

Watson Wyatt Worldwide, Inc.  
Form 10-Q  
May 07, 2009  
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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 March 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: 001-16159

**WATSON WYATT WORLDWIDE, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**52-2211537**  
(I.R.S. Employer Identification No.)

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**901 N. Glebe Road**  
**Arlington, VA**  
(Address of principal executive offices)

**22203**  
(zip code)

**(703) 258-8000**

(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, or 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   
(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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2009.

**Class**  
Class A Common Stock, \$.01 par value per share

**Outstanding at April 30, 2009**  
42,633,002 shares

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For the Three and Nine Months Ended March 31, 2009

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(Thousands of U.S. Dollars, Except Per Share Data)

(Unaudited)

	Three months ended March 31,		Nine months ended March 31,	
	2009	2008	2009	2008
Revenue	\$ 416,994	\$ 457,525	\$ 1,279,509	\$ 1,306,244
Costs of providing services:				
Salaries and employee benefits	237,208	254,147	719,735	722,583
Professional and subcontracted services	23,835	20,334	75,714	75,154
Occupancy, communications and other	40,941	54,955	137,254	148,187
General and administrative expenses	45,689	45,390	132,782	131,486
Depreciation and amortization	17,531	18,265	55,265	53,225
	365,204	393,091	1,120,750	1,130,635
Income from operations	51,790	64,434	158,759	175,609
Income (loss) from affiliates	3,201	(29)	5,966	(603)
Interest expense	(553)	(1,353)	(2,181)	(5,580)
Interest income	294	1,585	1,647	4,356
Other non-operating income	1,786	179	3,466	454
Income before income taxes	56,518	64,816	167,657	174,236
Provision for income taxes	15,927	22,270	52,355	60,465
Net income	\$ 40,591	\$ 42,546	\$ 115,302	\$ 113,771
Earnings per share:				
Net income - Basic	\$ 0.95	\$ 1.01	\$ 2.70	\$ 2.69
Net income - Diluted	\$ 0.95	\$ 0.96	\$ 2.69	\$ 2.56
Weighted average shares of common stock, basic (000)	42,609	42,064	42,705	42,230
Weighted average shares of common stock, diluted (000)	42,773	44,333	42,869	44,515

See accompanying notes to the

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condensed consolidated financial statements

Table of Contents**WATSON WYATT WORLDWIDE, INC.****Condensed Consolidated Balance Sheets**

(Thousands of U.S. Dollars, Except Share Data)

(Unaudited)

	<b>March 31, 2009</b>	<b>June 30, 2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 118,292	\$ 124,632
Receivables from clients:		
Billed, net of allowances of \$7,045 and \$8,544	210,699	239,593
Unbilled, at estimated net realizable value	116,097	126,163
	326,796	365,756
Deferred income taxes	21,113	18,576
Other current assets	55,870	48,523
<b>Total current assets</b>	<b>522,071</b>	<b>557,487</b>
Investment in affiliates	20,488	8,526
Fixed assets, net	173,646	184,684
Deferred income taxes	62,589	72,572
Goodwill	490,618	634,176
Intangible assets, net	169,195	236,767
Other assets	14,972	21,764
<b>Total Assets</b>	<b>\$ 1,453,579</b>	<b>\$ 1,715,976</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities, including discretionary compensation	\$ 307,028	\$ 381,784
Income taxes payable and deferred	929	3,462
<b>Total current liabilities</b>	<b>307,957</b>	<b>385,246</b>
Revolving credit facility	40,223	
Accrued retirement benefits	168,379	209,168
Deferred rent and accrued lease losses	28,769	29,239
Deferred income taxes and other long term tax liabilities	11,158	13,430
Other noncurrent liabilities	74,672	94,498
<b>Total Liabilities</b>	<b>631,158</b>	<b>731,581</b>
Commitments and contingencies		
<b>Stockholders Equity</b>		
Preferred Stock - No par value:		
1,000,000 shares authorized;		
none issued and outstanding		
Class A Common Stock - \$.01 par value:		
99,000,000 shares authorized;		
43,813,451 and 43,813,451 issued and		
42,621,505 and 43,578,268 outstanding	438	438
Additional paid-in capital	452,887	456,681

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Treasury stock, at cost - 1,191,946 and 235,183 shares	(65,266)	(13,222)
Retained earnings	580,677	474,961
Accumulated other comprehensive (loss)/income	(146,315)	65,537
<b>Total Stockholders Equity</b>	<b>822,421</b>	<b>984,395</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,453,579</b>	<b>\$ 1,715,976</b>

See accompanying notes to the  
condensed consolidated financial statements

Table of Contents**WATSON WYATT WORLDWIDE, INC.****Condensed Consolidated Statements of Cash Flows**

(Thousands of U.S. Dollars)

(Unaudited)

	<b>Nine months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	115,302	\$ 113,771
<b>Adjustments to reconcile net income to net cash (used in)/from operating activities:</b>		
Provision for doubtful receivables from clients	4,113	11,295
Depreciation	44,598	40,943
Amortization of intangible assets	10,668	12,282
Provision for (benefit from) deferred income taxes	7,446	9,453
(Income)/loss from affiliates	(5,966)	603
Other, net	710	6,729
<b>Changes in operating assets and liabilities, net of business acquisitions</b>		
Receivables from clients	34,847	(43,785)
Other current assets	(7,348)	(19,818)
Other assets	3,603	(3,689)
Accounts payable and accrued liabilities	(58,119)	27,242
Income taxes payable	(2,397)	(478)
Accrued retirement benefits	(40,789)	(8,118)
Deferred rent and accrued lease losses	(470)	(3,379)
Other noncurrent liabilities	(22,531)	(5,244)
<b>Cash flows from operating activities:</b>	<b>83,667</b>	<b>137,807</b>
<b>Cash flows used in investing activities:</b>		
Business acquisitions and contingent consideration payments	(518)	(134,934)
Purchases of fixed assets	(29,772)	(24,698)
Capitalized software costs	(14,503)	(16,903)
Investment in affiliates	(2,007)	(3,316)
Distribution from affiliates	227	
Increase in restricted cash		(2,265)
Contingent proceeds from divestitures	3,466	454
<b>Cash flows used in investing activities:</b>	<b>(43,107)</b>	<b>(181,662)</b>
<b>Cash flows used in financing activities:</b>		
Borrowings under credit facility	40,223	5,500
Dividends paid	(9,586)	(9,498)
Repurchases of common stock	(77,443)	(53,980)
Issuances of common stock and excess tax benefit	4,949	9,445
<b>Cash flows used in financing activities:</b>	<b>(41,857)</b>	<b>(48,533)</b>
Effect of exchange rates on cash	(5,043)	2,018
<b>Decrease in cash and cash equivalents</b>	<b>(6,340)</b>	<b>(90,370)</b>
Cash and cash equivalents at beginning of period	124,632	248,186



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Cash and cash equivalents at end of period	\$	118,292	\$	157,816
Supplemental disclosures:				
Cash paid for interest	\$	2,091	\$	5,498
Cash paid for income taxes, net of refunds	\$	46,889	\$	55,191

See accompanying notes to the  
condensed consolidated financial statements

Table of Contents**WATSON WYATT WORLDWIDE, INC.****Condensed Consolidated Statement of Changes in Stockholders' Equity**

(Thousands of U.S. Dollars, Except Share Data)

(Unaudited)

	<b>Class A Common Stock Outstanding (number of shares, in thousands)</b>	<b>Class A Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Treasury Stock, at Cost</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income/(Loss)</b>	<b>Total</b>
Balance at June 30, 2008	43,578	\$ 438	\$ 456,681	\$ (13,222)	\$ 474,961	\$ 65,537	\$ 984,395
Comprehensive loss:							
Net income					115,302		115,302
Foreign currency translation adjustment, net of tax						(211,852)	(211,852)
Total comprehensive loss							(96,550)
Cash dividends declared					(9,586)		(9,586)
Repurchases of common stock	(1,418)			(77,443)			(77,443)
Issuances of common stock and excess tax benefit	461		(3,794)	25,399			21,605
Balance at March 31, 2009	42,621	\$ 438	\$ 452,887	\$ (65,266)	\$ 580,677	\$ (146,315)	\$ 822,421

See accompanying notes to the  
condensed consolidated financial statements

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**WATSON WYATT WORLDWIDE, INC.**

**Notes to the Condensed Consolidated Financial Statements**

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

(Unaudited)

**Note 1 Basis of Presentation.**

The accompanying unaudited quarterly condensed consolidated financial statements of Watson Wyatt Worldwide, Inc. and our subsidiaries (collectively referred to as we, Watson Wyatt, Watson Wyatt Worldwide or the company) are presented in accordance with the rules and regulations of the Securities and 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 audited consolidated financial statements and notes thereto contained in the company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008, which is filed with the SEC and may be accessed via EDGAR on the SEC's web site at [www.sec.gov](http://www.sec.gov). The year-end balance sheet data was derived from audited financial statements.

Our fiscal year 2009 began July 1, 2008 and ends June 30, 2009.

The results of operations for the nine months ended March 31, 2009 are not necessarily indicative of the results that can be expected for the entire fiscal year ending June 30, 2009. 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. Certain prior year amounts have been reclassified to conform to the current year's presentation.

**Note 2 Business Acquisitions.**

The company's acquisition strategy identifies potential acquisitions that strengthen our geographic delivery of services to clients or enhance practices in various parts of the world. Acquisition candidates are evaluated on their cultural consistency with Watson Wyatt values within the company's strategy. When those conditions are met, the company values potential acquisitions so as to be accretive to earnings.

Assets acquired and liabilities assumed as a result of our acquisitions are recorded at their respective fair values as of the business combination date. The determination of estimated fair value requires management to make significant estimates and assumptions.

Acquisitions that we have completed during the past two fiscal years include the following:

*Dr. Dr. Heissmann GmbH*

On July 20, 2007, the company acquired the outstanding stock of Dr. Dr. Heissmann GmbH ( Heissmann ) for approximately \$136 million ( 99 million) in cash plus approximately \$1.4 million in transaction costs. Heissmann was an actuarial, benefits, and human resources consulting firm based in Germany with subsidiaries in Ireland, Netherlands, Austria, and France. As of July 20, 2007, Heissmann employed approximately 360 associates. The financial results of Heissmann have been consolidated into the company s financial statements since the date of acquisition.

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WisdomNet

On July 2, 2007, the company acquired the net assets of WisdomNet for \$6.9 million in cash and stock, including the payoff of \$0.5 million of debt. WisdomNet was a Denver-based talent management software and consulting firm that was founded in 2001. WisdomNet offered a proprietary line of business software products, including an end-to-end solution for managing organizations' talent management processes. The acquisition of WisdomNet strengthens our existing talent management business and provides strategic software that is being used to service our clients on an ongoing basis. As of the date of the acquisition, WisdomNet employed 15 associates. The company recorded \$2.6 million of goodwill associated with this acquisition.

Marcu & Asociados S.A.

On June 16, 2008, the company acquired the outstanding stock of Marcu & Asociados S.A. (Marcu) for \$2.8 million in cash. Marcu is a human resource, risk and financial management consulting firm based in Buenos Aires, Argentina. As of the date of acquisition, Marcu employed 37 associates and had annual revenue of approximately \$2.5 million. The financial results of Marcu are included in the company's consolidated financial statements effective July 1, 2008. The company recorded \$1.6 million of goodwill associated with this acquisition.

