

Watson Wyatt Worldwide, Inc.  
Form 10-K  
August 24, 2007

**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, 2007

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, including 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

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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 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer

Large accelerated filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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 \$1,912,392,860 based on the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 29, 2006.

**Documents Incorporated by Reference**

Portions of the Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on or about November 16, 2007 are incorporated by reference into Part III of this Form 10-K.

As of July 31, 2007 there were outstanding 42,224,619 shares of common stock par value \$0.01 per share.

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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 1946. 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, 2007, we implemented this strategy through approximately 6,600 associates in 96 offices located in 30 countries.

***Business Acquisitions***

**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. As of the date of the acquisition, WWN employed approximately 180 associates in five offices throughout the Netherlands. Revenues generated in calendar year 2006 were approximately \$37 million (*28 million*). 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 and as a result, have business segments that are very similar in nature. For more information regarding this business acquisition, see Note 2 of Notes to the Consolidated Financial Statements included in Item 15 of this report.

**Watson Wyatt LLP**

On July 31, 2005, the company consummated the WWLLP business combination. The company and WWLLP had jointly offered services since 1995 pursuant to alliance agreements and as a result, have business segments that are very similar in nature. The assets acquired from WWLLP are held by the company's principal U.K. subsidiary, Watson Wyatt Limited ( "Watson Wyatt Limited" or the "European business" ). Watson Wyatt Limited's results of operations are included in the consolidated financial statements beginning August 1, 2005. Subsequent to the WWLLP business combination, the successor entity to WWLLP, Ringley House LLP ( "Ringley House" ) maintains minimal business operations and assets. For more information regarding the WWLLP business combination and the accounting for the company's share of WWLLP and Watson Wyatt Holdings (Europe) Limited ( "WWHE" ) prior to the WWLLP business combination, see Note 2 and Note 4, respectively, of Notes to the Consolidated Financial Statements included in Item 15 of this report.

**Dr. Dr. Heissmann GmbH**

Subsequent to year end, on July 20, 2007, the company acquired the outstanding stock of Dr. Dr. Heissmann GmbH ( "Heissmann" ) for \$99 million in cash. Heissmann is a leading 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 employed approximately 360 associates. Annual revenue, including subsidiaries, was approximately \$70 million ( \$52 million ) for their fiscal year ended March 31, 2007.

**WisdomNet**

Subsequent to year end, on July 2, 2007, the company acquired the net assets of WisdomNet for \$6.9 million in cash and stock, including the payoff of \$0.2 million of debt. WisdomNet is a Denver-based talent management solution and consulting firm that was founded in 2001. WisdomNet offers a proprietary line of business software products, including an end-to-end solution for managing organizations' talent management processes. As of the date of the acquisition, WisdomNet employed 15 associates.

**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](http://www.watsonwyatt.com)) or the SEC web site ([www.sec.gov](http://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 December 2006, 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, human capital and financial management have 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.

We design, develop, and implement human resource strategies 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 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 resources technology and service delivery consulting
- Targeted online compensation and benefits statements, content management and call center case management 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, including talent management
- 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

**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, strong client relationships, the depth of 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, 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 is strong, with an average tenure of 17 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

The growing demand for employee benefits and human capital consulting services is directly related to the increasing size and complexity of today's human resources programs and the societal forces that are stimulating their rapid change. In the United States alone, employers spent \$7.0 trillion in 2005 in direct support of human capital programs, such as compensation and benefits. In 2005, U.S. employers contributed nearly \$346 billion to pension and profit-sharing plans, and \$515 billion to group health insurance programs, while the assets of employer-sponsored defined benefit and defined contribution plans here in the United States were \$5.02 trillion at the end of 2005 and private holdings in individual retirement accounts were another \$3.67 trillion, most of which originated in an employer-sponsored retirement plan.

Employers, regardless of geography or industry, are facing challenges involving the management of their people. Changing technology, shifting economic conditions, critical skill shortages and an aging population in many developed countries have increased competition for talented employees. At the same time, employees' expectations relating to compensation, benefits and other human resource services are growing. To remain competitive, employers must address these challenges effectively.

## Consulting Services

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

	2007	2006	2005	
Benefits Group	59	% 61	% 71	%
Technology and Administration Solutions Group	12	12	10	
Human Capital Group	12	12	14	
Investment Consulting Group	9	7	5	
Insurance & Financial Services Group	8	8		
Total Segment Revenues	100	% 100	% 100	%

For more information about our operating segments, see Note 13 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 2,900 associates—consists primarily of consulting practices in retirement, group and health care and international. It is our largest and most established practice. It grew dramatically as a result of our business combinations, as well as through strong organic growth. This group assists clients in creating cost-effective benefits programs that help our clients attract, retain and motivate a talented workforce. Our Benefits Group accounted for approximately 59 percent of our total segment revenues for the fiscal year that ended June 30, 2007.

