

Towers Watson & Co.
Form 10-Q
February 08, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2009

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: 001-34594

TOWERS WATSON & CO.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

27-0676603

(I.R.S. Employer Identification No.)

875 Third Avenue

New York, NY

(Address of principal executive offices)

10022

(zip code)

(212) 725-7550

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

As of February 1, 2010 there were 46,920,133 outstanding shares of Class A Common Stock at a par value of \$0.01 per share; 12,798,117.77 outstanding shares of Class B-1 Common Stock at a par value of \$0.01; 5,561,630.05

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outstanding shares of Class B-2 Common Stock at a par value of \$0.01; 5,561,630.05 outstanding shares of Class B-3 Common Stock at a par value of \$0.01 and 5,561,630.05 outstanding shares of Class B-4 Common Stock at a par value of \$0.01.

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INTRODUCTION

On January 1, 2010, pursuant to the Agreement and Plan of Merger, as amended by Amendment No. 1 (the Merger Agreement), Watson Wyatt Worldwide, Inc. (Watson Wyatt) and Towers, Perrin, Forster & Crosby, Inc. (Towers Perrin) combined their businesses through two simultaneous mergers (the Merger) and became wholly-owned subsidiaries of Jupiter Saturn Holding Company, which changed its name to Towers Watson & Co. (Towers Watson). As of and for the three and six months ended December 31, 2009, Towers Watson had not conducted any activities other than those incident to its formation and the matters contemplated by the Merger Agreement. The business of Towers Watson after the Merger was consummated on January 1, 2010, is the combined businesses previously conducted by Towers Perrin and Watson Wyatt. Therefore, this quarterly report of Towers Watson does not include separate financials for Jupiter Saturn Holding Company as they do not contain any material information. In select sections of this quarterly report that contain prospective or forward-looking information, Towers Watson post-Merger has been disclosed. Although the business combination of Watson Wyatt and Towers Perrin was a merger of equals, generally accepted accounting principles require that one of the combining entities be identified as the acquirer by reviewing facts and circumstances as of the acquisition date. Watson Wyatt was determined to be the accounting acquirer. This conclusion is primarily supported by the facts that Watson Wyatt shareholders own approximately 56 percent of all Towers Watson common stock after the redemption of Towers Watson Class R common stock and that Watson Wyatt's Chief Executive Officer became the Chief Executive Officer of Towers Watson. Watson Wyatt is the accounting predecessor in the Merger and as such, the historical results of Watson Wyatt have become those of the new registrant, Towers Watson, and are presented in this filing. Because the Merger was not yet consummated as of December 31, 2009, the results of Towers Perrin are not included in the Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2009 or 2008 or Condensed Consolidated Balance Sheets as of December 31, 2009 and June 30, 2009. Towers Watson's condensed consolidated financial statements as of and for the three and nine months ended March 31, 2010 will include the results of Towers Perrin's operations beginning January 1, 2010.

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For the Three and Six Months Ended December 31, 2009

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TOWERS WATSON & CO.
Condensed Consolidated Statements of Operations
(Thousands of U.S. Dollars, Except Per Share Data)
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Revenue	\$ 432,614	\$ 436,389	\$ 833,959	\$ 862,515
Costs of providing services:				
Salaries and employee benefits	247,058	246,648	483,139	482,527
Professional and subcontracted services	19,184	25,564	35,343	51,879
Occupancy, communications and other	42,645	46,316	82,517	96,313
General and administrative expenses	42,763	43,206	82,533	87,093
Depreciation and amortization	18,251	18,870	36,185	37,734
Transaction and integration expenses	16,904		25,292	
	386,805	380,604	745,009	755,546
Income from operations	45,809	55,785	88,950	106,969
(Loss)/Income from affiliates	(1,167)	1,070	(220)	2,765
Interest income	189	322	539	1,353
Interest expense	(604)	(1,059)	(1,053)	(1,628)
Other non-operating income	1,758	1,699	2,900	1,680
Income before income taxes	45,985	57,817	91,116	111,139
Provision for income taxes	22,113	18,266	37,463	36,428
Net income	\$ 23,872	\$ 39,551	\$ 53,653	\$ 74,711
Earnings per share:				
Net income Basic	\$ 0.57	\$ 0.93	\$ 1.26	\$ 1.75
Net income Diluted	\$ 0.56	\$ 0.93	\$ 1.26	\$ 1.75
Weighted average shares of common stock, basic (000)	42,244	42,571	42,458	42,753
Weighted average shares of common stock, diluted (000)	42,580	42,616	42,734	42,804