Watson Wyatt Netherlands

On February 1, 2007, Watson Wyatt B.V., an indirect wholly-owned subsidiary of the company, acquired the net assets of Watson Wyatt Netherlands ( WWN ), its long-time alliance partner in the Netherlands. The financial results of WWN have been consolidated into the company's financial statements since February 1, 2007.

The contingencies associated with the payment of an additional 218,089 Class A shares were met and the contingent shares were issued to the former partners of WWN on June 27, 2008.

Watson Wyatt LLP

On July 31, 2005, the company acquired substantially all of the assets and assumed most liabilities of Watson Wyatt LLP ( WWLLP ) (the WWLLP business combination ), a leading United Kingdom-based actuarial, benefits and human resources consulting partnership. The financial results of WWLLP have been consolidated into the company's financial statements since August 1, 2005.

In addition to the initial purchase price, the terms of the purchase agreement called for an additional 1,950,000 shares to be paid to the former partners of WWLLP, contingent upon the achievement by the acquired business of certain agreed-upon financial performance goals. The agreed-upon financial performance goals were met at the end of fiscal year 2007 and the contingent shares were issued to the former partners of

WWLLP on April 15, 2008 for payment of \$94.2 million.

**Note 3 Segment Information.**

We have five reportable operating segments or practice areas as follows:

- (1) Benefits Group
- (2) Human Capital Group
- (3) Technology and Administration Solutions Group
- (4) Investment Consulting Group
- (5) Insurance & Financial Services Group

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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 specified information about reported segments as of and for the three months ended March 31, 2009:

	<b>Benefits Group</b>	<b>Human Capital Group</b>	<b>Technology and Administration Solutions Group</b>	<b>Investment Consulting Group</b>	<b>Insurance and Financial Services Group</b>	<b>Total</b>
Revenue (net of reimbursable expenses)	\$ 248,051	\$ 36,844	\$ 44,602	\$ 39,214	\$ 31,442	\$ 400,153
Net operating income	81,693	(630)	9,112	10,648	8,991	109,814
Receivables	236,208	36,568	15,409	26,073	25,123	339,381

The table below presents specified information about reported segments as of and for the three months ended March 31, 2008:

	<b>Benefits Group</b>	<b>Human Capital Group</b>	<b>Technology and Administration Solutions Group</b>	<b>Investment Consulting Group</b>	<b>Insurance and Financial Services Group</b>	<b>Total</b>
Revenue (net of reimbursable expenses)	\$ 267,940	\$ 49,058	\$ 45,008	\$ 43,457	\$ 30,799	\$ 436,262
Net operating income	89,135	9,460	10,180	15,947	1,411	126,133
Receivables	281,316	48,395	17,072	29,829	26,581	403,193

The table below presents specified information about reported segments as of and for the nine months ended March 31, 2009:

	<b>Benefits Group</b>	<b>Human Capital Group</b>	<b>Technology and Administration Solutions Group</b>	<b>Investment Consulting Group</b>	<b>Insurance and Financial Services Group</b>	<b>Total</b>
Revenue (net of reimbursable expenses)	\$ 725,848	\$ 137,900	\$ 143,503	\$ 118,813	\$ 93,735	\$ 1,219,799
Net operating income	216,489	16,321	36,392	31,597	19,890	320,689
Receivables	236,208	36,568	15,409	26,073	25,123	339,381

The table below presents specified information about reported segments as of and for the nine months ended March 31, 2008:

**Total**

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	<b>Benefits Group</b>	<b>Human Capital Group</b>	<b>Technology and Administration Solutions Group</b>	<b>Investment Consulting Group</b>	<b>Insurance and Financial Services Group</b>	
Revenue (net of reimbursable expenses)	\$ 738,605	\$ 145,222	\$ 135,055	\$ 125,763	\$ 89,131	\$ 1,233,776
Net operating income	210,068	27,585	34,990	44,681	2,565	319,889
Receivables	281,316	48,395	17,072	29,829	26,581	403,193



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Information about interest income and tax expense is not presented as a segment expense because such items are not considered a responsibility of the segments' operating management.

Reconciliations of the information reported by segment to the historical consolidated amounts follow for the three and nine month periods ended March 31, 2009 and 2008:

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenue:</b>				
Total segment revenue	\$ 400,153	\$ 436,262	\$ 1,219,799	\$ 1,233,776
Reimbursable expenses and other not included in total segment revenue	9,486	11,039	29,881	39,286
All other segments	7,355	10,224	29,829	33,182
Consolidated revenue	\$ 416,994	\$ 457,525	\$ 1,279,509	\$ 1,306,244
<b>Net Operating Income:</b>				
Total segment net operating income	\$ 109,814	\$ 126,133	\$ 320,689	\$ 319,889
Income from affiliates	3,201	(29)	5,966	(603)
Differences in allocation methods(1)	(5,144)	(3,930)	(11,590)	(8,964)
Discretionary compensation	(45,779)	(50,483)	(144,452)	(144,363)
All other segments	(1,907)	(490)	2,729	6,121
Other, net	(3,667)	(6,385)	(5,685)	2,156
Consolidated income before income taxes	\$ 56,518	\$ 64,816	\$ 167,657	\$ 174,236
<b>Receivables:</b>				
Total segment receivables - billed and unbilled(2)	\$ 339,381	\$ 403,193	\$ 339,381	\$ 403,193
All other segments	4,470	6,434	4,470	6,434
Net valuation differences	(17,055)	(21,345)	(17,055)	(21,345)
Total billed and unbilled receivables	326,796	388,282	326,796	388,282
Assets not reported by segment (3)	1,126,783	1,417,342	1,126,783	1,417,342
Consolidated total assets	\$ 1,453,579	\$ 1,805,624	\$ 1,453,579	\$ 1,805,624

(1) General and administrative, pension, and medical costs are allocated to our segments based on budgeted expenses determined at the beginning of the fiscal year as management believes that these costs are largely uncontrollable to the segment. To the extent that the actual expense base upon which allocations are made differs from the forecast/budget amount, a reconciling item will be created between internally allocated expenses and the actual expense that we report for U.S. GAAP purposes.

(2) Total segment receivables, which reflects the receivable balances used by management to make business decisions, are included for management reporting purposes net of deferred revenue cash collections and invoices generated in excess of revenue recognized in the segment revenue.

(3) Assets not reported by segment for management reporting purposes include goodwill and intangible assets of \$660 million and \$868 million, as of March 31, 2009 and 2008, respectively.



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**Note 4 Share-based Compensation.**

The company has four share-based compensation plans, which are described below. These compensation plans include the 2001 Employee Stock Purchase Plan, 2001 Deferred Stock Unit Plan for Selected Employees, Amended Compensation Plan for Outside Directors and the 2000 Long-Term Incentive Plan. All four plans have been approved by stockholders.

*2001 Deferred Stock Unit Plan for Selected Employees*



Deferred Stock Units - The 2001 Deferred Stock Unit Plan for Selected Employees is intended to provide selected associates of the company with additional incentives by permitting the company to grant them an equity interest in the company in the form of restricted stock units, in lieu of a portion of their annual fiscal year end bonus. Shares under this plan are awarded during the first quarter of each fiscal year. During the first quarter of fiscal year 2009, 295,775 shares of common stock were awarded at an average market price of \$53.92 for a total fair value of \$15.9 million. During the first quarter of fiscal year 2008, 349,118 shares of common stock were awarded at an average market price of \$47.63 for a total fair value of \$16.6 million.

SBI Program - The Performance Share Bonus Incentive Program (the SBI Program), as approved by the company's Board of Directors pursuant to the company's 2001 Deferred Stock Unit Plan for Selected Employees, is a long-term stock bonus arrangement for senior executives of the company and its affiliates. The SBI program is designed to strengthen incentives and align behaviors to grow the business in a way that is consistent with the strategic goals of the company.

Incentives under the SBI Program are provided through grants of deferred stock units pursuant to the company's 2001 Deferred Stock Unit Plan for Selected Employees. Grants of deferred stock units are based on either salary or on the value of the cash portion of the eligible participant's fiscal year-end bonus target and a multiplier, which is then converted into a target number of deferred stock units based upon the company's stock price as of the quarter end prior to grant. Participants may vest between zero and 170% of the target number of deferred stock units or between zero and 100% based on the extent to which financial and strategic performance metrics are achieved over a three fiscal year period. The financial and strategic performance metrics are established at the beginning of each performance period. For the performance periods covering fiscal years 2007 through 2009, 2008 through 2010, and 2009 through 2011, the vesting criteria are based upon growth specific metrics such as earnings per share, NOI and revenue. During the first quarter of fiscal year 2009, 44,061 shares were awarded to certain senior executive officers under the SBI 2006 plan, which represented vesting at 170% of the target number of deferred stock units.

Management periodically reviews the conditions that would affect the vesting of performance based awards and adjusts compensation expense, if necessary, based on achievement of financial and strategic performance metrics.

During the third quarter of fiscal year 2009, the deferred stock units expected to vest under the SBI plans decreased in conjunction with the forecasted financial and strategic performance metrics. As a result, compensation expense associated with these plans decreased by approximately \$0.5 million in the third quarter of fiscal year 2009 compared to an increase in expense of \$1.2 million in the third quarter of fiscal year 2008.

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*Amended Compensation Plan for Outside Directors*





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In November 2001, the Board of Directors approved the Amended Compensation Plan for Outside Directors (the "Outside Director's Plan") which provides for the cash and stock compensation of outside Directors. Under the Outside Director's Plan, outside Directors are initially paid in shares of the company's common stock, or in a combination of cash and shares, quarterly, at the completed quarter-end share price (which approximates fair value), for services provided during the preceding quarter. The total number of shares reserved for issuance under the Outside Director's Plan is 150,000.

Approximately \$0.7 million of compensation expense was recorded relative to this plan during the first nine months of fiscal year 2009 compared to \$0.3 million in the first nine months of fiscal year 2008.

### *2001 Employee Stock Purchase Plan*

The 2001 Employee Stock Purchase Plan (the "Stock Purchase Plan") enables employees to purchase shares of the company's stock at a 5 percent discount. The Stock Purchase Plan is a non-compensatory plan under FAS 123(R). As a result, no compensation expense was recognized during the first nine months of fiscal years 2009 or 2008.

### *2000 Long-Term Incentive Plan*



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The company issued non-qualified stock options under the 2000 Long-Term Incentive Plan (the Stock Option Plan ) in conjunction with its initial public offering in fiscal year 2001. No options have been granted under the stock option plan since March 2002 and the company does not currently intend to issue further stock options under the Stock Option Plan.

### **Note 5 Retirement Benefits.**

#### *Defined Benefit Plans*

We sponsor both qualified and non-qualified, non-contributory defined benefit pension plans in North America and the U.K. that account for approximately 85% of our pension liability. Under our plans in North America, benefits are based on the number of years of service and the associate's compensation during the five highest paid consecutive years of service. Beginning January 2008, we made changes to our plan in the U.K. related to years of service used in calculating benefits for associates. Benefits earned prior to January 2008 are based on the number of years of service and the associate's compensation during the three years before leaving the plan and benefits earned after January 2008 are based on the number of years of service and the associate's average compensation during the associate's term of service since that date. The non-qualified plan in North America provides for pension benefits that would be covered under the qualified plan but are limited by the Internal Revenue Code. The non-qualified plan has no assets and therefore is an unfunded arrangement, the liability for which is reflected in the balance sheet. The U.K. does not have a non-qualified plan. The measurement date for all plans is June 30.