### *Retirement Consulting*

We are one of the world's largest advisers on retirement plans, providing actuarial and consulting services for large defined benefit and defined contribution plans including funding and risk management strategies. We also help our clients assess the effect changing workforce demographics have 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. We provide actuarial services to the three largest corporate pension plans in the United States and are adviser to 48 of the 100 largest pension funds in the United Kingdom. As a result of the acquisitions with Watson Wyatt Netherlands and Heissmann, we now are market leaders in both 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 re-examining 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 of risk mitigation plans
- Strategic plan design
- Administrative services
- Workforce diagnostics and analysis
- Defined contribution services including non-discrimination testing and vendor selection
- Financial reporting
- Stock option and share plan financial accounting
- Executive retirement benefits and assistance with new U.S. proxy disclosures
- Retiree healthcare 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 U.S. which are widely seen as the future of the defined benefit system. Our recently published paper, *Pension Aspirations and Realizations: A Perspective on Yesterday, Today and Tomorrow*, includes in depth analyses on the forces affecting pension plans, how prepared employees are for retirement and a look at alternative pension plan designs.

Much of our recent consulting with clients relates to various regulatory changes (global accounting reform, U.S. and European pension funding legislation and new rules on deferred compensation design) 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. For example, our recent survey of 300 large U.S. companies provides a unique view into design decisions (both defined benefit and defined contribution) companies made in the past and what companies are likely to do in the future. We have also tracked the retirement designs of the largest U.S. public companies over many years, so clients can better understand the true magnitude of the movement from defined benefit to defined contribution designs.



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<sup>TM</sup>, that enable our clients to track and benchmark benefit plan provisions. Our tools and technology solutions include:

- **PensionPath<sup>®</sup>** In partnership with our Technology and Administration Solutions Group, we deliver this full-featured, web-based solution designed to meet the pension administration needs of companies of all sizes
- **Retirement Management Online** A web portal that links clients to a suite of Watson Wyatt 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
- **Quick Peek<sup>®</sup> Online** 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, new approaches to providing health care benefits for workers and retirees are engaging patients as consumers of health care and not just passive recipients. These methods encourage employees to participate more actively in health care buying decisions by putting workers in charge of spending their own health care dollars and by providing them with the tools and information necessary to make wiser health purchasing decisions. One of these tools is BenefitConnect<sup>TM</sup> 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 appropriate financial incentives, health and productivity, provider quality and effective communication. 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 and performance management
- Measurement of program effectiveness
- Assistance with plan changes relating to mergers, acquisitions and divestitures

#### *International Consulting*

To support 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:

- Resolve people issues in mergers and acquisitions
- Ensure the compliance and competitiveness of human capital practices at all stages of the offshoring lifecycle or expansion process
- Help manage financial exposures and investment risks in benefit plans and determine pension funding
- Reward, motivate and develop employees effectively, regardless of location
- Develop 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** – a powerful web-based tool that helps multinational organizations manage their benefits and compensation programs across multiple territories - at any time, from any location.
- **FAStrack** – To facilitate global coordination for the FAS87, FAS106 and FAS132R requirements, Watson Wyatt has developed FAStrack Global, a web-based program designed for local plan actuaries to enter FAS results by business unit, plan and/or country.
- **Multinational Pension Governance Survey Report** – an in-depth look at how multinational companies govern their global pension plans, how their investment and funding decisions are made, and the extent of involvement in both the strategy and the execution by head offices relative to local management

- 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.

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*Technology and Administration Solutions (TAS) Group*

Watson Wyatt's Technology and Administration Solutions Group 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 applications. We understand the importance of being able both to provide advice on the appropriate solutions to meet human resource needs and to implement and deliver those solutions on an ongoing basis, whether through outsourced services, in-house capabilities or a combination of the two.

Our Technology and Administration Solutions Group of 735 associates provides consulting, administration, outsourcing and technology services across human resources, but focusing in particular on:

*Retirement Administration*

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

- In the United States, our technology solution PensionPath® 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. PensionPath is available whether or not Watson Wyatt provides outsourcing services.
- In the United Kingdom, we are among the UK 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 arrangements are more complex than 401(k)-style defined contribution plans, we have deployed sophisticated defined contribution technology, processes and controls. Our defined contribution 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. BenefitConnect is our flexible web-based health and welfare technology that we use to provide comprehensive outsourced support to clients. New 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, savings accounts and life insurance. They also help participants become smart consumers through access to information from 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.

*Compensation Administration*

- REWARD is our suite of web-based applications that automates compensation administration and pay delivery. REWARD improves compensation planning, budgeting and data management, freeing up compensation professionals from administrative work for more strategic activities. We recently integrated our global grading system methodology into REWARD, enabling companies to band and grade jobs and then model pay ranges around local market conditions.

*Online Communication*

- eStatements is our integrated, web-based solution that gives employees access to the true value of their compensation and benefits package. It aggregates data from a number of internal or external sources, and provides a current view of an employee's complete package. It shows the value of an organization's human resource programs, fosters smarter plan participation and benefit consumerism, and offers organizations another vehicle to promote plan features, provide support and deliver other focused information.

