

WATSON WYATT & CO HOLDINGS  
Form 10-Q  
February 12, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2001

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 & COMPANY HOLDINGS

(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.)

1717 H Street NW  
Washington, DC 20006-3900

(Address of principal executive offices, including zip code)

**(202) 715-7000**

(Registrant's telephone number, including area code)

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

Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of January 31, 2002.

<u>Class</u>	<u>Number of Shares</u>
Class A Common Stock, \$.01 par value	20,067,360
Class B Common Stock, \$.01 par value	12,910,857

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WATSON WYATT & COMPANY HOLDINGS  
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For the Three and Six Months Ended December 31, 2001

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**WATSON WYATT & COMPANY HOLDINGS**  
**Consolidated Statements of Operations**  
(Thousands of U.S. Dollars, Except Share Data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
Revenue	\$ 174,897	\$ 168,781	\$ 347,353	\$ 339,474
Costs of providing services:				
Salaries and employee benefits	100,494	93,689	195,214	185,830
Professional and subcontracted services	14,459	15,608	24,559	26,295
Occupancy, communications and other	25,487	27,472	54,215	54,494
General and administrative expenses	14,032	15,238	27,207	28,105
Depreciation and amortization	5,242	6,119	10,630	12,036
	159,714	158,126	311,825	306,760
Income from operations	15,183	10,655	35,528	32,714
Interest income, net	244	105	686	409
Other non-operating income	-	-	1,000	-

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Income from affiliates	1,403	1,090	2,095	2,093
Income before income taxes	16,830	11,850	39,309	35,216
Provision for income taxes	6,734	5,113	15,725	15,144
Net income	\$ 10,096	\$ 6,737	\$ 23,584	\$ 20,072
Basic earnings per share, net income	\$ 0.31	\$ 0.21	\$ 0.71	\$ 0.64
Diluted earnings per share, net income	\$ 0.30	\$ 0.20	\$ 0.71	\$ 0.64
Weighted average shares of common stock, basic (000)	32,973	32,755	33,003	31,190
Weighted average shares of common stock, diluted (000)	33,313	33,146	33,418	31,386

See accompanying notes

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**WATSON WYATT & COMPANY HOLDINGS**

**Consolidated Balance Sheets**

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

	December 31, 2001	June 30, 2001
	(Unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 64,823	\$ 81,735
Receivables from clients:		
Billed, net of allowances of \$4,387 and \$2,695	95,035	84,361
Unbilled, net of allowances of \$925 and \$1,130	59,381	67,229
	154,416	151,590
Deferred income taxes	13,581	13,581
Other current assets	14,465	11,027
<b>Total current assets</b>	<b>247,285</b>	<b>257,933</b>
Investment in affiliates	18,191	16,196
Fixed assets, net of accumulated depreciation of \$93,388 and \$83,722	52,780	52,616
Deferred income taxes	38,526	38,526
Goodwill and intangible assets	16,722	13,374

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Other assets	8,856	8,811
<b>Total Assets</b>	<b>\$ 382,360</b>	<b>\$ 387,456</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 102,759	\$ 148,140
Income taxes payable	23,486	13,622
<b>Total current liabilities</b>	<b>126,245</b>	<b>161,762</b>
Accrued retirement benefits	83,149	77,660
Deferred rent and accrued lease losses	2,914	3,484
Other noncurrent liabilities	27,822	25,825
<b>Total Liabilities</b>	<b>240,130</b>	<b>268,731</b>
Commitments and contingencies		
<b>Stockholders' Equity</b>		
Preferred Stock - \$0 par value:		
1,000,000 shares authorized		
None issued and outstanding		
Class A Common Stock - \$.01 par value:		
69,000,000 shares authorized;		
20,064,614 and 9,390,000 issued and outstanding	201	94
Class B-1 Common Stock - \$.01 par value:		
15,000,000 shares authorized;		
none and 10,398,640 issued and outstanding	-	104
Class B-2 Common Stock - \$.01 par value:		
15,000,000 shares authorized;		
12,910,857 and 13,244,355 issued and outstanding	129	132
Additional paid-in capital	146,655	146,649
Treasury stock, at cost	(209)	-
Retained earnings (deficit)	3,691	(19,893)
)		
Cumulative translation adjustment (accumulated other comprehensive loss)	(8,237)	
)		
		(8,361)
)		
<b>Total Stockholders' Equity 142,230 118,725</b>		
<b>Total Liabilities and Stockholders' Equity \$ 382,360 \$ 387,456</b>		

See accompanying notes

## WATSON WYATT &amp; COMPANY HOLDINGS

## Consolidated Statements of Cash Flows

(Thousands of U.S. Dollars)

	Six months ended December 31,	
	2001	2000
	(Unaudited)	
Cash flows (used for) from operating activities:		
Net income	\$ 23,584	\$ 20,072
Adjustments to reconcile net income to net cash		
used for (from) operating activities:	Provision for doubtful receivables from clients	Depreciation
cash compensation charge- 751	3,629 9,514	10,563 10,827
	Amortization of goodwill and intangible assets	Income from affiliates
	64 1,209	(2,175)
		(2,093)
)	Other, net	Discontinued operations, net
	(1,184) 512	(165)
		(146)
)	Changes in operating assets and liabilities (net of discontinued operations)	Receivables from clients
		(6,454)
		(23,664)
)		Other current assets
		(3,596)
		(610)
)	Other assets	Accounts payable and accrued liabilities
	(45) 1,655	(45,291)
		(20,162)
)	Income taxes payable	Accrued retirement benefits
	9,864 5,551	5,489 1,111
		Deferred rent and accrued lease losses
		(570)

(1,241

)

Other noncurrent liabilities 2,039

(402

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Net cash (used for) from operating activities (4,248) 2,884

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Cash flows used in investing activities: Purchases of fixed assets (11,211)

(11,567

)

Proceeds from divestitures 1,428 296 Acquisitions and contingent consideration payments (3,598)

(6,851

)

Distributions from affiliates 324 1,826

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Net cash used in investing activities (13,057)

(16,296

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Cash flows from financing activities: Issuances of common stock, net of offering costs 6 35,225 Issuances of redeemable common stock- 134 Repurchases of redeemable common stock-

(252

)

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Net cash from financing activities 6 35,107

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Effect of exchange rates on cash 387

