

Watson Wyatt Worldwide, Inc.
Form 10-K
August 14, 2009

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

(Mark One)

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

For the fiscal year ended June 30, 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.)

901 N. Glebe Road, Arlington, VA 22203

(Address of principal executive offices) (Zip Code)

(703) 258-8000

(Registrant's telephone number, including area code)

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

Title of each class

Class A Common Stock, \$0.01 par value

Name of each exchange on which registered

New York Stock Exchange and NASDAQ

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

(Title of class)

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

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant was approximately \$2,032,629,030 based on the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 31, 2008.

As of July 31, 2009 there were outstanding 42,678,445 shares of common stock par value \$0.01 per share.

WATSON WYATT WORLDWIDE, INC.
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For the Fiscal Year Ended June 30, 2009

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PART I

Item 1. Business.

The Company

Watson Wyatt Worldwide, Inc. (referred herein as *Watson Wyatt*, *company*, *us*, *we*, or *Watson Wyatt & Company Holdings*) is a global consulting firm focusing on providing human capital and financial management consulting services. Including predecessors, we have been in business since 1878. The Wyatt Company was incorporated in Delaware on February 17, 1958. We conducted business as The Wyatt Company from 1958 until changing our name to Watson Wyatt & Company in connection with the establishment of the Watson Wyatt Worldwide alliance in 1995 with R. Watson & Sons (referred herein as *Watson Wyatt LLP* or *WWLLP*), a leading United Kingdom-based actuarial, benefits and human resources consulting partnership founded in 1878. In 2000, we incorporated Watson Wyatt & Company Holdings to serve as a holding company with our operations conducted by our subsidiaries. To better serve the increasingly global needs of clients, on July 31, 2005 we acquired substantially all of the assets and assumed most liabilities of WWLLP (the *WWLLP business combination*). The company's name was changed to Watson Wyatt Worldwide, Inc. on January 1, 2006, to reflect the company's global capabilities and identity in the marketplace.

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 of June 30, 2009, we provided these services through approximately 7,700 associates in 108 offices located in 34 countries.

Proposed Merger with Towers, Perrin, Forster & Crosby, Inc.

On June 26, 2009, we entered into an Agreement and Plan of Merger with Towers, Perrin, Forster & Crosby, Inc. (*Towers Perrin*). Towers Perrin is a global professional services firm concentrated in human capital strategy, program design and management, and in the areas of risk and capital management, insurance and reinsurance intermediary services and actuarial consulting. Pursuant to the merger agreement, Towers Perrin and Watson Wyatt will combine their businesses and become wholly-owned subsidiaries of a new holding company, Jupiter Saturn Holding Company (the *Holding Company*). When the merger is completed, the Holding Company will change its name to Towers Watson & Co. (*Towers Watson*), and its Class A common stock will be publicly traded.

Upon completion of the merger, John J. Haley, the President, Chief Executive Officer and Chairman of the Board of Directors of Watson Wyatt, will serve as Chairman of the Board of Directors and Chief Executive Officer of Towers Watson, and Mark V. Mactas, the President, the Chief Executive Officer and Chairman of the Board of Towers Perrin, will serve as Deputy Chairman of the Board of Directors, President and Chief Operating Officer of Towers Watson. The following describes the merger consideration that will be transferred by the Holding Company at the effective time of the merger:

Watson Wyatt stockholders and holders of Watson Wyatt deferred stock units outstanding under the 2001 Watson Wyatt Deferred Stock Unit Plan, will be entitled to receive in the aggregate fifty percent of Towers Watson's voting common stock outstanding as of the effective time of the merger in the form of Towers Watson Class A common stock. Towers Watson Class A common stock issued to Watson Wyatt stockholders in the merger will be freely tradable.

Towers Perrin shareholders and a group of Towers Perrin employees to be designated to receive certain equity incentive awards, will be entitled to receive in the aggregate fifty percent of Towers Watson's voting common stock outstanding. Towers Perrin shareholders will generally be issued Towers Watson Class B common stock (consisting of various subclasses) that will automatically convert into freely tradable Towers Watson Class A common stock in equal annual installments over four years from the merger's effective time. The employees that receive equity incentive awards will receive restricted shares of Towers Watson Class A common stock, which will generally automatically vest and become freely tradable Towers Watson Class A common stock in equal annual installments over three years from the merger's effective time.