*Call Center Support*

- AnswerKey is our shared service center solution. Our technology supports the business of service center operations by effectively integrating data and critical tools. Using web-based technology, it consolidates data from multiple sources, offering employees and human resource service center staff a single point of contact, faster response times and more accurate information. We recently added the Employee Inquiry module, which enables employees to open cases, check case status, access knowledge base information and request fulfillment items.

*Benefits Portals*

- By implementing our hosted benefits portals we can help to ensure a seamless experience for employees needing to use multiple human resource and benefits applications or multiple information sources. Our hosted portals can become a central reference point and knowledge base for pension and human resource managers, administrators and members.

All of the above are point solutions – applications or services that serve a particular need once clients have identified and prioritized their needs. Very often our involvement starts at a much earlier level. We provide clients with strategic, research-based human resource technology and service delivery advisory services to help them determine their strategy for delivering human resource services. We work with them to align their human resources delivery strategy with their business goals. We use human resource and benefits technologies, those mentioned above and others, to help our clients improve satisfaction levels and have a sustainable return on investment (ROI). Our services in this area include human resource transformation consulting, vendor management, and service delivery model development, including shared services strategy and design.

Our Technology and Administration Solutions Group represented approximately 12 percent of our total segment revenues for the fiscal year ended June 30, 2007.

### *Human Capital Group*

Our Human Capital Group of 885 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 utilizes our Watson Wyatt Data Services practice, which is a group of 130 associates that provide data, services and analysis regarding compensation and benefits around the world. Our Human Capital Group represented approximately 12 percent of our total segment revenues for the fiscal year that ended June 30, 2007.

Our Human Capital Group focuses in five principal areas: executive compensation, Strategic Rewards®, sales management and rewards, organization effectiveness, and data services.

#### *Executive Compensation*

We advise our clients' management and boards of directors on executive pay programs, including cash compensation, stock options and stock purchase plans, and on ways to align pay-for-performance plans throughout the organization to improve shareholder value. We help clients understand and value all the components of their executives' compensation, including base pay, bonus, incentives, options, and retirement and other executive perks. Our expertise in stock-based plan design and in valuation methodologies and procedures allows us to help U.S. clients, for instance, comply with complex accounting standards such as FAS 123(R) and recently promulgated SEC rules regarding executive compensation disclosure.

#### *Strategic Rewards®*

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

#### *Sales Effectiveness and Compensation*

We help maximize the performance of our clients' sales and services teams across the globe. By considering the full spectrum of rewards, we help motivate our clients' sales forces to maintain and expand critical relationships while executing the organization's go-to-market strategy.

#### *Organization Effectiveness*

We help clients clarify and implement business strategy, recognizing the impact of employee attitudes, commitment, and effective team and leadership development on business success. We provide a wide array of services centered on organization assessment, including organization measurement and surveys. In the area of talent management, we provide tools and methodologies for talent selection and development, succession planning and performance management. We also provide consulting regarding organization design and the organization and development of the human resource function.

We have created the *Watson Wyatt Human Capital Index®*, a proprietary tool for demonstrating the relationship between the effectiveness of an organization's human capital practices and the creation of superior stockholder returns.

Our WorkUSA®/WorkCanada™ database includes the opinions of 12,000 North American employees surveyed independently, reflecting a large cross-section of jobs and industry types. Our clients compare their own employee survey results against these norms to identify workplace perceptions and satisfaction and commitment levels.

*Watson Wyatt Data Services*

Watson Wyatt Data Services (WWDS) provides a wide range of employment practices information to the global employer community. WWDS's client base includes local and multi-national companies in more than 80 countries.

To serve the global marketplace, WWDS has begun a consolidation of eight strategically located data centers around the globe into one business unit to facilitate the solicitation, analysis and compilation of data on the remuneration and benefits paid to millions of employees. Our centers around the world publish this data in dozens of annual compensation and benefit survey reports on everything from local pay issues to the most complex of global pay equity concerns. WWDS also publishes reference materials that help human resources practitioners attract, retain and reward exceptional employees. These guides cover a variety of subject areas, including variable pay, performance management and personnel policies on a local, regional and global basis.

*Investment Consulting Group*

Our Investment Consulting Group, with approximately 325 associates, helps pension plan sponsors and other institutional investment clients successfully meet their investment goals. This involves helping to maximize the risk-adjusted return through the development of governance policies and investment strategies. Our work involves helping our clients with the design and implementation of investment arrangements to manage financial liabilities within the context of overall organizational objectives. Our Investment Consulting Group represented approximately 9 percent of our total segment revenues for the fiscal year ended June 30, 2007.

Our services include:

- Asset/liability modeling and asset allocation studies
- Governance and investment policy development
- Investment policy implementation
- Investment structure analysis
- Investment manager selection and evaluation
- Performance evaluation and monitoring

We offer the following integrated services for our clients:

- Watson Wyatt Pension Risk Management – an integrated methodology for determining the appropriate amount of investment risk for a plan and allocating that risk across investment decisions
- Watson Wyatt Advanced Investment Solutions® – taking a more proactive responsibility for the investment arrangements of defined benefit plans and other institutional funds, a service referred to in some markets as fiduciary outsourcing. We work with the plan sponsor to develop an investment policy and help to manage the implementation of that policy

*Insurance and Financial Services Group*

Our Insurance & Financial Services consulting team of approximately 390 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 and Financial Services Group represented approximately 8 percent of our total segment revenues for the fiscal year ended June 30, 2007.



