,378,616
Accumulated other comprehensive income	11,487	5,601
TOTAL DEFICIT	(1,720,434)	(409,766)
TOTAL LIABILITIES AND TOTAL DEFICIT	$ 1,197,956	$ 1,121,628

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF NET INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Meeting fees, net	$ 223,209	$ 233,400	$ 724,215	$ 771,898
Product sales and other, net	83,157	93,132	307,899	346,442
Internet revenues	124,244	101,902	386,783	299,538
Revenues, net	430,610	428,434	1,418,897	1,417,878
Cost of meetings, products and other	159,056	162,861	533,469	555,095
Cost of Internet revenues	15,721	14,390	47,706	41,309
Cost of revenues	174,777	177,251	581,175	596,404
Gross profit	255,833	251,183	837,722	821,474
Marketing expenses	65,886	61,514	279,981	232,329
Selling, general and administrative expenses	57,963	51,370	169,475	159,786
Operating income	131,984	138,299	388,266	429,359
Interest expense	23,225	13,655	60,149	46,840
Other (income) expense, net	(756)	285	2,531	40
Early extinguishment of debt	0	0	1,328	0
Income before income taxes	109,515	124,359	324,258	382,479
Provision for income taxes	42,151	43,709	124,827	141,796
Net income	67,364	80,650	199,431	240,683
Net loss attributable to the noncontrolling interest	0	0	0	523
Net income attributable to Weight Watchers International, Inc.	$ 67,364	$ 80,650	$ 199,431	$ 241,206
Earnings per share attributable to Weight Watchers International, Inc.				
Basic	$ 1.21	$ 1.10	$ 3.23	$ 3.29
Diluted	$ 1.20	$ 1.09	$ 3.19	$ 3.26
Weighted average common shares outstanding				
Basic	55,635	73,567	61,828	73,265
Diluted	56,122	74,263	62,486	74,040
Dividends declared per common share	$ 0.18	$ 0.18	$ 0.53	$ 0.53

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net income	$ 67,364	$ 80,650	$ 199,431	$ 240,683
Other comprehensive income:				
Foreign currency translation adjustments, net of tax[(a)]	1,243	(6,014)	1,018	(3,139)
Current period changes in fair value of derivatives, net of tax[(b)]	1,167	1,021	4,866	6,511
Total other comprehensive income	2,410	(4,993)	5,884	3,372
Comprehensive income	69,774	75,657	205,315	244,055
Comprehensive loss attributable to the noncontrolling interest	0	0	0	523
Comprehensive income attributable to Weight Watchers International, Inc.	$ 69,774	$ 75,657	$ 205,315	$ 244,578

(a) Net of tax benefit (provision) of $(795) and $3,846 for the three months ended September 29, 2012 and October 1, 2011, respectively, and $(651) and $2,007 for the nine months ended September 29, 2012 and October 1, 2011, respectively.

(b) Net of tax provision of $(746) and $(653) for the three months ended September 29, 2012 and October 1, 2011, respectively, and $(3,111) and $(4,163) for the nine months ended September 29, 2012 and October 1, 2011, respectively.

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Nine Months Ended	
	September 29, 2012	**October 1, 2011**
Operating activities:		
Net income	$ 199,431	$ 240,683
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	26,681	22,818
Amortization of deferred financing costs	5,178	3,730
Share-based compensation expense	5,905	6,456
Deferred tax provision	22,621	23,935
Allowance for doubtful accounts	(430)	1,606
Reserve for inventory obsolescence, other	8,245	10,771
Foreign currency exchange rate gain	(189)	(622)
Loss on disposal of assets	574	500
Loss on investment	2,697	735
Early extinguishment of debt	1,328	0
Other items, net	0	(631)
Changes in cash due to:		
Receivables	7,003	4,739
Inventories	6,710	(7,040)
Prepaid expenses	2,834	14,172
Accounts payable	(10,173)	(9,803)
UK self-employment liability	(30,018)	2,931
Accrued liabilities	34,646	37,115
Deferred revenue	19,870	29,899
Income taxes	(1,748)	(7,046)
Cash provided by operating activities	301,165	374,948
Investing activities:		
Capital expenditures	(35,585)	(12,950)
Capitalized software expenditures	(18,955)	(17,526)
Cash paid for acquisition	(17,000)	0
Other items, net	(81)	(544)
Cash used for investing activities	(71,621)	(31,020)
Financing activities:		
Proceeds from new term loans	1,449,397	0
Payments on long-term debt	(86,603)	(298,285)
Payment of dividends	(32,465)	(38,745)
Payments to acquire treasury stock	(1,504,208)	(34,924)
Deferred financing costs	(25,542)	0
Proceeds from stock options exercised	10,863	41,428
Tax benefit of restricted stock units vested and stock options exercised	3,021	6,617