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See accompanying notes to the
condensed consolidated financial statements

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TOWERS WATSON & CO.
Condensed Consolidated Balance Sheets
(Thousands of U.S. Dollars, Except Share Data)
(Unaudited)

	December 31, 2009	June 30, 2009
Assets		
Cash and cash equivalents	\$ 143,948	\$ 209,832
Receivables from clients:		
Billed, net of allowances of \$4,036 and \$4,452	205,135	190,991
Unbilled, at estimated net realizable value	112,637	111,419
	317,772	302,410
Other current assets	56,016	53,358
Total current assets	517,736	565,600
Investment in affiliates	23,027	23,361
Fixed assets, net	163,865	174,857
Deferred income taxes	115,012	111,912
Goodwill	541,179	542,754
Intangible assets, net	177,798	186,233
Other assets	25,700	21,602
Total Assets	\$ 1,564,317	\$ 1,626,319
Liabilities		
Accounts payable and accrued liabilities	\$ 123,991	\$ 123,073
Accrued salary and discretionary compensation	116,980	162,351
Other current liabilities	42,312	51,716
Total current liabilities	283,283	337,140
Revolving credit facility		
Accrued retirement benefits	278,968	292,555
Deferred rent and accrued lease losses	26,521	28,434
Other noncurrent liabilities	97,444	113,554
Total Liabilities	686,216	771,683
Commitments and contingencies		
Stockholders Equity		

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Class A Common Stock \$.01 par value: 99,000,000 shares authorized; 42,201,872 and 43,813,451 issued and 42,201,872 and 42,657,431 outstanding	422	438
Additional paid-in capital	370,352	452,938
Treasury stock, at cost - 0 and 1,156,020 shares		(63,299)
Retained earnings	655,923	608,634
Accumulated other comprehensive loss	(149,649)	(145,073)
Total Stockholders Equity	877,048	853,638
Non-controlling interest	1,053	998
Total Equity	878,101	854,636
Total Liabilities and Total Equity	\$ 1,564,317	\$ 1,626,319

See accompanying notes to the
condensed consolidated financial statements

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TOWERS WATSON & CO.
Condensed Consolidated Statements of Cash Flows
(Thousands of U.S. Dollars)
(Unaudited)

	Six months ended December	
	31,	
	2009	2008
Cash flows (used in)/from operating activities:		
Net income	\$ 53,653	\$ 74,711
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful receivables from clients	1,462	3,481
Depreciation	29,367	30,329
Amortization of intangible assets	6,818	7,405
Provision for (benefit from) deferred income taxes	13,601	56
Loss/(Income) from affiliates	220	(2,765)
Distribution from affiliates	408	118
Other, net	672	2,485
Changes in operating assets and liabilities (net of business acquisitions)		
Receivables from clients	(16,824)	16,247
Other current assets	(7,377)	(11,322)
Other assets	(4,098)	4,831
Accounts payable and accrued liabilities	(48,142)	(92,291)
Income taxes payable and deferred	2,427	214
Accrued retirement benefits	(13,587)	(7,500)
Deferred rent and accrued lease losses	(1,913)	59
Other noncurrent liabilities	(24,492)	(22,238)
Cash flows (used in)/from operating activities:	(7,805)	3,820
Cash flows used in investing activities:		
Business acquisitions and contingent consideration payments		(518)
Purchases of fixed assets	(9,974)	(19,045)
Capitalized software costs	(10,304)	(10,322)
Investment in affiliates		(2,041)
Contingent proceeds from divestitures	2,900	1,680
Cash flows used in investing activities:	(17,378)	(30,246)
Cash flows used in financing activities:		
Borrowings under Credit Facility		60,641
Dividends paid	(6,364)	(6,389)
Repurchases of common stock	(34,922)	(77,442)
Issuances of common stock and excess tax benefit	3,238	3,439
Cash flows used in financing activities:	(38,048)	(19,751)