In addition, a select number of Towers Perrin employees meeting defined service plus age criteria may elect to have between 50% and 100% of their Towers Perrin shares converted into Towers Watson Class R common stock which will be automatically redeemed by Towers Watson on the first business day following the effective time of the merger for equal amounts of cash and one year subordinated promissory notes. If the Class R eligible shareholder does not make a valid Class R election, then the shareholder will receive consideration in the same manner as any other Towers Perrin shareholder. The consideration transferred is estimated to be \$100 million in cash and \$100 million in Holding Company notes.

The merger agreement contains termination rights for both Watson Wyatt and Towers Perrin. In the event one party terminates the merger agreement under specific circumstances described in the merger agreement, the terminating party would be required to pay the non-terminating party a termination fee of \$65 million or reimburse the non-terminating party's transaction-related expenses, up to \$10 million.

We currently estimate the consideration to be transferred to Towers Perrin stockholders and employees is expected to be \$1.6 billion, based on Watson Wyatt's June 30, 2009 closing stock price of \$37.53. The actual value of consideration transferred at the effective time of the merger could differ depending on a variety of factors, including Watson Wyatt's actual diluted shares outstanding and fluctuations in Watson Wyatt's stock price.

The transaction is subject to stockholder approval, regulatory clearance under the competition laws of certain countries and jurisdictions including the European Union, and other customary closing conditions. On August 6, 2009, we received notification from the U.S. antitrust authorities that the transaction has received early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The boards of both Towers Perrin and Watson Wyatt have unanimously approved the transaction. The Holding Company will file a registration statement on Form S-4 with the Securities and Exchange Commission that will contain a joint proxy statement / prospectus and other relevant documents concerning the proposed merger. We urge you to read this document once it is filed by the Holding Company. The companies anticipate that they will each hold a special meeting of stockholders to vote on the proposed merger in the fourth quarter of calendar 2009 and a closing date as soon as possible thereafter. The transaction will be accounted for under the acquisition method of accounting in accordance with SFAS No. 141R,

Business Combinations. Although the business combination of Watson Wyatt and Towers Perrin is a merger of equals, generally accepted accounting principles require that one of the two companies in the transaction be designated as the acquirer for accounting purposes based on several factors. Watson Wyatt will be treated as the acquiring entity for accounting purposes. Accordingly, the historical financial statements of Watson Wyatt will become the historical financial statements of the Holding Company. As the transaction has not yet closed, the results of Towers Perrin's operations are not included in the company's results for the fiscal year ended June 30, 2009. Towers Perrin and Watson Wyatt each have a 36.4% equity investment in Professional Consultants Insurance Company (PCIC). PCIC provides professional liability insurance on a claims-made basis. The combined entity post-merger will own 72.8% of this variable interest entity and will be required to consolidate the results of PCIC into its consolidated financial statements.

For a more complete description of the merger agreement, please see our current report on Form 8-K, filed with the Securities and Exchange Commission on June 29, 2009.

Business Acquisitions

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 and incurred 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 the date of the acquisition, Heissmann had annual revenue of approximately \$70 million (52 million).

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 will be used to service our clients on an ongoing basis.

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's annual revenue was approximately \$2.5 million. The financial results of Marcu have been included in the company's consolidated financial statements since July 1, 2008.

Watson Wyatt Netherlands

On February 1, 2007, the company acquired the net assets of Watson Wyatt Brans & Co. (Watson Wyatt Netherlands or WWN), its long-time alliance partner in the Netherlands. WWN was established in 1945 as an actuarial firm and has extended its services from retirement consulting to incorporate legal aspects of employee benefits and investment consulting to a wide range of clients. The company and WWN had jointly offered services since 1999 pursuant to alliance agreements. Revenue generated in calendar year 2006 was approximately \$37 million (28 million). 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.

Access to Public Filings, Code of Business Conduct and Ethics and Board Committee Charters

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available, without charge, on our web site (www.watsonwyatt.com) or the SEC web site (www.sec.gov), as soon as reasonably practicable after they are filed electronically with the SEC. We have also adopted a Code of Business Conduct and Ethics applicable to all associates, senior financial employees, the principal executive officer, other officers and members of senior management. The company also has a Code of Business Conduct and Ethics that applies to all of the company's directors. Both codes are posted on our website. Watson Wyatt's Audit Committee, Compensation Committee and Nominating and Governance Committee all operate pursuant to written charters adopted by the company's board of directors. The company has also adopted a set of Corporate Governance Guidelines, copies of which are available on the company's website. Copies of all these documents are also available, without charge, from our Investor Relations Department, located in our corporate headquarters at 901 N. Glebe Road, Arlington, VA 22203.