Cash used for financing activities		(185,537)		(323,909)
Effect of exchange rate changes on cash and cash equivalents and other		(10,885)		868
Net increase in cash and cash equivalents		33,122		20,887
Cash and cash equivalents, beginning of period		47,469		40,534
Cash and cash equivalents, end of period	$	80,591	$	61,421

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

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of Weight Watchers International, Inc. and all of its subsidiaries. The term Company as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of its businesses consolidated for purposes of its financial statements. The term WWI as used throughout these notes is used to indicate Weight Watchers International, Inc. and all of the Company s businesses other than WW.com. The term WW.com as used throughout these notes is used to indicate WeightWatchers.com, Inc. and all of the Company s Internet-based businesses.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include amounts that are based on management s best estimates and judgments. While all available information has been considered, actual amounts could differ from those estimates. The consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments including those of a normal recurring nature necessary for a fair statement of the interim results presented.

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

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

2. Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements:

In July 2012, the Financial Accounting Standards Board (the FASB) issued updated guidance on the periodic testing of indefinite-lived intangible assets for impairment. This guidance allows companies to first assess qualitative factors to determine if it is more-likely-than-not that an indefinite-lived intangible asset might be impaired and whether it is necessary to perform the quantitative impairment test required under current accounting standards. This guidance is applicable for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted the provisions of this guidance in the third quarter of fiscal 2012. The adoption of this guidance did not have any affect on the consolidated financial position, results of operations or cash flows of the Company.

In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is applicable for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted the provisions of this guidance in the first quarter of fiscal 2012. The adoption of this guidance did not have any affect on the consolidated financial position, results of operations or cash flows of the Company.

In June 2011, the FASB issued authoritative guidance requiring companies to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of the guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued an amendment deferring the effective date for the presentation of reclassification adjustments out of accumulated other comprehensive income. The Company adopted the provisions of this guidance in the first quarter of fiscal 2012, and such adoption did not affect the consolidated financial position, results of operations or cash flows of the Company.

In May 2011, the FASB issued authoritative fair value guidance entitled Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

IFRSs . Some of the amendments included in the guidance clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company adopted the provisions of this guidance in the first quarter of fiscal 2012, and such adoption did not have a material impact on the disclosures in its consolidated financial statements.

Reclassification:

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

For a discussion of the Company s other significant accounting policies, see Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of the Company s Annual Report on Form 10-K for fiscal 2011.

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

Acquisitions of Franchisees

The acquisitions of franchisees have been accounted for under the purchase method of accounting and, accordingly, earnings of acquired franchisees have been included in the consolidated operating results of the Company since the applicable date of acquisition. During the third quarter of fiscal 2012, the Company acquired certain assets of its franchisee as outlined below. Prior to this purchase, there had been no key franchise acquisitions since fiscal 2008.

On September 10, 2012, the Company acquired substantially all of the assets of its Southeastern Ontario and Ottawa, Canada franchisee, Slengora Limited, for a net purchase price of $17,000. The total purchase price has been preliminarily allocated to franchise rights acquired ($15,263), goodwill ($1,199), customer relationship value ($322), fixed assets ($121), inventory ($71) and prepaid expenses and other current assets ($24). Due to the timing of this acquisition, the purchase price allocation has not yet been finalized.

The effect of this franchise acquisition was not material to the Company s consolidated financial position, results of operations, or operating cash flows in the periods presented.