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(Decrease) increase in cash and cash equivalents(16,912)20,419Cash and cash equivalents at beginning of period81,735 41,410

Cash and cash equivalents at end of period\$ 64,823 \$ 61,829

See accompanying notes

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**WATSON WYATT & COMPANY HOLDINGS**  
**Consolidated Statement of Changes in Stockholders' Equity**  
(Thousands of U.S. Dollars, Except Share Data)  
(Unaudited)

	Retained (Deficit) Earnings	Cumulative Translation Gain (Loss)	Class A Common Stock	Class B-1 Common Stock	Class B-2 Common Stock	Additional Paid-in Capital	Treasury Stock, at Cost	Total
Balance at June 30, 2001	\$ (19,893 )	\$ (8,361)	\$ 94	\$ 104	\$ 132	\$ 146,649	\$ -	\$ 118,725
Comprehensive income:								
Net income	23,584							23,584
Foreign currency translation adjustment		124						124
Total comprehensive income								23,708
Reclassification for sale of 442,500 shares by existing stockholders			4	(4)				-
Transfer restriction expiration of 9,956,140 shares			100	(100)				-
Conversion of 333,498 shares held by Watson Wyatt Partners for distribution to its partners			3		(3)			-
Distribution of 62,600 shares from Watson								-



Wyatt Partners to  
 Watson Wyatt &  
 Company Holdings (209)

(209

)Exercise of 4,931 common stock options 6 6

Balance at December 31, 2001\$ 3,691 \$ (8,237) \$ 201 \$ - \$ 129 \$ 146,655 \$ (209) \$  
 142,230

See accompanying notes

WATSON WYATT & COMPANY HOLDINGS

Notes to the Consolidated Financial Statements

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

1. The accompanying unaudited quarterly consolidated financial statements of Watson Wyatt & Company Holdings and our subsidiaries (collectively referred to as "we," "Watson Wyatt" or the "Company") are presented in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America. In the opinion of management, these statements reflect all adjustments, including recurring adjustments, which are necessary

for a fair presentation of the consolidated financial statements for the interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, which is filed with the SEC and may be accessed via EDGAR on the SEC's web site at [www.sec.gov](http://www.sec.gov).

The results of operations for the three and six months ended December 31, 2001 are not necessarily indicative of the results that can be expected for the entire fiscal year ending June 30, 2002. The results reflect estimated bonuses ultimately accrued at the discretion of the Company's Board of Directors and anticipated tax rates. Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (FAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Watson Wyatt has historically applied the purchase method of accounting to its acquisitions and will continue to do so in the future.

FAS 142 addresses the accounting for goodwill and intangible assets subsequent to their acquisition. FAS 142 provides that goodwill and indefinite-lived intangible assets will no longer be amortized and that these assets must be tested at least annually for impairment beginning in the year of adoption. FAS 142 also provides that the amortization of intangible assets with finite lives is not limited to 40 years. The Company adopted the provisions of FAS 142 effective July 1, 2001. The Company completed its transitional impairment testing of goodwill as of July 1, 2001, for all of its reporting units and concluded that no impairment of goodwill exists.

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The following table reflects consolidated results adjusted as though the adoption of FAS 142 occurred as of July 1, 2000:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Net income, as reported	\$ 10,096	\$ 6,737	\$ 23,584	\$ 20,072
Goodwill amortization, net of tax	--	355	--	634
Equity method goodwill amortization, net of tax	--	30	--	60
Net income, as adjusted	\$ 10,096	\$ 7,122	\$ 23,584	\$ 20,766
Basic earnings per share, as reported	\$ 0.31	\$ 0.21	\$ 0.71	\$ 0.64
Goodwill amortization	--	0.01	--	0.02
Equity method goodwill amortization	--	--	--	--
Basic earnings per share, as adjusted	\$ 0.31	\$ 0.22	\$ 0.71	\$ 0.66

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Diluted earnings per share, as reported	\$ 0.30	\$ 0.20	\$ 0.71	\$ 0.64
Goodwill amortization	--	0.01	--	0.02
Equity method goodwill amortization	--	--	--	--
Diluted earnings per share, as adjusted	\$ 0.30	\$ 0.21	\$ 0.71	\$ 0.66

The changes in the carrying amount of goodwill for the six months ended December 31, 2001 are as follows:

	Benefits	eHR	Human Capital	International	Other	Total
	<u>Group</u>	<u>Group</u>	<u>Group</u>			
Balance as of June 30, 2001	\$ 10,807	\$ 724	\$ 59	\$ 19	\$ 1,214	\$ 12,823
Goodwill recorded during the period	3,136	200	--	283	--	3,619
Impairment losses	--	--	--	--	--	--
Translation adjustment	(206)					
						--
						(2
						)
						--
						--
						(208
						)

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Balance as of December 31, 2001

\$

13,737

\$

924

\$

57

\$

302

\$

1,214

\$

16,234

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The following table reflects the components of intangible assets at December 31, 2001:

	Gross Carrying Amount	Accumulated Amortization
	<u>                    </u>	<u>                    </u>
Amortizable intangible assets:		
Non-compete agreements	\$ 672	\$ 266
Purchased software	125	43
	<u>                    </u>	<u>                    </u>
Total amortizable intangible assets	\$ 797	\$ 309
	<u>                    </u>	<u>                    </u>

The weighted average remaining life of amortizable intangible assets at December 31, 2001 was 4.1 years. Amortization expense for the six months ended December 31, 2001 was \$64,000. Estimated amortization expense for fiscal year 2002 and each of the four succeeding fiscal years is as follows:

Fiscal year ending June 30:	Amount
	<u>                    </u>
2002	\$ 128
2003	128
2004	117
2005	95
2006	63

3. In the third quarter of fiscal year 1998, we discontinued our benefits administration outsourcing business, including our investment in our affiliate, Wellspring Resources, LLC ("Wellspring"). We believe we have adequate provisions for any remaining costs associated with our obligations related to the benefits administration outsourcing business. All Wellspring related activity is reflected on the Statements of Cash Flows as discontinued operations.