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, 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 ground-breaking research prove 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; and educates, engages and motivates employee behavioral change. 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 (ROI) of employee communication in achieving business objectives
- Supporting management in efforts to target, attract and hire the right talent to meet business objectives through innovative communication programs

##### ***Integrated Service Approach***

While we focus our consulting services in the principal areas described above, we draw upon consultants from our different practices to deliver integrated services to meet the needs of our clients. An example is our Total Rewards approach, which encompasses compensation, benefits, career growth and company culture. We help clients 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 companies. 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 human resource issues, and establish us as a preferred human capital 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 and Latin America across a wide variety of industries. Our client base is broad and geographically diverse. For the fiscal year ended June 30, 2007, our 10 largest clients accounted for approximately 6 percent of our consolidated revenues, and no individual client represented more than 4 percent of our consolidated revenues.

### **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, Mercer Human Resource Consulting and Towers Perrin
- Smaller benefits and compensation consulting firms, including the Hay Group and The Segal Company
- 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, Citistreet, PricewaterhouseCoopers and The Vanguard Group
- Information technology services firms, including Accenture, ACS, ADP, BearingPoint, ExcellerateHRO and IBM, as well as Internet/intranet development firms
- 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 increased regulatory, legislative, competitive and technological developments and 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, global scale, service quality 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 6,600 and 6,235 associates as of June 30, 2007 and 2006 respectively, in the following practice areas:

	As of June 30,	
	2007	2006
Benefits Group	2,900	2,665
Technology and Administration Solutions Group	735	735
Human Capital Group	885	800
Investment Consulting Group	325	335
Insurance & Financial Services Group	390	335
All Other Segments	785	775
Corporate	580	590
Total	6,600	6,235

None of our associates are subject to collective bargaining agreements. 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. 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.

***Watson Wyatt's success will continue to depend on its ability to recruit and retain qualified consultants, including those employed in recently acquired businesses; our failure to do so could adversely affect our ability to continue to integrate acquired businesses and to compete successfully.***

Watson Wyatt's success depends on its ability to attract, retain and motivate qualified personnel generally, including executive officers, key management personnel and consultants. We cannot assure that we will be able to attract and retain qualified consultants, management and other personnel necessary for the delivery of our sophisticated and technical services to clients.

***The loss of key consultants and managers could damage or result in the loss of client relationships and adversely affect our business.***

Our success largely depends upon the business generation capabilities and project execution skills of our consultants. In particular, our consultants' personal relationships with our clients are a critical element of obtaining and maintaining client engagements. Losing consultants and account managers who manage substantial client relationships or possess substantial experience or expertise could adversely affect our ability to secure and complete engagements, which would adversely affect our results of operations.

In addition, if any of our key consultants were to join an existing competitor or form a competing company, some of our clients could choose to use the services of that competitor instead of our services.

***The trend of employers shifting from defined benefit plans to defined contribution plans could adversely affect our business and our operating results.***

We currently provide clients with actuarial and consulting services relating to both defined benefit and defined contribution plans. Defined benefit pension plans generally require more actuarial services than defined contribution plans because defined benefit plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. If organizations shift to defined contribution plans more rapidly than we anticipate, our business operations and related operating results could be adversely affected.

***Competition from firms with greater resources could result in loss of our market share that could reduce our profitability.***

The markets for our principal services are highly competitive. Our competitors currently include other human resources consulting and actuarial firms, as well as the human resources consulting divisions of diversified professional services and insurance firms and accounting firms. Several of our competitors have greater financial, technical and marketing resources than we have, which could enhance their ability to respond more quickly to technological changes, finance acquisitions and fund internal growth.

New competitors or alliances among competitors could emerge and gain significant market share. In order to respond to increased competition and pricing pressure, we might have to lower our prices, which would have an adverse effect on our revenues and profit margin.

***Demand for our services may decrease for various reasons, including a general economic downturn, a decline in a client's or an industry's financial condition, or a decline in defined benefit pension plans that could adversely affect our operating results.***

We can give no assurance that the demand for our services will continue to grow or that we will compete successfully with our existing competitors, new competitors or our clients' internal capabilities. Our clients' demand for our services also may change based on their own needs and financial conditions. When economic downturns affect particular clients or industry groups, they frequently reduce their budgets for outside consultants, which could reduce the demand for our services and increase price competition.

In addition, the demand for many of our core benefits services is affected by government regulation and taxation of employee benefits plans. This regulation and taxation drive our clients' needs for compliance related services. Significant changes in tax or social welfare policy or regulations could lead some employers to discontinue their employee benefit plans, including defined benefit pension plans, thereby reducing the demand for our services. A simplification of regulations or tax policy also could reduce the need for our services.