Acquisition of Minority Equity Interest in China Joint Venture

On February 5, 2008, Weight Watchers Asia Holdings Ltd. (Weight Watchers Asia), a direct, wholly-owned subsidiary of the Company, and Danone Dairy Asia (Danone Asia), an indirect, wholly-owned subsidiary of Groupe DANONE S.A., entered into a joint venture agreement to establish a weight management business in the People s Republic of China. Pursuant to the terms of the joint venture agreement, Weight Watchers Asia and Danone Asia owned 51% and 49%, respectively, of the joint venture entity, Weight Watchers Danone China Limited (together with all of its businesses, the China Joint Venture). Because the Company had a direct controlling financial interest in the China Joint Venture, it consolidated the entity from the first quarter of fiscal 2008.

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

4. Goodwill and Intangible Assets

For the nine months ended September 29, 2012, the change in goodwill was due to foreign currency fluctuations. The Company s goodwill by reportable segment at September 29, 2012 was $25,018 related to its

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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WWI segment and $26,200 related to its WW.com segment. Franchise rights acquired are due to acquisitions of the Company s franchised territories. For the nine months ended September 29, 2012, the change in franchise rights acquired was due to the Company s acquisition of its Southeastern Ontario and Ottawa, Canada franchisee, as well as foreign currency fluctuations.

Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of $4,323 and $12,791 for the three and nine months ended September 29, 2012, respectively. Aggregate amortization expense for finite-lived intangible assets was recorded in the amounts of $4,313 and $12,161 for the three and nine months ended October 1, 2011, respectively.

The carrying amount of finite-lived intangible assets as of September 29, 2012 and December 31, 2011 was as follows:

	September 29, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized software costs	$ 77,677	$ 51,231	$ 67,223	$ 44,003
Trademarks	10,178	9,525	10,006	9,276
Website development costs	53,726	36,292	43,987	30,747
Other	7,035	6,674	7,033	6,762
	$ 148,616	$ 103,722	$ 128,249	$ 90,788

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

Remainder of fiscal 2012	$ 4,172
Fiscal 2013	$ 17,394
Fiscal 2014	$ 13,470
Fiscal 2015	$ 7,336
Fiscal 2016	$ 2,407

5. Long-Term Debt

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

	September 29, 2012		December 31, 2011	
	Balance	Effective Rate	Balance	Effective Rate
Term A-1 Loan due January 26, 2013	$ 57,339	1.51%	$ 148,749	1.30%
Term B Loan due January 26, 2014	129,789	1.91%	238,125	1.65%

Term C Loan due June 30, 2015	115,411	2.74%	426,075	2.55%
Term D Loan due June 30, 2016	118,519	2.81%	238,852	2.56%
Term E Loan due March 15, 2017	1,169,453	2.53%	0	0.00%
Term F Loan due March 15, 2019	824,083	3.88%	0	0.00%
Total Debt	2,414,594	2.87%	1,051,801	2.15%
Less Current Portion	133,808		124,933	
Total Long-Term Debt	$ 2,280,786		$ 926,868	

WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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

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

Following the amendment of the WWI Credit Facility on March 15, 2012, (i) $33,083 in aggregate principal amount of the Term A-1 Loan and $301,777 in aggregate principal amount of the Term C Loan were converted into, and $849,397 in aggregate principal amount of commitments to borrow new term loans were provided under, a new tranche E loan (Term E Loan), (ii) $107,025 in aggregate principal amount of the Term B Loan and $119,123 in aggregate principal amount of the Term D Loan were converted into, and $600,000 in aggregate principal amount of commitments to borrow new term loans were provided under, a new tranche F loan (Term F Loan), and (iii) $261,971 in aggregate principal amount of commitments under the Revolver A-1 were converted into a new revolving credit facility (Revolver A-2). The loans outstanding under each term loan facility existing prior to the amendment of the WWI Credit Facility and the loans and commitments outstanding under the Revolver A-1, in each case that were not converted into the Term E Loan, the Term F Loan or the Revolver A-2, as applicable, continued to remain outstanding under the WWI Credit Facility as the Term A-1 Loan, the Term B Loan, the Term C Loan, the Term D Loan or the Revolver A-1, as applicable. In connection with this amendment, the Company incurred fees of $25,425 during the first quarter of fiscal 2012. On March 27, 2012, the Company borrowed an aggregate of $726,000 under the Term E Loan and the Term F Loan to finance the purchase of shares in the Tender Offer and to pay a portion of the related fees and expenses. On April 9, 2012, the Company borrowed an aggregate of approximately $723,397 under the Term E Loan to finance the purchase of shares from Artal Holdings. At September 29, 2012, the Company had $2,414,594 outstanding under the WWI Credit Facility, consisting entirely of term loans and there were no loans outstanding under any of the revolving credit facilities. In addition, at September 29, 2012, the Revolver A-1 had $186 in issued but undrawn letters of credit outstanding thereunder and $70,490 in available unused commitments thereunder and the Revolver A-2 had $691 in issued but undrawn letters of credit outstanding thereunder and $261,280 in available unused commitments thereunder.