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*Components of Net Periodic Benefit Cost for Defined Benefit Pension Plans*

The following table sets forth the components of net periodic benefit cost for the company's defined benefit pension plan for North America and the U.K. for the three and nine month periods ended March 31, 2009 and 2008:

	Three Months Ended March 31,			
	2009		2008	
	North America	U.K.	North America	U.K.
Service Cost	\$ 5,315	\$ 891	\$ 7,451	\$ 2,686
Interest Cost	12,118	2,987	11,208	5,184
Expected Return on Plan Assets	(12,397)	(3,042)	(13,827)	(5,821)
Amortization of Transition Obligation			(17)	
Amortization of Net Loss/(Gain)	2,533	(48)	1,507	(709)
Amortization of Prior Service (Credit)/Cost	(576)	6	(649)	4
Net Periodic Benefit Cost	\$ 6,993	\$ 794	\$ 5,673	\$ 1,344

	Nine Months Ended March 31,			
	2009		2008	
	North America	U.K.	North America	U.K.
Service Cost	\$ 18,884	\$ 4,593	\$ 22,333	\$ 8,170
Interest Cost	36,489	15,387	33,600	15,765
Expected Return on Plan Assets	(38,045)	(15,670)	(41,456)	(17,703)
Amortization of Transition Obligation			(49)	
Amortization of Net Loss/(Gain)	6,622	(248)	4,571	(2,156)
Amortization of Prior Service (Credit)/Cost	(1,705)	32	(1,946)	12
Net Periodic Benefit Cost	\$ 22,245	\$ 4,094	\$ 17,053	\$ 4,088

The fiscal year 2009 net periodic benefit cost is based, in part, on the following rate assumptions as of June 30, 2008 for the North America and U.K. plans:

	North America	U.K.
Discount rate	7.00%	6.50%
Expected long-term rate of return on assets	8.75%	6.46%
Rate of increase in compensation levels	4.09%	5.65%

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*Employer Contributions*

The company made \$30.8 million in contributions to North American plans during the first nine months of fiscal year 2009. We anticipate that \$0.5 million will be contributed by the company to the North American pension plans over the remainder of the fiscal year.

The company made \$14.4 million in contributions to the U.K. plans during the first nine months of fiscal year 2009 and anticipates making \$2.4 million in contributions over the remainder of the fiscal year.

*Defined Contribution Plans*

In the U.S., we sponsor a savings plan that provides benefits to substantially all U.S. associates. The company matches employee contributions at a rate of 50% of the first 6% up to \$60,000 of associates' eligible compensation. The company will also make an annual profit sharing contribution to the plan in an amount that is dependent upon the company's financial performance during the fiscal year.

The U.K. pension plan has a money purchase section to which the company makes core contributions plus additional contributions matching those of the participating employees up to a maximum rate. Contribution rates are dependent upon the age of the participant and on whether or not they arise from salary sacrifice arrangements through which an individual has taken a reduction in salary and the company has paid an equivalent amount as pension contributions. Core contributions amount to 2-6% of pensionable salary with additional matching contributions of a further 2-6%.

*Health Care Benefits*

In the U.S., we sponsor a contributory health care plan that provides hospitalization, medical and dental benefits to substantially all U.S. associates. We accrue a liability for estimated incurred but unreported claims based on projected use of the plan as well as prior plan history.

*Postretirement Benefits*

We provide certain health care and life insurance benefits for retired associates. The principal plans cover associates in the U.S. and Canada who have met certain eligibility requirements. Our principal post-retirement benefit plans are unfunded. We accrue a liability for these benefits.

*Components of Net Periodic Benefit Cost for Other Postretirement Plans*

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The following table sets forth the components of net periodic benefit cost for the company's healthcare and post-retirement plans for the three and nine months ended March 31, 2009 and 2008:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Service cost	\$ 277	\$ 386	\$ 930	\$ 1,156
Interest cost	580	683	1,991	2,046
Expected return on plan assets				
Amortization of transition obligation				
Amortization of net gain	(267)	(112)	(700)	(338)
Amortization of prior service (credit)/cost	(164)	(166)	(496)	(498)
Net periodic benefit cost	\$ 426	\$ 791	\$ 1,725	\$ 2,366

Table of Contents*Employer Contributions*

The company made contributions in the form of premiums and medical claim payments to its healthcare and post-retirement plans of \$1.0 million in the three months ended March 31, 2009 and 2008, and contributions of \$3.1 million and \$2.6 million in the nine months ended March 31, 2009 and 2008, respectively. We plan to make additional payments of approximately \$2.0 million through the remainder of the fiscal year.

**Note 6 Goodwill and Intangible Assets.**

Goodwill and intangible assets are largely denominated in the British pound and Euro and have declined in value in line with the strengthening of the U.S. dollar. The components of goodwill and intangible assets are outlined below for the nine months ended March 31, 2009:

	Benefits Group	Human Capital Group	Technology and Administration Solutions Group	Investment Consulting Group	Insurance and Financial Services Group	All Other Segments	Total
Balance as of June 30, 2008	\$ 397,721	\$ 35,056	\$ 61,709	\$ 61,977	\$ 76,499	\$ 1,214	\$ 634,176
Goodwill acquired	176	293			49		518
Translation adjustment and other	(83,452)	(8,245)	(15,934)	(15,687)	(20,758)		(144,076)
Balance as of March 31, 2009	\$ 314,445	\$ 27,104	\$ 45,775	\$ 46,290	\$ 55,790	\$ 1,214	\$ 490,618

The following table reflects changes in the net carrying amount of the components of intangible assets for the nine months ended March 31, 2009:

	Trademark & trade name	Customer related intangible	Core/developed technology	Non-compete agreements	Total
Balance as of June 30, 2008	\$ 121,885	\$ 101,592	\$ 12,604	\$ 686	\$ 236,767
Intangible assets acquired during the period					
Amortization expense	(149)	(6,797)	(3,329)	(393)	(10,668)
Translation adjustment	(34,054)	(20,739)	(2,032)	(79)	(56,904)
Balance as of March 31, 2009	\$ 87,682	\$ 74,056	\$ 7,243	\$ 214	\$ 169,195

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The following table reflects the carrying value of intangible assets at March 31, 2009 and June 30, 2008:

	March 31, 2009		June 30, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets:				
Trademark & trade name	\$ 88,035	\$ 353	\$ 122,089	\$ 204
Customer related intangibles	102,068	28,012	122,807	21,215
Core/developed technology	22,933	15,690	24,965	12,361
Non-compete agreements	1,237	1,023	1,316	630
Total intangible assets	\$ 214,273	\$ 45,078	\$ 271,177	\$ 34,410

A component of the change in the gross carrying amount of intangible assets reflects translation adjustments between June 30, 2008 and March 31, 2009. These intangible assets are denominated in the currencies of our subsidiaries outside the United States, and are translated into our reporting currency, the U.S. dollar, based on exchange rates at the balance sheet date.

The weighted average remaining life of amortizable intangible assets at March 31, 2009, was 8.6 years. Estimated amortization expense for the remainder of fiscal year 2009 and subsequent fiscal years is as follows:

Fiscal year ending June 30:	Amount
2009	\$ 3,144
2010	12,070
2011	9,347
2012	9,111
2013	8,047
Thereafter	39,366
Total	\$ 81,085



Table of Contents**Note 7 Earnings Per Share.**

Basic earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the three and nine month periods ended March 31, 2009 and 2008. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding, plus the dilutive effect of stock-based compensation plans and employee stock purchase plan shares using the treasury stock method over the same measurement period. The components of basic and diluted earnings per share are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Net income	\$ 40,591	\$ 42,546	\$ 115,302	\$ 113,771
Weighted average outstanding shares of common stock	42,609	42,064	42,705	42,230
Dilutive effect of stock-based compensation plans and employee stock purchase plan shares	164	2,269	164	2,285
Common stock and stock equivalents	42,773	44,333	42,869	44,515
Earnings per share:				
Net income-Basic	\$ 0.95	\$ 1.01	\$ 2.70	\$ 2.69
Net income- Diluted	\$ 0.95	\$ 0.96	\$ 2.69	\$ 2.56

**Note 8 Investments in Affiliates.***PCIC:*

The company has an equity investment in Professional Consultants Insurance Company, Inc. (PCIC). As defined by FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, PCIC is a variable interest entity. Based on the legal, financial and operating structure of PCIC, the company has concluded that it is not the primary beneficiary of PCIC. Accordingly, the company does not consolidate the results of PCIC into its consolidated financial statements.

PCIC was organized in 1987 as a captive insurance company under the laws of the State of Vermont. PCIC provides professional liability insurance on a claims-made basis to three actuarial and management consulting firms, all of which participate in the program as both policyholders and stockholders.

Capital contributions to PCIC are required when approved by a majority of its stockholders. In July 2007, the shareholders of PCIC approved a requirement for an additional capital contribution. As a result, the company contributed an additional \$1.9 million of capital to PCIC and increased the amount of the letter of credit provided to PCIC by \$2.6 million in lieu of a higher cash capital contribution. From the time PCIC

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was organized through March 31, 2009, we have provided capital contributions to PCIC through cash contributions totaling \$7.3 million and through issuance of letters of credit totaling \$10.6 million. Our ownership interest in PCIC as of March 31, 2009 and 2008 was 36.43 percent.

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Management believes that the company's maximum financial statement exposure regarding its investment in PCIC as of March 31, 2009 is limited to the carrying value of the company's investment in PCIC of \$12.2 million, combined with letters of credit totaling \$10.6 million, for a total maximum exposure of \$22.8 million.

*Fifth Quadrant:*

The company acquired a 20 percent investment in Fifth Quadrant Actuaries & Consultants (Pty) Ltd (Fifth Quadrant) in June 2008. Fifth Quadrant is an independent South African firm of actuaries and employee benefits consultants established in 1998. Its core business is to provide independent, high quality advice to institutional clients, which include retirement funds, medical schemes, charitable trusts and corporate and public sector clients. The company has a \$3.4 million investment in Fifth Quadrant as of March 31, 2009.

*Dubai:*

The company established a partnership with the Knowledge and Human Development Authority in Dubai (Dubai) in January 2008. The partnership is aimed at supporting public and private sector organizations across the Gulf in their pursuit for reaching international standards of excellence in human capital strategies and programs. As of March 31, 2009, the company has a \$2.6 million investment in Dubai.

*IFA:*

The company acquired a 20 percent investment in Gesellschaft fur Finanz-und Aktuarwissenschaften mbH, or IFA, in the second quarter of fiscal year 2009. IFA is an insurance and financial services company based in Germany. As of March 31, 2009, the company has a \$2.3 million investment in IFA.

The company applies the equity method of accounting for all of its investments in affiliates.

**Note 9 Comprehensive (Loss)/Income.**

Comprehensive income includes net income and changes in the cumulative translation adjustment gain or loss. For the three months ended March 31, 2009, comprehensive income totaled \$22.2 million compared with comprehensive income of \$63.8 million for the three months ended March 31, 2008. For the nine months ended March 31, 2009, comprehensive loss totaled \$96.6 million, compared with comprehensive income of \$143.0 million for the nine months ended March 31, 2008. The large change is primarily attributable to fluctuations in exchange rates.

**Note 10 Restricted Shares.**

In conjunction with our WWLLP business combination on July 31, 2005, we issued 9,090,571 Class A common shares, 4,749,797 of which were subject to contractual transfer restrictions. Transfer restrictions expired on 2,339,761 of these shares on July 31, 2006 and expired on the remaining 2,410,036 shares on July 31, 2007. The contingencies associated with the payment of an additional 1,950,000 Class A shares were met and the contingent shares were issued to the former partners of WWLLP on April 15, 2008.