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Effect of exchange rates on cash	(2,653)	(4,577)
Decrease in cash and cash equivalents	(65,884)	(50,754)
Cash and cash equivalents at beginning of period	209,832	124,632
Cash and cash equivalents at end of period	\$ 143,948	\$ 73,878
Supplemental disclosures:		
Cash paid for interest	\$ 1,057	\$ 1,650
Cash paid for income taxes, net of refunds	\$ 35,800	\$ 31,411

See accompanying notes to the
condensed consolidated financial statements

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Condensed Consolidated Statement of Changes in Stockholders Equity
(Thousands of U.S. Dollars, Except Share Data)
(Unaudited)

	Class A Common Stock	Class A Common Stock	Additional Paid-in Capital	Treasury Stock, at Cost	Retained Earnings	Accumulated		Total
						Other Comprehensive Loss		
Balance at June 30, 2009	42,657	\$ 438	\$ 452,938	\$ (63,299)	\$ 608,634	\$ (145,073)		\$ 853,638
Comprehensive Income:								
Net income					53,653			53,653
Foreign currency translation adjustment, net of tax						(4,576)		(4,576)
Total comprehensive income								49,077
Cash dividends declared					(6,364)			(6,364)
Repurchases of common stock	(792)			(34,922)				(34,922)
Issuances of common stock and excess tax benefit	337		(2,021)	17,640				15,619
Retirement of treasury stock		(16)	(80,565)	80,581				
Balance at December 31, 2009	42,202	\$ 422	\$ 370,352	\$	\$ 655,923	\$ (149,649)		\$ 877,048

See accompanying notes to the
condensed consolidated financial statements

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TOWERS WATSON & CO.

Notes to the Condensed Consolidated Financial Statements

(Tabular amounts are in thousands, except per share data)

(Unaudited)

Note 1 Organization and Basis of Presentation.

On January 1, 2010, pursuant to the Agreement and Plan of Merger, as amended by Amendment No. 1 (the Merger Agreement), Watson Wyatt Worldwide, Inc. (Watson Wyatt) and Towers, Perrin, Forster & Crosby, Inc. (Towers Perrin) combined their businesses through two simultaneous mergers (the Merger) and became wholly-owned subsidiaries of Jupiter Saturn Holding Company, which changed its name to Towers Watson & Co. (Towers Watson). As of and for the three and six months ended December 31, 2009, Towers Watson had not conducted any activities other than those incident to its formation and the matters contemplated by the Merger Agreement. The business of Towers Watson after the Merger was consummated on January 1, 2010, is the combined businesses previously conducted by Towers Perrin and Watson Wyatt. Therefore, the Jupiter Saturn Holding Company Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, the Condensed Consolidated Statements of Cash Flows, and the Condensed Consolidated Statement of Changes in Stockholders' Equity, each for the three and six month periods ended December 31, 2009, are not presented separately, as they do not contain any material information. Although the business combination of Watson Wyatt and Towers Perrin was a merger of equals, generally accepted accounting principles require that one of the combining entities be identified as the acquirer by reviewing facts and circumstances as of the acquisition date. Watson Wyatt was determined to be the accounting acquirer. This conclusion is primarily supported by the facts that Watson Wyatt shareholders own approximately 56 percent of all Towers Watson common stock after the redemption of Towers Watson Class R common stock and that Watson Wyatt's Chief Executive Officer became the Chief Executive Officer of Towers Watson. Watson Wyatt is the accounting predecessor in the Merger and as such, the historical results of Watson Wyatt have become those of the new registrant, Towers Watson, and are presented in this filing. Because the Merger was not yet consummated as of December 31, 2009, the results of Towers Perrin are not included in the Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2009 or 2008 or Condensed Consolidated Balance Sheets as of December 31, 2009 and June 30, 2009. Towers Watson's condensed consolidated financial statements as of and for the three and nine months ended March 31, 2010 will include the results of Towers Perrin's operations beginning January 1, 2010.