At September 29, 2012 and December 31, 2011, the Company s debt consisted entirely of variable-rate instruments. Interest rate swaps were entered into to hedge a portion of the cash flow exposure associated with the Company s variable-rate borrowings. The average interest rate on the Company s debt, exclusive of the impact of swaps, was approximately 3.01% and 2.40% per annum at September 29, 2012 and December 31, 2011, respectively.

The WWI Credit Facility provides that term loans and the loans outstanding under the Revolver A-1 and the Revolver A-2 bear interest at a rate per annum equal to either, at the Company s option, the LIBO Rate (Reserve Adjusted) (as defined in the WWI Credit Facility agreement) plus an applicable margin or the Alternate Base Rate (as defined in the WWI Credit Facility agreement) plus an applicable margin, which applicable margins will vary depending on the Company s Net Debt to EBITDA Ratio (as defined in the WWI Credit Facility agreement) from time to time in effect. At September 29, 2012, the Term A-1 Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 1.25% per annum; the Term B Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 1.50% per annum; the Term C Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted)

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WEIGHT WATCHERS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

plus 2.25% per annum; the Term D Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum; the Term E Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum; the Term F Loan bore interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 3.00% per annum; had any loans under the Revolver A-1 been outstanding, they would have borne interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.50% per annum; and had any loans under the Revolver A-2 been outstanding, they would have borne interest at a rate equal to LIBO Rate (Reserve Adjusted) plus 2.25% per annum. For purposes of calculating the interest rate on the Term F Loan, the LIBO Rate (Reserve Adjusted) will always be at least 1.00% per annum. In addition to paying interest on outstanding principal under the WWI Credit Facility, the Company is required to pay an undrawn commitment fee to the lenders under each of the Revolver A-1 and the Revolver A-2 with respect to the unused commitments under each such facility at a rate that is dependent on the Company s Net Debt to EBITDA Ratio from time to time in effect. As of September 29, 2012, the applicable commitment fee rate for the Revolver A-1 was 0.50% per annum and for the Revolver A-2 was 0.40% per annum.

The WWI Credit Facility contains customary covenants including covenants that, in certain circumstances, restrict the Company s ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other payments, including investments, sell its assets and enter into consolidations, mergers and transfers of all or substantially all of its assets. The WWI Credit Facility also requires the Company to maintain specified financial ratios and satisfy certain financial condition tests. At September 29, 2012, the Company was in compliance with all of the required financial ratios and also met all of the financial condition tests, and expects to continue to do so for the foreseeable future. The WWI Credit Facility contains customary events of default. Upon the occurrence of an event of default under the WWI Credit Facility, the lenders thereunder may cease making loans and declare amounts outstanding to be immediately due and payable. The WWI Credit Facility is guaranteed by certain of the Company s existing and future subsidiaries. Substantially all of the Company s assets secure the WWI Credit Facility.

The WWI Credit Facility allows the Company to make loan modification offers to all lenders of any tranche of term loans or revolving commitments to extend the maturity date of such loans and/or commitments and/or reduce or eliminate the scheduled amortization. Any such loan modifications would be effective only with respect to such tranche of term loans or revolving commitments and only with respect to those lenders that accept the Company s offer. Loan modification offers may be accompanied by increased pricing and/or fees payable to accepting lenders. The WWI Credit Facility also allows for up to an additional $400,000 of incremental financing through the creation of either new tranches of term loans or through an increase in commitments under the Revolver A-2, in each case to be provided to the Company under the WWI Credit Facility. The incremental capacity is uncommitted and the Company must find lenders to provide any such financing prior to incurrence. In addition, the Company may incur up to an additional $200,000 of incremental term loans through the creation of a new tranche of term loans, provided that the aggregate principal amount of such new term loans cannot exceed the amount then outstanding under its existing revolving credit facilities and the proceeds from such new tranche of term loans must be used solely to repay certain outstanding revolving loans and permanently reduce the commitments of certain revolving lenders.