In conjunction with our acquisition of WWN on February 1, 2007, we issued 252,285 Class A common shares which were subject to contractual transfer restrictions. Transfer restrictions on 50% of these shares expired on February 1, 2008. Transfer restrictions on the remaining shares expired on February 1, 2009. The contingencies associated with the payment of an additional 218,089 Class A shares were met and the contingent shares were issued to the former partners of WWN on June 27, 2008. Sale of these shares, are also subject to contractual transfer restrictions that will expire on 50% of these shares on each of the first and second anniversaries of issuance of the shares.

**Note 11 Commitments and Contingent Liabilities.**

The company has historically provided guarantees on an infrequent basis to third parties in the ordinary course of business. The guarantees described below are currently in effect and could require the company to make payments to third parties under certain circumstances.

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*Letters of Credit.* At March 31, 2009, the company has a letter of credit totaling \$10.6 million under our existing credit facility to guarantee payment to one beneficiary in the event that the company fails to meet its financial obligations to that beneficiary. This letter of credit will remain outstanding as long as we retain an ownership share of our affiliated captive insurance company, PCIC. The company has also provided a \$5.0 million Australian dollar-denominated letter of credit (U.S. \$3.5 million) to an Australian governmental agency as required by local regulations. The estimated fair market value of these letters of credit is immaterial because they have never been used, and the company believes that probability of future usage is remote.

*Indemnification Agreements.* The company has various agreements that provide that it may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business and in connection with the purchase and sale of certain businesses. Although it is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of the company's obligations and the unique facts of each particular agreement, the company does not believe that any potential liability that might arise from such indemnity provisions is probable or material. There are no provisions for recourse to third parties, nor are any assets held by any third parties that any guarantor can liquidate to recover amounts paid under such indemnities.

*Legal Proceedings:* From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. We also have received a subpoena and requests for information in connection with government investigations.

We carry substantial professional liability insurance with a self-insured retention of \$1 million per occurrence, which provides coverage for professional liability claims including the cost of defending such claims. We reserve for contingent liabilities based on Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (FAS 5) when it is determined that a liability, inclusive of defense costs, is probable and reasonably estimable. Management believes, based on currently available information including the existence of professional liability insurance, that the results of all pending matters against the company will not have a material adverse effect on the results of operations, financial position, or statement of cash flows but litigation is subject to many factors which are difficult to predict so there can be no assurance that in the event of a material unfavorable result in one or more of such matters, we will not incur material costs.

*Watson Wyatt v. SBC Holdings, Inc. (Stroh Brewery Company):* On July 23, 2004, we received a demand letter from Stroh's counsel alleging that errors in valuations for 2001 and subsequent years understated the liabilities of its pension plan and overstated the company's net worth. As a result, Stroh claimed it did not annuitize its defined benefit plan and redeemed its stock at an inflated price. On April 15, 2005, Watson Wyatt filed a petition in federal court to compel arbitration of the matter. Subsequently, Stroh filed an answer and counterclaim, alleging damages in excess of \$46 million. In January 2008, the Sixth Circuit Court of Appeals held that the entire claim is subject to arbitration. We anticipate arbitration hearings to be held in 2009.

*Government Subpoenas and Investigations:* We also have received a subpoena and requests for information in connection with the Department of Labor. On November 17, 2006, Watson Wyatt Investment Consulting Inc. ( WWIC ) received a subpoena from the United States Department of Labor ( DOL ) in connection with its investigation into the compensation of consultants and other investment advisers. WWIC has responded to the subpoena and continues to cooperate with the DOL.

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**Note 12 Recent Accounting Pronouncements.**

In September 2006, the Financial Accounting Standards Board ( FASB ) published Statement of Financial Accounting Standards No.157, Fair Value Measurements ( FAS 157 ). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The company adopted FAS 157 for financial assets and liabilities on July 1, 2008 and determined the adoption did not have a material impact on its consolidated financial statements. We will adopt FAS 157 for nonfinancial assets and liabilities on July 1, 2009. We do not expect the adoption of the portion of the pronouncement over nonfinancial assets and liabilities to have a material impact on the company's financial position or results of operations.

In February 2007, the FASB published Statement of Financial Accounting Standards No.159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115 ( FAS 159 ). FAS 159 allows entities to choose to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The company adopted FAS 159 on July 1, 2008 and did not choose to elect the fair value option.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations ( FAS 141(R) ) which is a revision of FAS 141, Business Combinations . FAS 141(R) changes the application of the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; contingent consideration will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. We will be required to comply with the provisions of FAS 141(R) for acquisitions that occur on or after July 1, 2009. In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of recognized intangible assets under Statement of Financial Accounting Standards No.142, Goodwill and Other Intangible Assets. The company adopted FSP FAS 142-3 on January 1, 2009, it is applied prospectively to any future acquisitions. The company expects that the application of the provisions of FAS 141(R) and FSP FAS 142-3 could be significant to the company's financial position or results of operations depending on the nature of business acquisitions completed after July 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No.160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No.51 ( FAS 160 ). This statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income. It also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of FAS 141(R). This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We will adopt FAS 160 on July 1, 2009. The company is currently evaluating the effects, if any, that FAS 160 may have on its financial statements.

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**Note 13 - Income Taxes.**

At March 31, 2009, the gross liability for income taxes associated with uncertain tax positions, determined in accordance with FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ( FAS 109 ), was \$8.8 million. This liability can be reduced by \$0.8 million of offsetting deferred tax benefits associated with foreign tax credits and the federal tax benefit of state income taxes. The net difference of \$8.0 million, if recognized, would have a \$7.7 million favorable impact on the company's effective tax rate and would increase other comprehensive income by \$0.3 million. The gross tax liability for uncertain tax positions decreased by \$0.4 million and \$2.2 million for the three month and nine month periods ended March 31, 2009, respectively.

Interest and penalties related to income tax liabilities are included in income tax expense. At March 31, 2009 the company had accrued interest of \$1.5 million and penalties of \$0.4 million, totaling \$1.9 million.

The company believes it is reasonably possible that there will be a \$2.2 million decrease in the gross tax liability for uncertain tax positions within the next 12 months based upon potential settlements and the expiration of statutes of limitations in various tax jurisdictions.

The company and its subsidiaries conduct business globally and are subject to income tax in the US and in many states and foreign jurisdictions. The company is currently under examination in several tax jurisdictions. A summary of the tax years that remain subject to examination in the company's major tax jurisdictions are:

	<b>Open Tax Years (fiscal year ending)</b>
United States - Federal	2006 and forward
United States - Various States	2004 and forward
Canada - Federal	2005 and forward
Germany	2003 and forward
United Kingdom	2005 and forward

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.****Executive Overview****General**

Watson Wyatt is a global consulting firm focusing on providing human capital and financial consulting services. We provide services in five principal practice areas: Benefits, Human Capital Consulting, Technology and Administration Solutions, Investment Consulting, and Insurance and Financial Services operating from 107 offices in 33 countries throughout North America, Europe, Asia-Pacific and Latin America. The company employed approximately 7,685 and 7,510 associates as of March 31, 2009 and June 30, 2008 respectively, in the following practice areas:

	March 31, 2009	June 30, 2008
Benefits Group	3,370	3,290
Human Capital Group	865	900
Technology and Administration Solutions Group	895	850
Investment Consulting Group	560	500
Insurance & Financial Services Group	415	420
Other (incl. Communication)	460	450
Business Services (incl. Corporate and field support)	1,120	1,100
Total associates	7,685	7,510

We help our clients enhance business performance by improving their ability to attract, retain, and motivate qualified employees. We focus on delivering consulting services that help our clients anticipate, identify and capitalize on emerging opportunities in human capital management. We also provide independent financial advice regarding all aspects of life assurance and general insurance, as well as investment advice to assist our clients in developing disciplined and efficient investment strategies to meet their investment goals. Our target market clients include those companies in the *FORTUNE* 1000, Pension & Investments (P&I) 1000, FTSE 100, and equivalent organizations in markets around the world. As leading economies worldwide become more services-oriented, human capital and financial management has become increasingly important to companies and other organizations. The heightened competition for skilled employees, unprecedented changes in workforce demographics, regulatory changes related to compensation and retiree benefits and rising employee-related costs have increased the importance of effective human capital management. Insurance and investment decisions become increasingly complex and important in the face of changing economies and dynamic financial markets. We help our clients address these issues by combining our expertise in human capital and financial management with consulting and technology, to improve the design and implementation of various human resources and financial programs, including compensation, retirement, health care, insurance and investment plans.

The human resources consulting industry, although highly fragmented, is highly competitive and is comprised of major human capital consulting firms, specialist firms, consulting arms of accounting firms and information technology consulting firms.





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In the short term, our revenue are driven by many factors including the general state of the global economy and the resulting level of discretionary spending, the continuing regulatory compliance requirements of our clients, changes in investment markets, the ability of our consultants to attract new clients or provide additional services to existing clients, and the impact of new regulations in the legal and accounting fields. In the long term, we expect that the company's financial results will depend in large part upon how well we succeed in deepening our existing client relationships through thought leadership and focus on cross-practice solutions, actively pursuing new clients in our target markets, cross selling and strategic acquisitions. We believe that the highly fragmented industry in which we operate represents tremendous growth opportunities for us, because we offer a unique business combination of benefits and human capital consulting as well as strategic technology solutions.

**Principal Services**

We design, develop and implement human resource and risk management strategies and programs through the following closely-interrelated practice areas:

**Benefits Group** - The Benefits Group, accounting for 57 percent of our total revenue for the first nine months of fiscal 2009, is the foundation of our business. Approximately 50 percent of its revenue originates from outside of the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. Retirement, the core of our Benefits Group business, typically lags reduction in discretionary spending compared to our other segments, mainly due to the recurring nature of client relationships. Our corporate client retention rate within our target market has remained very high. Revenue for our retirement practice is seasonal, with the second and third quarters of each fiscal year being the busier periods. Major revenue growth drivers in this practice include changes in regulations, economic uncertainty, leverage from other practices, increased global demand and increased market share. Services provided through the Benefits Group include the following:

- Design and management of benefit programs ;
- Actuarial services including development of funding and risk management strategies;
- Expatriate and international human resource strategies;
- Mergers and acquisitions;
- Strategic workforce planning; and
- Compliance and governance

**Human Capital Group** - Our Human Capital Group (HCG), accounting for 11 percent of our total revenue for the first nine months of fiscal 2009, generally encompasses short-term projects. Approximately 60 percent of its revenue originates from outside of the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. Discretionary project work associated with this segment could be affected by the strength of the economy. As a result, this segment tends to be more sensitive to cyclical economic fluctuations than other segments. Services provided through HCG include the following:

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- Advice concerning compensation plans, including broad-based and executive compensation, stock and other long-term incentive programs;
- Strategies to align workforce performance with business objectives;
- Organization effectiveness consulting, including talent management;
- Strategies for attracting, retaining and motivating employees; and
- Data services

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**Technology and Administration Solutions Group** - Our Technology and Administration Solutions Group (TAS), accounting for 11 percent of our total revenue for the first nine months of fiscal 2009, provides information technology services to our clients. Revenue for TAS is relatively stable, compared to what it had historically experienced in an economic downturn, because of its long term contracts associated with the administration business. However, TAS remains partially subject to the impact of the economy on discretionary spending. Income in this segment is slightly greater in the first half of the fiscal year because of the timing of the typical enrollment season for benefits. Approximately 40 percent of its revenue originates from outside of the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. Services provided through the TAS Group include the following:

- Web-based applications for health and welfare, pension and compensation administration;
- Administration outsourcing solutions for health and welfare and pension benefits;
- Call center strategy, design and tools;
- Strategic human resource technology and service delivery consulting;
- Targeted online compensation and benefits statements, content management and call center case management solutions; and
- Integrated talent management suite

**Investment Consulting Group** - Our Investment Consulting Group accounts for 9 percent of our total revenue for the first nine months of fiscal 2009. Approximately 85 percent of its revenue originates from outside of the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. This business, although relationship based, can be affected by an increasingly complex investment landscape as well as by volatility in investment returns, particularly as clients look to us for assistance in managing that volatility. Services provided through our Investment Consulting Group include the following:

- Investment consulting services to pension plans and other institutional funds;
- Input on governance and regulatory issues;
- Analysis of asset allocation and investment strategies;
- Investment structure analysis, selection and evaluation of managers and performance monitoring; and
- Implementation/fiduciary services for defined benefit and defined contribution investment programs via our Advanced Investment Solutions (AIS) services

**Insurance & Financial Services Group** - Our Insurance & Financial Services Group (I&FS) accounts for 7 percent of our total revenue for the first nine months of fiscal 2009. Approximately 90 percent of its revenue originates from outside of the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. This business is largely a project-based business and therefore could be cyclical. Services provided through I&FS include the following:

- Independent actuarial and strategic advice;
- Assessment and advice regarding financial condition and risk management; and
- Financial modeling software tools for product design and pricing, planning and projections, reporting, valuations and risk management

While we focus our consulting services in the areas described above, management believes that one of our primary strengths is our ability to draw upon consultants from our different practices to deliver integrated services to meet the needs of our clients. This capability includes communication and change management implementation support services.

Table of Contents**Financial Statement Overview**

Watson Wyatt's fiscal year ends June 30. The financial statements contained in this quarterly report reflect Condensed Consolidated Balance Sheets as of the end of the third quarter of fiscal year 2009 (March 31, 2009) and as of the end of fiscal year 2008 (June 30, 2008), Condensed Consolidated Statements of Operations for the three and nine month periods ended March 31, 2009 and 2008, Condensed Consolidated Statements of Cash Flows for the nine month periods ended March 31, 2009 and 2008 and a Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine month period ended March 31, 2009.

We derive the majority of our revenue from fees for consulting services, which generally are billed based on time and materials or on a fixed-fee basis. Clients are typically invoiced on a monthly basis with revenue generally recognized as services are performed. No single client accounted for more than 1 percent of our consolidated revenue for any of the most recent three fiscal years.

For the nine months ended March 31, 2009 and fiscal years ended June 30, 2008 and 2007, the company's top six markets based on percentage of consolidated revenue were as follows:

Geographic Region	Nine Months		Fiscal Year	
	2009	2008	2007	2007
United States	43%	41%	44%	
United Kingdom	28	32	31	
Germany	4	5	1	
Canada	3	4	4	
Netherlands	3	4	1	
Greater China	3	2	2	

In delivering consulting services, our principal direct expenses relate to compensation of personnel. Salaries and employee benefits are comprised of wages paid to associates, related taxes, benefit expenses such as pension, medical and insurance costs, and fiscal year-end incentive bonuses.

Professional and subcontracted services represent fees paid to external service providers for employment, marketing and other services. For the most recent three fiscal years, approximately 50 to 60 percent of these professional and subcontracted services were directly incurred on behalf of our clients and were reimbursed by them, with such reimbursements being included in revenue. For the third quarter of fiscal year 2009, approximately 59 percent of professional and subcontracted services represent these reimbursable services.

Occupancy, communications and other expenses represent expenses for rent, utilities, supplies and telephone to operate office locations as well as non-client-reimbursed travel by associates, publications and professional development. This line item also includes miscellaneous expenses, including gains and losses on foreign currency transactions.

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General and administrative expenses include the operational costs, professional fees and insurance paid by corporate management, general counsel, marketing, human resources, finance, research and technology support.

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**Critical Accounting Policies and Estimates**

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. The areas that we believe are critical accounting policies include revenue recognition, valuation of billed and unbilled receivables from clients, discretionary compensation, income taxes, pension assumptions, incurred but not reported claims, and goodwill and intangible assets. The critical accounting policies discussed below involve making difficult, subjective or complex accounting estimates that could have a material effect on our financial condition and results of operations. These critical accounting policies require us to make assumptions about matters that are highly uncertain at the time of the estimate or assumption. Different estimates that we could have used, or changes in an estimate that are reasonably likely to occur, may have a material impact on our financial statements and results of operations.

***Revenue Recognition***

Revenue includes fees primarily generated from consulting services provided. We recognize revenue from these consulting engagements when hours are worked, either on a time-and-materials basis or on a fixed-fee basis, depending on the terms and conditions defined at the inception of an engagement with a client. We have engagement letters with our clients that specify the terms and conditions upon which our engagements are based. These terms and conditions can only be changed upon agreement by both parties. Individual consultants' billing rates are principally based on a multiple of salary and compensation costs.

Revenue for fixed-fee arrangements, which span multiple months, is based upon the percentage of completion method. The company typically has three types of fixed-fee arrangements: annual recurring projects, projects of a short duration, and non-recurring system projects. Annual recurring projects and the projects of short duration are typically straightforward and highly predictable in nature. As a result, the project manager and financial staff are able to identify, as the project status is reviewed and bills are prepared monthly, the occasions when cost overruns could lead to the recording of a loss accrual.

Our non-recurring system projects are typically found in our Technology and Administration Solutions Group. They tend to be projects that are longer in duration and subject to more changes in scope as the project progresses than projects undertaken in other segments. We evaluate at least quarterly, and more often as needed, project managers' estimates-to-complete to assure that the projects' current status is accounted for properly. Our Technology and Administration Solutions Group contracts generally provide that if the client terminates a contract, the company is entitled to payment for services performed through termination.

Revenue recognition for fixed-fee engagements is affected by a number of factors that change the estimated amount of work required to complete the project such as changes in scope, the staffing on the engagement and/or the level of client participation. The periodic engagement evaluations require us to make judgments and estimates regarding the overall profitability and stage of project completion that, in turn, affect how we recognize revenue. The company recognizes a loss on an engagement when estimated revenue to be received for that engagement is less than the total estimated direct and indirect costs associated with the engagement. Losses are recognized in the period in which the loss becomes probable and the amount of the loss is reasonably estimable. The company has experienced certain costs in excess of estimates from time to time. Management believes that it is rare, however, for these excess costs to result in overall project losses.





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The company has developed various software programs and technologies that we provide to clients in connection with consulting services. In most instances, such software is hosted and maintained by the company and ownership of the technology and rights to the related code remain with the company. Software developed to be utilized in providing services to a client, but for which the client does not have the contractual right to take possession, is capitalized in accordance with the AICPA's Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Revenue associated with the related contract, together with amortization of the related capitalized software, is recognized over the service period. As a result, we do not recognize revenue during the implementation phase of an engagement.

Revenue recognized in excess of billings is recorded as unbilled accounts receivable. Cash collections and invoices generated in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met. Client reimbursable expenses, including those relating to travel, other out-of-pocket expenses and any third-party costs, are included in revenue, and an equivalent amount of reimbursable expenses are included in professional and subcontracted services as a cost of revenue.

***Valuation of Billed and Unbilled Receivables from Clients***

We maintain allowances for doubtful accounts to reflect estimated losses resulting from our clients' failure to pay for our services after the services have been rendered, including allowances when customer disputes may exist. The related provision is recorded as a reduction to revenue. Our allowance policy is based on the aging of our billed and unbilled client receivables and has been developed based on our write-off history. Facts and circumstances such as the average length of time the receivables are past due, general market conditions, current economic trends and our clients' ability to pay may cause fluctuations in our valuation of billed and unbilled receivables.

***Discretionary Compensation***

The company's compensation program includes a discretionary annual bonus that is determined by management and paid once per fiscal year in the form of cash and/or deferred stock units after the company's annual operating results are finalized.

An estimated annual bonus amount is initially developed at the beginning of each fiscal year in conjunction with our budgeting process. Quarterly, estimated annual operating performance is reviewed by the company and the discretionary annual bonus amount is then adjusted, if necessary, by management to reflect changes in the forecast of pre-bonus profitability for the year. In those quarters where the estimated annual bonus level changes, the remaining estimated annual bonus is accrued over the remaining quarters as a constant percentage of estimated future net income. Annual bonus levels may vary from current expectations as a result of changes in the company's forecast of net income and competitive employment market conditions.

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*Income Taxes*

The company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which prescribes the use of the asset and liability method whereby deferred tax asset or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect. Valuation allowances are established, when necessary, to reduce deferred tax assets when it is more likely than not that a portion or all of a given deferred tax asset will not be realized. In accordance with SFAS No. 109, income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances and (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority plus amounts accrued for expected tax contingencies (including both tax and interest). FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those positions to be recognized in the financial statements. The Company continually reviews tax laws, regulations and related guidance in order to properly record any uncertain tax liabilities. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

*Pension Assumptions*

We sponsor both qualified and non-qualified, non-contributory defined benefit pension plans in North America and the U.K. that cover approximately 85% of our liability. Under our plans in North America, benefits are based on the number of years of service and the associate's compensation during the five highest paid consecutive years of service. Beginning January 2008, we made changes to our plan in the U.K. related to years of service used in calculating benefits for associates. Benefits earned prior to January 2008 are based on the number of years of service and the associate's compensation during the three years before leaving the plan and benefits earned after January 2008 are based on the number of years of service and the associate's average compensation during the associate's term of service since that date. The non-qualified plan, included only in North America, provides for pension benefits that would be covered under the qualified plan but are limited by the Internal Revenue Code. The non-qualified plan has no assets and therefore is an unfunded arrangement. The benefit liability is reflected on the balance sheet. The measurement date for each of the plans is June 30.

Determination of our obligations and annual expense under the plans is based on a number of assumptions that, given the longevity of the plans, are long-term in focus. A change in one or a combination of these assumptions could have a material impact on our pension benefit obligation and related expense. For this reason, management employs a long-term view so that assumptions do not change frequently in response to short-term volatility in the economy. Any difference between actual and assumed results is amortized into our pension expense over the average remaining service period of participating employees. We consider several factors prior to the start of each fiscal year when determining the appropriate annual assumptions, including economic forecasts, relevant benchmarks, historical trends, portfolio composition and peer comparisons.

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#### *North America*

The following assumptions were used in the valuation of our North American plans at June 30, 2008, 2007 and 2006:

	2008	Year Ended June 30 2007	2006
Discount rate	7.00%	6.25%	6.25%
Expected long-term rate of return on assets	8.75%	8.75%	8.75%
Rate of increase in compensation levels	4.09%	3.84%	3.84%

The 7.00 percent discount rate assumption used at the end of fiscal year 2008 represents a 75 basis point increase from the 6.25 percent discount rate used at the end of fiscal year 2007 and fiscal year 2006. The company's discount rate assumptions were determined by matching future pension benefit payments with expected future U.S. AA corporate bond yields for the same periods.

The expected long-term rate of return on assets assumption remained at 8.75 percent per annum, unchanged from fiscal years 2007 and 2006. Selection of the return assumption at 8.75 percent per annum was supported by an analysis performed by the company of the weighted average yield expected to be achieved with the anticipated makeup of investments. The investment makeup is heavily weighted towards equities.