4. During the second quarter of fiscal year 2001, we changed the structure of our internal organization in a manner that caused the composition of our reportable segments to change. In order to better position the Company to deliver the integrated, global solutions that have the largest impact on our growth, management consolidated our three U.S. regions into a single region. As a result of this consolidation, and because we also use a practice-based matrix form of organization for our North American regions, we have changed our reportable segments to reflect our practice-based structure. After the change, we have five reportable segments:

- (1) Benefits Group
- (2) eHR Group
- (3) Human Capital Group
- (4) International
- (5) Other (including Data Services and Communications)

The Company evaluates the performance of its segments and allocates resources to them based on net operating income. Prior year data has been restated to be consistent with current classifications for comparative purposes.

The table below presents specified information about reported segments as of and for the three months ended December 31, 2001:

	Benefits	eHR	Human Capital	International	Other	Total
	<u>Group</u>	<u>Group</u>	<u>Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$ 95,386	\$ 27,711	\$ 12,330	\$ 16,758	\$ 14,122	\$ 166,307
Net operating income/(loss)	22,760	6,479	(1,207 )	(454 )	111	27,689
Receivables	91,047	21,338	10,558	14,081	10,298	147,322

The table below presents specified information about reported segments as of and for the three months ended December 31, 2000:

	Benefits	eHR	Human Capital	International	Other	Total
	<u>Group</u>	<u>Group</u>	<u>Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$ 88,005	\$ 24,589	\$ 14,519	\$ 17,537	\$ 15,645	\$ 160,295
Net operating income/(loss)	16,865	7,158	2,444	1,502	1,904	29,873
Receivables	93,135	19,394	15,713	19,322	11,609	159,173

The table below presents specified information about reported segments as of and for the six months ended December 31, 2001:

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	Human					
	Benefits	eHR	Capital	International	Other	Total
	<u>Group</u>	<u>Group</u>	<u>Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$ 188,308	\$ 55,347	\$ 24,106	\$ 33,643	\$ 30,707	\$ 332,111
Net operating income/(loss)	43,151	12,589	(3,632)	363	2,172	54,643
Receivables	91,047	21,338	10,558	14,081	10,298	147,322

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The table below presents specified information about reported segments as of and for the six months ended December 31, 2000:

	Human					
	Benefits	eHR	Capital	International	Other	Total
	<u>Group</u>	<u>Group</u>	<u>Group</u>	<u>International</u>	<u>Other</u>	<u>Total</u>
Revenue (net of reimbursable expenses)	\$ 176,785	\$ 49,441	\$ 28,486	\$ 35,914	\$ 33,319	\$ 323,945
Net operating income/(loss)	38,748	15,834	5,179	5,052	5,964	70,777
Receivables	93,135	19,394	15,713	19,322	11,609	159,173

Information for the three and six months ended December 31, 2000 has been restated to reflect the realignment of a group of U.S. consultants who deal with large multinational assignments into the "Benefits Group" from "Other." The amounts reclassified include revenue and expenses of \$2,001,000 for the three months ended December 31, 2000, revenue and expense of \$3,864,000 for the six months ended December 31, 2000, and receivables of \$2,767,000 for both periods.

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

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A reconciliation of the information reported by segment to the consolidated amounts follow for the three and six month periods ended December 31, 2001 and 2000:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
<b>Revenue:</b>				
Total segment revenue	\$ 166,307	\$ 160,295	\$ 332,111	\$ 323,945
Reimbursable expenses not included in total				
segment revenue	8,312	9,656	14,499	16,673
Other, net	278	(1,170)	743	(1,144)
Consolidated revenue	\$ 174,897	\$ 168,781	\$ 347,353	\$ 339,474
<b>Net Operating Income:</b>				
Total segment net operating income	\$ 27,689	\$ 29,873	\$ 54,643	\$ 70,777
Income from affiliates	1,403	1,090	2,095	2,093
Differences in allocation methods for depreciation, G&A and pension costs	(348)	(3,562)	(510)	(3,694)
Gain on sale of U.S. based public plan retirement business	--	--	1,000	--
Gain on sale of business units, other	269	296	311	696
Discretionary compensation	(12,479)	(14,000)	(18,814)	(33,100)
IPO-related compensation charge	--	(3,480)	--	(3,480)
Other, net	296	1,633	584	1,924
Consolidated pretax income from continuing operations	\$ 16,830	\$ 11,850	\$ 39,309	\$ 35,216
<b>Receivables:</b>				
Total segment receivables - billed and unbilled	\$ 147,322	\$ 159,173	\$ 147,322	\$ 159,173
Net valuation differences	7,094	(2,286)	7,094	(2,286)
Total billed and unbilled receivables	154,416	156,887	154,416	156,887
Assets not reported by segment	227,944	211,662	227,944	211,662
Consolidated assets	\$ 382,360	\$ 368,549	\$ 382,360	\$ 368,549



5. Basic earnings per share is calculated on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is calculated on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the "treasury stock" method. The components of basic and diluted earnings per share are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Net income	\$ 10,096	\$ 6,737	\$ 23,584	\$ 20,072
Weighted average outstanding shares of common stock	32,973	32,755	33,003	31,190
Dilutive effect of employee stock options	340	391	415	196
Common stock and stock equivalents	33,313	33,146	33,418	31,386
Earnings per share:				
Basic	\$ 0.31	\$ 0.21	\$ 0.71	\$ 0.64
Diluted	\$ 0.30	\$ 0.20	\$ 0.71	\$ 0.64

6. From time to time, we are a party to various lawsuits, arbitrations or mediations, typically involving claims relating to the rendering of professional services or employment matters. Management believes that the results of all such proceedings will not have a material adverse effect on our financial condition. We carry professional liability insurance with a self-insured retention of \$1 million per occurrence, which has been provided for where estimated losses equal to or in excess of such amount are considered probable. We also carry employment practices liability insurance. For further details, refer to Part II, Item 1, "Legal Proceedings," on page 20.

7. On March 19, 2001, the Board of Directors approved the creation of an employee stock purchase plan for all associates and a restricted stock program for senior associates. The proposed employee stock purchase plan and the restricted stock program were approved at the annual stockholders' meeting on November 5, 2001, and will commence during the third quarter of fiscal year 2002. Management currently anticipates that these programs will not dilute earnings per share.

8. On November 19, 2001, the Board of Directors approved a plan to purchase up to 1,150,000 shares of the Company's class A common stock for purposes which may include offsetting any potential dilution from shares which may be issued in connection with the Company's employee benefit plans.