6. Treasury Stock

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

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(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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

On October 9, 2003, the Company s Board of Directors authorized and the Company announced a program to repurchase up to $250,000 of the Company s outstanding common stock. On each of June 13, 2005, May 25, 2006 and October 21, 2010, the Company s Board of Directors authorized and the Company announced adding $250,000 to the program. The repurchase program allows for shares to be purchased from time to time in the open market or through privately negotiated transactions. No shares will be purchased from Artal Holdings and its parents and subsidiaries under the program. The repurchase program currently has no expiration date.

During the nine months ended September 29, 2012, the Company purchased no shares of its common stock in the open market under the repurchase program. During the nine months ended October 1, 2011, the Company purchased 814 shares of its common stock in the open market under the repurchase program for a total cost of $31,550. The repurchase of shares of common stock under the Tender Offer and from Artal Holdings pursuant to the Purchase Agreement was not made pursuant to the Company s existing repurchase program.

7. Earnings Per Share

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

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Numerator:				
Net income attributable to Weight Watchers International, Inc.	$ 67,364	$ 80,650	$ 199,431	$ 241,206
Denominator:				
Weighted average shares of common stock outstanding	55,635	73,567	61,828	73,265
Effect of dilutive common stock equivalents	487	696	658	775
Weighted average diluted common shares outstanding	56,122	74,263	62,486	74,040
EPS attributable to Weight Watchers International, Inc.:				
Basic	$ 1.21	$ 1.10	$ 3.23	$ 3.29
Diluted	$ 1.20	$ 1.09	$ 3.19	$ 3.26

The number of anti-dilutive common stock equivalents excluded from the calculation of weighted average shares for diluted EPS was 766 and 234 for the three months ended September 29, 2012 and October 1, 2011, respectively, and 462 and 165 for the nine months ended September 29, 2012 and October 1, 2011, respectively.

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8. Stock Plans

On May 6, 2008, May 12, 2004 and December 16, 1999, respectively, the Company s shareholders approved the 2008 Stock Incentive Plan (the 2008 Plan), the 2004 Stock Incentive Plan (the 2004 Plan) and the 1999 Stock Purchase and Option Plan (the 1999 Plan and together with the 2008 Plan and the 2004 Plan, the Stock Plans). These plans are designed to promote the long-term financial interests and growth of the Company by attracting, motivating and retaining employees with the ability to contribute to the success of the business and to align compensation for the Company s employees over a multi-year period directly with the interests of the shareholders of the Company. The Company s Board of Directors or a committee thereof administers the Stock Plans.

9. Income Taxes

The effective tax rate for the three and nine months ended September 29, 2012 was 38.5%. The effective tax rates for the three and nine months ended October 1, 2011 were 35.1% and 37.1%, respectively. For the three and nine months ended September 29, 2012, the primary differences between the US federal statutory tax rate and the Company s effective tax rate were state income taxes and increases in valuation allowances, offset by lower rates in certain foreign jurisdictions and the reversal of certain tax reserves due to the expiration of the applicable statutes of limitations. For the three and nine months ended October 1, 2011, the primary differences between the US federal statutory tax rate and the Company s effective tax rate were state income taxes and increases in valuation allowances, offset by lower rates in certain foreign jurisdictions, and the reversal of certain tax reserves due to the expiration of the applicable statutes of limitations and the US tax benefit associated with losses due to the closing of the Company s Finland business.