The following information illustrates the sensitivity to a change in certain assumptions for the U.S. pension plans:

Change in Assumption	Effect on FY2009 Pre-Tax Pension Expense
25 basis point decrease in discount rate	+\$3.3 million
25 basis point increase in discount rate	-\$3.1 million
25 basis point decrease in expected return on assets	+\$1.4 million
25 basis point increase in expected return on assets	-\$1.4 million

The above sensitivities reflect the impact of changing one assumption at a time. It should be noted that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear. The company's U.S. Other Postretirement Employee Benefits Plan is relatively insensitive to discount rate changes due to the plan provisions that have been established to control costs and as such no sensitivity results are shown in the table above.

#### *United Kingdom*

The following assumptions were used in the valuation of our U.K. plan at June 30, 2008, 2007 and 2006:

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	2008	Year Ended June 30		2006
		2007		
Discount rate	6.50%	5.80%		5.10%
Expected long-term rate of return on assets	6.46%	5.69%		5.63%
Rate of increase in compensation levels	5.65%	4.95%		4.75%

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The 6.50 percent discount rate assumption used at the end of fiscal year 2008 represents a 70 basis point increase over the rate used at June 30, 2007 and a 140 basis point increase over the discount rate at June 30, 2006. The discount rate is set having regard to yields on European AA corporate bonds at the measurement date and this increase reflects the change in yields between these dates.

The expected long-term rate of return on assets assumption increased to 6.46 percent per annum for fiscal year 2008 from 5.69 percent per annum for fiscal year 2007. The rate of return was supported by an analysis performed by the company of the weighted average return expected to be achieved with the anticipated makeup of investments which is heavily weighted towards bonds.

The following information illustrates the sensitivity to a change in certain assumptions for the U.K. pension plans:

<b>Change in Assumption</b>	<b>Effect on FY2009 Pre-Tax Pension Expense</b>
25 basis point decrease in discount rate	+\$1.3 million
25 basis point increase in discount rate	-\$ 1.2 million
25 basis point decrease in expected return on assets	+\$ 0.5 million
25 basis point increase in expected return on assets	-\$ 0.5 million

The differences in the discount rate and compensation level assumption used for the North American and U.K. plans above can be attributed to the differing interest rate environments associated with the currencies and economies to which the plans are subject. The differences in the expected return on assets are primarily driven by the respective asset allocation in each plan, coupled with the return expectations for assets in the respective currencies. The North American plans are approximately 60 percent invested in equities, which on average provide a higher return than bonds, which is the favored investment for the U.K. plans.

***Incurred But Not Reported Claims***

The company uses actuarial assumptions to estimate and record a liability for incurred but not reported (IBNR) professional liability claims. Our estimated IBNR liability is based on long-term trends and averages, and considers a number of factors, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, and legislation and economic decisions, but excludes the effect of claims data for large cases due to the insufficiency of actual experience with such cases. Management does not currently expect significant fluctuations in the IBNR liability, based on the company's historical claims experience. However, our estimated IBNR liability will fluctuate if claims experience changes over time.

Table of Contents**Goodwill and Intangible Assets**

In applying the purchase method of accounting for our business combinations, amounts assigned to identifiable assets and liabilities acquired have been based on estimated fair values as of the date of the acquisitions, with the remainder recorded as goodwill. Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. We evaluate our goodwill for impairment annually as of June 30, and whenever indicators of impairment exist. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to the sum of the carrying value of the net assets for that reporting unit. The fair values used in this evaluation are estimated based upon a multiple of revenue for the reporting unit. This revenue multiple is based on our experience and knowledge of our own and other transactions in the marketplace. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. The evaluation of impairment would be based upon a comparison of the carrying amount of the intangible asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, the asset would be considered impaired. The impairment expense would be determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period.

**Results of Operations**

The table below sets forth our historical Condensed Consolidated Statements of Operations data as a percentage of change between periods indicated:

**Condensed Consolidated Statements of Operations**

(in thousands)

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2009 (Unaudited)	2008	% Change	2009 (Unaudited)	2008	% Change
Revenue	\$ 416,994	\$ 457,525	(8.9)%	\$ 1,279,509	\$ 1,306,244	(2.1)%
Costs of providing services:						
Salaries and employee benefits	237,208	254,147	(6.7)	719,735	722,583	(0.4)
Professional and subcontracted services	23,835	20,334	17.2	75,714	75,154	0.7
Occupancy, communications and other	40,941	54,955	(25.5)	137,254	148,187	(7.4)
General and administrative expenses	45,689	45,390	0.7	132,782	131,486	1.0
Depreciation and amortization	17,531	18,265	(4.0)	55,265	53,225	3.8
	365,204	393,091	(7.1)	1,120,750	1,130,635	(0.9)

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Income from operations	51,790	64,434	(19.6)	158,759	175,609	(9.6)
Income (loss) from affiliates	3,201	(29)	n.m.	5,966	(603)	n.m.
Interest expense	(553)	(1,353)	59.1	(2,181)	(5,580)	60.9
Interest income	294	1,585	(81.5)	1,647	4,356	(62.2)
Other non-operating income	1,786	179	n.m.	3,466	454	n.m.
Income before income taxes	56,518	64,816	(12.8)	167,657	174,236	(3.8)
Provision for income taxes	15,927	22,270	(28.5)	52,355	60,465	(13.4)
Net Income	\$ 40,591	\$ 42,546	(4.6)%	\$ 115,302	\$ 113,771	1.4%



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**Three and Nine Months Ended March 31, 2009 Compared to the Three and Nine Months Ended March 31, 2008**

***Revenue.***

Revenue for the third quarter of fiscal year 2009 was \$416.9 million, a decrease of \$40.6 million, or 9 percent, from \$457.5 million in the third quarter of fiscal year 2008. The overall decrease in revenue is due to the strengthening of the U.S. dollar. On a constant currency basis, revenue increased 3% over the third quarter of fiscal year 2008.

The average exchange rate used to translate our revenue earned in British pounds sterling decreased to 1.4437 for the third quarter of fiscal year 2009 from 1.9868 for the third quarter of fiscal year 2008, and the average exchange rate used to translate our revenue earned in Euros decreased to 1.3184 for the third quarter of fiscal year 2009 from 1.5108 for the third quarter of fiscal year 2008. The depreciation of the British pound and the Euro resulted in a \$44 million decrease in revenue in the third quarter of fiscal year 2009 as compared to the third quarter of fiscal year 2008. Changes in the value of other foreign currencies relative to the U.S. dollar resulted in a \$7 million decrease in revenue in the third quarter of fiscal year 2009 as compared to the third quarter of fiscal year 2008.

The increases in our segment revenue based on constant currency for the third quarter of fiscal year 2009 as compared to third quarter fiscal year 2008 are as follows. Constant currency is calculated by translating prior year revenue at the current year average exchange rate.

- Benefits revenue decreased \$19.9 million, or 7 percent, over third quarter fiscal year 2008 due to the strengthening of the U.S. dollar. On a constant currency basis, revenue increased 3 percent over the third quarter of fiscal year 2008 due to increased demand for our core retirement consulting services.
- Technology and Administration Solutions revenue decreased \$0.4 million, or 1 percent, over the third quarter of fiscal year 2008, due to the strengthening of the U.S. dollar. On a constant currency basis, Technology and Administration Solutions revenue increased 13 percent over the third quarter of fiscal year 2008. In Europe, revenue increased due primarily to new clients. In North America, revenue increased due to additional project work at existing clients as well as an increase in the number of projects in on-going service delivery.
- Human Capital Group revenue decreased \$12.2 million, or 25 percent, over the third quarter of fiscal year 2008 due to a decrease in demand in all geographic regions as well as the strengthening of the U.S. dollar. On a constant currency basis, revenue decreased 18 percent over the third quarter of fiscal year 2008.
- Investment Consulting revenue decreased \$4.2 million, or 10 percent, over the third quarter of fiscal year 2008 due to the strengthening of the U.S. dollar. On a constant currency basis, revenue increased 12 percent over the third quarter of fiscal year 2008 due primarily to increased demand for implemented consulting services and investment strategy advice.

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- Insurance and Financial Services revenue increased \$0.6 million, or 2 percent, over third quarter fiscal year 2008. On a constant currency basis, revenue increased 23 percent over the third quarter of fiscal year 2008 due to increases in all geographic regions primarily from additional project work.

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Revenue for the nine months ended March 31, 2009 was \$1.28 billion, a decrease of \$26.7 million, or 2 percent, from \$1.31 billion in the nine months ended March 31, 2008.

The average exchange rate used to translate our revenue earned in British pounds sterling decreased to 1.6479 for the nine months ended March 31, 2009 from 2.0188 for the nine months ended March 31, 2008, and the average exchange rate used to translate our revenue earned in Euros decreased to 1.3821 for the nine months ended March 31, 2009 from 1.4465 for the nine months ended March 31, 2008. The impact of the depreciation of the British pound and the Euro was an \$81 million decrease in revenue in the nine months ended March 31, 2009 as compared to the nine months ended March 31, 2008. Changes in the value of other foreign currencies relative to the U.S. dollar resulted in a \$11 million decrease in revenue in the nine months ended March 31, 2009 as compared to the nine months ended March 31, 2008.

The increases in our segment revenue based on constant currency for the nine months ended March 31, 2009 as compared to the nine months ended March 31, 2008 are as follows. Constant currency is calculated by translating prior year revenue at the current year average exchange rate.

- Benefits revenue decreased \$12.8 million, or 2 percent, over the nine months ended March 31, 2008. On a constant currency basis, revenue increased 5 percent over the nine months ended March 31, 2008 due to increased demand for our services.
- Technology and Administration Solutions revenue increased \$8.4 million, or 6 percent, over the nine months ended March 31, 2008, due to increases in both North America and Europe. On a constant currency basis, Technology and Administration Solutions revenue increased 16 percent over the nine months ended March 31, 2008. In Europe, revenue increased due primarily to new clients. In North America, revenue increased due to additional project work at existing clients as well as an increase in the number of projects in on-going service delivery.
- Human Capital Group revenue decreased \$7.3 million, or 5 percent, over the nine months ended March 31, 2008. On a constant currency basis, revenue decreased 1 percent over the nine months ended March 31, 2008 due primarily to decreases in demand in all geographic regions.
- Investment Consulting revenue decreased \$7.0 million, or 6 percent, over the nine months ended March 31, 2008 due to the strengthening of the U.S. dollar. On a constant currency basis, revenue increased 9 percent over the nine months ended March 31, 2008 due primarily to increased demand for investment strategy advice and implemented consulting services.
- Insurance and Financial Services revenue increased \$4.6 million, or 5 percent, over the nine months ended March 31, 2008. On a constant currency basis, revenue increased 19 percent over the nine months ended March 31, 2008 due primarily to additional project work.

***Salaries and Employee Benefits.***

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Salaries and employee benefit expenses for the third quarter of fiscal year 2009 were \$237.2 million compared to \$254.1 million for the third quarter of fiscal year 2008, a decrease of \$16.9 million or 6.7 percent. The decrease results primarily from the change in the average exchange rates used to translate our expenses incurred in British pounds and the Euro. The change in exchange rates has affected each expense category in a similar fashion. On a constant currency basis, salaries and employee benefits increased 3 percent, principally due to increases in pension expense and other employee benefits. As a percentage of revenue, salaries and employee benefits increased to 56.9 percent from 55.5 percent.