***Our clients generally may terminate our services at any time, which could decrease associate utilization.***

Our clients generally may terminate our engagements at any time. If a client reduces the scope of, or terminates the use of our services with little or no notice, our associate utilization will decline. In such cases, we must rapidly re-deploy our associates to other engagements in order to minimize the potential negative impact on our financial performance. In addition, because much of our work is project-based rather than recurring in nature, our associates' utilization depends on our ability to continually secure additional engagements.

***Improper management of our fixed-fee engagements could hurt our financial results.***

We enter into some of our engagements on a negotiated fixed-fee basis. If we do not properly negotiate the price and manage the performance of these engagements, we might incur losses on individual engagements, and our overall financial results could be adversely affected.

***We are subject to malpractice claims arising from our work, which could adversely affect our reputation and business, and we are subject to government inquiries and investigations.***

Professional services providers, including those in the human resources consulting industry, are increasingly subject to claims from their clients. Clients and third parties who are dissatisfied with our services or who claim to suffer damages caused by our services have brought and may bring lawsuits against us. The nature of our work, especially our actuarial services, involves assumptions and estimates concerning future events, the actual outcome of which we cannot know with certainty in advance. In addition, we could make computational, software programming or data management errors.

Clients have sought and may seek to hold us responsible for the financial consequences of these errors or variances. Given that we frequently work with large pension funds and other large financial entities, such as insurance companies, relatively small percentage errors or variances could create significant dollar variances and claims for unfunded liabilities. The risks from such variances could be aggravated in an environment of declining pension fund asset values. In most cases, our exposure to liability on a particular engagement is substantially greater than the profit opportunity that the engagement generates for us. For example, claims could include:

- A client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding;
- A claim arising out of the use of inaccurate data, which could lead to an underestimation of plan liabilities;
- A claim that employee benefit plan documents were misinterpreted or plan amendments were misstated in plan documents, leading to overpayments to beneficiaries; and
- A claim that reserves or premium requirements of insurance company clients were understated.

Defending lawsuits arising out of any of our services has required and could require substantial amounts of management attention, which could affect management's focus on operations, adversely affect our financial performance and result in increased insurance costs. In addition to defense costs and liability exposure, malpractice claims may produce negative publicity that could hurt our reputation and business. We have been subject to inquiries and investigations by federal, state or other governmental agencies regarding aspects of our business, especially regulated businesses such as investment consulting or insurance consulting. Such inquiries or investigations may consume significant management time and require additional expense. For a discussion of significant legal proceedings, please refer to Note 14 of Notes to the Consolidated Financial Statements.

***Insurance may become more difficult or expensive to obtain.***

Insurance markets have hardened over recent years for some classes of professional liability risk. As the number of claims has increased against professionals and against actuaries in particular, the cost of malpractice insurance has trended upward, deductibles or self-insured retentions may have increased and reinsurance attachment points may continue to rise. Availability and price of insurance are subject to many variables, including general market conditions, loss experience in related industries and in the actuarial and benefits consulting industry, and the specific claims experience of an individual firm. Because we now provide services in a larger geographic market as a result of our business combinations, we therefore may be exposed to a greater number of claims arising from our expanded operations. In the future there can be no assurance that we will continue to be able to obtain insurance on comparable terms to what it has obtained in the past. Increases in the cost of insurance could affect our profitability and the unavailability of insurance to cover certain levels of risk could have an adverse effect on our financial condition, particularly in a specific period.

***We are engaged, through our subsidiaries, in providing services outside of our core human resources consulting business, which may carry greater risk of liability.***

We intend to continue and grow the business of providing consulting services to institutional investment and insurance and financial services companies. The risk of malpractice claims from these lines of business may be greater than from our core human resource consulting business and claims may be for significant amounts.

***Our quarterly revenues may fluctuate while our expenses are relatively fixed.***

Quarterly variations in our revenues and operating results occur as a result of a number of factors, such as:

- The significance of client engagements commenced and completed during a quarter;
- The seasonality of some specific types of services. In particular, retirement revenues are more heavily weighted toward the second half of the fiscal year, when annual actuarial valuations are required to be completed for calendar year end companies and the related services are performed. In the Technology and Administration Solutions Group, the distribution of work is concentrated at the end of the first fiscal quarter and through the second fiscal quarter, as there is demand from our clients for assistance in updating systems and programs used in the annual re-enrollment of employees in benefit plans, such as flex plans. Much of the remaining business is project-oriented and is thus influenced more by particular client needs and the availability of our workforce;
- The number of business days in a quarter, associate hiring and utilization rates and clients' ability to terminate engagements without penalty;
- The size and scope of assignments; and
- General economic conditions.

Approximately 70-75 percent of our total operating expenses are relatively fixed, encompassing the majority of administrative, occupancy, communications and other expenses, depreciation and amortization, and salaries and employee benefits excluding fiscal year end incentive bonuses. Therefore, a variation in the number of client assignments or in the timing of the initiation or the completion of client assignments can cause significant variations in quarterly operating results and could result in losses. Over the most recent eight fiscal quarters, net income from continuing operations has fluctuated from \$13.9 million to \$33.8 million.