10. Legal

UK Self-Employment Matter

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

In September 2007, the Company appealed to the UK First Tier Tribunal (Tax Chamber) (formerly known as the UK VAT and Duties Tribunal and hereinafter referred to as the First Tier Tribunal) HMRC s notices as to these classifications and against any amount of PAYE and NIC liability claimed to be owed by the Company. In February 2010, the First Tier Tribunal issued a ruling that the Company s UK leaders should have been classified as employees for UK tax purposes and, as such, the Company should have withheld tax from its leaders pursuant to the PAYE and NIC collection rules for the period from April 2001 to April 2007 with respect to services performed by the leaders for the Company. The Company appealed the First Tier Tribunal s adverse ruling to the UK Upper Tribunal (Tax and Chancery Chamber) (the Upper Tribunal), and in October 2011, the Upper Tribunal issued a ruling dismissing the Company s appeal. In January 2012, the Company sought permission from the UK Court of Appeal to appeal the Upper Tribunal s ruling, which the UK Court of Appeal refused in March 2012. In March 2012, the Company applied to the UK Court of Appeal for an oral hearing to seek permission to appeal to the UK Court of Appeal against the Upper Tribunal s ruling. At the hearing in June 2012, the UK Court of Appeal granted the Company permission to appeal. A hearing date for the appeal has been set for January 2013.

In December 2011, HMRC s claim in respect of NIC was amended to increase the claimed amount for the period April 2002 to April 2007 and include the interest accrued thereon through December 2011. In addition, in February 2012, HMRC asserted a claim in respect of PAYE for the period April 2007 to April 2011 similar to

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what it had claimed for the period April 2001 to April 2007. The Company is currently appealing this PAYE claim with the First Tier Tribunal and the First Tier Tribunal has directed that the appeal be stayed until following the decision of the UK Court of Appeal with respect to the Company s appeal of the Upper Tribunal s ruling.

In light of the First Tier Tribunal s adverse ruling and in accordance with accounting guidance for contingencies, the Company recorded in the fourth quarter of fiscal 2009 a reserve for the period from April 2001 through the end of fiscal 2009, inclusive of estimated accrued interest. On a quarterly basis, beginning in the first quarter of fiscal 2010 and through the second quarter of fiscal 2011, the Company recorded a reserve for UK withholding taxes with respect to its UK leaders consistent with this ruling. The reserve at the end of the second quarter of fiscal 2011 equaled approximately $43,671 in the aggregate based on the exchange rates at the end of fiscal 2011. As of the beginning of the third quarter of fiscal 2011, the Company began employing its UK leaders and therefore has ceased recording any further reserves for this matter. In addition, the Company does not currently expect additional reserves will be required in connection with the December 2011 amended NIC claim and the February 2012 PAYE claim by HMRC, as reserves had previously been made for these amounts. In February 2012, the Company paid HMRC, on a without prejudice basis, a portion of the amount previously reserved equal to approximately $30,018 based on the exchange rates at the payment date for estimated amounts claimed to be owed by the Company with respect to PAYE and interest thereon for the period April 2001 to July 2011. The reserve at the end of the third quarter of fiscal 2012 equaled approximately $14,707 in the aggregate based on the exchange rates at the end of the third quarter of fiscal 2012. Although the Company disagrees with the First Tier Tribunal s adverse ruling and believes it has valid grounds to obtain a reversal on appeal, the Company is currently in discussions with HMRC to determine if this matter can be settled prior to the January 2013 appeal hearing date.

Other Litigation Matters

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

11. Derivative Instruments and Hedging

As of September 29, 2012 and October 1, 2011, the Company had in effect interest rate swaps with notional amounts totaling $640,500 and $800,000, respectively. In January 2009, the Company entered into a forward-starting interest rate swap with an effective date of January 4, 2010 and a termination date of January 27, 2014. During the remaining term of this forward-starting interest rate swap, the notional amount will fluctuate, but will be no higher than the amount outstanding as of the end of the third fiscal quarter. The initial notional amount was $425,000 and the highest notional amount was $755,000.

The Company is hedging forecasted transactions for periods not exceeding the next five years. At September 29, 2012, given the current configuration of its debt, the Company estimates that no derivative gains or losses reported in accumulated other comprehensive income will be reclassified to the Statements of Net Income within the next 12 months due to hedge ineffectiveness.

As of September 29, 2012 and October 1, 2011, cumulative unrealized losses for qualifying hedges were reported as a component of accumulated other comprehensive income in the amounts of $8,456 ($13,863 before taxes) and $17,607 ($28,864 before taxes), respectively. For the three and nine months ended September 29, 2012 and October 1, 2011, there were no fair value adjustments recorded in the Statements of Net Income since all hedges were considered qualifying and effective.