9. Comprehensive income includes net income and changes in the cumulative translation adjustment gain or loss. For the six months ended December 31, 2001, comprehensive income totaled \$23.7 million, compared with \$18.3 million for the six months ended December 31, 2000. For the three months ended December 31, 2001, comprehensive income totaled \$9.3 million, compared with \$6.2 million for the three months ended December 31, 2000.

10. Effective August 31, 2001, we sold our U.S. based public sector retirement business to Gabriel, Roeder, Smith & Company ("GRS"). The sale included approximately 120 U.S. public sector retirement clients, representing approximately \$6.0 million in annual revenues.

In accordance with the terms of the sale, GRS paid \$1.0 million to the Company during the first quarter. The amount of additional contractual cash payments over the next five years are contingent upon the successful transition of certain clients to GRS and upon their retention by GRS. The Company has also elected to receive approximately 7% of the common stock of GRS in lieu of a portion of future cash payments. The total potential value of stock and cash proceeds from the sale is anticipated to be \$3.3 million, subject to the contingencies noted above.

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Simultaneous with the sale, we entered into an alliance agreement with GRS under which we will mutually refer future business opportunities and explore joint consulting assignments.

11. In conjunction with the Company's review of its overhead cost structure in the second quarter of fiscal year 2002, the Company examined the classification of its operating expenses. This review included the identification and evaluation of the costs that comprise General and administrative expenses. Prior to the second quarter of fiscal year 2002, expenses associated with and incurred by various associates from our practice groups (the "Practice Support Team") for the centralized development of practice-specific tools and services, were included in General and administrative expenses. The costs associated with the Practice Support Team are mainly comprised of the salaries and employee benefits and professional services expenses incurred by the associates on this team.

As a result of our review, we have reclassified the Practice Support Team's expenses from the beginning of fiscal year 1998 through the first quarter of fiscal year 2002 as components of Salaries and employee benefits, Professional and subcontracted services, and Occupancy, communications and other expenses. These expenses have previously been included as a component of General and administrative expenses and represent less than 2.5% of total operating expenses, and 2% of revenue, for the three and six months ended December 31, 2000. Revenue, Income from operations, Income before income taxes, and Net income were unaffected by this reclassification.

For more information on the Company's reclassification of our Practice Support Team's expenses, refer to the Company's Form 8-K that was filed on January 24, 2002.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **General**

Watson Wyatt is a global provider of human capital consulting services. We operate from 62 offices in 18 countries throughout North America, Asia-Pacific and Latin America. We provide services in three principal practice areas: benefits, human resources technologies (eHR) and human capital consulting. Watson Wyatt & Company, which became a wholly-owned subsidiary of Watson Wyatt & Company Holdings as a result of our corporate reorganization and initial public offering in October 2000, was incorporated in Delaware on February 17, 1958. Watson Wyatt & Company Holdings was incorporated in Delaware on January 7, 2000. Including our predecessors, we have been in business since 1946. In 1995, we entered into an alliance agreement with R. Watson & Sons (now Watson Wyatt Partners), a United Kingdom based actuarial, benefits and human resources consulting partnership that was founded in 1878. We conducted business as The Wyatt Company until changing our corporate name to Watson Wyatt & Company in connection with the establishment of the Watson Wyatt Worldwide alliance. Since 1995, we and our alliance partners have marketed our services globally and seamlessly under the Watson Wyatt Worldwide brand,

sharing resources, technologies, processes and business referrals.

Watson Wyatt's principal executive offices are located at 1717 H Street NW, Washington, DC 20006. Our web site is www.watsonwyatt.com. Information on this website is not a part of this filing.

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## Global Operations

We employ approximately 4,200 associates as follows:

Benefits Group	1,580
eHR Group	440
Human Capital Group	260
International	940
Other (Including Data Services and Communications)	760
Corporate	220
	<hr/>
Total	4,200
	<hr/>

## Principal Services

We focus on the following core consulting areas:

### Benefits

: The Benefits Group provides analysis, design and implementation of retirement programs, including actuarial services and required reporting of plan contributions and funding levels, group health benefit plan design and provider selection, defined contribution plan design and related services, and investment consulting services.

### eHR:

The eHR Group develops technology-based solutions to reduce employer costs and improve employee service in human resources administration, including web-based applications.

### Human Capital

: The Human Capital Group provides comprehensive consulting in compensation plan design, executive compensation, salary management and organizational effectiveness consulting.

### International

: Our consultants, working internationally, operate on a geographic basis from 24 offices in 16 countries and provide consulting services in the practice areas mentioned herein.

Other

: Other services include:

(1) Communication consulting: Our communication consulting group provides research on employee attitudes and communication effectiveness, conducts communications audits, facilitates research and focus groups, provides communications planning and implementation and assists employers in complying with disclosure requirements.

(2) Data Services: Watson Wyatt Data Services produces custom and standard compensation and benefits surveys and human resource reference materials for use by global and local companies in 50 countries. Over 7,500 companies participate in our surveys and our products include over 70 compensation, benefits and employment practices references and survey reports.

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.

#### Watson Wyatt Worldwide Alliance

Recognizing that a global organization is essential to service the needs of our clients, we established operations throughout Europe in the late 1970's by acquiring local firms and opening new offices. Responding to the rapidly increasing globalization of the world economy, we made a strategic decision in 1995 to strengthen our European capabilities significantly and extend our global reach by entering into an alliance agreement with R. Watson & Sons (now Watson Wyatt Partners), a United Kingdom-based actuarial, benefits and human resources consulting partnership that was founded in 1878. Since 1995, we have marketed our services globally and seamlessly under the Watson Wyatt Worldwide brand, sharing resources, technologies, processes and business referrals.

The Watson Wyatt Worldwide global alliance maintains 87 offices in 29 countries and employs over 6,200 associates. Watson Wyatt & Company operates 62 offices in 18 countries in North America, Asia-Pacific and Latin America. Watson Wyatt Partners operates 10 offices in the United Kingdom and Ireland. The alliance operates 15 offices in 9 continental European countries principally through a jointly owned holding company, Watson Wyatt Holdings (Europe) Limited, which is 25% owned by Watson Wyatt and 75% owned by Watson Wyatt Partners.