***Integrating acquisitions may interrupt other activities of Watson Wyatt.***

The continuing process of integrating operations could cause an interruption of or loss of momentum in the activities of one or more of Watson Wyatt's businesses after an acquisition. Members of our senior management may be required to devote considerable amounts of time to integration processes, which will decrease the time they will have to manage the company's business, service existing clients, attract new clients and attract and retain highly skilled and motivated consultants.

The integration process after an acquisition will require us to expand the scope of our operational and financial systems, which will increase our operating complexity. Implementing uniform controls, systems and procedures may be costly and time-consuming, and there can be no assurance that our efforts to implement such controls, systems and procedures will be successful. Management's failure to effectively integrate the operations of a company after an acquisition could have a material adverse impact on our business, financial condition and operating results as well as our ability to meet reporting requirements to the SEC and under Section 404 of the Sarbanes-Oxley Act of 2002.

***We are subject to risks of doing business internationally.***

As a result of our acquisitions over the past two years, an increased portion of our business is located outside of the United States. As a result, a significant portion of our business operations are subject to foreign financial and business risks, which could arise in the event of:

- currency exchange rate fluctuations;
- unexpected increases in taxes;
- new regulatory requirements and/or changes in policies and local laws that materially affect the demand for our services or directly affect our foreign operations;
- local economic and political conditions, including unusual, severe, or protracted recessions in foreign economies;
- unusual and unexpected monetary exchange controls; or
- civil disturbance or other catastrophic events that reduce business activity in other parts of the world.

These factors may lead to decreased sales or profits and therefore may have a material adverse effect on our business, financial condition and operating results.

***Operational readiness of our global administrative infrastructure might not be as complete as required to manage international operations effectively.***

The management of geographically dispersed operations requires substantial management resources, resulting in significant ongoing expense. We have not fully integrated all of our global operations from an administrative and reporting standpoint. In addition, we have not yet fully integrated the businesses acquired into our administrative and reporting process. We are developing and implementing additional systems and management reporting to help us manage our global operations, but we cannot predict when these systems will be fully operational or how successful they will be. Our global operations may require additional resources to complete integration of our administrative and reporting. These risks could be aggravated in the event of a major business disruption caused by terrorist attacks or similar events.

***Our business faces rapid technological change and our failure to respond to this change quickly could adversely affect our business.***

Increasingly, to remain competitive in our practice areas, we must identify and offer the most current technologies and methodologies. This is particularly true of our Technology and Administration Solutions Group, in which our success largely depends upon our ability to quickly absorb and apply technological advances in both generic applications and, particularly, those that are specifically required to deliver employee benefits services. In some cases, significant technology choices and investments are required. If we do not respond correctly, quickly or in a cost-effective manner, our business and operating results might be harmed.

The effort to gain technological expertise and develop new technologies in our business may require us to incur significant expenses and, in some cases, to implement them globally. If we cannot offer new technologies as quickly or effectively as our competitors, we could lose market share. We also could lose market share if our competitors develop more cost-effective technologies than we offer or develop.

***Limited protection of our proprietary expertise, methodologies and software could harm our business.***

We cannot guarantee that trade secret, trademark and copyright law protections are adequate to deter misappropriation of our confidential information. We may be unable to detect the unauthorized use of our intellectual property and take the necessary steps to enforce our rights. Redressing infringements also may consume significant management time and financial resources.

***The interests of our current associates who own our common stock may differ from those of other stockholders.***

The business interests of our employee stockholders may not always be consistent with the interests of our non-employee stockholders.

***We have various mechanisms in place that may prevent a change in control that a stockholder might favor.***

Our certificate of incorporation and bylaws contain provisions that might discourage, delay or prevent a change in control that a stockholder might favor. Our certificate of incorporation and/or bylaws:

- Authorize the issuance of preferred stock without fixed characteristics that could be issued by our board of directors to increase the number of outstanding shares and deter a takeover attempt;
- Provide that only the President or our board of directors may call a special meeting of stockholders;
- Prohibit stockholder action by written consent, which requires all actions to be taken at a meeting of the stockholders;
- Provide that vacancies on our board of directors, including new directorships, may be filled only by the directors then in office;
- Require super-majority voting for the stockholders to amend our bylaws, the classified board and other provisions of our certificate of incorporation;
- Prohibit a stockholder from presenting a proposal or director nomination at an annual meeting unless the stockholder provides us with sufficient advance notice.

*Our stock price may decline due to the large number of shares of common stock eligible for future sale.*

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market as a result of the WWLLP business combination. Immediately after the WWLLP business combination and WWLLP's distribution of consideration paid in the acquisition, former WWLLP members and retired members held approximately 22% of our outstanding common stock (without taking into account shares that will be issued as part of the contingent stock consideration). Our common stock to be transferred to voting members in connection with the acquisition that are not subsequently distributed to non-voting members or to retired members are subject to contractual restrictions on transfer.