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The Company expects approximately $6,926 ($11,355 before taxes) of derivative losses included in accumulated other comprehensive income at September 29, 2012, based on current market rates, will be reclassified into earnings within the next 12 months.

12. Fair Value Measurements

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

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

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

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

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

Fair Value of Financial Instruments

The Company s significant financial instruments include long-term debt and interest rate swap agreements.

The fair value of the Company s long-term debt is determined by utilizing average bid prices on or near the end of each fiscal quarter (Level 2 input). As of September 29, 2012 and October 1, 2011, the fair value of the Company s long-term debt was approximately $2,390,017 and $1,039,962, respectively.

Derivative Financial Instruments

The fair values for the Company s derivative financial instruments are determined using observable current market information such as the prevailing LIBOR interest rate and LIBOR yield curve rates and include consideration of counterparty credit risk. See Note 11 for disclosures related to derivative financial instruments.

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

Fair Value Measurements Using:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap asset at September 29, 2012	$ 0	$ 0	$ 0	$ 0
Interest rate swap asset at December 31, 2011	$ 0	$ 0	$ 0	$ 0
Interest rate swap liability at September 29, 2012	$ 17,009	$ 0	$ 17,009	$ 0
Interest rate swap liability at December 31, 2011	$ 24,613	$ 0	$ 24,613	$ 0

13. Segment Data

The Company has two reportable segments: WWI and WW.com. WWI has multiple operating segments which have been aggregated into one reportable segment. WWI and WW.com are two separate and distinct businesses for which discrete financial information is available. This discrete financial information is maintained and managed separately and is reviewed regularly by the chief operating decision maker. All intercompany activity is eliminated in consolidation.

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Information about the Company s reportable segments is as follows:

	Three Months Ended September 29, 2012		
	WWI	**WW.com**	**Consolidated**
Total revenue	$ 305,657	$ 124,953	$ 430,610
Depreciation and amortization	$ 8,660	$ 2,363	$ 11,023
Operating income	$ 60,476	$ 71,508	$ 131,984
Interest expense			23,225
Other income, net			(756)
Provision for taxes			42,151
Net income			$ 67,364

	Three Months Ended October 1, 2011		
	WWI	**WW.com**	**Consolidated**
Total revenue	$ 325,584	$ 102,850	$ 428,434
Depreciation and amortization	$ 6,323	$ 2,587	$ 8,910
Operating income	$ 82,378	$ 55,921	$ 138,299
Interest expense			13,655
Other expense, net			285
Provision for taxes			43,709
Net income			$ 80,650

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	Nine Months Ended September 29, 2012		
	WWI	WW.com	Consolidated
Total revenue	$ 1,029,524	$ 389,373	$ 1,418,897
Depreciation and amortization	$ 24,597	$ 7,262	$ 31,859
Operating income	$ 199,461	$ 188,805	$ 388,266
Interest expense			60,149
Other expense, net			2,531
Early extinguishment of debt			1,328
Provision for taxes			124,827
Net income			$ 199,431

	Nine Months Ended October 1, 2011		
	WWI	WW.com	Consolidated
Total revenue	$ 1,114,569	$ 303,309	$ 1,417,878
Depreciation and amortization	$ 19,076	$ 7,472	$ 26,548
Operating income	$ 280,234	$ 149,125	$ 429,359
Interest expense			46,840
Other expense, net			40
Provision for taxes			141,796
Net income			$ 240,683

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

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the impact of disputes with our franchise operators;
- the impact of existing and future laws and regulations;
- the impact of our debt service obligations and restrictive debt covenants;
- the possibility that the interests of our majority owner will conflict with other holders of our common stock; and
- other risks and uncertainties, including those detailed from time to time in our periodic reports filed with the Securities and Exchange Commission.

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

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

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

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

- fiscal 2008 refers to our fiscal year ended January 3, 2009;
- fiscal 2009 refers to our fiscal year ended January 2, 2010;
- fiscal 2010 refers to our fiscal year ended January 1, 2011;
- fiscal 2011 refers to our fiscal year ended December 31, 2011;
- fiscal 2012 refers to our fiscal year ended December 29, 2012;
- fiscal 2013 refers to our fiscal year ended December 28, 2013;
- fiscal 2014 refers to our fiscal year ended January 3, 2015;
- fiscal 2015 refers to our fiscal year ended January 2, 2016; and
- fiscal 2016 refers to our fiscal year ended December 31, 2016.