Certifications

In November 2008, the company submitted to the New York Stock Exchange (NYSE) the required annual certification that our chief executive officer is unaware of any violation by Watson Wyatt of the NYSE corporate governance standards under section 303A.12(a) of the NYSE listed company manual. The company also filed with the SEC the CEO and CFO certifications required under section 302 of Sarbanes-Oxley Act of 2002 as an exhibit to this Form 10-K.

Business Overview

As leading economies worldwide become more services-oriented and the economic downturn continues, human capital and financial management remain critical for companies and other organizations. The 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 retirement, health care, compensation, insurance and investment plans.

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

Benefits Group

- 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
- Compliance and governance

Technology and Administration Solutions Group

- Web-based systems for health and welfare, pension, compensation and talent management administration
- Administration services for outsourcing of health and welfare, pension and flexible benefits plans
- Consulting on strategic human resources technology and service delivery, including SharePoint portal implementation and other HR and enterprise portals
- Targeted online compensation and benefits statements, content management and call center case management solutions
- Reward and talent management strategy, design and technology solutions

Human Capital Group

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
Talent management consulting, including workforce planning, performance management, succession planning and other programs
Strategies for attracting, retaining and motivating employees
Data services

Investment Consulting Group

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
Implementation/fiduciary services for defined benefit and defined contribution investment programs via our Advanced Investment Solutions (AIS) and Defined Contribution Solutions (DCS) services

Insurance & Financial Services Group

Independent actuarial and strategic advice
Assessment and advice regarding financial condition and risk management
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.

Competitive Advantage

We believe that our competitive advantages include our global reach, our strong client relationships, the depth of expertise among our professional and technical associates, our thought leadership and our experienced management team.

We have long-lasting relationships with our clients, many of which have been clients for decades and for whom our services have grown over time. Expanding our relationships with existing clients and identifying new prospects are key to our growth strategy.

We also believe that we are at the forefront of many issues affecting human capital through our research, surveys and participation in policy-making. Our thought leaders are often called upon by the media and government to express opinions on issues affecting health care benefits, retirement plan design and executive compensation.

We believe our senior management team has strong experience, with an average tenure of 19 years with the company and a reputation for transparency and accountability. We consider this group to be a major asset to the company.

Human Resources Consulting Industry

As the business landscape changes, the need for employee benefits and human capital consulting services becomes even more important. Employers, regardless of geography or industry, are facing more complex challenges involving the management of their people. Companies are re-evaluating their human resource programs to see how they can cut costs while maintaining employee engagement. They are balancing the need for workforce reductions with the challenges of critical skill shortages and talent retention. At the same time, employees' expectations relating to compensation and other human resource services are changing. Unprecedented economic conditions are also forcing a global aging population to work longer before they can retire causing employers to rethink their benefit plans. To be competitive when the economy recovers, employers must address these challenges quickly and effectively. In the United States alone, employers spent \$7.8 trillion in 2007 in direct support of human capital programs, such as compensation and benefits. In 2008, U.S. employers contributed \$368.9 billion to pension and profit-sharing plans, and \$623.1 billion to group health insurance programs. In addition at the end of 2008, pension assets for the top eleven pension markets worldwide were estimated to be \$20.4 trillion.

Consulting Services

Our global operations include five segments: Benefits, Technology and Administration Solutions, Human Capital, Investment Consulting, and Insurance & Financial Services. The percentages of revenue generated in the various groups are as follows:

	2009	2008	2007
Benefits Group	57%	56%	55%
Human Capital Group	10	11	11
Technology and Administration Solutions Group	11	10	11
Investment Consulting Group	10	10	9
Insurance & Financial Services Group	7	7	8
Other Segments	5	6	6
Total Segment Revenue	100%	100%	100%

For more information about our operating segments, see Note 12 of Notes to the Consolidated Financial Statements included in Item 15 of this report.

Benefits Group

The Benefits Group our largest and most established practice with approximately 3,405 associates consists primarily of consulting practices in retirement, group and health care, and international. This group has grown through business combinations as well as strong organic growth. This group assists clients in creating and managing cost-effective benefits programs that help our clients attract, retain and motivate a talented workforce. Our Benefits Group accounted for approximately 57 percent of our total segment revenue for our fiscal year ending June 30, 2009.