#### Financial Statement Overview

Watson Wyatt's fiscal year ends June 30. The financial statements contained in this quarterly report reflect a Consolidated Balance Sheet as of the end of the second quarter of fiscal year 2002 (December 31, 2001), a Consolidated Balance Sheet as of the end of fiscal year 2001 (June 30, 2001), Consolidated Statements of Operations for the three and six month periods ended December 31, 2001 and 2000, Consolidated Statements of Cash Flows for the six month periods ended December 31, 2001 and 2000 and a Consolidated Statement of Changes in Stockholders' Equity for the six month period ended December 31, 2001.

We operate globally as an alliance with our affiliates. However, the revenues and operating expenses in the Consolidated Statements of Operations reflect solely the results of operations of Watson Wyatt & Company Holdings. Our share of the results of our affiliates, recorded using the equity method of accounting is reflected in the "Income from affiliates" line. Our principal affiliates are Watson Wyatt Partners, in which we hold a 10% interest in a defined distribution pool, and Watson Wyatt Holdings (Europe) Limited, a holding company through which we conduct

continental European operations. We own 25% of Watson Wyatt Holdings (Europe) Limited and Watson Wyatt Partners owns the remaining 75%.

We derive substantially all of our revenue from fees for consulting services, which generally are billed at standard hourly rates or on a fixed-fee basis; management believes the approximate percentages of such billing methods are 60% and 40%, respectively. Clients are typically invoiced on a monthly basis with revenue recognized as services are performed. For the most recent three fiscal years, revenue from U.S. consulting operations have comprised approximately 80% of consolidated revenue. No single client accounted for more than 4% of our consolidated revenue for any of the most recent three fiscal years.

In delivering consulting services, our principal direct expenses relate to compensation of personnel. Salaries and employee benefits are comprised of wages paid to associates, related taxes, benefit expenses such as pension, medical and insurance costs and discretionary compensation. In addition, professional and subcontracted services represent fees paid to external service providers for legal, marketing and other services, approximately 50% of which are directly incurred on behalf of our clients and are reimbursed by them and included in revenue.

Occupancy, communications and other expenses represent expenses for rent, utilities, supplies and telephone to operate office locations as well as non-client-reimbursed travel by associates, publications and professional development. General and administrative expenses include the operational costs and professional fees paid by corporate management, general counsel, marketing, human resources, finance, research and technology support.

## Results of Operations.

The table below sets forth Consolidated Statements of Operations data as a percentage of revenue for the periods indicated:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Revenue	100.0%	100.0%	100.0%	100.0%
Costs of providing services:				
Salaries and employee benefits	57.4	55.6	56.2	54.8
Professional and subcontracted services	8.3	9.2	7.1	7.7
Occupancy, communications and other	14.6	16.3	15.6	16.1
General and administrative expenses	8.0	9.0	7.8	8.3
Depreciation and amortization	3.0	3.6	3.1	3.5

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	91.3	93.7	89.8	90.4
Income from operations	8.7	6.3	10.2	9.6
Interest income, net	0.1	0.1	0.2	0.1
Other non-operating income	--	--	0.3	--
Income from affiliates	0.9	0.6	0.6	0.7
Income before income taxes	9.7	7.0	11.3	10.4
Provision for income taxes	3.9	3.0	4.5	4.5
Net income	5.8%	4.0%	6.8%	5.9%

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Three and Six Months Ended December 31, 2001 Compared to the Three and Six Months Ended December 31, 2000

#### Revenue

. Revenue from operations for the second quarter of fiscal year 2002 was \$174.9 million, compared to \$168.8 million for the second quarter of fiscal year 2001, an increase of \$6.1 million, or 4%. The revenue increase was comprised of a \$7.4 million, or 8% increase in our Benefits Group, a \$3.1 million, or 13% increase in our eHR Group, partially offset by a \$2.2 million, or 15% decrease in our Human Capital Group, a \$0.7 million, or 4% decrease in International and a \$1.5 million, or 10% decrease in Other practice areas in North America. Revenue from operations was \$347.4 million for the first six months of fiscal year 2002, compared to \$339.5 million for the first six months of fiscal year 2001, an increase of \$7.9 million, or 2%. This revenue growth was comprised of an \$11.5 million, or 7% increase in our Benefits Group and a \$5.9 million or 12% increase in our eHR Group, partially offset by a \$4.4 million, or 15% decrease in our Human Capital Group, a \$2.3 million, or 6% decrease in International and a \$2.6 million, or 8% decrease in Other practice areas in North America.

#### Salaries and Employee Benefits

. Salaries and employee benefits for the second quarter of fiscal year 2002 were \$100.5 million, compared to \$93.7 million for the second quarter of fiscal year 2001, an increase of \$6.8 million, or 7%. Salaries and employee benefit expenses for the quarter ended December 31, 2000 includes a \$3.5 million compensation charge (2.1% of revenue) that the Company incurred resulting from agreements with our employee stockholders related to our initial public offering in October, 2000. The increase, exclusive of this charge, was due to a \$7.3 million increase in salaries, which is primarily the result of salary increases of 3% and a 6% increase in headcount, a \$4.5 million increase in pension expenses, a \$0.5 million increase in benefits and wage taxes, partially offset by a \$2.0 million decrease in the accrual for discretionary compensation. As a percentage of revenue, salaries and employee benefits increased from 55.6% to 57.4%. Salaries and employee benefit expenses for the first six months of fiscal year 2002 were \$195.2 million, compared to \$185.8 million for the first six months of fiscal year 2001, an increase of \$9.4 million, or 5%. Salaries and employee benefit expenses for the six months ended December 31, 2000 includes the \$3.5 million compensation charge (1% of revenue) mentioned above. The increase, exclusive of this charge, was due to a \$15.3 million increase in salaries, which is primarily the result of salary increases of 3% and a 6% increase in headcount, an \$8.4 million increase in pension expenses, a \$2.4 million increase in benefits and wage taxes, partially offset by a \$13.5 million

decrease in the accrual for discretionary compensation. As a percentage of revenue, salaries and employee benefits increased from 54.8% to 56.2%.

#### Professional and Subcontracted Services

. Professional and subcontracted services used in consulting operations for the second quarter of fiscal year 2002 were \$14.5 million, compared to \$15.6 million for the second quarter of fiscal year 2001, a decrease of \$1.1 million, or 7%. As a percentage of revenue, professional and subcontracted services decreased from 9.2% to 8.3%. Professional and subcontracted services were \$24.6 million for the first six months of fiscal year 2002, compared to \$26.3 million for the first six months of fiscal year 2001, a decrease of \$1.7 million, or 6%. As a percentage of revenue, professional and subcontracted services decreased from 7.7% to 7.1%. The decrease in both periods was mainly due to a decrease in reimbursable expenses incurred on behalf of clients.