The accompanying unaudited quarterly condensed consolidated financial statements of Towers Watson & Co. (Watson Wyatt is Towers Watson's accounting predecessor) and our subsidiaries (collectively referred to as we, Towers Watson or the Company) are presented in accordance with the rules and regulations of the Securities Exchange Commission (SEC) for quarterly reports on Form 10-Q and therefore do not include all of the information and footnotes required by U.S. generally accepted accounting principles. In the opinion of management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial statements and results for the interim periods. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements should be read together with the Watson Wyatt audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 30, 2009, which is filed under the historical registrant Watson Wyatt with the SEC and may be accessed via EDGAR on the SEC's web site at www.sec.gov. The year-end balance sheet data was derived from audited financial statements. Our fiscal year 2010 began July 1, 2009 and ends June 30, 2010.

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The results of operations for the six months ended December 31, 2009 are not indicative of the results that can be expected for the entire fiscal year ending June 30, 2010, especially in light of the Merger. The results reflect certain estimates and assumptions made by management including estimated bonuses and anticipated tax liabilities that affect the amounts reported in the condensed consolidated financial statements and related notes.

Note 2 Merger Consideration.

The issuance of Towers Watson Common Stock and Towers Watson Notes in the Merger was registered under the Securities Act of 1933, as amended, pursuant to the Towers Watson's Registration Statement on Form S-4/A (Registration No. 333-161705) filed with the SEC, and declared effective on November 9, 2009. The Towers Watson Class A common stock, par value \$0.01 per share (the Class A Common Stock) is listed on The New York Stock Exchange, LLC and The NASDAQ Stock Market, LLC under the ticker symbol TW, and began trading on January 4, 2010.

The consummation of the Merger resulted in the following:

Each share of Watson Wyatt Class A common stock, par value \$0.01 per share (the Watson Wyatt Common Stock) issued and outstanding immediately prior to the Merger was converted into the right to receive one (1) share of Towers Watson Class A Common Stock. In addition, outstanding deferred rights to receive Watson Wyatt Common Stock were converted into the right to receive an equal number of shares of Towers Watson Class A Common Stock, and outstanding options to purchase Watson Wyatt Common Stock were assumed by Towers Watson and converted on a one-for-one basis into fully-vested options to purchase shares of Towers Watson Class A Common Stock with the same exercise price as the underlying Watson Wyatt options.

Each share of Towers Perrin common stock, par value \$0.50 per share issued and outstanding immediately prior to the Merger was converted into the right to receive 545.627600377 (the Exchange Ratio) fully-paid and nonassessable shares of Towers Watson common stock, which ratio was determined at the time of the Merger in accordance with the Merger Agreement (the Merger Consideration). Shares of Towers Watson common stock issued to Towers Perrin shareholders (other than shares issued to Towers Perrin shareholders located in certain countries (as detailed below) and other than shares issued to Towers Perrin shareholders who have elected to receive a portion of their Merger Consideration as shares of Towers Watson's Class R common stock, par value \$0.01 per share (Towers Watson Class R Common Stock), which is described below) have been divided among four series of non-transferable Towers Watson common stock, Classes B-1, B-2, B-3 and B-4, each with a par value of \$0.01 per share (the Towers Watson Class B Common Stock). Outstanding shares of Towers Watson Class B Common Stock will automatically convert on a one-for-one basis into shares of freely transferable shares of Towers Watson Class A Common Stock on the following timetable:

- Class B-1 Common Stock January 1, 2011
- Class B-2 Common Stock January 1, 2012
- Class B-3 Common Stock January 1, 2013
- Class B-4 Common Stock January 1, 2014

In accordance with the Merger Agreement, to provide immediate liquidity to certain Towers Perrin shareholders located in countries where the Merger Consideration may be subject to current tax, such Towers Perrin shareholders received a portion of their Merger Consideration in the form of unrestricted shares of Towers Watson Class A Common Stock instead of shares of Towers Watson Class B Common Stock.