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Salaries and employee benefit expenses for the first nine months of fiscal year 2009 were \$719.7 million compared to \$722.6 million for the first nine months of fiscal year 2008, a decrease of \$2.9 million or 0.4 percent. On a constant currency basis, salaries and employee benefits increased 10 percent, principally due to increases in salary, pension and discretionary compensation expenses. As a percentage of revenue, salaries and employee benefits increased to 56.3 percent from 55.3 percent.

***Professional and Subcontracted Services.***

Professional and subcontracted services expenses for the third quarter of fiscal year 2009 were \$23.8 million compared to \$20.3 million for the third quarter of fiscal year 2008, an increase of \$3.5 million or 17.2 percent. On a constant currency basis, professional and subcontracted services increased 36 percent, principally due to an increase in professional services related to independent contractors and legal expense. As a percentage of revenue, professional and subcontracted services increased to 5.7 percent from 4.4 percent.

Professional and subcontracted services used in consulting operations for the first nine months of fiscal year 2009 were \$75.7 million, compared to \$75.2 million for the first nine months of fiscal year 2008, an increase of \$0.5 million or 0.7 percent. On a constant currency basis, professional and subcontracted services increased 12 percent, principally due to an increase in professional services related to independent contractors and legal expense. As a percentage of revenue, professional and subcontracted services increased to 5.9 percent from 5.8 percent.

***Occupancy, Communications and Other.***

Occupancy, communications and other expenses for the third quarter of fiscal year 2009 were \$40.9 million compared to \$55.0 million for the third quarter of fiscal year 2008, a decrease of \$14.1 million or 25.5 percent. On a constant currency basis, occupancy, communications and other decreased 18 percent, principally due to decreases in travel, general office, and repairs and maintenance expense, partially offset by recognized foreign exchange losses. As a percentage of revenue, occupancy, communications and other decreased to 9.8 percent from 12.0 percent.

Occupancy, communications and other expenses for the first nine months of fiscal year 2009 were \$137.3 million compared to \$148.2 million for the first nine months of fiscal year 2008, a decrease of \$10.9 million or 7.4 percent. On a constant currency basis, occupancy, communications and other increased 2 percent, principally due to recognized foreign exchange losses, net of decreases in travel and office supplies expenses. As a percentage of revenue, occupancy, communications and other decreased to 10.7 percent from 11.3 percent.

***General and Administrative Expenses.***

General and administrative expenses for the third quarter of fiscal year 2009 were \$45.7 million, compared to \$45.4 million for the third quarter of fiscal year 2008, an increase of \$0.3 million or 0.7 percent. On a constant currency basis, general and administrative expenses increased 9 percent, principally due to increases in salary, employee benefits and general office expenses. General and administrative expenses during the third quarter of fiscal year 2009 include \$2.5 million of general and administrative expenses from our Heissman operation. These expenses had been classified amongst the remaining line items under the costs of providing services section of the income statement for fiscal year 2008. As a

percentage of revenue, general and administrative expense increased to 11.0 percent from 9.9 percent.

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General and administrative expenses for the first nine months of fiscal year 2009 were \$132.8 million, compared to \$131.5 million for the first nine months of fiscal year 2008, an increase of \$1.3 million or 1.0 percent. On a constant currency basis, general and administrative expenses increased 10 percent, principally due to increases in salary, employee benefits and general office expenses. General and administrative expenses during the nine months of fiscal year 2009 include \$6.9 million of general and administrative expenses from our Heissman operation. These expenses had been classified amongst the remaining line items under the costs of providing services section of the income statement for fiscal year 2008. As a percentage of revenue, general and administrative expense increased to 10.4 percent from 10.1 percent.

***Depreciation and Amortization.***

Depreciation and amortization for the third quarter of fiscal year 2009 was \$17.5 million, compared to \$18.3 million for the third quarter of fiscal year 2008, a decrease of \$0.8 million or 4.0 percent. On a constant currency basis, depreciation and amortization increased 4 percent, principally due to increases in depreciation of internally developed software used to support our Benefits and Technology and Administration Solutions Groups. As a percentage of revenue, depreciation and amortization increased to 4.2 percent from 4.0 percent.

Depreciation and amortization for the first nine months of fiscal year 2009 was \$55.3 million, compared to \$53.2 million for the first nine months of fiscal year 2008, an increase of \$2.1 million or 3.8 percent. On a constant currency basis, depreciation and amortization increased 13 percent, principally due to increases in depreciation of internally developed software used to support our Benefits and Technology and Administration Solutions Groups. As a percentage of revenue, depreciation and amortization increased to 4.3 percent from 4.1 percent.

***Income (Loss) From Affiliates.***

Income from affiliates for the third quarter of fiscal year 2009 was \$3.2 million compared to a loss of \$29 thousand for the third quarter of fiscal year 2008, an increase of \$3.2 million. These amounts reflect our portion of PCIC s, Fifth Quadrant s, Dubai s and IFA s operating results for the third quarter of fiscal year 2009 while the third quarter of fiscal year 2008 only included our share of PCIC s operating results.

Income from affiliates for the first nine months of fiscal year 2009 was \$6.0 million compared to a loss of \$0.6 million for the first nine months of fiscal year 2008, an increase of \$6.6 million. These amounts reflect our portion of PCIC s, Fifth Quadrant s, Dubai s and IFA s operating results for the first nine months of fiscal year 2009 while the third quarter of fiscal year 2008 only included our share of PCIC s operating results. Additionally, affiliate loss during the three and nine months ended March 31, 2008 includes our share of PCIC s losses resulting from a substantial increase in PCIC s reserves.

***Interest Expense.***

Interest expense for the third quarter of fiscal year 2009 was \$0.6 million, compared to \$1.4 million for the third quarter of fiscal year 2008. Interest expense for the first nine months of fiscal year 2009 was \$2.2 million, compared to \$5.6 million for the first nine months of fiscal year 2008. The decrease in both periods was principally due to a lower average debt balance in the current period compared to the prior period.

*Interest Income.*

Interest income for the third quarter of fiscal year 2009 was \$0.3 million, compared to \$1.6 million for the third quarter of fiscal year 2008. Interest income for the first nine months of fiscal year 2009 was \$1.6 million, compared to \$4.4 million for the first nine months of fiscal year 2008. The decrease is mainly due to a lower average cash balance in the current period compared to the prior period, combined with lower short-term interest rates in the United States and Europe.



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***Provision for Income Taxes.***

Provision for income taxes for the first nine months of fiscal year 2009 was \$52.4 million, compared to \$60.5 million for the first nine months of fiscal year 2008. Our effective tax rate was 31.2 percent for the first nine months of fiscal year 2009 and 34.7 percent for the first nine months of fiscal year 2008. The decrease in the tax rate is due to the geographic mix of income. The company has not provided U.S. deferred taxes on cumulative earnings of foreign subsidiaries that have been reinvested indefinitely, which also includes foreign subsidiaries affiliated with our recent acquisitions. We record a tax benefit on foreign net operating loss carryovers and foreign deferred expenses only if it is more likely than not that a benefit will be realized.

***Net Income.***

Net income for the third quarter of fiscal year 2009 was \$40.6 million, compared to \$42.5 million for the third quarter of fiscal year 2008. As a percentage of revenue, net income increased to 9.7 percent from 9.3 percent. Net income for the first nine months of fiscal year 2009 was \$115.3 million, compared to \$113.8 million for the first nine months of fiscal year 2008. As a percentage of revenue, net income increased to 9.0 percent from 8.7 percent.

***Earnings Per Share.***

Diluted earnings per share, income from operations for the third quarter of fiscal year 2009 was \$0.95, compared to \$0.96 for the third quarter of fiscal year 2008. Diluted earnings per share, income from operations for the first nine months of fiscal year 2009 was \$2.69, compared to \$2.56 for the first nine months of fiscal year 2008.

**Liquidity and Capital Resources**

Our cash and cash equivalents at March 31, 2009 totaled \$118.3 million, compared to \$124.6 million at June 30, 2008. The decrease in cash from June 30, 2008 to March 31, 2009 was principally attributable to the payment during the first three quarters of fiscal year 2009 of \$166 million of previously accrued discretionary compensation, \$46.9 million in corporate taxes, \$29.8 million in capital expenditures and \$9.6 million in dividends. These cash outflows were funded by cash from operations, from existing cash balances and from borrowings under our revolving credit facility. Consistent with the company's liquidity position, management considers various alternative strategic uses of cash reserves including acquisitions, dividends and stock buybacks, or any combination of these options. The company believes that it has sufficient resources to fund operations beyond the next twelve months.

Our non-U.S. operations are substantially self-sufficient for their working capital needs. As of March 31, 2009, \$103.1 million of the total cash balance of \$118.3 million was held outside of North America, which we have the ability to utilize, if necessary. There are no significant repatriation restrictions other than local or U.S. taxes associated with repatriation.

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Under the terms of the WWLLP business combination, we are required under certain circumstances to place funds into an insurance trust designed to satisfy potential litigation settlement related to the former partners of WWLLP. If the assets of the trust are not used by 2017, they will be returned to the company. As of March 31, 2009, we maintained \$4.9 million of restricted cash related to this obligation. This restricted cash balance was included in Other Assets on our consolidated balance sheet.

Assets and liabilities associated with non-U.S. entities have been translated into U.S. dollars as of March 31, 2009, at appreciated U.S. dollar rates compared to historical periods. As a result, cash flows derived from changes in the Company's consolidated balance sheets include the impact of the change in foreign exchange translation rates.

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***Cash From Operating Activities.***

Cash from operating activities for the first nine months of fiscal year 2009 was \$83.7 million, compared to cash from operating activities of \$137.8 million for the first nine months of fiscal year 2008. The difference is primarily attributable to a decrease in billed and unbilled receivables primarily due to exchange rates, as well as to the relative size of accruals and payments associated with discretionary compensation in the periods presented.

The allowance for doubtful accounts decreased \$1.5 million from June 30, 2008 to March 31, 2009. The number of days of accounts receivable and work in process outstanding also benefited from exchange rates and decreased to 66 at March 31, 2009 compared to 71 at June 30, 2008.

***Cash Used in Investing Activities.***

Cash used in investing activities for the first nine months of fiscal year 2009 was \$43.1 million, compared to \$181.7 million used in investing activities for the first nine months of fiscal year 2008. The difference can be attributed to acquisition and contingent consideration payments of \$134.9 million in the first nine months of fiscal year 2008, which was primarily attributable to the Heissmann acquisition.

Expenditures of capital funds were \$29.8 million for the first nine months of fiscal year 2009. Anticipated commitments of capital funds are estimated at \$14.5 million for the remainder of fiscal year 2009. We expect cash from operations to adequately provide for these cash needs.

***Cash Used in Financing Activities.***

Cash used in financing activities for the first nine months of fiscal year 2009 was \$41.9 million, compared to cash used in financing activities of \$48.5 million for the first nine months of fiscal year 2008. This change is primarily attributable to activity under our credit facility which included net borrowings of \$40.2 million in the first nine months of fiscal year 2009 compared to \$5.5 million in the first nine months of fiscal year 2008. This is offset by the company repurchase of \$77.4 million of common stock in the first nine months of fiscal year 2009, compared to \$54.0 million of common stock during the same period in fiscal year 2008.

**Off-Balance Sheet Arrangements and Contractual Obligations**

Contractual Cash Obligations (in thousands)	Total	Remaining payments due by fiscal year as of March 31, 2009			
		Remaining 2009	2010 through 2011	2012 through 2013	Thereafter
Lease Commitments	\$ 298,633,673	14,977,972	104,274,081	78,345,053	101,036,567
Revolving Credit Facility	41,208,587	40,403,315	805,272		

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Total	\$	339,842,260	55,381,287	105,079,353	78,345,053	101,036,567
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**Operating Leases.** We lease office space, furniture and selected computer equipment under operating lease agreements with terms ranging from one to ten years. Management has determined that there is not a large concentration of leases that will expire in any one fiscal year. Consequently, management anticipates that any increase in future rent expense will be mainly market driven.