#### Occupancy, Communications and Other.

Occupancy, communications and other expenses for the second quarter of fiscal year 2002 were \$25.5 million, compared to \$27.5 million for the second quarter of fiscal year 2001, a decrease of \$2.0 million, or 7%. The decrease was mainly due to lower travel costs of \$1.0 million, lower general office expenses of \$0.7 million, which are evenly spread throughout our consulting offices, and lower dues and entertainment expenses of \$0.4 million, partially offset by higher telephone expenses of \$0.4 million, which are mainly attributable to the additional capacity required to expand our electronic communications infrastructure. As a percentage of revenue, occupancy, communication and other decreased from 16.3% to 14.6%. Occupancy, communications and other expenses were \$54.2 million for the first six months of fiscal year 2002, compared to \$54.5 million for the first six months of fiscal year 2001, a decrease of \$0.3 million, or 1%. The decrease was mainly due to lower travel costs of \$2.0 million and to lower general office expenses of \$0.9 million, partially offset by higher telephone expenses of \$1.2 million, and higher rent expense of \$1.2 million, which is attributable to an increase in leased space required to support our operations and higher real estate and operating expenses. As a percentage of revenue, occupancy, communication and other decreased from 16.1% to 15.6%.

#### General and Administrative Expenses.

General and administrative expenses for the second quarter of fiscal year 2002 were \$14.0 million, compared to \$15.2 million for the second quarter of fiscal year 2001, a decrease of \$1.2 million, or 8%. The decrease was mainly attributable to lower professional services of \$1.4 million associated with corporate initiatives involving our knowledge sharing and systems infrastructure, a \$1.3 million decrease in travel costs, partially offset by a \$0.9 million increase in pension and insurance expenses and a \$0.6 million increase in base salaries. As a percentage of revenue, general and administrative expenses decreased from 9.0% to 8.0%. General and administrative expenses for the first six months of fiscal year 2002 were \$27.2 million, compared to \$28.1 million for the first six months of fiscal year 2001, a decrease of \$0.9 million, or 3%. The decrease was mainly attributable to lower professional services of \$1.5 million, lower travel costs of \$1.3 million and a lower accrual for discretionary compensation of \$0.8 million, partially offset by a \$1.6 million increase in pension and insurance expenses and a \$1.1 million increase in base salaries. As a percentage of revenue, general and administrative expenses decreased from 8.3% to 7.8%.

#### Depreciation and Amortization.

Depreciation and amortization for the second quarter of fiscal year 2002 was \$5.2 million, compared to \$6.1 million for the second quarter of fiscal year 2001, a decrease of \$0.9 million, or 15%. Depreciation and amortization for the first six months of fiscal year 2002 was \$10.6 million, compared to \$12.0 million for the first six months of fiscal year 2001, a decrease of \$1.4 million, or 12%. As a percentage of revenue, depreciation and amortization decreased from

3.6% to 3.0% for the second quarter of fiscal year 2002 and 3.5% to 3.1% for the first six months of fiscal year 2002. The decrease in both periods is primarily attributable to the Company ceasing amortization of goodwill, pursuant to FAS 142. For more information about the adoption of FAS 142, see Note 2 of the Notes to the Consolidated Financial Statements.

#### Interest Income, Net.

Interest income, net for the second quarter of fiscal year 2002 was \$0.2 million, compared to \$0.1 million for the second quarter of fiscal year 2001, an increase of \$0.1 million, or 100%. Interest income, net for the first six months of fiscal year 2002 was \$0.7 million, compared to \$0.4 million for the second quarter of fiscal year 2001, an increase of \$0.3 million, or 75%.

#### Other Non-Operating Income.

Other non-operating income for the first six months of fiscal year 2002 was \$1.0 million, which is due to the gain on the sale of our U.S. based public plan retirement business. See Note 10 of the Notes to the Consolidated Financial Statements for more information about this transaction.

#### Income from Affiliates.

Income from affiliates for the second quarter of fiscal year 2002 was \$1.4 million, compared to \$1.1 million for the second quarter of fiscal year 2001, an increase of \$0.3 million, or 27%. Income from affiliates for the first six months of fiscal year 2002 was \$2.1 million, unchanged from the prior year.

#### Provision for Income Taxes.

Provision for income taxes for the first six months of fiscal year 2002 was \$15.7 million, compared to \$15.1 million for the first six months of fiscal year 2001. Our effective tax rate was 40.0% for the first six months of fiscal year 2002, compared to 42.9% for the first six months of fiscal year 2001. The change in rate was due to an increase in foreign tax credits utilized and a decrease in non-deductible expenses. We record a tax benefit on foreign net operating loss carryovers and foreign deferred tax assets only if it is more likely than not that a benefit will be realized.

#### Net Income.

Net income for the second quarter of fiscal year 2002 was \$10.1 million, compared to \$6.7 million for the second quarter of fiscal year 2001, an increase of \$3.4 million, or 51%. As a percentage of revenue, net income increased from 4.0% to 5.8%. Net income for the first six months of fiscal year 2002 was \$23.6 million, compared to \$20.1 million for the first six months of fiscal year 2001, an increase of \$3.5 million, or 17%. As a percentage of revenue, net income increased from 5.9% to 6.8%.

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#### Liquidity and Capital Resources

Our cash and cash equivalents at December 31, 2001 totaled \$64.8 million, compared to \$81.7 million at June 30, 2001. The \$16.9 million decrease in cash and cash equivalents from June 30, 2001 to December 31, 2001 follows a typical pattern of cash flows for the Company that is attributable to the payment of bonuses in the first quarter of each fiscal year. During the six month period ended December 31, 2001, the Company generated \$55.7 million of cash from our ongoing operations (before bonus payments), paid cash bonuses of \$57.8 million, purchased fixed assets for \$11.2 million and completed an acquisition and paid contingent acquisition consideration for \$3.6 million. These expenditures were principally funded by cash generated from operating activities. The primary difference between the



change in cash and cash equivalents during the six months ended December 31, 2001 is the \$35.2 million of proceeds from our initial public offering received during the six months ended December 31, 2000.