Retirement Consulting

We are one of the world's leading advisers on retirement plans, providing actuarial and consulting services for large defined benefit and defined contribution plans including design, funding and risk management strategies. We also help our clients assess the effects of changing workforce demographics on their retirement plans, cash flow requirements, and retiree benefit adequacy and security.

Our consultants are the named actuaries and provide actuarial services to many of the world's largest retirement plan sponsors. Watson Wyatt provides actuarial services to more of the top 300 pension funds worldwide than any other consulting firm. In the United States, we provide actuarial services to three of the four largest corporate pension plans, and, in the United Kingdom, we are adviser to 43 of the 100 largest corporate pension funds. Additionally, we have market-leading positions in Germany and the Netherlands.

We offer clients a full range of integrated and innovative retirement consulting services to meet the needs of all types of employers including those that continue to offer defined benefit plans and those that are reexamining their retirement benefits strategies. For those clients who want to outsource some or all of their pension plan management, we offer integrated solutions that combine investment consulting, pension administration, core actuarial services and communication assistance.

Our retirement consulting services include:

- Actuarial services

- Analysis and recommendations on funding strategy

- Development and implementation of risk mitigation and management strategies

- Strategic plan design

- Administrative services

- Workforce diagnostics, analysis and planning

- Defined contribution services including nondiscrimination testing and vendor selection

- Financial reporting

- Stock option and share plan financial accounting

- Executive retirement benefits and assistance with enhanced U.S. proxy disclosures

- Retiree health care design and valuation

- Assistance with changes relating to mergers, acquisitions and divestitures

- Development of compliance and governance strategies

Our retirement consulting services are supported by a strong focus on research and advocacy for sound public policy. We are leaders in the development and support of hybrid pension designs like cash balance plans in the United States, which are widely seen as the future of the defined benefit system.

Much of our recent consulting with clients relates to managing risk and cost volatility, various regulatory changes (global accounting reform and U.S. and European pension funding legislation), and a broad-based desire on the part of many employers to revisit their retirement design approach. We use unique data and analyses to provide perspective on the overall environment and to help our clients with their design decisions. We have tracked the retirement designs of the largest U.S. public companies over many years, providing clients with data to better understand the true magnitude of the movement from defined benefit to defined contribution designs. We have brought together our consulting, research and advocacy to help our clients (as well as regulators and the media) understand the impact of the financial crisis on their retirement programs and develop tactical and strategic approaches to managing through this challenge.

To further enhance our retirement consulting services, we dedicate significant resources to technology systems and tools to ensure the consistency and efficiency of service delivery in all our offices worldwide. We also maintain extensive proprietary databases, such as Watson Wyatt COMPARISON™, that enable our clients to track and benchmark benefit plan provisions. Our tools and technology solutions include:

BenefitConnect Consultants in our retirement practice and our Technology and Administration Solutions Group partner to deliver the pension administration component of this full-featured, Web-based solution for benefits administration

OnePlace A Web portal that helps our clients with the day-to-day management and governance of their plans and links easily with our global tools, research and data

FASTool An interactive tool that allows the immediate comparison of income statement and balance sheet information and assumptions related to pension, stock option and retiree medical plans for large, publicly traded U.S. companies

Forecaster A Web-enabled tool that allows pension plan sponsors to quickly and easily model a variety of financial and business situations, and project retirement plan contributions, funded status and expense

DesignIT A modeling tool for our European clients that provides comparisons between a selection of alternative pension designs

Liability Watch Enables our European clients to keep daily track of their funding position

Group and Health Care Consulting

We advise clients on the strategy, design, financing, delivery, communication and ongoing planning and management of all health and welfare programs. Clients seek our evidence-based, practical solutions to improve employee health, satisfaction and productivity while minimizing costs. We work closely with our clients matching their resources and capabilities with our methodologies, technology and total compensation and benefits perspective.

Globally, many health care systems are strained by shrinking resources and increasing demand due to population aging and changes in workers health status. Our group and health care consulting services help clients provide health and welfare benefits to attract and retain qualified workers and enhance the health and productivity of their workforce. In the United States, several proposals for health care reform are being considered by Congress. All proposals call for the continuation of employer-sponsored benefit programs, but there are variations in the details and uncertainty as to the final outcome. For employers, an overhaul of the health care system could pose additional administrative complexity. In addition, legislators seeking options for funding reform, may consider limiting (or eliminating) contributions to flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs), imposing new requirements on health savings accounts (HSAs) and/or changing the definition of qualified medical expenses eligible for reimbursement through FSAs, HRAs and HSAs. Watson Wyatt has been working with clients to model the impact of various reform scenarios, and we expect that employers will seek additional guidance following resolution of the health care debate.