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Certain Towers Perrin shareholders who met defined age and service criteria elected to terminate their employment no later than January 31, 2010 (except as extended by the Towers Watson's executive committee) and receive a portion of their Merger Consideration in shares of Towers Watson Class R Common Stock, which subsequently were automatically redeemed for equal amounts of cash and subordinated one-year promissory notes (Towers Watson Notes) (such election, a Class R Election). The amount of cash and principal amount of Towers Watson Notes issued in exchange for each share of Towers Watson Class R Common Stock was determined based on the Exchange Ratio and the average closing price per share of Watson Wyatt Common Stock for the 10 trading days ending on December 28, 2009, the second trading day immediately prior to the closing of the Merger, which was \$46.79. Class R Elections were prorated so that the amount of cash and notes payable on the automatic conversion of the shares of Towers Watson Class R Common Stock would not exceed \$400 million, which amount was agreed to by Towers Perrin and Watson Wyatt prior to the closing of the Merger. Towers Perrin shareholders who made valid Class R Elections received shares of Towers Watson Class B-1 Common Stock in exchange for their shares of Towers Perrin Common Stock that were not exchanged for shares of Towers Watson Class R Common Stock due to proration or because the Towers Perrin shareholder elected to receive less than 100 percent of his or her Merger Consideration in the form of Towers Watson Class R Common Stock. As noted above, shares of Towers Watson Class B-1 Common Stock will automatically convert into freely tradable shares of Towers Watson Class A Common Stock on January 1, 2011.

Prior to the Merger, Towers Perrin issued awards of restricted stock units to certain Towers Perrin employees, which were exchanged in the Merger for shares of Towers Watson Class A Common Stock, generally subject to a three-year contractual vesting schedule and other restrictions.

In summary, as a result of closing of the Merger, all outstanding Towers Perrin and Watson Wyatt common stock, restricted stock units and derivative securities have been converted into the right to receive the following forms of consideration:

46,911,275 shares of Towers Watson Class A Common Stock (less a number of shares that have been withheld for tax purposes in respect of Watson Wyatt deferred stock units and deferred shares), including 4,248,984 shares of Restricted Towers Watson Class A Common Stock;

29,483,008 shares of Towers Watson Class B Common Stock, including:

12,798,118 shares of Class B-1 Common Stock;

5,561,630 shares of Class B-2 Common Stock;

5,561,630 shares of Class B-3 Common Stock; and

5,561,630 shares of Class B-4 Common Stock;

8,548,835 shares of Towers Watson Class R Common Stock, which subsequently were redeemed automatically in exchange for the right to receive:

\$200 million in cash (subject to applicable tax withholding and gross-up adjustments); and

Towers Watson Notes in an aggregate principal amount of \$200 million.

In addition, on January 1, 2010, Towers Watson issued shares of Class F stock, no par value, pro rata to all holders of Towers Perrin Common Stock, which shares represent only the contingent right to receive a pro rata portion of a number of shares of Towers Watson Class A Common Stock equal to the number of shares of restricted Towers Watson Class A Common Stock forfeited by former Towers Perrin employees plus a number of shares of Towers Watson Class A Common Stock with a value equivalent to the amount of dividends attributed to such forfeited shares.

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For a more complete description of the Merger Agreement and amendment to the Merger Agreement, please see the registration statement on Form S-4/A filed with the SEC (Registration No. 333-161705) and declared effective on November 9, 2009.

As of December 31, 2009, both Towers Perrin and Watson Wyatt each owned a 36.4 percent equity investment in Professional Consultants Insurance Company (PCIC). PCIC is a captive insurance company that provides professional liability insurance on a claims-made basis. Watson Wyatt applies the equity method of accounting for its investment in PCIC. However, beginning on January 1, 2010, as a result of the Merger, Towers Watson has a majority ownership of PCIC which changed the allocation of economic risks and rewards of PCIC among the variable interest holders. Towers Watson will consolidate the results of PCIC into its consolidated financial statements.

Watson Wyatt s financial statements as of and for the three and six months ended December 31, 2009, included herein, reflect Watson Wyatt s equity method of accounting for PCIC.

Assets acquired and liabilities assumed under the Merger will be recorded at their respective fair values as of the business combination date, January 1, 2010. The determination of estimated fair value requires management to make significant estimates and assumptions. As of the date of the filing of this quarterly report, the initial accounting for this business combination is not yet complete.

Note 3 Segment Information.

Watson Wyatt has five reportable operating segments or practice areas as follows:

Benefits Group

Human Capital Group

Technology and Administration Solutions Group

Investment Consulting Group

Insurance and Financial Services Group

Management evaluates the performance of its segments and allocates resources to them based on net operating income on a pre-bonus, pre-tax basis. The table below presents information about Watson Wyatt s reported segments as of and for the three months ended December 31, 2009:

		Technology and Administration Soluti	Investment Consulting	Insurance & Financial Services
Benefits Group	Human Capital Group			