#### Cash Used for/from Operating Activities.

Cash used for operating activities for the first six months of fiscal year 2002 was \$4.2 million, compared to cash from operating activities of \$2.9 million for the first six months of fiscal year 2001. The variance is mainly due to a larger reduction in the bonus accrual due to greater bonus payments for fiscal year 2001, which were paid in September 2001 (fiscal year 2002), partially offset by improved collections of receivables.

The allowance for doubtful accounts increased \$1.7 million and the allowance for work in process decreased \$0.2 million from June 30, 2001 to December 31, 2001. The number of days of accounts receivable and work in process outstanding was 83 at December 31, 2001, down from 94 at September 30, 2001, and 89 at December 31, 2000.

#### Cash Used in Investing Activities.

Cash used in investing activities for the first six months of fiscal year 2002 was \$13.1 million, compared to \$16.3 million for the first six months of fiscal year 2001. The decrease can be attributed to lower acquisition related payments of \$3.3 million, higher proceeds from divestitures of \$1.4 million, which includes \$1.0 million of proceeds from the sale of our U.S. based public plan retirement business and lower purchases of fixed assets of \$0.4 million, partially offset by lower distributions from affiliates of \$1.5 million.

#### Cash from Financing Activities.

Cash from financing activities for the first six months of fiscal year 2002 was insignificant. Cash flows from financing activities of \$35.1 million for the six months ended December 31, 2000 were mainly due to proceeds from the Company's initial public offering.

Expenditures of capital funds were \$14.8 million for the first six months of fiscal year 2002. Anticipated commitments of capital funds are estimated at \$24.6 million for the remainder of fiscal year 2002, mainly for computer hardware purchases, office relocations and renovations, development and upgrade of financial and human resources systems, and acquisition-related payments. Additionally, our consultants require access to hardware and software that will support servicing our clients. In a rapidly changing technological environment, management anticipates we will need to make continued investments in our knowledge sharing and financial systems infrastructure. Although the Company anticipates that cash from operations will provide for our cash needs, a significant decrease in the demand for our consulting services caused by an economic slowdown or other factors could impact the Company's cash flows.

Our foreign operations do not materially impact liquidity or capital resources. At December 31, 2001, \$15.6 million of the total cash balance of \$64.8 million was held outside of North America, which we have the ability to utilize, if necessary. There are no significant repatriation restrictions other than local or U.S. taxes associated with repatriation. Our foreign operations in total are substantially self-sufficient for their working capital needs.

We lease office space, furniture and selected computer equipment under operating lease agreements with terms ranging from one to ten years. Management has determined that there is not a large concentration of leases that will expire in any one fiscal year. Consequently, management anticipates that any increase in future expenses will be mainly market driven. The Company continues to guarantee certain leases for office premises and equipment for Wellspring. Minimum remaining payments guaranteed under these leases at December 31, 2001, which expire at various dates through 2007, total \$34.9 million, not including sublease income. These leases are also jointly and severally guaranteed by the Company's former partner in Wellspring, State Street Bank and Trust Company. The estimated loss from the potential exercise of these guarantees was included in the fiscal year 1998 loss on disposal of the benefits administration outsourcing business. The Company currently makes cash payments of \$0.5 to \$1.0 million

per year related to Wellspring.

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We have a \$95.0 million revolving credit facility with a group of banks at an interest rate that varies with LIBOR and/or the Prime Rate. We are charged a quarterly commitment fee, currently 3/10 of 1% of the facility, that varies with our financial leverage and is paid on the unused portion of the credit facility. No amounts were outstanding under the revolving credit facility as of December 31, 2001, or June 30, 2001. Credit under the facility is available upon demand, although the credit facility requires us to observe certain covenants (including requirements as to minimum net worth and other financial and restrictive covenants) and is collateralized by a blanket lien on all assets. At December 31, 2001, we were in compliance with all covenants under the credit facility. The revolving portion of the credit facility is scheduled to mature on June 30, 2003. A portion of the revolving facility is used to support required letters of credit issued under the credit line. As a result, \$4.3 million of the facility is currently unavailable for operating needs.

Additionally, the Company guarantees a credit facility which it established to collateralize loans to associates for purchased redeemable common stock under our former Stock Purchase Program. This program was discontinued in conjunction with our initial public offering. As a result, the facility decreases as the loans are repaid. The maximum available borrowings and aggregate outstanding balances under this facility were \$3.7 million and \$8.5 million at December 31, 2001, and June 30, 2001, respectively. Shares totaling 3,067,000 and 4,598,000 of Watson Wyatt & Company Holdings shares were pledged by stockholders to collateralize these loans at December 31, 2001, and June 30, 2001, respectively.

#### Disclaimer Regarding Forward-Looking Statements

This filing contains certain statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to the following: Note 3 on page 7; Notes 6 and 7 on page 11; the sixth paragraph under *Liquidity and Capital Resources* on page 18; the eighth paragraph under *Liquidity and Capital Resources* on page 18; and Part II, Item 1 "Legal Proceedings" on page 20. In some cases, you can identify these statements and other forward-looking statements in this filing by words such as "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend," "continue," or similar words. You should read these statements carefully because they contain projections of our future results of operations or financial condition, or state other "forward-looking" information. A number of risks and uncertainties exist which could cause actual results to differ materially from the results reflected in these forward-looking statements. Such factors include, but are not limited to our continued ability to recruit and retain highly qualified associates, outcomes of litigation, a significant decrease in the demand for the consulting services we offer as a result of changing economic conditions or other factors, actions by competitors offering human resources consulting services, including public accounting and consulting firms, technology consulting firms and internet/intranet development firms, regulatory, legislative and technological developments that may affect the demand for or costs of our services and other factors discussed under "risk factors" in our prospectus dated June 25, 2001, which is filed with the SEC and may be accessed via EDGAR on the SEC's web site at [www.sec.gov](http://www.sec.gov). These statements are based on assumptions that may not come true. All forward-looking disclosure is speculative by its nature. The Company undertakes no obligation to update any of the forward-looking information included in this report, whether as a result of new information, future events, changed expectations or otherwise.

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#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

currency exchange risk. We have examined our exposure to these risks and concluded that none of our exposures in these areas are material to fair values, cash flows or earnings.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. These disputes typically involve claims relating to the rendering of professional services or employment matters. The matters reported on below involve the most significant pending or potential claims against us. We are incorporating, by reference, the descriptions of the legal proceedings that appear under the caption "Legal Proceedings" beginning on page 18 of the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2001. Management believes, based on currently available information, that the results of all such proceedings, in the aggregate, will not have a material adverse effect on our financial condition.