Currently, more employers are adopting consumer-oriented health care approaches that encourage employees and retirees to participate more actively in health care buying decisions. These models put workers in charge of spending their own health care dollars and provide them with appropriate incentives, tools and information to make wiser health purchasing decisions. One of these tools is BenefitConnect a customizable, Web-based application that combines self-service employee tools with administrative and call center components to facilitate the administration and management of health and welfare benefits.

Our approach to group and health care consulting emphasizes health and productivity, pharmacy, provider quality, effective communication and data and metrics. Our global services include:

- Strategic plan design of health and welfare, paid time off and flexible benefit plans
- Retiree health programs
- Health and productivity management, including onsite clinics
- Health and welfare technology solutions
- Total program management
- Vendor negotiations, audits and performance management
- Measurement of program effectiveness
- Assistance with plan changes relating to mergers, acquisitions and divestitures.

International Consulting

To help multinational companies face the challenges of operating in the global marketplace, Watson Wyatt provides expertise in dealing with international human resources and related finance issues for corporate headquarters and their overseas subsidiaries.

Through our global specialists and in cooperation with our local offices worldwide, we help multinational companies on a range of issues, including:

- Resolution of people issues in mergers and acquisitions

- Compliance and competitiveness of human capital practices at all stages of the off-shoring lifecycle or expansion process

- Management of financial exposures and investment risks in benefit plans and determination of pension funding

- Development and support of multinational governance procedures for managing employee benefit and worldwide reward programs

- Development of an international transfer policy that meets the organization's current and projected mobility needs

We offer several tools and research resources to help deliver these services, including:

- BenTrack** The online tool used by the world's largest multinationals including four of the Fortune 10 to help govern global benefits and compensation programs.

- FAStrack** To facilitate global coordination for the various global accounting standards requirements, including IFRS, FAS87, FAS106 and FAS132R, Watson Wyatt has developed FAStrack Global, a Web-based program designed for local plan actuaries to enter IFRS/FAS results by business unit, plan and/or country.

- Global Survey of Accounting Assumptions for Defined Benefit Plans** an annual survey of the accounting assumptions applied by major corporations for their defined benefit plans around the world.

Technology and Administration Solutions Group

Watson Wyatt's Technology and Administration Solutions group with approximately 900 associates helps organizations optimize the delivery of their human resources and benefit services. We do this through a unique blend of domain expertise and experience in human resources and benefits, strong process capability and a range of enabling technology solutions. We understand the importance of being able to both provide advice on the appropriate solutions to meet human resource needs and to implement and deliver those solutions on an ongoing basis. Our Technology and Administration Solutions Group accounted for approximately 11 percent of our total segment revenue for our fiscal year ending June 30, 2009.

Our flexible technologies and administration solutions are designed to maximize employee self-service, promote behavior change, and support and reinforce clients' brands. They integrate easily, scale well and provide full transparency. Our solutions include:

Retirement Administration

We provide retirement administration solutions in a number of geographic areas, tailored to the needs of each local market:

In the United States, we offer comprehensive services ranging from technology to support clients who administer their own plans to a full set of administration and technology services for those who wish to fully outsource retirement administration activities. Our technology solution, BenefitConnect, includes case management and administration tools to assist plan sponsors in managing the entire life cycle of pension administration, from new hire to retirement, and employee self-service tools that enhance workers' understanding of their retirement benefits' future value. BenefitConnect is the market share leader for co-sourced DB administration for organizations with 10,000 or more employees.

In the United Kingdom, we are among the leaders in retirement administration outsourcing services to the private sector, using highly automated processes and modern transactional Web technology to enable members to access their records and improve their understanding of their benefits. Our technology also provides trustees and human resources with timely management information and the means to monitor activity levels and reduce administration costs.

In markets where defined contribution (DC) arrangements are more complex than 401(k)-style plans, we have deployed sophisticated DC technology, processes and controls. Our DC administration model in Germany and the United Kingdom leverages Web technology and provides clients with back office reconciliation and investment manager interaction expertise, while offering the option to flex the front-office operations to be as comprehensive as required. Participants can access static and transactional data allowing them to be self-sufficient in managing their portfolios.