Common stock distributed to non-voting members occurs over time through two trusts in four installments, and are subject to transfer restrictions. The first installment occurred in August 2005 at the closing of the WWLLP business combination. Subsequent installments occurred on the first and second anniversaries in August 2006 and August 2007, respectively. However, the timing and amount of distributions from the trusts to non-voting members are matters for the trustees and cannot be enforced by Watson Wyatt or WWLLP. We understand that the non-voting members have an immediate beneficial entitlement to the shares in the trusts regardless of subsequent employment. Common stock to be transferred to retired members will not be subject to any transfer restrictions.

Assuming execution by former WWHE voting members of stock transfer agreements and distribution of shares to non-voting members over time, of the 11,040,571 total shares that may be issued in connection with the WWLLP business combination (including contingent stock consideration), 4,340,774 shares, or approximately 10% of outstanding common stock, were freely transferable immediately after the closing of the acquisition. Additionally, 2,339,761 shares were transferable after the first anniversary of the acquisition, and 2,410,036 were transferable after the second anniversary. The 1,950,000 shares to be issued in fiscal year 2008 as contingent consideration will be transferable after the fourth anniversary of the acquisition. The contingent shares represent 5 percent of total outstanding shares as of June 30, 2007. In addition, in the event of a change in control of Watson Wyatt, all stock transfer restrictions will expire.

**Item 1B. Unresolved SEC Comments**

None.

**Item 2. Properties.**

As of June 30, 2007, we operated in 96 offices in principal markets throughout the world. Operations of each of our segments are carried out in leased offices under operating leases that typically do not exceed 10 years in length. We do not anticipate difficulty in meeting our space needs at lease expiration.

The fixed assets owned by Watson Wyatt represented approximately 11 percent of total assets at June 30, 2007, and consisted primarily of computer equipment and software, office furniture and leasehold improvements.

**Item 3. 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 Item 3 regarding our legal proceedings is incorporated by reference herein from Note 14 Commitments and Contingent Liabilities, of the Notes to the Consolidated Financial Statements in this Form 10-K for the year ended June 30, 2007.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

In conjunction with our WWLLP business combination in the first quarter of fiscal year 2006, we issued 9,090,571 Class A shares, 4,749,797 of which were subject to sale restrictions. Sale restrictions on 2,339,761 of these shares expired July 31, 2006. Restrictions on the remaining 2,410,036 shares expired July 31, 2007.

As of June 30, 2007, an additional 1,950,000 Class A shares became eligible for payment based on the achievement by the acquired business of certain agreed-upon financial performance goals. We expect to issue the shares during fiscal year 2008. Sale of these shares will be restricted until July 31, 2009. See Note 2 of Notes to the Consolidated Financial Statements included in Item 15 of this report for further information regarding the WWLLP business combination.

*Market Information*

Watson Wyatt Worldwide, Inc. Class A common stock is currently traded on the New York Stock Exchange under the symbol WW. The following table sets forth the range of high and low closing share prices for each quarter of fiscal years 2007 and 2006, determined by the daily closing stock prices.

	<b>2007 High</b>	<b>Low</b>	<b>2006 High</b>	<b>Low</b>
First quarter (July 1 through September 30)	\$ 41.60	\$ 31.70	\$ 28.62	\$ 25.76
Second quarter (October 1 through December 31)	48.00	39.98	28.56	25.36
Third quarter (January 1 through March 31)	50.69	40.92	32.58	27.95
Fourth quarter (April 1 through June 30)	53.84	47.01	36.34	31.92

*Holdings*

As of June 30, 2007, there were approximately 408 registered shareholders of our Class A common stock.

*Dividends*

The board of directors of the company has approved the payment of a quarterly cash dividend in the amount of \$0.075 per share. Total dividends paid in fiscal years 2007 and 2006 were \$12.7 million for both periods.

The continued payment of cash dividends in the future is at the discretion of our board of directors and depends on numerous factors, including, without limitation, our net earnings, financial condition, availability of capital, debt covenant limitations and our other business needs, including those of our subsidiaries and affiliates. Additionally, our credit facility requires us to observe certain covenants, including requirements for minimum net worth, which potentially act to restrict dividends.



*Securities Authorized for Issuance Under Equity Compensation Plans*

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Our equity compensation plans include the 2000 Long-Term Incentive Plan, which provides for the granting of nonqualified stock options and stock appreciation rights, the 2001 Employee Stock Purchase Plan, the 2001 Deferred Stock Unit Plan for Selected Employees and the Amended Compensation Plan for Outside Directors. We grant deferred stock units to certain senior associates through the Watson Wyatt & Company Performance Share Bonus Incentive Program as a part of their annual discretionary compensation and have discontinued the issuance of stock options. All deferred stock units issued in connection with the 2001 Deferred Stock Unit Plan were fully vested upon issuance. The company anticipates that the deferred stock units expected to be granted in September 2007 will vest immediately. All of our equity compensation plans have been approved by stockholders. See Note 10 of the Notes to the Consolidated Financial Statements for the general terms of these plans.