Societe Internationale de Telecommunications Aeronautique S.C. (SITA).

We are in the mediation process regarding this claim. If this case is not settled, trial is scheduled for June 2002.

Pacific Group Medical Association

. The settlement agreement disposing of the claim, which has been signed by the parties in October, is awaiting court approval.

Other.

The attorney for a retirement client in the U.S. has advised us of a claim involving an estimate of the cost of a benefit enhancement, alleging approximately \$60 million in damages. We are evaluating the claim and have exchanged correspondences with the client proposing mediation of this matter.

### Insurance Coverage

We carry substantial professional liability insurance with a self-insured retention of \$1 million per occurrence, which provides coverage for professional liability claims including the cost of defending such claims. We also carry employment practices liability insurance. The Company has provided for the self-insured retention where estimated losses in excess of such amount are considered probable. The actual outcome of any pending lawsuit is not likely to result in any additional loss to us beyond the \$1 million retention.

### Item 2. Changes in Securities and Use of Proceeds

#### Initial Public Offering

In October 2000, we completed an initial public offering ("IPO") of our class A common stock. In conjunction with that offering, we reorganized our corporate structure by merging Watson Wyatt & Company with a wholly-owned subsidiary of the Company. As a result, Watson Wyatt & Company became a wholly-owned subsidiary of the Company.

At the time of the reorganization, each share of Watson Wyatt & Company's redeemable common stock was converted into one share of class B-1 common stock and one share of class B-2 common stock of the Company. The class B common stock was divided into two classes to accommodate two different transfer restriction periods, which may be waived by the Board of Directors. The class B shares will automatically convert into class A common stock following the expiration or waiver of the respective transfer restriction periods. The class B-1 shares were subject to a transfer restriction period of 12 months following the IPO date, which expired on October 16, 2001, while the class B-2 shares are subject to a transfer restriction period of 24 months following the IPO date. The Company waived the transfer restriction on a total of 1,559,250 class B-1 and 1,559,250 class B-2 shares to allow for conversion into the class A shares for sale in the IPO.

#### Secondary Public Offering

In June 2001, we completed a secondary public offering of 2,950,000 shares of our class A common stock. In July 2001, our underwriters exercised their over-allotment option and purchased an additional 442,500 shares of class A common stock from selling stockholders. In conjunction with this offering, the Board of Directors waived the transfer restrictions on a total of 3,288,215 class B-1 shares to allow for conversion into the class A shares sold by selling stockholders.

#### Other Conversions

On October 16, 2001, the 12-month transfer restriction on our class B-1 shares expired. As a result, 9,956,140 class B-1 shares were automatically converted to class A shares of common stock.

In August 2001, the Board of Directors of the Company approved a proposal to amend the alliance agreement with Watson Wyatt Partners to reduce Watson Wyatt Partners' minimum required holdings of the Company's common stock to 100,000 shares. The Board authorized the conversion, on or after October 16, 2001, of up to 313,000 of the Company's class B-2 shares held by Watson Wyatt Partners for distribution by Watson Wyatt Partners to its partners, subject to the prior execution by each partner of a lock-up agreement imposing the same transfer restrictions on such class A shares as are applicable to the Company's class B-2 shares. In December 2001, the Board also authorized the conversion of 20,460 of the Company's class B-2 shares held by Watson Wyatt Partners for distribution by Watson Wyatt Partners to certain retiring associates. Following the conversion of the class B-1 shares pursuant to the Company's Amended and Restated Certificate of Incorporation and the class B-2 shares pursuant to the Board's authorization, Watson Wyatt Partners distributed 626,000 shares to its individual partners, of which we received 62,600 representing our 10% ownership interest. We have accounted for these shares as treasury stock.

#### Item 3. Defaults Upon Senior Securities

None.

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

None.

#### Item 5. Other Information

None.

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- a. Exhibits
- 3.1 Amended and Restated Certificate of Incorporation of Watson Wyatt & Company Holdings<sup>1</sup>
  - 3.2 Amended and Restated Bylaws of Watson Wyatt & Company Holdings<sup>2</sup>
  - 4 Form of Certificate Representing Common Stock<sup>1</sup>
  - 10.1 Amended Credit Agreement Among Bank of America, N.A. and Others dated October 6, 2000<sup>3</sup>
  - 10.2 Consent of Bank of America, N.A. <sup>4</sup>
  - 10.3 Agreement with David B. Friend, M.D. dated October 22, 1999<sup>1</sup>
  - 10.4 Senior Officer Deferred Compensation Plan<sup>4</sup>
  - 10.5 Form of agreement among Watson Wyatt & Company, Watson Wyatt & Company Holdings and employee directors, executive officers and significant stockholders restricting the transfer of shares<sup>5</sup>
  - 10.6 Voluntary Deferred Compensation Plan
  - 21 Subsidiaries of Watson Wyatt & Company Holdings
  - 22 Definitive Proxy Statement on Schedule 14A, filed on October 5, 2001<sup>6</sup>
- b. Reports on Form 8-K
- Report on Form 8-K filed January 24, 2002

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1  
Incorporated by reference from Registrant's Form S-3/A, Amendment No. 1 (File No. 33-394973), filed on March 17, 2000

2  
Incorporated by reference from Registrant's Form 10-Q, filed on May 2, 2001

3  
Incorporated by reference from Registrant's Form 10-Q, filed on November 14, 2000

4  
Incorporated by reference from Registrant's Form 10-K, filed on August 20, 2001

5  
Incorporated by reference from Registrant's Form S-3/A, Amendment No. 5 (File No. 33-394973), filed on September 14, 2000

6  
Incorporated by reference from Registrant's Form DEF14A, filed on October 5, 2001

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

Watson Wyatt & Company Holdings  
(Registrant)

/S/ John J. Haley

February 12, 2002

Name: John J. Haley

Date

Title: President and Chief  
Executive Officer

/S/ Carl D. Mautz

February 12, 2002

Name: Carl D. Mautz

Date

Title: Vice President and Chief  
Financial Officer

/S/ Peter L. Childs

February 12, 2002

Name: Peter L. Childs

Date

Title: Controller