Health & Welfare/Flexible Benefits Administration

Flexible benefit plans exist in different forms in different geographies, and we provide web-enabled flexible benefits administration solutions to support clients in a number of different parts of the world.

In the United States, flexible benefits tend to be focused primarily around health and welfare arrangements. We offer comprehensive services ranging from technology to support clients who administer their own plans to a full set of administration and technology services for those who wish to fully outsource health and welfare administration activities. BenefitConnect is our flexible web-based health and welfare technology that allows employees and retirees to perform benefits transactions and access information at their convenience with easy-to-use self-service tools. BenefitConnect and our service centers provide contact center support, vendor interface management, participant issue resolution and material fulfillment. Health care consumerism support tools give participants direct web-based access to their benefits information and enrollment tools and provide modeling on a choice of medical spending and savings accounts, as well as life insurance. They also help participants become smart consumers through access to information on the World Wide Web via the Internet. In the United Kingdom, we provide flexible benefits administration services on a stand-alone basis or linked with defined contribution administration and the provision of total compensation statements.

Integrated Reward and Talent Management Suite

Built by business and HR experts, our world-class technology suite supports and automates reward and talent management programs. Our I-TMS talent suite integrates strategic workforce planning, recruiting, performance management, compensation planning, compensation analytics, global job leveling, career development, learning and succession planning. The system accommodates a wide range of client processes, terminology and workflow without programming.

Online Total Rewards Statements

eStatements is our Web-based solution that helps employees understand the true value of their compensation and benefits package. It aggregates data from a number of internal and/or external sources, and provides a real-time view of an employee's complete package. It illustrates the value of an organization's human resource programs, fosters smarter plan participation and benefit consumerism, offers organizations another vehicle to promote plan features, provides support, and delivers other focused information. There is also a recruiting module that gives candidates a view of the total compensation and rewards strategy they would receive at the employer organization.

Service Delivery Technology Suite

AnswerKey is our shared service center solution that combines case management software with a personalized, searchable knowledge base. Using Web-based technology, it consolidates data from multiple sources, offering employees and human resource service center staff a single point of contact for faster response times and more accurate and consistent inquiry resolution.

Portal, Service Delivery and Talent Management Consulting Services

We also have a consulting group within our technology and administration group. Our expertise includes HR service delivery assessment, design and implementation; HRO and HRMS vendor selection; HRO and HRMS implementation services; HR/enterprise portal consulting; SharePoint development, research and benchmarking; and talent management assessment, strategy and program design.

Human Capital Group

Our Human Capital Group of approximately 825 associates helps clients implement strategies that achieve a competitive advantage by aligning their workforce with their business strategy. This includes helping clients develop and implement strategies for attracting, retaining and motivating their employees, resulting in a maximized return on clients' investment in human capital. The Human Capital Group also includes our Watson Wyatt Data Services practice, which is a group of approximately 320 associates that provide data, services and analysis regarding compensation and benefits around the world. Our Human Capital Group represented approximately 10 percent of our total segment revenue for our fiscal year ending June 30, 2009.

Our Human Capital Group focuses in six principal areas: executive compensation, strategic rewards, sales effectiveness and compensation, organization effectiveness, talent management and data services.

Executive Compensation

We advise our clients' management and boards of directors on executive pay programs, including cash compensation, base pay, bonus, incentives, options and retirement and other benefits. We also work with them to align their pay-for-performance plans throughout the organization to improve shareholder value. We use a proprietary model to help clients understand and assess the riskiness of their executives' compensation packages to determine the appropriate balance between pay for performance and risk management.

Strategic Rewards[®]

We help align an organization's global rewards—including base compensation, incentives, stock programs, recognition programs and other HR programs—with its business strategies, cultural values, work design and human resources strategy. Our Human Capital Group and Benefits Group work together to develop integrated reward and talent management programs for our clients.

Sales Effectiveness and Compensation

We help maximize the performance of our clients' sales, marketing and service teams across the globe by aligning the behaviors of their customer-facing employees with their organization's business strategy and compensation philosophy. By considering the full spectrum of rewards, we help our clients maintain and expand critical relationships while executing the organization's go-to-market strategy.

Organization Effectiveness

We help clients build employee engagement to improve their business performance. We do this by identifying the drivers of and barriers to employee engagement and by designing programs to enhance engagement. We also help clients improve the effectiveness of their HR function through strategy alignment, organization design and functional competency development. Our research, benchmarks and quantitative approaches play a critical role in our fact-finding and recommendations.