The following chart gives aggregate information regarding grants under all of the company's equity compensation plans through June 30, 2007:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by stockholders	226,799	\$ 14.14	4,817,310 (1)
Total	226,799	\$ 14.14	4,817,310

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(1) Includes 2,548,915 shares remaining available for future issuance under the 2000 Long-Term Incentive Plan, 552,673 shares under the 2001 Employee Stock Purchase Plan, 1,630,091 shares under the 2001 Deferred Stock Unit Plan for Selected Employees, and 85,631 shares under the Amended Compensation Plan for Outside Directors.

In August 2001, the board of directors adopted the company's 2001 Employee Stock Purchase Plan (the ESPP), which subsequently was approved by the stockholders in November 2001. The ESPP is intended to provide employees of the company with additional incentives by permitting them to acquire a proprietary interest in the company through the purchase of shares of the company's common stock. With regard to the Deferred Stock Unit Plan for Selected Employees, an additional 1,200,000 shares of common stock were authorized and reserved for issuance at the 2006 Annual Meeting of Stockholders in November 2006.

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*Issuer Purchases of Equity Securities*

The company has repurchased shares of common stock, one purpose of which is to offset potential dilution from shares issued in connection with the company's benefit plans. In July 2006, the company announced a plan to purchase up to 1,500,000 shares of our Class A common stock. The plan does not have an expiration date. The table below presents specified information about the company's stock repurchases during the fourth quarter of fiscal year 2007 and the remaining number of shares that may be purchased under the plan:

<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>
April 1, 2007, through April 30, 2007	99,000	\$ 48.62	99,000	1,028,534
May 1, 2007, through May 31, 2007	102,500	50.45	102,500	926,034
June 1, 2007, through June 30, 2007	97,100	50.47	97,100	828,934
<b>Total</b>	<b>298,600</b>		<b>298,600</b>	

**Item 6. Selected Consolidated Financial Data.**

The table on the following page sets forth selected consolidated financial data of Watson Wyatt for each of the years in the five-year period ended June 30, 2007. The selected consolidated financial data as of June 30, 2007 and 2006, and for each of the three years in the period ended June 30, 2007, were derived from the audited consolidated financial statements of Watson Wyatt included in this Form 10-K. The selected consolidated financial data as of June 30, 2005, 2004 and 2003, and for each of the years ended June 30, 2004 and 2003, were derived from audited consolidated financial statements of Watson Wyatt not included in this Form 10-K. The consolidated financial data should be read in conjunction with our Consolidated Financial Statements and notes thereto.

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The WWLLP business combination was completed July 31, 2005 and as a result, our financial statements reflect the consolidation of the European operations beginning August 1, 2005. See Part I Item 1 for more information regarding the business combination with WWLLP.

	<b>Year Ended June 30</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Statement of Operations Data:</b>					
(amounts are in thousands, except per share data)					
Revenue	\$ 1,486,523	\$ 1,271,811	\$ 737,421	\$ 702,005	\$ 709,616
Costs of providing services:					
Salaries and employee benefits	805,571	699,049	397,252	396,775	401,274
Professional and subcontracted services	99,943	84,165	57,810	49,159	47,356
Occupancy, communications and other	184,832	164,140	106,752	105,459	106,224
General and administrative expenses	159,637	147,122	74,612	63,631	57,285
Depreciation and amortization	57,235	44,918	20,210	18,511	19,621
	1,307,218	1,139,394	656,636	633,535	631,760
Income from operations	179,305	132,417	80,785	68,470	77,856
(Loss)/Income from affiliates	(5,500 )	1,135	7,146	7,109	5,787
Interest income	4,066	4,325	2,833	1,636	1,793
Interest expense	(1,581 )	(4,093 )	(661 )	(893 )	(802 )
Other non-operating income/(loss)	178	(2,081 )	(7,404 )	6,222	761
Income from continuing operations before income taxes	176,468	131,703	82,699	82,544	85,395
Provision for income taxes	60,193	45,585	31,303	32,605	35,015
Income from continuing operations	116,275	86,118	51,396	49,939	50,380
Discontinued operations (a)		1,073	766	654	6,786
Net income	\$ 116,275	\$ 87,191	\$ 52,162	\$ 50,593	\$ 57,166
Earnings per share, continuing operations, basic	\$ 2.74	\$ 2.08	\$ 1.58	\$ 1.52	\$ 1.52
Earnings per share, continuing operations, diluted (b)	\$ 2.60	\$ 1.99	\$ 1.56	\$ 1.50	\$ 1.51
Earnings per share, discontinued operations, basic	\$	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.21
Earnings per share, discontinued operations, diluted	\$	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.21
Earnings per share, net income, basic (b)	\$ 2.74	\$ 2.11	\$ 1.60	\$ 1.54	\$ 1.73
Earnings per share, net income, diluted (b)	\$ 2.60	\$ 2.01	\$ 1.58	\$ 1.52	\$ 1.72
Dividend declared per share	\$ 0.30	\$ 0.30	\$ 0.30	\$	