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

You should read the following discussion in conjunction with our Annual Report on Form 10-K for fiscal 2011 that includes additional information about us, our results of operations, our financial position and our cash flows, and with our unaudited consolidated financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q (collectively, the Consolidated Financial Statements).

USE OF CONSTANT CURRENCY

As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results on a constant currency basis in addition to reported results helps improve investors ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. In this Quarterly Report on Form 10-Q, we calculate constant currency by calculating current-year results using prior-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant currency basis as excluding or adjusting for the impact of foreign currency. These results should be considered in addition to, not as a substitute for, results reported in accordance with accounting principles generally accepted in the United

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

CRITICAL ACCOUNTING POLICIES

For a discussion of the critical accounting policies affecting us, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of our Annual Report on Form 10-K for fiscal 2011. Our critical accounting policies have not changed since the end of fiscal 2011.

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RESULTS OF OPERATIONS

OVERVIEW

Fiscal 2011 was a year of revenue and volume growth in all fiscal quarters as compared to the prior year periods. We experienced accelerated period-over-period volume growth in our North American and UK meetings and Weight Watchers.com businesses throughout the year. The momentum of our new program launches, PointsPlus in North America and ProPoints in our other English-speaking markets, and strong marketing and public relations efforts drove this accelerated growth and historically high volumes in fiscal 2011.

Similar to the first and second quarters of fiscal 2012, the third quarter of fiscal 2012 had, though to a lesser extent than the first and second quarters, the challenge of being compared against the historically high levels of recruitment growth and related results of fiscal 2011. Net revenues were $430.6 million in the third quarter of fiscal 2012, as compared to $428.4 million in the third quarter of fiscal 2011. Growth in Internet revenues in the third quarter of fiscal 2012 versus the prior year period was almost fully offset by revenue declines in the meetings business. Despite gross margin for the third quarter of fiscal 2012 growing to 59.4% from 58.6% in the third quarter of fiscal 2011, our investments in growth initiatives in the quarter resulted in an increase in both selling, general and administrative expenses and marketing expenses as a percentage of revenue in the third quarter of fiscal 2012 versus the prior year period. As a result, operating income margin for the third quarter of fiscal 2012 declined to 30.7% from 32.3% in the third quarter of fiscal 2011. Consequently, and as a result of higher interest expense and a higher tax rate, net income attributable to the Company in the third quarter of fiscal 2012 declined 16.5% versus the prior year period to $67.4 million.

The first nine months of fiscal 2012 versus the prior year period had similar performance trends as each of the individual fiscal quarters. Net revenues were $1,418.9 million in the first nine months of fiscal 2012, as compared to $1,417.9 million in the first nine months of fiscal 2011. Growth in Internet revenues in the first nine months of fiscal 2012 versus the prior year period was almost fully offset by revenue declines in the meetings business. Gross margin for the first nine months of fiscal 2012 grew to 59.0% from 57.9% in the first nine months of fiscal 2011. Both marketing expenses and selling, general and administrative expenses increased as a percentage of revenue in the first nine months of fiscal 2012 versus the prior year period due to our investments in growth initiatives. As a result, operating income margin for the first nine months of fiscal 2012 declined 2.9% to 27.4% from 30.3% in the first nine months of fiscal 2011. Consequently, and as a result of higher interest expense, a write-off of an investment and a higher tax rate, net income attributable to the Company in the first nine months of fiscal 2012 declined 17.3% versus the prior year period to $199.4 million.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 29, 2012 COMPARED TO THE THREE MONTHS ENDED OCTOBER 1, 2011

The table below sets forth selected financial information for the third quarter of fiscal 2012 from our consolidated statements of net income for the three months ended September 29, 2012 versus selected financial information for the third quarter of fiscal 2011 from our consolidated statements of net income for the three months ended October 1, 2011:

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Summary of Selected Financial Data

	(In millions, except per share amounts) For the Three Months Ended			
	September 29, 2012	October 1, 2011	Increase/ (Decrease)	% Change
Revenues, net	$ 430.6	$ 428.4	$ 2.2	0.5%
Cost of revenues	174.8	177.3	(2.5)	