Talent Management

We help organizations bring the same clarity, discipline and objectivity to managing talent as they do to other critical business operations. Our proven tools and methodologies help companies maximize their return on people through outstanding performance management, strategic workforce planning, rewards, succession planning, recruiting, learning and career development.

Watson Wyatt Data Services

Watson Wyatt Data Services (WWDS), is a leading provider of compensation, benefits and employment practices information to the global employer community. From offices around the world, we solicit, analyze and publish an extensive library of printed, interactive and online survey reports. Our compensation databases are recognized worldwide as the most reliable source of current data for compensation planning.

Covering 97 countries across six continents, our data centers in the U.S., Canada, Europe, Asia and Latin America annually compile reports on the remuneration, benefits and employment practices of local and multinational companies. Our in-country experts apply their local knowledge of the varied employment markets, practices and customs to deliver a complete compensation picture that can be used to create sound, market-based pay programs for entire institutions. Our international databases contain compensation information covering millions of employees based on the annual survey participation of organizations ranging from emerging growth companies to many of the world's largest conglomerates.

Investment Consulting Group

Our Investment Consulting Group, with approximately 565 associates, helps pension trusts and other institutional clients successfully meet their investment goals. This involves helping optimize risk-adjusted returns through development of appropriate governance, policies and strategies. Our work involves helping our clients with the design and implementation of investment arrangements to manage and decrease financial liabilities within a context of overall organizational objectives. Our Investment Consulting Group represented approximately 10 percent of our total segment revenue for our fiscal year ending June 30, 2009.

Our services include:

- Asset/liability modeling, risk budgeting and asset allocation studies
- Governance consulting and investment policy development
- Investment policy implementation
- Analysis of structured products
- Investment manager selection and monitoring
- Performance evaluation and monitoring

We offer the following integrated services for our clients:

Pension Risk Management an integrated methodology for determining the appropriate amount of investment risk for a pension plan and allocating that risk across investment decisions

Advanced Investment Solutions taking a more proactive responsibility for the investment arrangements of institutional funds. We work with the plan sponsor to develop an investment policy and to help manage the implementation of that policy.

Defined Contribution Solutions partnering with DC plan committees to help ensure they meet their fiduciary responsibilities. We act as an investment co-fiduciary, providing single manager recommendations, as well as plan value and fiduciary risk assessments.

Insurance & Financial Services Group

Our Insurance & Financial Services consulting team of approximately 415 associates advises insurance companies and other financial institutions on strategic and financial issues. Clients include major multinational financial groups; life, non-life and health insurance companies; re-insurers; self insurers; captives; banks and regulators. Our Insurance & Financial Services Group represented approximately 7 percent of our total segment revenue for our fiscal year ending June 30, 2009.

Our services include:

- Development and review of business strategy, including market-entry studies and business plan design

- Provision of strategic and actuarial advice to buyers or sellers of financial institutions

- Advice on a wide range of financial management issues, including risk and value management, asset liability modeling, statutory reporting, embedded value and market-consistent valuations

We have also developed a range of leading-edge actuarial modeling software products, including *VIPitech*, *Replicating Portfolio*, *Pretium* and *Simulum*. These are used internally for consulting projects and licensed to clients around the world.

Other Services

Communication Consulting

Our communication consulting practice helps clients produce financial results through strategies that align employee behavior with business success. Our award-winning work and our eight years of ground-breaking *Communication ROI* research show that effective communication:

- Increases total returns to shareholders

- Improves service, quality and productivity levels

- Helps fuel growth

- Enhances organizational ability to manage change successfully

- Builds employee community, trust and commitment

- Educates, engages and motivates employees

Working with clients who have responsibility for employee communication in human resources, corporate or line functions, our consultants combine strong creative skills with technical excellence to create programs that range from high-level strategic planning to tactical implementation.

We help clients develop and implement communication strategies for diverse issues, including:

- Clarifying the value and scope of employee compensation and benefits, and enhancing employees' appreciation of their total rewards opportunities

- Drawing a clear line of sight between employee performance and company objectives through open communication and leadership communication training

- Optimizing the use of technology in communication through audits and best-practice design

- Facilitating organizational change so that all stakeholders fully understand their role in business success

- Maintaining employee trust, confidence and commitment through all cycles of performance

- Demonstrating the return on investment of employee communication in achieving business objectives

- Supporting management through innovative communication programs that help employers target, attract and hire the right talent to meet business objectives

Integrated Service Approach

While we focus our consulting services in the principal areas described above, we draw upon consultants from across practices and geographies to deliver integrated services to meet the needs of our clients. An example is our M&A engagements, through which we apply our human capital and financial expertise to help clients maximize M&A deal value. We help clients around the world determine the correct mix of reward programs to attract and retain the right employees and to motivate them to produce desired results. We also assemble cross-practice teams to help clients through mergers and acquisitions.