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**Credit Agreement.** The company has a credit facility provided by a syndicate of banks in an aggregate principal amount of \$300 million. Interest rates associated with this facility vary with LIBOR and/or the Prime Rate and are based on our leverage ratio, as defined by the credit agreement. We are charged a quarterly commitment fee, currently 0.125 percent of the facility, which varies with our financial leverage and is paid on the unused portion of the credit facility. Borrowings under this facility were \$40.2 million as of March 31, 2009 and \$0 as of June 30, 2008. Credit under the facility is available upon demand, although the credit facility requires us to observe certain covenants (including requirements relating to our leverage ratio and fixed coverage charge ratio) and is collateralized with a pledge of stock of material subsidiaries. We were in compliance with all covenants under the credit facility as of March 31, 2009. This facility is scheduled to mature on June 30, 2010.

A portion of the revolving facility is used to support a required letter of credit. As a result, \$10.6 million of the facility was unavailable for operating needs as of March 31, 2009. We are also charged a fee for the outstanding letter of credit that also fluctuates based on our leverage ratio.

The company has also provided a \$5.0 million Australian dollar-denominated letter of credit (US \$3.5 million) to an Australian governmental agency as required by the local regulations. The estimated fair market value of these letters of credit is immaterial because they have never been used, and the company believes that future usage is remote.

**Pension Contributions.** Remaining contributions to our various pension plans for fiscal year 2009 are projected to be approximately \$2.9 million.

## **Risk Management**

As a part of our overall risk management program, we carry customary commercial insurance policies, including commercial general liability and claims-made professional liability insurance with a self-insured retention of \$1 million per claim, which provides coverage for professional liability claims of the company and its subsidiaries, including the cost of defending such claims. Our professional liability insurance coverage beyond our self-insured retention amount is written by an affiliated captive insurance company (PCIC) owned by us and two other professional services firms, and by various commercial insurance carriers.

In formulating its premium structure, PCIC estimates the amount it expects to pay for losses (and loss expenses) for all the members as a whole and then allocates that amount to the member firms based on the individual member's expected losses. PCIC bases premium calculations, which are determined annually based on experience through March of each year, on relative risk of the various lines of business performed by each of the owner companies, past claim experience of each owner company, growth of each of those companies, industry risk profiles in general and the overall insurance markets.

As of July 1, 2008, the captive insurance company carries reinsurance for losses it insures above \$25 million. Since losses incurred by PCIC below this level are not covered by reinsurance, but are direct expenses of PCIC, reserve adjustments and actual outcomes of specific claims of any PCIC member firm carry through into Watson Wyatt's financial results as income or loss from affiliates through our 36.43% ownership of PCIC. Thus, from time to time, the impacts of PCIC's reserve development may result in fluctuations in Watson Wyatt's earnings.

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Our agreements with PCIC could require additional payments to PCIC in the event that the company decided to exit PCIC and adverse claims significantly exceed prior expectations. If these circumstances were to occur, the company would record a liability at the time it becomes probable and reasonably estimable.

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The company will continue to provide for the self-insured retention where specific estimated losses and loss expenses for known claims in excess of \$1 million are considered probable and reasonably estimable. Although the company maintains professional liability insurance coverage, this insurance does not cover claims made after expiration of our current insurance contracts. Generally accepted accounting principles require that we record a liability for incurred but not reported (IBNR) professional liability claims if they are probable and reasonably estimable, and for which we have not yet contracted for insurance coverage. The company uses actuarial assumptions to estimate and record its IBNR liability and has a \$34 million IBNR liability recorded as of March 31, 2009.

Insurance market conditions for our industry and the company include heightened overall premium cost. Trends toward higher self-insured retentions, constraints on aggregate excess coverage for this class of insurance coverage and financial difficulties which are presently faced by several longstanding E&O carriers are anticipated to continue or to recur periodically, and to be reflected in our future annual insurance renewals. As a result, we will continue to assess our ability to secure future insurance coverage and we cannot assure that such coverage will continue to be available indefinitely in the event of specific adverse claims experience, adverse loss trends, market capacity constraints or other factors. In anticipation of the possibility of future reductions in risk transfer from PCIC to re-insurers, as well as the hardening insurance market conditions in recent years, the firms that own PCIC, including the company, have increased PCIC's capital in the past and we will continue to re-assess capital requirements on a regular basis.

In light of increasing worldwide litigation, including litigation against professionals, the company has a policy that all client relationships be documented by engagement letters containing specific risk mitigation clauses that were not included in all historical client agreements. Certain contractual provisions designed to mitigate risk may not be legally practical or enforceable in litigation involving breaches of fiduciary duty or certain other alleged errors or omissions, or in certain jurisdictions. We may incur significant legal expenses in defending against litigation. Nearly 100 percent of the company's U.S. and U.K. corporate clients have signed engagement letters including some if not all of our preferred mitigation clauses, and processes to maintain that protocol in the United States and the United Kingdom and complete it elsewhere are underway.

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**Disclaimer Regarding Forward-looking Statements**

This filing contains a number of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to the following: Note 5 - Retirement Benefits; Note 6 Goodwill and Intangible Assets; Note 10 Restricted Shares; Note 11 Commitments and Contingent Liabilities; Note 13 Income Taxes; the Executive Overview; Critical Accounting Policies and Estimates; the discussion of our capital expenditures; Off-Balance Sheet Arrangements and Contractual Obligations; Risk Management; and Part II, Item 1 Legal Proceedings . You can identify these statements and other forward-looking statements in this filing by words such as may , will , expect , anticipate , believe , estimate , plan , intend , continue , or similar words, expressions or the negative of such terms or other comparable terms. You should read these statements carefully because they contain projections of our future results of operations or financial condition, or state other forward-looking information. A number of risks and uncertainties exist which could cause actual results to differ materially from the results reflected in these forward-looking statements. Such factors include but are not limited to:

- our ability to integrate acquired businesses into our own business, processes and systems, and achieve the anticipated results;
- foreign currency exchange and interest rate fluctuations;
- general economic and business conditions that adversely affect us or our clients;
- our continued ability to recruit and retain qualified associates;
- the success of our marketing, client development and sales programs after our acquisitions;
- our ability to maintain client relationships and to attract new clients after our acquisitions;
- declines in demand for our services;
- outcomes of pending or future professional liability cases and the availability and capacity of professional liability insurance to fund the outcome of pending cases or future judgments or settlements;
- our ability to obtain professional liability insurance;
- a significant decrease in the demand for the consulting, actuarial and other services we offer as a result of changing economic conditions or other factors;
- actions by competitors offering human resources consulting services, including public accounting and consulting firms, technology consulting firms and Internet/intranet development firms;
- our ability to achieve cost reductions after our recent acquisitions;
- exposure to liabilities that have not been expressly assumed in our acquisition transactions;
- the level of capital resources required for future acquisitions and business opportunities;
- regulatory developments abroad and domestically that impact our business practice;



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- legislative and technological developments that may affect the demand for or costs of our services;

and other factors discussed under "Risk Factors" in the company's 2008 Annual Report on Form 10-K filed with the SEC on August 15, 2008. These statements are based on assumptions that may not come true. All forward-looking disclosure is speculative by its nature. The company undertakes no obligation to update any of the forward-looking information included in this report, whether as a result of new information, future events, changed expectations or otherwise.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are exposed to market risks in the ordinary course of business. These risks include interest rate risk, foreign currency exchange and translation risk.

**Interest Rate Risk**

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio in mainly short term securities that are recorded on the balance sheet at fair value.

**Foreign Currency Risk**

International net revenue result from transactions by our foreign operations and are typically denominated in the local currency of each country. These operations also incur most of their expenses in the local currency. Accordingly, our foreign operations use the local currency as their functional currency and our primary international operations use the British Pound, and to a lesser extent, the Euro. Our international operations are subject to risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be adversely impacted by changes in these or other factors.

**Translation Exposure**

Foreign exchange rate fluctuations may adversely impact our consolidated financial position as well as our consolidated results of operations and may adversely impact our financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our condensed consolidated balance sheet. Additionally, foreign exchange rate fluctuations may adversely impact our condensed consolidated results of operations as exchange rate fluctuations on transactions denominated in currencies other than our functional currencies result in gains and losses that are reflected in our condensed consolidated statement of income.

The foreign currency and translation exposure risks have been heightened as a result of the current global economic environment.

We consolidate our international subsidiaries by converting them into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, Foreign Currency Translation ( FAS 52 ). The results of operations and our financial position will fluctuate when there is a change in foreign currency exchange rates.

**ITEM 4. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including the chief executive officer, or CEO, and chief financial officer, or CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of March 31, 2009.

**Changes in Internal Control Over Financial Reporting**

There were no significant changes in our internal control over financial reporting in the quarter ended March 31, 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Limitations on the Effectiveness of Controls**

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures will necessarily prevent all error and all fraud. However, our management does expect that the control system provides reasonable assurance that its objectives will be met. A control system, no matter how well designed and operated, cannot provide absolute assurance that the control system's objectives will be met. In addition, the design of such internal controls must take into account the costs of designing and maintaining such a control system. Certain inherent limitations exist in control systems to make absolute assurances difficult, including the realities that judgments in decision-making can be faulty, that breakdowns can occur because of a simple error or mistake, and that individuals can circumvent controls. The design of any control system is based in part upon existing business conditions and risk assessments. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies or procedures. As a result, they may require change or revision. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and may not be detected. Nevertheless, the disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives, and the CEO and CFO have concluded that the disclosure controls and procedures are effective at a reasonable assurance level.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. The disclosure called for by Part II, Item 1, regarding our legal proceedings is incorporated by reference herein from Note 11 - Commitments and Contingent Liabilities, of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q for the quarter ended March 31, 2009.

**ITEM 1A. RISK FACTORS.**

There are no material changes from risk factors as previously disclosed in our 2008 Annual Report on Form 10-K (File No. 001-16159) filed on August 15, 2008.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.****Issuer Purchases of Equity Securities**

The company periodically repurchases shares of common stock, one purpose of which is to offset potential dilution from shares issued in connection with the company's benefit plans. The table below presents specified information about the company's stock repurchases and repurchase plans:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1, 2009 through January 31, 2009				
February 1, 2009 through February 28, 2009				
March 1, 2009 through March 31, 2009				
<b>Total</b>				<b>468,023</b>

During the first quarter of fiscal year 2007, the company's Board of Directors approved the repurchase of up to 1,500,000 shares of our Class A Common Stock. The maximum number of shares remaining to be repurchased under this plan is 468,023.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

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**ITEM 6. EXHIBITS.**

- 21 Subsidiaries of Watson Wyatt Worldwide, Inc.(1)
- 31.1 Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
- 31.2 Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

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(1) Filed with this Form 10-Q

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**Signatures**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Watson Wyatt Worldwide, Inc.  
(Registrant)

/s/ John J. Haley

Name: John J. Haley  
Title: President and  
Chief Executive Officer

May 7, 2009

Date

/s/ Roger F. Millay

Name: Roger F. Millay  
Title: Vice President and  
Chief Financial Officer

May 7, 2009

Date

/s/ Peter L. Childs

Name: Peter L. Childs  
Title: Controller

May 7, 2009

Date