Sales and Marketing

Our growth strategy is based on a commitment to ensuring client satisfaction through our account management program. Our account managers focus on effectively delivering services to clients and on expanding our relationships across service lines, geographic boundaries and divisions within client organizations. A key element of this program is an approach we call ClientFirst™. Using proprietary processes and tools, we work with clients to define their needs and expectations before an engagement begins, and then continually measure our performance according to agreed-upon standards.

We pursue new clients using cross-disciplinary teams of consultants, as well as dedicated client developers who initiate relationships with carefully selected companies. Our efforts to expand our accounts and our client base are supported by market research, comprehensive sales training programs and extensive marketing databases. Our sales efforts are also supported by a full array of marketing programs designed to raise awareness of the Watson Wyatt Worldwide brand and our reputation within our target markets. These programs promote our thought leadership on key business issues, and establish us as a preferred human capital and financial services consulting firm to many of the world's largest companies.

Clients

We work with major corporations, emerging growth companies, government agencies and not-for-profit institutions in North America, Europe, Asia-Pacific, Latin America, Africa and the Middle East across a wide variety of industries. Our client base is broad and geographically diverse. For the fiscal year ended June 30, 2009, our 10 largest clients accounted for approximately 7 percent of our consolidated revenue, while no individual client represented more than 1 percent of our consolidated revenue.

Competition

The human capital consulting industry is highly competitive. We believe there are several barriers to entry such as the need to assemble specialized intellectual capital to provide expertise on a global scale and that we have developed competitive advantages in providing human resources consulting services. However, we face intense competition from several different sources.

Our current and anticipated competitors include:

Major human resources-focused consulting firms that compete in serving the large employer market worldwide, including Hewitt Associates, Towers Perrin and Mercer

Smaller benefits and compensation consulting firms, including the Hay Group and The Segal Company, as well as boutique investment firms like Russell Investments and Callan Associates

The human resources consulting and/or plan administration divisions of diversified professional services, financial services and insurance firms, including Aon, Deloitte & Touche, Ernst & Young, Fidelity, ING Institutional Plan Services, PricewaterhouseCoopers and KPMG

Information technology services firms, including Accenture, ACS, ADP, ExcellerateHRO and IBM, as well as Internet/intranet development firms and smaller talent management companies like SuccessFactors Boutique consulting firms consisting primarily of professionals formerly associated with the firms mentioned above

The market for our services is subject to change as a result of economic, regulatory and legislative changes; technological developments; and increased competition from established and new competitors. We believe the primary factors in selecting a human resources consulting firm include reputation; the ability to provide measurable increases to shareholder value and return on investment; global scale; quality of service; and the ability to tailor services to a clients unique needs. We believe we compete favorably with respect to these factors.

Employees

The company employed approximately 7,700 and 7,510 associates as of June 30, 2009 and 2008 respectively, in the following practice areas:

	As of June 30,	
	2009	2008
Benefits Group	3,405	3,290
Human Capital Group	825	900
Technology and Administration Solutions Group	900	850
Investment Consulting Group	565	500
Insurance & Financial Services Group	415	420
Other (incl. Communication)	450	450
Business Services (incl. Corporate and field support)	1,140	1,100
 Total	 7,700	 7,510

None of our associates are subject to collective bargaining agreements except in Brazil, Germany, Belgium and Netherlands. We believe relations between management and associates are good.

Item 1A Risk Factors

In addition to the factors discussed elsewhere in this report, the following are some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements. These risk factors should be carefully considered in evaluating our business. The descriptions below are not the only risks and uncertainties that we face. Additional risks and uncertainties that are presently unknown to us, may also impair our business operations, financial condition or results. If any of the risks and uncertainties below or other risks were to occur, our business operations, financial condition or results of operations could be materially and adversely impacted. With respect to our proposed merger with Towers Perrin, the parties have formed a new holding company, named Jupiter Saturn Holding Company, which we expect to file a registration statement on Form S-4 with the Securities and Exchange Commission. W